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Directional Paper on Sustainable Solutions to Thailand's Structural Debt Overhang Problems

The Bank of Thailand (BOT) issued the Financial Landscape Consultation Paper on Repositioning Thailand's Financial Sector for a Sustainable Digital Economy in February 2022 to set the overall directions for developing the Thai financial sector. The Consultation Paper emphasizes the need to strike a balance between promoting innovation and managing risks in transitioning towards a digital and environmental-friendly economy.

As a follow up to the Financial Landscape Consultation Paper, the BOT has issued this Directional Paper on "Sustainable Solutions to Thailand's Structural Debt Overhang Problems" to provide in-depth analysis of household debt problems in Thailand and communicate the BOT's approach to resolve structural debt overhang problems in a sustainable manner. Most debt relief measures implemented at the onset of the COVID-19 pandemic have focused on providing immediate liquidity assistance to debtors affected by the pandemic. As the economy continues to recover, more recent measures are geared towards offering long-term debt restructuring programs that are more suitable to debtors' problems and ability to repay. However, additional measures are still needed to tackle structural debt overhang problems that have been accumulated over time. Without further actions, household debt could exceed 80% of GDP, which is considered a critical level that could negatively impact economic growth and financial stability and might turn into a social problem that would be even harder to deal with.

Resolving household debt distress requires comprehensive, principle-based solutions that properly address characteristics and root cause of debt problems throughout all stages of indebtedness. Those solutions are, among other things, aiming for the right target; not leaving debtors with more burden; not reducing credit access opportunities; and being proactive. This requires collaboration among all stakeholders, including creditors, debtors, and the public sector. The BOT set guidelines for dealing with debt overhang problems as follows:

1. Current NPLs: ensuring sufficient, long-term debt restructuring; requiring creditors to provide debt counseling services to their clients to devise solutions appropriate to their needs and circumstances; establishing debt management supporting functions to carry out debt counseling and debt mediation functions; pushing forward amendments to the



Bankruptcy Act or relevant laws to allow debtors with no means to repay their debts to voluntarily enter debt rehabilitation and/or bankruptcy process.

2. Persistent debts (i.e., debts that are unlikely to be fully repaid but have not yet become NPLs): guiding debtors to ensure debt full repayment is in sight through reminders, setting up additional measures to deal with debt problems starting with vulnerable debtors, e.g., those with persistent revolving Cash Card debt, elderly debtors, and those with serious financial problems.

3. New debts that have grown rapidly and are at risk of becoming NPLs or persistent debts in the future. The BOT will issue a new guideline on responsible lending in tandem with macroprudential policy to ensure creditors consider their client's ability to repay the debt and afford other essential living expenses. In addition, the BOT will explore incentive schemes to motivate creditors to adopt risk-based pricing, i.e., charging interest rates based on borrowers' credit risk, and promote greater visibility of good debt behavior to encourage other creditors to offer lower interest rates for refinancing.

4. Other debts that are uncounted in the household debt statistics, such as the Student Loan Fund, loans from other cooperatives, and informal debt: ensuring availability of wider coverage of debt data available; promoting the use of alternative credit data such as spending habits so that debtors have more access to formal credit channels at a cost based on their creditworthiness.

To ensure the proposed solutions to deal with debt overhang problems are practical for all groups of debtors and well-aligned with the current economic and financial conditions, the BOT will collaborate with all stakeholders to keep the debt overhang problems at bay in order to foster household well-being, reduce economic and financial stability risks, and strengthen the financial sector, which in turn supports the transition towards a digital and environmental-friendly economy.

Bank of Thailand

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