Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

Lessons Learned Oral History Project Interview

Interviewee Name and Crisis Position	Veerathai Santiprabhob[1] Former Governor, Bank of Thailand
Interviewer Name	Maryann Haggerty, Interviewer, Yale Program on Financial Stability Rosalind Wiggins, Director & Sr. Editor, Yale Program on Financial Stability
Date of Interview	October 4, 2021
Lessons Learned No.	2021-24

Introduction:

Veerathai Santiprabhob was the Governor of the Bank of Thailand from 2015 to 2020, a period that included the onset of the COVID-19 pandemic. Earlier in his career, he was an economist at the International Monetary Fund. At the time of the 1997-1998 Thai financial crisis, he returned to his home country to take a position at the Ministry of Finance. There, he was involved with the government response to that financial crisis. From 2000 to 2015, he held private-sector finance jobs before going to lead the Bank of Thailand. The Yale Program on Financial Stability (YPFS) reached out to Mr. Santiprabhob to discuss his experiences with financial crises.[2]

This transcript of a Zoom interview has been edited for accuracy and clarity.

Transcript

YPFS #1: **In these interviews, we like to focus on lessons you have learned dealing with financial crises and on how you can pass these lessons onto other policymakers in the future who may be facing similar or different crises. Thus, as we're going through, occasionally I will stop you to say what lessons have we learned from this? What can we bring forward?**

But let's start with how did you, as the Governor of the Bank of Thailand, look at crisis planning? What lessons did you bring to that situation from your earlier experiences?

Santiprabhob: Crisis planning is very important. For central bankers, it's our nature to be paranoid of potential problems. So, we always have to think of how

[1] The opinions expressed during this interview are those of Mr. Santiprabhob and not those any of the institutions for which the interview subject is affiliated.
[2] A summary of the key observations and insights gleaned from this interview with Mr. Santiprabhob is available in the Yale Program on Financial Stability's *Journal of Financial Crises*.

to deal with problems in the financial system. That should be the nature of central bankers. What we learned from the 1997 crisis is that there are many aspects that we need to plan ahead for should a crisis occur. The most important thing in my view is to ensure that the central bank has good data on the health of the financial system. When we entered the 1997 financial crisis, key data were not there. So, we could not accurately diagnose the problems and prescribe what needed to be done in a timely manner. Thus, the first thing is to ensure that we have good and comprehensive information on the health of the financial system. And it has to be detailed information bank by bank and go deep into different types of businesses that they are involved with.

I'll give you an example. During the 1997 financial crisis, some of the reporting standards that we used were not up to the international standards. For instance, classifications of nonperforming loans [NPLs] were based on twelve-month nonpayment, while international standards for nonperforming loans were based on three-month nonpayment. When the crisis hit, everyone thought that the banks were in fine shape, but indeed, they were not. The true size of the NPLs was much larger than what we had thought before. Therefore, when planning for a crisis, it's very important that we look at all the possible data that could indicate the true health of financial institutions. That's one of the most important aspects of crisis planning.

The other thing that is very important for crisis planning, you have to think of chain effects [contagion]. What problems of one bank or one financial institution could lead to the others and spread to the financial system at large? One could think of this as a network effect or the domino effect. So, the relationships between financial transactions, financial linkages between different financial institutions, and also between different types of financial institutions are very important. By doing crisis planning, it forces us to look at this network and to come up with different scenarios of how the network operates during a normal time and also during a crisis when the public become panicked and financial professionals reacted to different types of news. In a crisis, changing behaviors of market participants could have different implications for the financial network.

We have a slogan at the Bank of Thailand when we think of these issues: Detect the smoke quickly, put out the fire as quickly as we can, and stop the fire from spreading. Therefore, we always ask these questions when we do crisis planning. How can we detect the smoke quickly? How can we put out the fire, and how can we ring-fence that so that it won't spread through the network?

YPFS #1: **You were talking a little bit there about these procedures that you put in place to detect the smoke and prevent the spread of the fire. How do you do that? Do you just rely on your stress tests? What are the other procedures?**

Santiprabhob: When I was the Governor of the Bank of Thailand, it was during the period that the concept of financial stability became very prominent globally after the Global Financial Crisis. We all learned a big lesson from the GFC that a financial crisis might not originate from the banking system. Non-banks play very important roles in the financial system and they could start the fire and also serve as channels through which the fire could spread through the financial system. We need to think of financial stability in a comprehensive manner, in an integrated financial system, not looking at the banking system alone. We set up a special division to take care of financial stability at the Bank of Thailand. We then started to collect different types of information of the whole financial system, conduct deep researches on the financial networks, and work closely with different regulators in Thailand.

We have the market regulator, the Security and Exchange Commission. We also have the insurance regulator, the Insurance Commission. Life insurance companies invest a lot in corporate debt instruments, which became very important in the Thai financial system. When the COVID pandemic hit Thailand, there were problems with the corporate bond market and fixed-income mutual funds that we had to step in.

In the old days, we were used to banking system problems leading to a banking crisis. But in today's world, a financial crisis could originate by non-banks and things that we hadn't thought of before, like a cyberattack or payment system disruption.

YPFS #1: **What do you think remains to be done to set up the process and procedures to support financial stability in Thailand? I mean, it's no longer your job, but you can give advice to others.**

Santiprabhob: Firstly, coordination among different regulators is very important. Different regulators have different focuses and views based on their regulatory frameworks. The market regulator traditionally focuses on issues like fairness and orderly market functioning. The concept of financial stability has not been well incorporated into the regulatory frameworks of the market regulator. And it's also true with the insurance regulator. We have to make all the regulators on the same page on how important financial stability is and how the regulators need to work together to ensure stability of the whole financial system.

Allow me to explain why this is important. Banks in Thailand operate as universal banks. They have subsidiaries like securities companies, asset management companies, and life insurance companies. They all serve the same customers, mainly the bank's deposit customers, and bank officers serve as selling agents of these products. Therefore, when there is a problem with the mutual funds, it could lead to problems with bank deposits because it's the same customers who own these instruments and the same bank officers who sell them. Therefore, we need to ensure that the regulators are on the same page with respect to financial stability.

YPFS #1: **When you say mutual funds, do you mean just money market mutual funds, or also stock and bond mutual funds?**

Santiprabhob: All types of mutual funds including stock, bonds, and other asset classes.

YPFS #1: **So, does the banking regulator have any authority over the securities arm of the bank company, or is that completely on the securities regulator?**

Santiprabhob: The Bank of Thailand does not have an authority over the other regulators, but the Governor of the Bank of Thailand serves on the Security and Exchange Commission and also on the Insurance Commission. We also have a Financial Institution Policy Committee at the Bank on which the Secretary General of the SEC and the Insurance Commission serve as members. Cross-committee representation is how we collaborate. But at the time of a crisis, that might not be sufficient.

We need to step up working relationships between the regulators. The Ministry of Finance is another important agency, especially when there is a possibility that the crisis will become big.

The second issue that I should mention: Since 1997, we have stepped up regulatory frameworks for the banks and the Thai banks have gained strength over time. They have been resilient to the different shocks during the past 20 years. The banks have good capital adequacy and also good liquidity and risk management. There are at least two main challenges: One is on the non-banks that I talked about. And the other one is what we call the significant corporations. You might be used to the concept of significant financial institutions, SIFI.[3] When a

[3] Since 2010, the US Financial Stability Oversight Council (FSOC) has been charged with designating systemically important financial institutions (SIFIs), which may be nonbanks and or financial infrastructure entities. Similarly, on an international level, since 2011, the Financial Stability Board (FSB), in consultation with

financial institution is very big and could have systemic effects, it needs to be subject to additional regulatory framework.

We also have to think in terms of significant corporations—very large corporations that could have systemic impact on the financial system, should something happen to that corporation. They borrow from many banks, they issue corporate bonds, and the stocks are held by the public and institutional investors.

A case in point now is the case of Evergrande in China. One could consider it as a significant corporation. Many large corporations in Thailand have become bigger than the banks. They had gone all over the world in terms of their operations and mergers and acquisitions, expanding their assets by getting financed from the domestic financial system. Some of them could be a potential source of a financial crisis. Financial regulators have to think ahead and have better understandings of how these companies are financed and what could be potential network effects, should something wrong occur.

YPFS #1: **Just as an example, do you have visibility into how, for instance, your corporations maybe network to Evergrande?**

Santiprabhob: I don't think we have much relationships with the case of Evergrande. My concern is on large Thai corporations that have operations in a number of countries. And because they're so big in Thailand, people think of them as very strong corporations and there's no way that something could go wrong with them. We had observed some forms of underpricing of risks by the banks, and also by institutional investors in the corporate bond market. Some of them could borrow money at a rate better than the government, for instance. And they have so much bargaining power with the banks and each bank knows only how much it lends or how its subsidiaries have arranged funds for these large corporations.

But they don’t have a complete picture of exposure to the whole Thai financial system and also exposure to foreign banks that have been involved with financing these corporations in Thailand and other countries. So, during my term, we started collecting information from different types of financial institutions and analyzing potential network effects around these significant corporations.

YPFS #1: **Let's talk a bit first about disclosure in times of crises from government to others, and then more generally about**

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the Basel Committee on Banking Supervision (BCBS) and national authorities, have identified global systemically important banks (G-SIBs).

communications. What are your thoughts on both? Let's start with the role of disclosure from government authorities, etc., during a crisis, and in fighting crises. You may want to go back to '97-'98.

Santiprabhob: In 1997, our experience underlined the importance of credible disclosure when we had to deal with public confidence. The problem at that time was the inability of the public to differentiate between insolvent and solvent finance companies. Obviously, during a panic, there were thousands of rumors. But then it was also very difficult for the authorities to differentiate between the solvent and insolvent ones, because the situation was very fluid. When there was a severe shortage of liquidity, interest rates went up very high. Financial institutions started to hoard their liquidity, not lending to other financial institutions. Then good finance companies that had a severe liquidity shortage could also become insolvent.

And this is related to the point that I made early on about the importance of data. We didn't have proper data on the true health of the financial system. And we had not disclosed them on a regular basis before the crisis. So, by disclosing sensitive data during a crisis, it could trigger even more panic. But it would not be possible to build public confidence without disclosing important data.

You also have to think of the audience in a panic mode. They could interpret the same data in different dimensions. The authority had to weigh very carefully what to disclose, how to disclose, and what would be the outcome of the disclosure. It's not disclosing information alone; we had to disclose information together with supportive measures, the necessary measures that would calm the market and address the true questions that the public had on their minds.

If I draw lessons from the different crises, firstly, we have to make sure that we have all the important information about each financial institution and the financial system, and disclose some of them regularly before a crisis occurs. We need to have proper, regular channels of disclosures of financial information, which most central banks do now, for example, on their websites. We also ask different financial institutions to disclose their financial information regularly. And we have security analysts scrutinizing this information and performance of financial institutions at least on a quarterly basis. So that's the whole ecosystem of disclosure. Having informed people analyzing this information for the general public is very important.

But when a crisis hits, what is more important is the communication on the measures that authorities would like to implement, the rationales of these measures, the expected outcomes and whether these measures have met the objectives. One thing that I learned from the different crises is that we need to separate the good ones [financial institutions] from the not so good ones right from the beginning with very clear criteria. And that's how the authorities can establish credibility in the eyes of the public.

The politicians always want the central bank to help out financial institutions. No politicians would like to see a bank failure. If there is a problem in the financial system leading to a crisis, there is no way that we can help every financial institution. Problem financial institutions will have to go through the rehabilitation process or the bankruptcy process, and someone will need to bear the costs. If we say that we're going to help all financial institutions, it will not be credible in the eyes of the public. And that could trigger many more rumors once the authorities do not have credibility with their measures.

YPFS #2: **Can I drill down on that a minute? Because, as you said, often a crisis starts with a liquidity strain, and it seems that at that early point, it's sometimes very difficult to know whether some banks are solvent or not. And so, is it that the first broad-based emergency liquidity should be offered to all, but the banks reserve a sense that some will be shown to be weak? And so basically as that, you said you lend to solvent banks. And then some banks, if they're proven to be weak, the central bank should be willing to withhold that liquidity, because it will have to go through restructuring.**

Santiprabhob: This is another thing that we learned from the 1997 crisis, and since then we had prepared different mechanisms to deal with these issues. For instance, liquidity support needs to be collateralized in some forms.

We had to have clear frameworks on the different asset classes that the central bank is willing to accept as collateral for liquidity support. And we had also different windows of liquidity support that financial institutions can access. By announcing these regulatory and collateral frameworks beforehand, the banks will have to prepare themselves. And we do examine the different assets that they have on the books. How many percents of their liquidity are held in the most liquid forms, like government bonds, that could be used as collateral against borrowing from the central bank? And if they are short of government bonds, what would be the next types of assets? It can go down to their lending portfolio. Obviously they will be subject to a heavy discount rate if they were to use their loan portfolios.

These are some mechanisms that central banks have put in place. So that when a crisis hits, it will not be ad hoc judgmental.

YPFS #1: **Can we shift here to particular challenges that emerging market economies might face in warding off financial crises? The balance and the role of the central bank and the fiscal authorities, are they different than in the larger developed economies? How do you, from your experience, find the personnel and the other resources to prepare, as we've talked about, and to react to crises?**

Santiprabhob: Personally, I don't see our situation much different from central banks in advanced economies. When there's a crisis, if you look at the different tools that we have, we use similar tools, but there could be some differences in the details.

On the challenge with the fiscal authorities, there are two angles that central banks need to balance. One is on the credibility of our measures. And the second one is on the availability of financial resources.

Obviously when there is a financial crisis, investors and the people will ask where will the money come from to address the crisis? The central bank can provide short-term liquidity, but financial sector restructuring costs will have to come from the fiscal authority. They have more resources than the central bank to provide backing to the financial system for instance through the deposit guarantee. But early in the crisis, regulators need to demonstrate their professionalism and independence. This might be a challenge in some countries, particularly emerging market economies, where the public might perceive that the central bank or the regulators may not be operationally independent. If the central bank gets the government and politicians involved very early on, and if they could be seen as interfering in the work of the central bank or the regulator, it could undermine the credibility of measures that the central bank would like to put in place.

But you can't leave out the fiscal authorities on the second aspect of it, which is availability of financial resources. When a crisis gets enlarged, when you have to do large-scale financial sector restructuring with someone providing financial backstop, or when you need to change or amend certain laws to address a financial crisis like announcing a blanket deposit guarantee, obviously you have to bring in the fiscal authorities and the government. From the outset of a financial crisis, we need to keep the government informed of our analysis and measures. What needs to be seen by the public is that these measures are based on professionalism of the regulators without political interference.

YPFS #1: **What are the most effective ways for you to communicate with those outside of your country? Regional organizations, the IMF,**

otherwise. What are the processes and procedures that work best?

Santiprabhob: Before I answer these questions, one thing I should highlight related to your previous questions.

YPFS #1: Sure.

Santiprabhob: One thing that I learned from my times as the governor, when I had to deal with turmoil in money markets and mutual funds, is that I had to emphasize to the public and politicians that our measures were proposed purely by the central bank. It was important to take away the perceptions that the central bank might have been ordered or requested by the government to come up with special facilities to help certain companies or certain groups of investors.

And that was the reality, because central bankers are paid to be paranoid. We always think of a potential crisis. So, we have these measures in our playbook. Central banks tend to react much faster than the fiscal authorities.

On the other question you asked, we do compare notes all the time with fellow central bankers in the region. In Southeast Asia, we have very close relationships among central bank governors and senior staff. During the COVID, we had many conference calls to compare notes on how we saw problems emerging in different sectors of the financial system and economy.

The other forum that was very important is the BIS [Bank for International Settlements].

YPFS #1: Okay.

Santiprabhob: The governors meet regularly at the BIS, five to six times a year, and our staff share information and exchange views through a number of committees at the BIS. We had very good working relationships with the BIS staff and senior executives of other central banks participating in these committees. In my view, the BIS is the most beneficial organization for member central bankers.

The IMF has also been helpful, especially lately when they started to pay more attention to financial stability. There had been some forums where we communicated and participated with the IMF. But the BIS and the different committees at the BIS had been the core channels through which member central bankers collaborate and compare notes.

YPFS #1: **You brought up the IMF. Back in '97-'99, the IMF provided $14 billion support to Thailand during that crisis.**

Santiprabhob: The IMF and other countries.

YPFS #1: **And other countries. Yes. That was an important thing. Let's talk about lessons you can share about the IMF experience. Less about your time at the IMF, but both your '97 and any echoes of that experience that were still there when you took over at the Bank of Thailand. What do you need to know when you're dealing with the IMF and other countries?**

Santiprabhob: When we had the 1997 crisis, it's a combination of a currency crisis and financial crisis, and we needed to get foreign exchange support from the IMF and other countries participating in the IMF package. Looking back, there were a lot of benefits from the IMF programs. It was the biggest restructuring of the Thai economy. A lot of modern laws were enacted. Regulatory frameworks of financial systems got revamped in a big way with technical support through the IMF. Thailand managed to get out of the program sooner than we thought, and we started to prepay the IMF once macroeconomic stability returned.

When I became the governor, the situation was very different. We didn't have vulnerability on our external front. I mean, our international reserves were very strong. We didn't have to depend on foreign financing. The banks were also in a much better shape. And indeed, we were experiencing too much capital inflows partly because of the sound macroeconomic framework that we had put in place. So, dealings with the IMF during my term were just regular consultation. And we also contributed to the work of IMF by setting up a technical assistance unit at the Bank of Thailand for our neighboring countries. Subsequently, it was expanded as a technical assistance center to a broader set of countries through which we also contributed our staff to provide technical assistance.

During regular consultation, we might have disagreed with the IMF on certain policy. Together with contributions from other central banks, it led to the thinking on the Integrated Policy Framework at IMF, which in my view would address policy challenges that emerging market central banks currently face better than the institutional views that the IMF had before.

YPFS #1: **We would like to talk about the role of public-private solutions. Whereas in the States, we went through doing the stress tests and then asking the banks to go to the market to get the extra capital that was needed. But there also was behind that a commitment**

from the Treasury Department to fund the capital if banks could not raise it. We want to explore the dynamic in some of the emerging markets. We know that, in some, the fiscal capacity may be a little bit more limited than some of the other countries, so we know that some of the Asian countries in the crisis used a public-private partnership to fund reconstitution of the banks. I'm wondering if for countries that may have a smaller fiscal capacity, how do they access their different options?

Santiprabhob: One thing before I answer these questions, it indicates that Thailand reached out to some of the stronger private banks to absorb some of the weaker ones. It's the state banks, some of the largest state banks, not the private banks that we had approached.

YPFS #2: Oh, the state banks? Okay.

Santiprabhob: Yes, the state banks then, or the banks that the government had intervened with. Previously, they could be private banks, but once the government had intervened into them or took control of them, they became state banks. And we asked some of those state banks to absorb smaller problem banks because the government was providing a blanket deposit guarantee anyway.

YPFS #2: Yes.

Santiprabhob: Otherwise, the government would have to …

YPFS #2: They'd have to resolve…

Santiprabhob: ... pay out to depositors.

YPFS #2: I was going to say, and then there were other banks that were allowed to fail in this situation?

Santiprabhob: Yes.

YPFS #2: Yeah.

Santiprabhob: We have to be careful when we describe whether a bank was allowed to fail. Once the government issues a blanket deposit guarantee, if the government lets a bank fail and closes it down, the government would have to pay all depositors, and the cost could be substantial. During the 1997 crisis, we allowed some banks to fail in a sense that the government would step in and take control of the bank. The equity stake of shareholders of the bank would be written down to basically nil. And the management was changed completely.

But the banks could continue to operate as a way to minimize the cost of the government as compared to shutting them down and finding money to pay out all the depositors. Through bank restructuring, some of these banks would slowly be integrated into other state banks. It's a way to minimize the overall cost to the government.

YPFS #2: **And would those state-controlled banks eventually be privatized?**

Santiprabhob: Yes. Many of them had been privatized.

YPFS #2: **Okay.**

Santiprabhob: On the relationships between public and private banks, your question was coming from the dimensions of limited resources…

YPFS #2: **Yes.**

Santiprabhob: ... that the government might have, and the government might have to ask the private banks to help provide some forms of financial support during a crisis? I think the reality is different. During a financial crisis, it would be very difficult for a government to ask a bank to come in and help another bank. All the banks were risk averse during a crisis, and basically, they would have to protect their capital base and liquidity as much as possible. They don't want to be seen as diluting their financial strength. And if they're seen as cooperating with such a government request, meaning that they will take bad assets onto their balance sheet, the confidence on such banks will deteriorate. So that will not be feasible.

On the other hand, the reasons that the government would have to come in and be seen as providing public-private sector partnership is because during a crisis, the financial markets become very risk averse. And the situation during a crisis could be very fluid and change quickly. One day, a bank goes out to the market asking for recapitalization. Many investors might have subscribed to the newly issued capital. But at the time of settlement, some investors could change their mind if there is bad news on another bank or a crisis in another country.

So, during a crisis, when financial markets became risk averse, the authorities need to step in to provide some kinds of backstop to address what I call a coordination failure. For instance, if a bank is required to get recapitalized by $1 billion, an easy number, it means that Maryann, you may decide to subscribe $300 million, Roz, you may want to subscribe $400 million. I might come in another $300 and then the banks would get the needed $1 billion. But if one of us changes our mind, then the whole recapitalization program fails.

What we did in 1998 was that if the bank could get more than 50 percent of capital support from the market, the government would be willing to chip in the residual amount. And this is a way to address coordination failure when the financial markets became so risk averse. It was also true during last year [2020], when we had issues with corporate bonds. Normally, corporate bonds of a good issuer can be rolled over easily. But that might not be the case during a crisis. When the government had to introduce strict lockdown measures in April 2020 after Covid became widespread in Thailand, basically the whole economy stopped and nobody knew what would happen down the road. What would happen to the economy at large and, what would happen to the companies issuing these maturing bonds? Everyone was trying to hold cash as much as he could. No one was willing to put in money to facilitate the rolling over of the bonds.

If the issuing companies could not get financing up to the maturing amount, they would default on the bonds, and there could be domino effects across the financial system. The central bank then decided to provide a backstop facility. If they get more than half of the needed financing from the market, the central bank will be willing to provide residual financing as long as they could maintain investment ratings. The central bank obviously charges interest higher than the market rate, and its tenure is shorter than the bonds issued to the market because the central bank only provides last-resort liquidity support. This backstop was intended to address the coordination failure during a financial crisis with a view to preserving the stability of the financial system at large.

I think this is a role that central banks need to step in when the financial markets become very risk averse and there is coordination failure among investors. It was the same principle we used with the bank recapitalization scheme in 1998-1999, and when we had to deal with financial market turmoil last year as a result of the Covid pandemic.

YPFS #2: **Thank you for going into detail on that. That really is fascinating, and I appreciate how you corrected me on what happened in 2008, because to the point you make about, it's very hard to get banks in a crisis to step up and buy another bank, the few instances where that happened directly in the States, like Bear Stearns and then Merrill Lynch, but it's particularly something like Bear Stearns. That was with government support. And, in particular, they carved out what they thought were the bad assets, and the government, the Fed took that point. Exactly. And so, as you describe it in more detail, our capital investment program sounds a lot like the backstop that the Thai government did exactly.**

Santiprabhob: The TARP program that you have?

YPFS #2: Yeah, sounds similar. And you're right that the market is willing to invest when it knows more, because that was late into 2009. And then we had information about all the banks that was disclosed at that time.

Santiprabhob: When the government or the central bank steps in to provide a backstop facility, we have to make sure that we design the facility in such a way that we're the last resort. We're providing only backstops. The incentive structure needs to be properly designed to ensure that we're the last resort. They have to go to the market first, and we'd be willing to come in and provide the residual amount.

The best of such program is the program that you can announce a big number, and then it doesn't get utilized at all.

YPFS #2: Yes.

Santiprabhob: We need this back-stop program to restore confidence in the market. If the market confidence can be restored and the market functions in a normal way, the backstop facility will not get used at all. I think that's the best outcome.

YPFS #2: The announcement effect we call it, yeah.

Santiprabhob: Yes.

YPFS #1: You've touched on this a bit, but perhaps we can use this to summarize, which is the experience of 2020. When you were at the bank, COVID, the economy is about to come down. What resilience did the institution of the Bank of Thailand have from past efforts at financial stability that you were able to bring your own lessons forward, and what do you bring forward for others from that experience? I mean, the world just went through that.

Santiprabhob: Yes.

YPFS #1: Is going through.

Santiprabhob: Two things in relation to the coordination failure and the roles that the central banks and authorities could come in. In 2020, we had a fixed-income mutual fund redemption run. These were mutual funds that could be redeemed on a daily basis, but they had invested in assets with long maturity. So, there was a maturity mismatch between assets and liabilities of these funds. There was a redemption run because investors wanted cash during the lockdown measures and asset values of these funds were also affected by turmoil in foreign financial markets, because they invested in foreign assets as well.

To stop the redemption run, the central bank had to step in, firstly by lowering the policy interest rate. We decided to lower the policy rate in a special meeting to address this financial turmoil. This is related to being able to detect the smoke very quickly.

Santiprabhob: As I said earlier, to preserve financial stability, we need to be able to detect smoke really quickly. We need to put out the fire very quickly, and we need to make sure that we can ring-fence so that the fire doesn't get spread to other parts of the financial system. And once we had detected the smoke coming from unusual mutual fund redemption and impact on the financial markets, we decided to step in.

YPFS #2: Because they needed liquidity.

Santiprabhob: As I said, firstly, we decided to lower the policy rate in a special meeting, in a Friday evening, to send a message to the market that the central bank was willing to provide the liquidity. And during that weekend, we had to work with the market regulator to announce a special facility: Mutual Fund Liquidity Support Facility, MFLF, on a Sunday afternoon. When the market opened on Monday, we very much hoped that it would calm down. The market became volatile for a few more days before it calmed down. Four mutual funds had to close down and stop redemption, before we could restore public confidence in the whole mutual fund industry and provide sufficient liquidity to the financial market. If you're interested in this facility, you can get more information from the Bank of Thailand's website. We could put together this facility very quickly because of our collaboration with the SEC, the banks, and asset management companies, many of which were bank subsidiaries.

After putting out the fire with the mutual fund redemption run, investors shifted their concerns to the corporate bond market, which is large in Thailand. Investors were not willing to roll over maturing corporate bonds.

Apart from the need to maintain liquidity during the COVID lockdown, investors were concerned that some companies would be downgraded. To restore orderly functioning of the corporate bond market, we had to come up with another facility. It's a corporate bond stabilization fund: BSF. It was a facility for investment grade bond issuers that could not get sufficient funds to roll over from the market, they could get the residual amount from this facility. The central bank charges a higher interest rate and provides shorter maturity than the market. This facility hasn't been used at all. That was the outcome that we had hoped for. We managed to restore market confidence and orderly market functioning without using public money.

YPFS #2: **That's great.**

Santiprabhob: That is one aspect of addressing coordination failure during a financial crisis. We need to work closely with other regulators and the market to be able to come up with this kind of mechanism.

The other aspect is on debt restructuring. During the 1997 financial crisis, we had to set up a special facility called Corporate Debt Restructuring framework. At that time, the problems were mainly with large corporations. They were borrowing from many local financial institutions and also from foreign banks through the offshore lending facility. During the crisis, there was coordination failure among the creditors, because all creditors would like to get their money back before the others. And if you allowed that to happen, the whole system would collapse. Some creditors might even want to call back loans from vulnerable companies that had not defaulted. The Corporate Debt Restructuring Framework helped provide a platform whereby all creditors could work together to agree on loan restructuring of each borrower.

During the current COVID crisis, the situation is different. They are household and SME debts that we have to deal with. Individual borrowers have three or four credit cards, personal loans, and mortgage. When COVID hit, they were out of jobs and all the credit card companies would go after them and wanted to get their money back first. Many borrowers had to go through litigation. Given the high level of household debt in Thailand, that would have implications for the financial system, as well as the well-being of the general public.

We set up a few mechanisms to facilitate multiple-creditor debt restructuring. Indeed, there was a debt clinic for unsecured personal loans that was set up before the Covid crisis. When we realized that household debt would become a big problem in Thailand, we set up this household debt clinic. It is a one-stop shop whereby all the banks and non-bank lending companies developed a pre-agreed debt restructuring template, and the asset management company would work as the middle person between the individual borrower and the multiple creditors.

YPFS #2: **Would any of the debt be compromised, or it's just a restructuring in terms of payment term?**

Santiprabhob: It's the payment term that became much longer, 5-7 years. And obviously the interest rate would not be 15 percent or 18 percent that credit cards normally charge. It would be a much lower rate.

YPFS #2: Oh, okay. That's interesting.

Santiprabhob: During the COVID pandemic, we had to also introduce programs to facilitate debt restructuring for the SMEs, because the SMEs would not have bargaining power with the banks.

YPFS #2: Yes.

Santiprabhob: And if all banks chase after the SMEs and try to get their loans repaid before other banks, the whole system could run into problems, and the adverse impact on the economy would be much larger than otherwise.

YPFS #2: So, let ask me you: Was there a moratorium on the collection from the SMEs, and they had to go through this process as well?

Santiprabhob: The temporary debt moratorium was declared in April 2020 when the government issued severe lockdown measures. The moratorium was for a period of six months. The moratorium was among the first set of measures that we introduced. We also provided some type of soft-loan on-lending facility at a very low interest rate to provide credit to the SMEs at the outset of the pandemic. Debt restructuring was introduced subsequently when we realized that some SMEs could not survive because it has been almost two years now. It's unavoidable to have a debt restructuring facility, especially to help restructure debts with multiple creditors.

This is another coordination failure problem during a crisis that I see the roles of the authorities, particularly the central bank, to come in and help.

YPFS #2: That's good. Yeah. I hadn't heard anything. Outside of a bankruptcy process, I've not heard of that so that's really fascinating. Because yeah, again, you could keep lending the money, but you're right. It becomes a race to who gets repaid first. That's a fascinating program. We'll have to look at that one. I like that.

YPFS #1: We don't want to keep you here all day, but my closing question that I would have for you: Are there lessons you wish someone had imparted to you before you were in these positions that you would now like to be able to impart to others? Or other things you would like to say to summarize your remarks.

Santiprabhob: I guess, financial crises will not go away. We have to experience a financial crisis through the cycle. But I have observed that we are very good at addressing a past crisis. We learned from past crises, developed a playbook, and put up safeguard measures preventing the past crisis from occurring again.

But the cause of a future crisis could change, as in the case of the COVID pandemic. The basic principles like good liquidity management, good risk management, and capital adequacy of financial institutions will still be needed. But the way that new forms of crisis could emerge and impact the financial system could be quite different from what we're used to.

Central bankers need to be sufficiently agile to understand new sources of crisis and its impact. We also need to monitor the roles of non-banks, and financial players that have leveraged on modern technology like blockchain. And I'm not talking only about cybersecurity risks, but think of how new types of crypto assets and financial transactions based on smart contracts and blockchain could have implications for the financial system during normal time and crisis time. We need to have good visibility and understanding of modern financial technology, so that we can detect the smoke quickly, put out the fire and ring-fence the rest of the financial system, so that the fire doesn't get spread.

Cybersecurity is also very important, particularly when the general public has widely adopted digital payments and digital banking.

We need to be prepared for potential modern-world financial crises. Obviously when it comes down to effects on banks, it is either liquidity or insolvency that we are used to, but the network effects on liquidity will be much different with modern technology and expanded roles of non-bank financial institutions.

And also, earlier, I was talking about one thing that I didn't manage to finish the work at the Bank of Thailand is the roles of significant corporations. Some large corporations became larger than the domestic banks. These large companies borrow from different financial markets and have complex financial linkages within their groups. I do not think we have a clear visibility on their financing-

YPFS #2: And they're not regulated, yeah.

Santiprabhob: And if a problem with significant corporations occurs, it could have ripple effects through different financial markets.

Suggested Citation Form: Santiprabhob, Veerathai, 2022. "Lessons Learned Interview by Maryann Haggerty and Rosalind Z. Wiggins, October 4, 2021." Yale Program on Financial Stability Lessons Learned Oral History Project. Transcript. https://ypfs.som.yale.edu/library/ypfs-lesson-learned-oral-history-project-interview-veerathai-santiprabhob