Thailand CSF 1998 (TH AFC)

Adam Kulam[1]

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Abstract

After the floatation of the baht on July 2, 1997, the Thai economy endured a financial crisis from massive currency devaluation, exchange rate losses, and non-performing loans (NPLs) (IDE Satitniramai 2007, p. 2). In response, the Thai government employed two types of restructuring programs: (1.) the alleviation NPLs and distressed assets, (2.) the correction of financial institution insolvency and capita inadequacy (Santiprabhob 2003, p. ix). To help recapitalize private institutions with public funds, the government introduced tier-1 and tier-2 capital support facilities (Santiprabhob 2003, p. 27). The tier-1 facility aimed to attract private capital, and the tier-2 facility to stimulate lending and corporate debt restructuring (ADB 1999, p. 53). Capital injections took the form of voluntary securities exchanges: the Ministry of Finance (MOF) exchanged government bonds for preferred stocks (tier-1 capital) or subordinated debt (tier-2 capital) (BOT AER 1998, p. 132, 133). The MOF was authorized to issue up to B300 billion in government bonds for the tier-1 (B200 billion) and tier-2 (B100 billion) facilities (THENAT FinRep 1999). To cover the government's financing costs, authorities set interest and dividend rates on financial institutions' securities above the coupon rates of government bonds (Santiprabhob 2003, p. 28). Conditions for participation in the tier-1 facility included the right to change management and to meet full end-2000 loan classification and provisioning requirements (BOT AER 1998, p. 132, 133). With uptake around 24.6% of the available total, the program was largely unsuccessful (BOT SR 2000, p. 15; IDE Satitniramai 2007, p. 5, 6). The Thai government amended program in 1999 and counted hybrid securities as part of match-able tier-1 capital (BOT AER 1999, p. 91).

Keywords: Capital injection, August 14 Package, Thailand Financial Sector, Capital Support Facilities, Asian Financial Crisis

[1] Research Associate with the Yale Program on Financial Stability (adam.kulam@yale.edu)

Capital Support Facilities (TH AFC)

Summary of Key Terms

Purpose: "The objective is to restore and maintain the solvency and credibility of the Thai financial system and, most importantly, to enable the financial institutions to perform effectively their role in supporting economic growth" (IMF LOI August 1998, "II. Capital Support Facilities").

Announcement Date	August 14, 1998 (Santiprabhob 2003, p. 27)
Operational Date	October 1, 1998 – December 31, 2000 (Santiprabhob 2003, p. 28; RN September 1998)
End of Issuance Window	December 31, 2000 (BOT SR 2000, p. 15)
Peak Utilization	B73.7 billion (BOT SR 2000, p. 15)
Participants	13 finance companies (BOT SR 2000, p. 15)
Administrators	Bank of Thailand, Ministry of Finance, Financial Restructuring Advisory Committee (Santiprabhob 2003, p. 9-11; BOT SR 2000, p. 15; IMF LOI August 1998 Boxes)

At a Glance

One year into the Asian Financial Crisis, the Thai financial sector struggled to raise capital from private markets (Santiprabhob 2003, p. 27). The Thai government sought to temporarily recapitalize private institutions while depending on market mechanisms to price and screen for viable financial institutions (Santiprabhob 2003, p. 32). Authorities opened two voluntary capital support facilities to banks and finance companies deemed viable by the BOT (BOT AER 1998, p. 133; Lindgren et al. 1999, p. 100). BOT ordered suspensions, capital raises, and set the regulations on capital requirements and loan-loss provisioning (Santiprabhob 2003, p. 9-11). The Financial Restructuring Advisory Committee (FRAC) received and reviewed applications, monitored the capital support facilities, and issued detailed guidelines for participating in the programs (THENAT September 1999; THENAT Srisukkasem 1999; IMF LOI August 1998 Boxes). The Ministry of Finance (MOF) funded the program by issuing government debt, and purchased the capital from financial institutions (Suthiwart-Narueput Pradittatsanee Dec. 1999, p. 17, 18; BOT SR 2000, p. 15).

Capital injections took the form of security swaps: government bonds for preferred shares (tier-1) and subordinated debt (tier-2) (Lindgren et al. 1999, p. 100). To cover the cost of financing the program, the MOF mandated preferred shares and subordinated debt to carry interest rates 100 basis points above the government bonds' interest rates (Santiprabhob 2003, p. 28). The amount of capital injections was dependent on matching capital raised with private investors (tier-1), and proof of debt restructuring and new lending (tier-2) (IMF LOI August 1998, "II. Capital Support Facilities"). The Thai government also issued call options with tier-1 preferred shares to encourage private investors to participate (Santiprabhob 2003, p. 28).

Summary Evaluation

Though the government allocated up to B300 billion for the capital support facilties, it ultimately utilized B73.7 billion (around 24.6%) (Santiprabhob 2003, p. 27; BOT SR 2000, p. 15). At the time of writing, the author is unable to find details about the Thai government's exit from this program. The capital support facilities are generally regarded as ineffective because the uptake was low (IDE Satitniramai 2007, p. 5, 6). With the program's voluntary terms, harsh participatory conditions resulted in low participation (IDE Satitniramai 2007, p. 5, 6). Authors suggest that the capital support facilities addressed consequences of NPLs, but not the causes of NPLs (TBTC 2005, p. 74). As financial institutions avoided the government's recapitalization program, they raised private capital by issuing short-term, high-cost hybrid securities (IDE Satitniramai 2007, p. 6). The Thai government later amended program in 1998 and 1999 to accept hybrid securities as part of tier-1 and tier-2 capital, respectively (BOT SR 2000, p. 39; BOT AER 1999, p. 91). One positive outcome was improved confidence in the Thai financial sector—indicated by upward trends in the Thai stock market and banking sector indexes following the announcement of the program (Santiprabhob 2003, p. 27). Though the program has ended, there is still a need for more scholarship of its effects on finance companies' lending practices and debt restructuring activity.

Thailand AFC 1998 (TH AFC) Context	
GDP	$115.12 billion (current US$) in 1998 *Source: Bloomberg*
GDP per capita	$1,846.00 (current US$) per capita in 1998 *Source: Bloomberg*
Exchange Rate **(Baht to USD)**	36.65 in 1998 *Source: Bloomberg*
Sovereign credit rating (5-year senior debt)	Fitch: BBB+ Moody's: Baa1 S&P: A- *Source: Bloomberg*
Size of banking system	$196.46 billion in total assets *Source: Bloomberg*

Size of banking system as a percentage of GDP	170.66% in 1998 *Source: Bloomberg*
Size of banking system as a percentage of financial system	N/A
5-bank concentration of banking system	70.0% of total bank assets in 1998 *Source: World Bank*
Foreign involvement in banking system	N/A
Government ownership of banking system	31% of bank assets owned by the state between 1999 and 2001 *Source: Cull et al. (2018)*
Existence of deposit insurance	None *Source: Bloomberg*

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2. The Thai Minister of Finance and officials from the IMF and World Bank created the August 14th Package. 6

3. The Ministry of Finance funded the capital support facilities by issuing government bonds and three-year call options on shares it acquired through recapitalization. The Bank of Thailand set the loan-loss provisioning and capital requirements. The Financial Restructuring Advising Committee (FRAC) reviewed applications and monitored injections 6

4. While the capital support facility was open, the Thai government altered loan-loss provisions, and changed capital requirements. 7

5. The Ministry of Finance announced the August 14th Package through press releases. 9

6. Thai financial institutions confirmed or denied their intentions to participate through the Stock Exchange of Thailand. The Minister of Finance occasionally publicized the names of potential participants. 9

7. The entire capital injection program was set at B300 billion and individual size of tier-1 capital injections depended on regulatory minima set by BOT, and the size of tier-2 injections depended on the cost incurred from debt restructuring and additional lending and was set to decline over time. 10

8. Banks and financial companies deemed "potentially viable" by the Bank of Thailand were eligible for the capital injection 11

9. For tier-1 capital, Ministry of Finance received preferred shares in exchange for 10-year tradeable government bonds. The government also issued three-year call options on the government's preferred shares. 12

10. For tier-2 capital, the MoF received subordinated debt in exchange for 10-year non-tradeable government bonds. 14

11. Tier-1 participants wrote down capital for existing shareholders, and permitted the government to change management and the board of directors. 14

12. There was no explicit exit strategy set forth by the capital support facility, but MOF's exit measure included privatization through the sale of government-owned securities. 15

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I. Overview

Background

In the years leading up to the crisis in Thailand, high current account deficits exposed local corporations to foreign exchange and market risks, and the banking system underestimated credit risk. The currency market and financial system suffered runs in 1996 when exports underperformed (Nimmanahaeminda 1998, p. 1). In response, Thai authorities defended the baht and supported insolvent institutions, which depleted the government's foreign reserves (Nimmanahaeminda 1998, p. 1). The government allowed the Thai baht to float on July 2nd, 1997, which led to currency devaluation (IDE Satitniramai 2007, p. 2). The business sector suffered massive losses (IDE Satitniramai 2007, p. 2). Despite the announcement of an IMF support package in August 1997, market confidence plummeted because investors did not trust policymakers' statements. Issues with government transparency and accountability created a contagion effect (Nimmanahaeminda 1998, p. 1).

Specific factors exacerbated the undercapitalization of the Thai financial sector before and during the crisis. Before the crisis, Thai authorities failed to regulate and supervise bank capital by holding banks to NPL definitions and loan classification (Santiprabhob 2003, p. 25). Regulatory forbearance and speculative attacks on the baht limited the financial sector's ability to recapitalize when the country entered the crisis in March 1997 (Santiprabhob 2003, p. 25). During the crisis, general economic contraction, the floating of the Thai baht, high interest rates, and high levels of NPLs all deteriorated financial institutions' capital bases (Santiprabhob 2003, p. 25). Capital inadequacy became a systemic issue that led to the closure of insolvent financial institutions, and the broad recapitalization of solvent financial institutions (Santiprabhob 2003, p. 25).

Beginning in 1997, the Thai government employed several drastic programs to combat the crisis (Santiprabhob 2003, p. ix). Restructuring programs broadly fit into two categories: (1.) measures to combat non-performing loans and distressed assets, and (2.) measures to combat financial institutions' insolvency and capital inadequacy (Santiprabhob 2003, p. ix).

Between March and August 1997, the government extended liquidity support to Thai financial institutions through Financial Institution Development Fund (FIDF) loans (Santiprabhob 2003, p. 9, 10). The government also introduced blanket deposit-guarantees in August 1997 (Santiprabhob 2003, p. 17). As banks continued to suffer runs on deposits, the Thai government attempted to rein in liquidity support and suspended nearly two-thirds of Thai finance companies between June and August 1997 (Santiprabhob 2003, p. 9, 10). In November 1997, the Thai government also began to intervene in insolvent financial institutions before privatizing and/or merging them with one another (Santiprabhob 2003, p. 17-24). During December 1997, the Financial Restructuring Authority decided that two of the 58 suspended institutions could continue to operate if they recapitalized within 90 days—the rest were closed, and the FRA liquidated their assets (Santiprabhob 2003, p. 14).

One year after the outbreak of the crisis, it became clear that private institutions faced challenges in recapitalization without public sector support (IDE Satitniramai 2007, p. 4). On August 14, 1998, the government introduced a plan known as the "August 14th Package" (the "Package") to help private financial institutions recapitalize (Santiprabhob 2003, p. 26-29). The Package entailed B300 billion that the government set aside to purchase capital from distressed financial institutions through tier-1 and tier-2 capital support facilities[2] (Santiprabhob 2003, p. 27).

Program Description

As part of the Package, the capital support program began on August 14, 1998, and ended on December 31, 2000 (BOT SR 2000, p. 12, 15). On August 14, 1998, the Ministry of Finance (MOF) and Bank of Thailand (BOT) announced the program in a joint press release, and on September 29, 1998, the MOF published details about applications and conditions of participation (THENAT Chaitrong 1998; Amornsiripanitch 26 Jan 2020; BOT AER 1998, p. 133). Institutions could seek government capital beginning on October 1, 1998, apply through November 1, 2000, and support ended on December 31, 2000 (Santiprabhob 2003, p. 28; RN September 1998).

On August 24, 1998 the government passed an emergency decree enabling the MOF to issue B300 billion to fund the capital support program (BOT AER 1998, p. 133, 134; Suthiwart-Narueput Pradittatsanee 1999, p. 17, 18). To help finance the tier-1 portion of the portion of the capital support program, the government also sold three-year call options on its preferred shares (Santiprabhob 2003, p. 28; THENAT FinRep 1999).

From the B300 billion of total authorized funding, the government allocated B200 billion for tier-1 capital support and B100 billion for tier-2 capital support (THENAT FinRep 1999). This program targeted all banks and finance companies—regardless of their net worth or outstanding debt balance with the government (WB EM December 1998, p. 13).

Financial institutions published statements through the Stock Exchange of Thailand to indicate whether they intended to participate (RN November 1998; RN November 1999). The Minister of Finance occasionally announced the names of potential participants before they had formally applied for support (AFP 1999; THENAT FinRep 1999).

Relevant changes to regulations included the lowering of the minimum tier-1 component of overall CAR, the gradual introduction of loan-loss provisioning requirements, and the liberalization of foreign ownership of Thai financial institutions (BOT AER 1998, p. 138; Santiprabhob 2003, p. 32).

[2] The Minister of Finance Tarrin Nimmanahaeminda, IMF, and World Bank officials designed the capital support facilities (BD 1999).

The capital support program was comprised of tier-1 and tier-2 capital support facilities (IMF LOI August 1998, "II. Capital Support Facilities"). The tier-1 facility aimed to attract new private capital into Thai financial institutions (IMF LOI August 1998, "II. Capital Support Facilities"). The government's objectives were to remove the risk associated with bad loans, and to lay the groundwork for financial institutions to resume normal lending (IMF LOI August 1998, "Tier-1 capital support facility"). Through the tier-1 facility, the MOF exchanged tradeable government bonds for financial institutions' preferred shares up to meet 2.5% tier-1 CAR; thereafter, additional government capital injections had to be matched by private capital injections (IMF LOI August 1998, "Tier-1 capital support facility"). Conditions for tier-1 participation included: (1.) the full adoption of end-2000 loan classification and provisioning (LCP) rules, (2.) the preferred status of new capital injections over existing shareholders, (3.) the new investors' right to change existing management, and (4.) the BOT's approval of a restructuring plan (IMF LOI August 1998, "Tier-1 capital support facility").

The tier-2 facility aimed to provide financial resources and incentives to speed up corporate debt restructuring and to restart lending (IMF LOI August 1998, "II. Capital Support Facilities"). Through the tier-2 facility, the MOF exchanged non-tradeable government bonds for financial institutions' subordinated debt (IMF LOI August 1998, "Tier-2 capital support facility"; BOT SR 2000, p. 15). The amount of tier-2 capital an eligible institution could receive was determined by the amount of losses related to debt restructuring, costs from increases in net lending, and total amount of risk-weighted assets (IMF LOI August 1998, "Tier-2 capital support facility"). Conditions for tier-2 participation included legally binding debt restructuring agreements and proof of loan service for restructured debt (IMF LOI August 1998, "Tier-2 capital support facility"). Institutions that fully adopted the end-2000 LCP rules could phase write-offs related to debt restructuring over a five-year period (IMF LOI August 1998, "Tier-2 capital support facility").

In June 1999, the government became willing to match tier-1 capital raised from hybrid securities issuances—not only from preferred share issuances (BOT AER 1999, p. 91, 92). While this did not change the securities that the government exchanged with participants, it expanded the list of match-able securities that financial institutions had to issue to private investors as part of the tier-1 facility (IMF LOI August 1998, "Tier-1 capital support facility"). On July 5, 2000, the government allowed institutions to count hybrid securities as part of tier-2 capital if the instruments met conditions set by the BOT (BOT SR 2000, p. 39; BOT EMC 2000, p. 74).

At least one bank attempted and failed to negotiate more favorable program terms[3] with the government (THENAT April 1999; THENAT Kanoksilp March 2000). While the program was

[3] Former President of Thai Military Bank (TMB) expressed TMB's desire to enter the tier-1 facility, but wanted the BOT to match TMB's hybrid securities issuances more generously (BD January 1999). At the time of discussion, the BOT was willing to match hybrid securities issuances up to one-third of the minimum tier-1 capital ratio (4.25%) (BD January 1999). Ultimately, the BOT did not change its terms (THENAT Kanoksilp March 2000).

running, BOT Governor Chatumongkol explored the option of forcibly recapitalizing financial institutions if their voluntary actions were not enough to recapitalize themselves (WB EM December 1998, p. 13).

The government designed the facilities so that returns from preferred shares and subordinated debt exceeded the government's costs (Santiprabhob 2003, p. 28).

Although there were no explicit exit strategies set forth when the program was announced, the government's strategy was to sell its preferred shares to private investors (Santiprabhob 2003, p. 28; THENAT May 1999).

Outcomes

From the B300 billion of total authorized funding, the government allocated B200 billion for tier-1 capital support and B100 billion for tier-2 capital support (THENAT FinRep 1999). By mid-1999, the amounts of applied and approved funding stood at:

Table 1: Capital Support Utilization by mid-1999 (billions of Thai Baht)

	Tier-1	**Tier-2**	**Total**
Applied	21	21.5	42.5
Approved	35.5	2.9	38.4
Total	56.5	24.4	80.9

Table 1 adapted from WB EM June 1999, p. 34; information from the Bank of Thailand.

By end-2000, the MOF had provided 2 commercial banks, 1 finance company, and 1 finance and securities company with B61.3 billion of tier-1 capital (BOT SR 2000, p. 15). 3 commercial banks and 4 finance companies received B12.4 billion of tier-2 capital (BOT SR 2000, p. 15).

Of the committed funds available, the government utilized about B73.7 billion (24.6%) (BOT SR 2000, p. 15).[4] Total uptake was lower than expected, as banks wary of the provisioning requirements and the right for new shareholders to change management (CI July 2001; IDE Satitniramai 2007, p. 5, 6). Instead of participating in the government program, banks

[4] The exact utilization rate varies from source to source. Santiprabhob (2003) suggested that 24% of funds were utilized, the Asian Development Bank (1999) suggested that 27% of total funds had been dispersed by June 1999, and the Bank of Thailand's year-2000 Supervision Report suggested that the government used about 24.6% of funds (Santiprabhob 2003, p. 28; ADB 1999, p. 55; BOT SR 2000, p. 15).

engineered new financial instruments to meet the capital adequacy ratio while retaining control over their own management (IDE Satitniramai 2007, p. 6). Financial institutions further recalled loans to maintain their capital positions, inadvertently deepening the recession (IDE Satitniramai 2007, p. 6).

The bond issuances for the capital support program were classified as "public sector debt" (BOT AER 1999, p. 58). Through 2002, the Thai government bore interest costs on the tier-1 facility because participants took losses and could not pay out dividends (Santiprabhob 2003, p. 29). A "limited number of investors" exercised their options because market prices remained below the government share purchase prices of the tier-1 preferred shares (Santiprabhob 2003, p. 29). The government faced no cost from the tier-2 facility because the interest rates on subordinated debt were higher than government bond coupon rates (Santiprabhob 2003, p. 29).

II. Key Design Decisions

1. **The Thai government opened tier-1 and tier-2 capital support facilities as parts of a financial sector restructuring program called "the August 14th Package," which was also accompanied by measures to alleviate distressed assets and non-performing loans.**

The Thai government's attempts to restructure the financial sector fall into two categories: (1.) efforts to solve problems of insolvency and capital inadequacy, and (2.) measures to alleviate distressed assets and non-performing loans (NPLs) (Santiprabhob 2003, p. 5).

Within the first category, the government suspended and closed nonviable finance companies, intervened in insolvent financial institutions, recapitalized private financial institutions, and recapitalized and restructured of state-owned financial institutions (Santiprabhob 2003, p. 7). Within the second category, the government liquidated assets of closed finance companies, reformed legislation on NPL resolution, and led both state and market-driven efforts on NPL resolution (Santiprabhob 2003, p. 7). Please refer to Dreyer TAMC (Thailand 2001) for more information about the Thai government's handling of distressed assets and NPLs.

On August 14th, 1998, the government launched the "August 14th Package," which was a program meant to recapitalize private financial institutions (Santiprabhob 2003, p. 27). Through the Package, the government offered two voluntary capital support facilities that encouraged private institutions to comply with regulatory requirements, such as end-2000 targets for loan classification and provisioning (Santiprabhob 2003, p. 27, 28). The tier-1 support facility aimed to help institutions attract private capital to better handle losses, and the tier-2 support facility was intended to provide financial resources, quicken corporate debt restructuring, and foster new lending (Santiprabhob 2003, p. 27; IMF LOI August 1998). Other efforts to recapitalize private financial institutions included the legal liberalization of foreign ownership in November 1997, and the private issuance of hybrid capital securities in 1999 (Santiprabhob 2003, p. 26, 31).

2. The Thai Minister of Finance and officials from the IMF and World Bank created the August 14th Package.

Then-Minister of Finance Tarrin Nimmanahaeminda, IMF, and World Bank officials co-created the capital support facilities (BD 1999). In its fifth Letter of Intent (LOI) with the IMF, the Thai government introduced the capital support facilities and expressed confidence that the program provided incentives for financial institutions to join, and safeguarded against moral hazard (IMF LOI August 1998). On December 1, 1998, the seventh LOI explained that all finance companies and banks needing capital within the next sixth months were required to sign memoranda of understanding (MOUs)—which included plans to recapitalize—by January 31, 1999 (IMF LOI December 1998). The MOU signing was an IMF performance criteria, and all financial institutions had to sign them, regardless of their participation in the capital support facilities (IMF LOI December 1998). To the surprise of some analysts, banks that held sufficient levels of capital were not required to sign capital rehabilitation plans with BOT (BD January 1999). Financial institutions could make use of the Tiers 1 & 2 capital support facilities to satisfy these MOUs (IMF LOI December 1998). Banks and other financial institutions regularly signed MOUs at six-month intervals to address their capital needs through end-2000 (IMF LOI September 1999 Boxes). The BOT had the right to intervene in any financial institution that failed to meet its MOU commitments (Lindgren et al. 1999, p. 99).

3. The Ministry of Finance funded the capital support facilities by issuing government bonds and three-year call options on shares it acquired through recapitalization. The Bank of Thailand set the loan-loss provisioning and capital requirements. The Financial Restructuring Advising Committee (FRAC) reviewed applications and monitored injections.

During the crisis, the government passed several emergency decrees to lift general restrictions on government borrowing (Suthiwart-Narueput Pradittatsanee 1999, p. 17). Effective August 24, 1998, the Emergency Decree Allowing the Ministry of Finance to Borrow Money for the Strengthening of the Financial System B.E. 2541 allowed the Ministry of Finance to borrow up to 300 billion baht to fund its Tier-1 and Tier-2 capital support facilities (BOT AER 1998, p. 133, 134; Suthiwart-Narueput Pradittatsanee 1999, p. 17, 18). This funding window lasted through December 31, 2000 (Suthiwart-Narueput Pradittatsanee 1999, p. 17, 18). Of the committed funds available, the government utilized about 73.7 billion (24.6%) (BOT SR 2000, p. 15).

The Ministry of Finance raised the money for the capital support facilities and purchased securities from the participants (Suthiwart-Narueput Pradittatsanee Dec. 1999, p. 17, 18; BOT SR 2000, p. 15). Under the MOF umbrella, the Public Debt Management Office (PDMO) managed the government debt issued to pay for the capital support facilities (BIS Ganjarerndee 2008, p. 65; BIS Rattakul 2003, p. 235). The statutory capital support bonds were classified as central government domestic debt (Suthiwart-Narueput Pradittatsanee Dec. 1999, p. 4).

To help fund the Tier-1 capital support facility, the government also issued three-year call options ("derivative warrants") on shares that it acquired through recapitalization (Santiprabhob 2003, p. 28; THENAT FinRep 1999). During the crisis, the domestic secondary market for derivatives was not fully developed, so the Thai Securities and Exchange Commission (SEC) only authorized securities companies and large shareholders of Thai companies to issue derivative warrants (THENAT FinRep 1999).

The Bank of Thailand ordered suspensions, demanded capital raises, and set the regulations on capital and loan-loss provisioning (Santiprabhob 2003, p. 9-11). BOT was also the official registrar for public debt securities, including government bonds, which covered the cost of capital support facilities (BIS Ganjarerndee 2008, p. 65; BIS Rattakul 2003, p. 235). BOT also regularly conducted audits of restructuring agreements, which were related to tier-2 capital injections (IMF LOI August 1998, "Tier-2 capital support facility").

On September 29, 1998, the cabinet of Thailand approved and set up the Financial Restructuring Advising Committee (FRAC) (WB EM October 1998, p. 14). As an advisor to both the Bank of Thailand and Ministry of Finance, FRAC generally oversaw the implementation of restructuring efforts (Lindgren et al. 1999, p. 98; IMF LOI August 1998). FRAC received and reviewed tier-1 and tier-2 capital support applications (THENAT Srisukkasem 1999; RN October 1998). FRAC also monitored the tier-1 and tier-2 facilities, issued detailed guidelines for participating, and controlled the budget dedicated to financial institutions' recapitalization (IMF LOI August 1998 Boxes; THENAT September 1999). FRAC also arbitrated on any disputes regarding the amount of losses related to write-downs (Lindgren et al. 1999, p. 100).

Apart from the tier-2 capital scheme, the Thai government's debt restructuring efforts included: establishing the Corporate Debt Restructuring Advisory Committee (CDRAC), using the "Bangkok Approach" for workouts, softening classification standards for restructured loans, facilitating debt-equity swaps with banks, temporarily removing tax impediments, granting tax exemptions, centralizing credit bureaus, liberalizing foreign ownership of property, and relieving debt on a case-by-case basis (IMF WP 1999, p. 29).

4. While the capital support facility was open, the Thai government altered loan-loss provisions, and changed capital requirements.

To prevent banks from having future problems, the government raised supervisory standards and tightened regulations (BIS PP No. 6, p. 203). Two important forms of regulation included loan classification and provisioning (LCP), and capital requirements. In 1998, new regulatory standards required banks and non-bank financial institutions to significantly increase their capital (TBTC 2005, p. 196).

On March 31, 1998, the BOT raised loan classification, provisioning, and reporting standards to bring Thai financial institutions in-line with international standards by end-2000 (TBTC 2005, p. 196). Loan classification became contingent on debtors' debt servicing capacity, cash flow management and valuation of back-up assets, and ageing of overdue debts (TBTC

2005, p. 196). By the time that the capital support facilities opened in late 1998, financial institutions were adjusting to the following requirements:

Table 2: Loan-loss Provisioning Requirements for Commercial Banks

Loan Classification	Months Overdue	Previous Provisions (%)	1998 system of provisioning (%)
Pass	< 1 month	-	1
Special Mention	0-3 months	-	2
Substandard	3-6 months	15	20
Doubtful	6 months – 1 year	100	50
Loss	> 1 year	100	100

Table 1 adapted from TBTC 2005, p. 196, 351. Information originally sourced from the Bank of Thailand

Beginning in the second half of 1998, Thai government phased in these standards, requiring financial institutions to meet an additional 20% of required provisions every six months, until they fully satisfied requirements by end-2000 (ADB 1999, p. 52). The type and amount of capital injections depended on how quickly financial institutions met these end-2000 LCP rules (IMF LOI August 1998). To receive tier-1 capital injections, institutions were required to make full end-2000 provisions immediately and to forgo the transitional period (IMF LOI August 1998; BIS PP No. 6, p. 43). Though full end-2000 provisions were not necessary to participate in the tier-2 capital support facility, financial institutions that fully satisfied the end-2000 LCP rules could phase write-offs for debt restructuring over five years, which could temporarily relieve pressure to recapitalize (IMF LOI August 1998). Financial institutions struggled in their attempts to meet end-2000 provisioning requirements because they had to severely write-down existing capital (WB SSR January 2000, p. 33; ASBZ MacDonald 1998, p. 3, 4).

Other changes to asset classification and provisioning requirements included the definitions of assets tied to debtors who underwent debt restructuring, and the relaxation of criteria for the deduction of collateral value from debtors' accounts (BOT AER 1999, p. 90, 91). In the fourth quarter of 1998, the government made end-2000 provisioning fully tax deductible—

for both[5] phased-in and up-front provisioning (IMF LOI August 1998 Boxes, p. 3; IMF LOI December 1998, "V. Tax Code").

The BOT also altered capital requirements to allow financial institutions to use the capital support facilities (IMF LOI August 1998, "III. Regulatory Changes"). Effective August 25, 1998, the minimum capital adequacy ratio (CAR) was 8.5%—slightly above Basel standards—for commercial banks[6] and 8% for finance companies and finance & securities companies (BOT AER 1998, p. 138). For all financial institutions, at least half of the CAR needed to be tier-1 capital (BOT AER 1998, p. 138). If financial institutions fully met the end-2000 LCP requirements, they could count provisioning for "pass" assets as tier-2 capital—with "pass" asset not exceeding 1.25% of all risk-weighted assets (BOT AER 1998, p. 138). On August 5, 1999, the BOT reversed the full end-2000 LCP requirement provision, so financial institutions could immediately count loan-loss provisions for "pass" assets as tier-2 capital—subject to the same constraint of "pass" assets not exceeding 1.25% of all risk-weighted assets (BOT AER 1999, p. 92).

5. The Ministry of Finance announced the August 14th Package through press releases.

The government officially announced the August 14th Package through a joint press with the Bank of Thailand and the Ministry of Finance (IMF LOI August 1998). The initial press release offered basic package details, such as the types of capital and participation limits, but omitted application details, such as guidelines for loan classification (THENAT Chaitrong 1998). Further details about capital support eligibility came in a press release on August 19th, 1998 (BOT PR No. 55 1998; Amornsiripanitch 26 Jan 2020). The later press release clarified that the purpose of the capital support facility was to re-ignite financial institution lending to businesses (BOT PR No. 55 1998; Amornsiripanitch 26 Jan 2020). According to an August 25th, 1998 Letter of Intent with the International Monetary Fund, the Financial Restructuring Advisory Committee (FRAC) was scheduled to release a detailed guideline for capital support participation by September 30, 1998 (IMF LOI August 1998 Boxes).

6. Thai financial institutions confirmed or denied their intentions to participate through the Stock Exchange of Thailand. The Minister of Finance occasionally publicized the names of potential participants.

Some banks endured months of press speculation on whether they would enroll in the capital support facilities (THENAT Kanoksilp Keawkumnurdpong 1999). Through the Stock Exchange of Thailand, financial institutions released statements confirming or denying their

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[5] At the beginning of the crisis, domestic tax code discouraged financial institutions from making full end-2000 provisions because provisions in excess of the BOT's scheduled minima were still subject to taxation (Santiprabhob 2003, p. 60).

[6] For foreign banks operating in Thailand, CAR was calculated with the capital in the local branch rather than the consolidated capital of the parent bank (Thailand Banking 1998, p. 468).

intent to participate (RN November 1998; RN November 1999). Some future participants included the level of capital while others omitted the total amount of support (RN November 1998). There were real-time, negative market reactions to rumors of financial institutions joining the program (RN November 1999; THENAT November 1999). At times, Minister of Finance Tarrin Nimmanahaeminda announced the names of some banks that "would" apply to both tier-1 and tier-2 capital support facilities before they had formally filed applications with the Bank of Thailand (AFP 1999; THENAT FinRep 1999). In other public statements, he acknowledged financial institutions' interest in the facilities, but did not identify the potential participants by name (THENAT FinRep 1999).

7. **The entire capital injection program was set at B300 billion and individual size of tier-1 capital injections depended on regulatory minima set by BOT, and the size of tier-2 injections depended on the cost incurred from debt restructuring and additional lending and was set to decline over time.**

The size of tier-1 injections depended on the financial institution's ability to meet regulatory minima set by the Bank of Thailand. After the institution met the full loan classification and provisioning standards (LCP) for end-2000 (including up-front write-offs), the government injected tier-1 capital to satisfy the 2.5% capital adequacy ratio (IMF LOI August 1998; Santiprabhob 2003, p. 28; Lindgren et al. 1999, p. 100). Above 2.5% CAR, the government only injected tier-1 capital if it was matched by private capital injections[7] of equal or greater value (IMF LOI August 1998; Santiprabhob 2003, p. 28). The government did not specify limits on the amount of tier-1 support for individual participants (IMF LOI August 1998, "Tier-1 capital support facility").

The size of tier-2 injections was contingent on new loan extension and costs related to debt restructuring. The total amount of available tier-2 capital was equal to write-offs, the total amount of provisioning, and 20% of the net increase in outstanding private sector loans (IMF LOI August 1998). Though each participant was eligible to receive support equal to 2% of risk weighted assets, tier-2 support for increased lending was capped at 1% of risk weighted assets (IMF LOI August 1998). A single debt restructuring agreement was not eligible for more than 10% of the tier-2 support available to the institution (IMF LOI August 1998).

Institutions could apply to the Financial Restructuring Advisory Committee (FRAC) for tier-2 support at the end of each quarter by reporting any debt-restructuring agreement, original loan contract, and evidence that the borrower was able to service the loan (Lindgren et al. 1999, p. 100). For temporary capital relief, tier-2 participants that met end-2000 LCP rules immediately could pay debt restructuring write-offs over a five-year period (20% per year); otherwise, tier-2 participants were required to bear the restructuring costs according to the existing regulation (full losses taken by end-2000) (IMF LOI August 1998; Lindgren et al.

[7] Relying on the due diligence of private investors to determine the level of tier-1 capital contributions, the Thai government matched capital injections from both new and existing shareholders (Lindgren et al. 1999, p. 100).

1999, p. 100). To further incentivize participation, early debt restructuring, and new lending, the availability of tier-2 capital decreased[8] over the facility's window (ADB 1999, p. 54; IMF LOI August 1998).

On August 21, 1998, the Thai government passed an emergency decree to fund the capital support schemes by issuing B300 billion of bonds (IMF LOI August 1998 Boxes). Additionally, the Thai government issued derivative warrants through the SET to finance the tier-1 and tier-2 schemes (THENAT FinRep 1999).

8. Banks and financial companies deemed "potentially viable" by the Bank of Thailand were eligible for the capital injection.

The tier-1 scheme was only available to "potentially viable" commercial banks, finance companies[9], or finance & securities companies incorporated in Thailand (Santiprabhob 2003, p. 27; BOT AER 1998, p. 133). BOT determined viability (Lindgren et al. 1999, p. 100). To qualify for support, the financial institution had to submit an operational restructuring plan[10], which must be accepted by the Financial Sector Advisory Committee and the Bank of Thailand (BOT) (Lindgren et al. 1999, p. 100). Financial institutions intervened by the BOT (or those determined to be necessary in a merger process) must have first finished their restructuring plans to become eligible (BOT AER 1998, p. 133). Before applying, financial institutions had to secure the approval of their Boards of Directors for: (1.) the request to participate, (2.) the full provisioning requirements[11], and (3.) the issuance of an amount of preference shares to be sold to the Ministry of Finance and other joint investors" (BOT AER 1998, p. 133). All tier-1 applicants had to have positive capital left after fully provisioning against their assets because the shareholders needed to bear the cost of NPLs prior to recapitalization (Santiprabhob 2003, p. 27).

The tier-2 scheme was only available to "potentially viable" commercial banks, finance companies, and finance & securities companies incorporated in Thailand—irrespective of their participation in the tier-1 capital support facility (Lindgren et al. 1999, p. 100; BOT AER 1998, p. 133). The tier-2 scheme was available to capital deficient institutions who had

[8] The original Thai press releases do not explain why the amount of available tier-2 capital decreased over time (BOT PR No. 55 1998; Amonsiripanitch 26 Jan 2020).

[9] "Finance companies are also eligible for the scheme, provided this is part of a consolidation process for the sector. Finance companies may apply to the scheme once BOT clarifies their entitlement to become full-fledged banks" (WB EM November 1998, p. 12).

[10] Plans included measures to strengthen internal control and risk management, to increase revenues, to cut costs, and to improve internal procedures for alleviating non-performing loans (Lindgren et al. 1999, p. 100).

[11] On March 31, 1998, the Bank of Thailand revised regulations on the suspension of income recognition of accrued interest payments, loan classifications, and provisioning requirements to align Thai supervisory regulations with international standards by end-2000 (BOT AER 1998, p. 136). Potential tier-1 participants had to meet provision requirements at once—as opposed to the gradual phase-in allowed by the Bank of Thailand (Santiprabhob 2003, p. 27).

experienced losses from debt restructuring, and had increased lending to non-speculative clients (BOT AER 1998, p. 132; RN November 1998). Eligibility depended on a legally binding agreement between the debtor and the financial institution (IMF LOI August 1998, "Tier-2 capital support facility"). The institution also needed to prove to the BOT that the debtor was able to service its loans for three consecutive payment periods, or for at least three months (IMF LOI August 1998, "Tier-2 capital support facility"). Prior to submitting a tier-2 application, the financial institution had to secure approval from its Board of Directors for: (1.) the request to participate in the tier-2 scheme, and (2.) the issuance of an amount of subordinated debentures to be sold to the Ministry of Finance (BOT AER 1998, p. 133).

9. For tier-1 capital, Ministry of Finance received preferred shares in exchange for 10-year tradeable government bonds. The government also issued three-year call options on the government's preferred shares.

Through the tier-1 capital support facility, the Ministry of Finance paid for preferred shares with tradable[12] government bonds (Lindgren et al. 1999, p. 100). The 10-year government bonds paid a fixed interest rate: 100 basis points below the one-year deposit rate of the five largest Thai banks at the time of the transaction (WB PRWP Honohan 2001, Annex 1, p. 5). The preferred shares carried equal voting rights with common stock, were non-redeemable, non-cumulative, and convertible to common stock at the shareholder's option once the participant had taken full provisions (WB PRWP Honohan 2001, Annex 1, p. 4, 5; THENAT May 1999). This new capital had preferred status over existing capital (Lindgren et al. 1999, p. 100). The tier-1 facility divided new preferred shares into class A and class B shares (THENAT 9 October 1999). The government received class B shares, which had priority over class A in the event of dividends or returns from liquidation (THENAT 9 October 1999). However, class B shares were second in-line if future write-offs for further losses on assets acquired before the issuance of new shares (THENAT 9 October 1999). Losses against new assets were written down against class A and B shares proportionately (THENAT 9 October 1999).

The preferred share dividend rate was either the same as the common stock dividend rate, or 100 basis points above the government bond interest rate—whichever was lower—but the participant did not have to pay dividends during times of operational loss (WB PRWP Honohan 2001, Annex 1, p. 4, 5; THENAT May 1999). Though the government could sell the preference shares, the original shareholders had a "right of first refusal" (WB PRWP Honohan 2001, Annex 1, p. 5). The preferred shares purchase price was equal to the market price[13] after the participant met reserve fund requirements (BOT PR No. 55 1998; Amornsiripanitch 26 Jan 2020).

[12] The Bank of Thailand was not allowed to hold these bonds (WP PRWP Honohan 2001, Annex 1, p. 4, 5).

[13] Though the government could purchase shares at less than par value, the government did not have the authority to forcibly lower the participant share's par value (BOT PR No. 55 1998; Amornsiripanitch 26 Jan

To encourage private investment in the tier-1 capitalization, the government offered new share subscribers three-year call options to purchase the government's shares (Santiprabhob 2003, p. 28; THENAT FinRep 1999). The exercise price on these options were equal to the government's investment and holding costs over the three-year period (Santiprabhob 2003, p. 28). The options suggested that the government was a temporary investor, but that the government would not sell its shares to other investors during the three-year period (Santiprabhob 2003, p. 28). If the market price rose above the exercise price, the options also provided the government with a natural exit opportunity (Santiprabhob 2003, p. 28).

To recapitalize without participating in the government's capital support facilities, Thai banks raised capital by issuing short-term, high-cost hybrid securities called "Stapled limited Interest Preferred Stock" (SLIPS) and "Capital Augmented Preferred Securities" (CAPS) (Scott 2002, p. 41; Santiprabhob 2003, p. 29, 30). Responding[14] to the weak uptake of the capital support facilities, the Bank of Thailand announced that issuers of hybrid securities would be eligible to seek government funding in late April 1999 (THENAT Srisukkasem Kanoksilp 1999). On June 12, 1999, the BOT and MOF became willing to match SLIPS and CAPS issuances with tier-1 capital injections (BOT AER 1999, p. 91, 92). Financial institutions could count SLIPS/CAPS issued on or after the start date of the tier-1 capital support facility (September 29, 1998) as part of matchable tier-1 capital (BOT AER 1999, p. 91). These institutions could also apply to the tier-1 capital support facility for an amount no less than the tier-1 increase directly related to the SLIPS/CAPS issuance (BOT AER 1999, p. 91). Private holders of SLIPS/CAPS were not allowed to purchase the Ministry of Finance's preferred shares[15] (BOT AER 1999, p. 91). With respect to the financial engineering, the preferred share portion of the "innovative capital instrument" could comprise a maximum of 25%[16] of tier-1 capital (BOT AER 1999, p. 91). This policy change also meant that private investors would receive two options (rather than one) for each share purchased (WB EM June 2000, p. 25).

2020). Here, "par value" refers to the original share price determined by the capital level recorded within the participant's business registry record (BOT PR No. 55 1998; Amornsiripanitch 26 Jan 2020).

[14] Though the August 14th Package was designed with the expectation that financial institutions could raise enough funds from a single partner, the BOT changed its views and decided that multiple partners were fine—so long as the underlying bank was strong (THENAT Srisukkasem Kanoksilp 1999). During the first half of 1999, BOT changed its stance in response to improving market conditions, and hoped that financial institutions would mobilize more funds (THENAT Srisukkasem Kanoksilp 1999).

[15] The Ministry of Finance sought to prevent private investor from receiving higher returns than private investors who jointly purchased preferred shares with the Ministry of Finance (BOT AER 1999, p. 91).

[16] The BOT lowered this limit from 33.33% to 25% (BOT AER 1999, p. 91). From the BOT's perspective, improvements in stock market conditions meant that financial institutions should not have to rely on innovative capital instruments to raise more capital (BOT AER 1999, p. 91).

10. For tier-2 capital, the MoF received subordinated debt in exchange for 10-year non-tradeable government bonds.

Through the tier-2 capital support facility, the Ministry of Finance paid for subordinated debt with non-tradable government bonds (Lindgren et al. 1999, p. 100). The 10-year subordinated debt paid an interest rate 100 basis points above the interest rate of the 10-year government bonds (Lindgren et al. 1999, p. 100). If the participant's tier-1 level fell below the specified regulatory minimum while it participated in the tier-2 scheme, the participant had the option convert the tier-2 subordinated bonds into the tier-1 preferred shares (THENAT May 1999).

In late 2000, the BOT allowed financial institutions to include hybrid debt instruments and long-term subordinated debt as part of their tier-2 capital (BOT AER 2000, p. 64, 65; BOT SR 2000, p. 39). This reduced the amount of additional capital that these institutions would need from the government to satisfy their tier-2 capital requirements. The securities had to have minimum maturities of 10 years and 5 years, respectively (BOT SR 2000, p. 39). For both securities, the financial institutions were required to annually amortize 20% of the capital during the five years preceding the maturity, and BOT had to permit the financial institution to redeem early (BOT AER 1999, p. 39). Furthermore, the commercial banks and finance companies did not have to pay interest on hybrid securities if they did not make operating profit or did not have to pay dividends on common and preferred shares (BOT EMC 2000, p. 74). Postponement of principal and interest payments were only allowed when their payments would lead to a negative capital-to-risk-asset ratio, or when the BOT intervened by ordering capital write-downs and recapitalization (BOT EMC 2000, p. 74).

Returns from the capital support facilities covered the government's financing costs (Santiprabhob 2003, p. 28).

11. Tier-1 participants wrote down capital for existing shareholders, and permitted the government to change management and the board of directors.

On October 24, 1997, the Thai government passed emergency decrees that amended the Commercial Banking Act and Finance Company Act, allowing the BOT to order capital increases/decreases, or to change the management of troubled financial institutions (Lindgren et al. 1999, p. 96, 97). Tier-1 participants agreed to make full end-2000 provisions, effectively agreeing that existing shareholders would bear up-front losses (Lindgren et al. 1999, p. 100; WB PRWP Honohan 2001, Annex 1, p. 5). This was a feature of the reserve fund requirement, which ensured that the financial institution's losses were absorbed by common shareholders before the government (BOT PR No. 55 1998; Amornsiripanitch 26 Jan 2020). The government was also the first to receive profit (BOT PR No. 55 1998; Amornsiripanitch 26 Jan 2020).

The government and new investors had the authority to replace the management and board of directors of tier-1 participants (BOT PR No. 55 1998; Amornsiripanitch 26 Jan 2020; Lindgren et al. 1999, p. 100). The government had the right to appoint board members commensurate with the size of its equity holding, and the right to nominate at least one board member regardless of the size of the equity holding[17] (Lindgren et al. 1999, p. 100). Banks[18] were cautious of the management control that they would cede to the government if they were to participate in the tier-1 facility (WB SSR January 2000, p. 33). Only banks with large government holdings requested and received tier-1 capital (TBTC 2005, p. 74).

12. There was no explicit exit strategy set forth by the capital support facility, but MOF's exit measure included privatization through the sale of government-owned securities.

To recapitalize private institutions, the Thai government first began to loosen restrictions on foreign ownership of Thai financial institutions in 1997 (Santiprabhob 2003, p. 26). Effective June 27, 1997, the Emergency Decree Amending the Commercial Banking Act B.E. 2505 (No. 2)[19] lifted the 25% ceiling on foreign ownership on a case-by-case basis (BOT SR 2000, p. 12; Thailand Banking 1998, p. 468). The MOF allowed 100% foreign ownership by foreign investors who aimed to resolve or rehabilitate distressed financial institutions (BOT SR 2000, p. 12). With MOF approval, foreigners could possess majority ownership of locally incorporated financial institutions for 10 years; thereafter, the foreign owners could not acquire additional shares until the ownership interest (existing and new holdings) was maintained at 49% or less (Thailand Banking 1998, p. 474; BOT SR 2000, p. 12). Beginning in November 1998, MOF approval was no longer necessary for majority foreign ownership of Thai financial institutions (Thailand Banking 1998, p. 468). In the years immediately following the crisis, foreign ownership of Thai financial institutions increased through: (1.) purchasing a majority stake in private financial institutions from former Thai shareholders, (2.) purchasing a majority stake in privatized banks, or (3.) participating new capital injections of financial institutions—particularly large private banks (Santiprabhob 2003, p. 26).

Though the capital support facilities expired on December 31, 2000, there was no explicit exit strategy contained within IMF documents or BOT reports written before, during, or after the program (Santiprabhob 2003, p. 28). Following Santiprabhob (2003) and Thai newspapers, the government's exit strategy was the sale of its shares to private investors between four and six years after the beginning of the program (Santiprabhob 2003, p. 28; THENAT May 1999). The government was supposed to set the sales price equal to the then-market prices of each institution's common shares (THENAT May 1999).

[17] The BOT internally considered the policy that mandated the "revamp" of management (THENAT Srisukkasem Kanoksilp 1999). For most tier-1 participants, the government changed the top management and appointed one or two directors—despite having large shares of ownership in the participating institutions (Santiprabhob 2003, p. 28).

[18] Family-owned banks especially feared government interference (Santiprabhob 2003, p. 28, 29, 32).

[19] This is also known as the "Alien Business Law" (ADB 1999, p. 118).

III. Evaluation

Evaluations of the August 14th Package are mixed: researchers acknowledge that the program restored confidence in the Thai financial sector, yet the facilities suffered from low uptake.

Santiprabhob (2003) suggested that the capital support facilities improved confidence in the Thai financial system and offered an emergency funding option to financial institutions (Santiprabhob 2003, p. 32). After the government introduced the August 14th Package, the Stock Exchange of Thailand (SET) and SET's banking sector index both improved (Santiprabhob 2003, p. 27-29). In 2001, several World Bank employees conducted event studies on the signaling effects of interventions during the Asian Financial Crisis (WB PRWP Klingebiel et al. 2001, p. 1). They calculated stock returns on bank indices using a three-day window: one day before, during, and after a given intervention's initial announcement (WB PRWP Klingebiel et al. 2001, p. 22). The authors reported excess returns of +3.84%, which was significantly different from zero at a significance level of 0.05 (WB PRWP Klingebiel et al. 2001, p. 27). In this paper, "excess returns" referred to the bank stock returns in excess of non-financial stock returns (WB PRWP Klingebiel et al. 2001, p. 7).

The foremost criticism of the August 14th Package is that capital support facilities—especially the tier-1 facility—were unpopular with banks (Cheung Liao 2005, p. 412). First, financial institutions found it challenging to meet end-2000 provisioning requirements, which meant that they had to severely write-down existing capital (WB SSR January 2000, p. 33; ASBZ MacDonald 1998, p. 3, 4). Second, banks[20] were wary of the management control that they would forfeit to the government if they were to participate in the tier-1 scheme (WB SSR January 2000, p. 33). Subsequently, only banks with large government holdings requested and received tier-1 capital (TBTC 2005, p. 74). Researchers from the Japan Research Institute argued that the capital support facilities' unpopularity softened in 1999 because non-performing loans rose, capital markets offered no alternative sources of capital, and financial institutions were required to sign MOUs containing plans to recapitalize (JRI 1999, "Recapitalization of Commercial Banks"; IMF LOI December 1998, "II. Financial Sector Restructuring").

Satitniramai (2007) contended that the capital support facilities were largely unsuccessful because the weak uptake limited both NPL resolution and credit expansion (IDE Satitniramai 2007, p. 5, 6). Facing management changes, harsh provisioning, and few opportunities to lend profitably, financial institutions saw little utility in participating—other than to write down losses (IDE Satitniramai 2007, p. 5, 6; Ammar and Nuttan, p. 201, 202). David Scott (2002) noted that fear of participating in the government's capital support program stimulated private banks to search for capital in private markets, which improved bank governance in some cases, but not others (Scott 2002, p. 41). Other criticisms about private capital raises included the "excessive future cost" of short-term hybrid securities, which the

[20] Family-owned banks especially feared government interference (Santiprabhob 2003, p. 28, 29, 32).

government eventually accepted as part of tier-1 and tier-2 capital (BIP 2010, p. 180; Scott 2002, p. 41; BOT SR 2000, p. 39).

There appears to be little commentary about the tier-2 facility. One researcher noted the facility's "negative arbitrage" component would consume a troubled bank's cash if it were to participate (Campbell Harvey Case). Responding to a 1999 World Bank report, Thai Minister of Finance Tarrin Nimmanahaeminda contended that the tier-2 facility was "linked to demonstrable progress in debt restructuring and to increased business lending" (WB 7271-TH 1999, p. 58).

During the early stages of the crisis response, the Thai government focused on capital adequacy and separating solvent from insolvent financial institutions (Santiprabhob 2003, p. 77, 78). Santiprabhob (2003) argued that this disproportionate attention[21] meant that authorities paid too little attention to asset deterioration and NPL restructuring (Santiprabhob 2003, p. 78). Other academics reported issues with the government's regulatory treatment of assets and NPLs, which were closely related to the tier-1 and tier-2 programs. In a 2001 World Bank report, Patrick Honohan remarked that Thailand was slow to recapitalize and to dispose non-performing assets (WB PRWP Honohan 2001, Annex 1, p. 6). Private banks largely met phased-in loan-classification and provisioning by the end of 1999 (ADB 1999, p. 60). However, banks still faced capital shortfalls because: (1.) the book value of loans was overstated[22] because banks overestimated the value of debtors' collateral; (2.) provisioning guidelines were backward-looking and not forward-looking, which probably would have further decreased the quality of loans; and (3.) CAR requirements underestimated the impact of both new and ageing[23] non-performing loans (NPLs) (ADB 1999, p. 60).

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[21] Santiprabhob (2003) partly attributed this to the government's limited resources and finite abilities to respond to multiple issues simultaneously (Santiprabhob 2003, p. 78). The author also acknowledged Thai authorities' lack of a crisis management plan before the crisis, and the limited political will to employ several drastic measures at once (Santiprabhob 2003, p. 78). In a 2017 interview, former Minister of Finance Tarrin Nimmanahaeminda compared crisis-policy prioritization to flying a plan with most of the engines shut down (NAR Kotani 2017).

[22] During the first accounting period of 1999, the Thai government relaxed the criteria used to deduct collateral value from debtors' accounts to "[make] collateral appraisal more suitable for the current condition" (BOT AER 1999, p. 91).

[23] Starting on January 1, 1999, restructured loans could be reclassified as "substandard" or "pass" on the day of restructuring if the institution met certain criteria (BOT SR 2000, p. 17; BOT AER 1999, p. 90). The rules were [*sic*] "designed to reduce the potential financial burden on financial institutions during the period of high loans" (BOT SR 2000, p. 17). While the ADB authors identified these changes as regulatory bugs, the Thai regulators intentionally designed them as features.

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VI. Appendices

Appendix A: Title of Optional Appendix

Not every case study requires an appendix, but some may include one or more at the end of the document. If you don't need an Appendix, just delete these placeholder sections.

Appendix B: Title of Additional Appendix

Note that the appendix titles are styled as "Heading 3" and all begin with the text "Appendix [letter]:" before the title.

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Introduce any additional subsections within the given Appendix by styling the title as "Heading 4".