



BANK OF THAILAND

BOT Press Release

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Additional measures to assist SMEs affected by COVID-19
and to stabilize corporate bond market

Additional measures to assist SMEs affected by COVID-19 outbreak and to stabilize the corporate bond market.

Mr. Veerathai Santiprabhob, Governor of the Bank of Thailand (BOT), announced that the BOT and the Ministry of Finance have worked closely together to swiftly implement measures to alleviate the impact of COVID-19 outbreak on households and businesses. However, the intensified and longer-than-anticipated outbreak necessitates additional relief measures to support small and medium-sized enterprises (SMEs), which are the backbone of the Thai economy and a primary source of employment, to have sufficient funding and liquidity to bridge through these testing times and retain their workforce. It is also necessary to have measures to stabilize the corporate bond market to ensure the normal functioning of the market as the financing source for the private sector and to safeguard the economy and financial stability as a whole.

The package consists of four important measures.

Measure 1: A loan payment holiday of 6 months for all SMEs with a credit line not exceeding 100 million baht, to provide the much-needed liquidity to the SMEs.

SMEs with a line of credit with a commercial bank or a specialised financial institution not exceeding 100 million baht are automatically eligible to pause payments of both principal and interest for 6 months. This payment holiday will not be considered as a missed payment and thus will not impair credit history.

The BOT hopes that this measure will provide some relief such that SMEs will have more cash on hand to support their businesses and meet necessary expenses, especially wages. The BOT expects that during this 6-month period, financial institutions will work closely with the borrowers to restructure their debts so that the debt repayment plan aligned with their declining incomes.

Nevertheless, for those SMEs that are in a position to continue servicing the loans, the BOT advises that they repay their debts as normal or as much as they can because this measure is merely a postponement of debt payment, while interest charges continue to

accrue during the holiday period. More importantly, a regular flow of loan repayment will avail financial institutions with liquidity to help more SMES that are severely affected by the outbreak.

In addition, to further encourage financial institutions to provide liquidity to borrowers, the BOT has temporarily relaxed liquidity-related regulations.

Measure 2: Soft loans to support liquidity for SMEs with a credit line not exceeding 500 million baht, with a concessional interest rate of 2% per annum and interest-free for the first 6 months.

The BOT will provide soft loans of 500 billion baht at 0.01% interest rate per annum to financial institutions for 2 years. Financial institutions will then on-lend to SMEs at a concessional rate of 2% per annum. SMEs that are eligible for this measure must (i) operate domestically, (ii) are not listed in the Stock Exchange of Thailand or the Market for Alternative Investment (MAI), (iii) have a credit line with a financial institution not exceeding 500 million baht, and (iv) still have a performing loan with normal repayment status or arrears of less than 90 days (non-NPL) as of 31 December 2019. The maximum drawdown for the soft loan is 20% of the loan outstanding as of end-December 2019. Interested SMEs can apply for soft loans at their banks.

During the first 2 years, financial institutions will charge a concessional rate of 2% per annum. For the first 6 months, the government will bear the interest burden resulting in no interest cost for SMEs. In order to help expedite the issuance of new loans during this highly uncertain period, the government, through the Ministry of Finance, will partly compensate financial institutions for losses that might be incurred on these additional new loans. In case these loans turn nonperforming by the end of the second year, financial institutions will be compensated no more than 70% of the additional loans for borrowers with a credit line not exceeding 50 million baht, and no more than 60% of the additional loans for borrowers with a credit line of 50–500 million baht.

Measure 3: Market liquidity enhancement to stabilize the corporate bond market

The disruption of economic activities together with heightened volatilities in global financial markets have also impacted the Thai financial market. Over recent weeks, investors have sought refuge in cash or cash-like assets resulting in the continuous sell-off of various types of debt securities. As a consequence, liquidity conditions in the corporate bond market, which is an essential channel of savings for households and of financing for businesses, have tightened and shown signs of dysfunction.

Currently, the total outstanding of Thai corporate bond market is approximately 3.6 trillion baht or more than 20 percent of the GDP. If the corporate bond market cannot

function properly, or investors lose confidence during the period of heightened economic uncertainty, additional financing or rollover will be limited and highly costly, even for high-quality firms. Therefore, there are risks that many corporations will experience liquidity shortage and may not have sufficient capital to conduct normal business operations, which may become a systemic risk. This will impact savers through intermediaries such as fixed-income funds, provident funds, saving cooperatives, the Government Pension Fund, and the Social Security Fund.

In order to stabilize the corporate bond market by providing liquidity backstop to ensure its continued functioning, the BOT and the Ministry of Finance see the need to establish the Corporate Bond Stabilization Fund (BSF) to provide bridge financing to high-quality firms with bonds maturing during 2020-2021, at higher-than-market 'penalty' rates.

Eligible corporate bonds/issuers must meet a number of criteria including (i) be at least an investment grade, (ii) have raised the majority of their funding needs through other means such as bank loans or capital increase, (iii) have a clear long-term financing plan, and (iv) meet other conditions as set out by the BSF's investment committee. In addition, if the issuers simultaneously offer secured bonds to the general public, the bonds that the BSF will invest in must also be secured with collaterals no inferior than those pledged on the bonds sold to the general public.

Measure 4: Reducing the FIDF fee to ease the loan interest burden of businesses and households.

The BOT will halve the rate of contribution from financial institutions to the FIDF from 0.46% of deposit base to 0.23% per annum for the period of two years. This is intended for financial institutions to immediately pass on such cost savings to businesses and households by further reducing their loan rates.

Mr. Veerathai Santiprabhob, Governor of the BOT, stated that in order for the BOT to effectively implement the above mentioned measures to support SMEs and stabilize the corporate bond market, the Cabinet has approved the two Draft Emergency Decrees as follows:

1. Draft Emergency Decree on Financial Assistance to Small and Medium-sized Enterprises Affected by Coronavirus Pandemic, and
2. Draft Emergency Decree on Provision of Liquidity Support to Stabilize the Corporate Bond Market.

These two Emergency Decrees authorize the BOT to manage liquidity and direct funds to the affected target groups. The Decrees also put in place a mechanism that allows the government to indemnify for losses that may arise in the future in connection with these measures. This mechanism is necessary during this period of heightened economic

uncertainty caused by the COVID-19 pandemic. The two Decrees also enhance the BOT's policy toolkit enabling the BOT to readily and promptly deploy additional measures to support SMEs and ensure stability of the corporate bond market.

The BOT trusts that the suite of relief measures that have been continuously implemented starting from encouraging banks to engage in early debt restructuring measure and the debt payment holiday for retail customers, together with additional measures announced today will support affected businesses and households, stabilize the corporate bond market, and ensure the continued functioning and stability of the whole financial system. The BOT continues to closely monitor the situation and stands ready to take further steps as necessary.

Bank of Thailand

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Additional measures to assist SMEs affected by COVID-19 outbreak and to stabilize the corporate bond market

Measure 1 : A loan payment holiday of 6 months for all SMEs with a credit line not exceeding 100 million baht.

Such SMEs are automatically eligible to pause payments of both principal and interest without being considered as a missed payment or impairing credit history.

Measure 2 : Soft loans of 500 billion baht for SMEs with a credit line not exceeding 500 million baht, with a concessional interest rate of 2% per annum for 2 years and interest-free for the first 6 months.

The BOT will provide soft loans to financial institutions to on-lend to SMEs at a concessional rate. The government will bear the interest burden for the first 6 months. To help expedite the issuance of new loans during this highly uncertain period, the government will also partly compensate financial institutions for losses that might be incurred on these additional new loans.

Measure 3 : Establishment of the Corporate Bond Stabilization Fund (BSF) to stabilize the corporate bond market.

The BSF will provide liquidity backstop to stabilize and ensure continued functioning of the corporate bond market as a funding source for businesses and a savings vehicle for households, thereby preventing the market illiquidity from spiraling into systemic risk affecting financial stability as a whole.

Measure 4 : Reduction of the FIDF fee from 0.46% of deposit base to 0.23% per annum.

so that financial institutions will immediately pass on such cost savings to businesses and households by further reducing loan rates.



Measures to alleviate the impact of COVID-19 outbreak on SMEs and to retain workforce

Measure 1

A loan payment holiday of 6 months

For all SMEs with a credit line not exceeding 100 million baht and a performing loan

This will not be considered as a missed payment and thus will not impair credit history.

*SMEs that can continue to service their loans should do so as normal because a regular flow of loan repayment will avail financial institutions with liquidity to help more SMES that are severely affected by the outbreak.

Measure 2

Soft loans of 500 billion baht with a concessional interest rate of 2% per annum for 2 years and interest-free for the first 6 months

SMEs with a credit line not exceeding 500 million baht and a performing loan can drawdown the additional new loan up to 20% of the loan outstanding

The government will bear the interest burden for the first 6 months and also partly compensate financial institutions for losses that might be incurred on these additional new loans, in order to help expedite the issuance of new loans during this highly uncertain period.

The BOT expects that during this 6-month period, financial institutions will work closely with the borrowers to restructure their debts so that the debt repayment plan is aligned with their future business plans and incomes.



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Corporate Bond Stabilization Fund: BSF





Why does the BSF need to be established?

The BSF will provide liquidity backstop to stabilize the corporate bond market, supporting its continued functioning as a funding source for businesses and a savings vehicle for households.

Significance of the Corporate Bond Market

The corporate bond market plays a crucial role in the Thai economy. With the size of approximately 3.6 trillion baht or more than 20 percent of the GDP, the corporate bond market serves as an essential funding source for businesses and an alternative savings vehicle for households especially through mutual funds, provident funds, saving cooperatives, the Government Pension Fund, and the Social Security Fund.

The COVID-19 pandemic has caused tightened liquidity conditions in the corporate bond market with signs of market dysfunction.

The BSF will provide bridge financing to high-quality firms that meet the specified criteria. This will help stabilize and ensure continued functioning of the corporate bond market, thereby preventing the market illiquidity from spiraling into systemic risk and then affecting financial stability as a whole.





The Corporate Bond Stabilization Fund (BSF)'s Mechanism*



“ Eligible corporate bonds/issuers must have a clear long-term financing plan and meet other conditions as set out by the BSF’s investment committee. If the issuers simultaneously offer secured bonds to the general public, the bonds that the BSF will invest in must also be secured with collaterals no inferior than those pledged on the bonds sold to the general public. ”

*The BSF will provide bridge financing to firms affected by the COVID-19 pandemic so that they can carry on their businesses, and thereby preventing a wider contagion and safeguarding the stability of the financial system as a whole.

