RSIS S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES
Nanyang Technological University, Singapore

RSIS COMMENTARY

www.rsis.edu.sg

No. 182 – 21 October 2020

Global Health Security:
COVID-19 & Its Impacts

Financing Thai SMEs in the Pandemic Era

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SYNOPSIS

The Thai government rolled out schemes to finance SMEs and help them weather the impact of the COVID-19 pandemic. While these programmes have some merits, there are ways to improve them.

COMMENTARY

SMALL AND medium enterprises (SMEs) ─ backbone of Thailand's economy, with some three million of them accounting for 70 per cent of the total employment and 40 per cent of GDP ─ has been hit hard by the COVID-19 pandemic. For example, about 75 per cent of tourism-related small businesses saw up to 75 per cent drop in their revenues due to overseas travel bans and restrictions.

Also, the Asian Foundation report released last month found that the impact went beyond the tourism sector. Small producers of non-essential goods (e.g., apparels) were unable to reach their pre-COVID-19 sales even after the lockdown was lifted. As a result, 70 per cent of SMEs suffer from earning losses and 11 per cent of them risk permanent closure. Thus, it is necessary to finance these businesses and help them stay afloat.

Financing SMEs: Limitations of Current Policies

The Thai authorities were quick to respond. In April, schemes were launched to boost these firms' access to finance. First, the government approved a loan payment holiday for six months for loans less than 100 million baht (US$3.2 mil). This is laudable as 15 per cent of these enterprises have problems servicing their debts and the rising number of their non-performing loans (NPLs) will hurt the sovereign credit rating.

This initiative was originally set to lapse on 22 October 2020 but will now end on 30 June 2021. Despite the extension, it is still too short. SMEs witnessed a revenue decline and have not seen their sales recover to the pre-pandemic level.

Even if Thailand is to open up, it will take quite some time for foreign demands to pick up as some travel restrictions and regulations will still be intact. One might argue that despite foreign demand reductions, these enterprises can increasingly rely on domestic consumption.

However, this scenario will less likely happen due to the rising household debts. For instance, the household debt-to-GDP ratio in the second quarter stood around 84 per cent, a huge surge from 50 per cent in 2009. Therefore, many small companies will encounter cashflow problems and will likely close shop when this scheme discontinues.

Prohibitive Criteria

The second programme involves the 400-billion-baht Corporate Bond Stabilisation Fund. Bank of Thailand directly purchases SMEs' bonds to increase liquidity and lessen default risks. This is a step in the right direction because the Thai corporate bond market is worth 3.6 trillion baht, representing about 20 per cent of GDP. Nevertheless, the Fund has never been used by SMEs due to its prohibitive criteria.

The eligible companies must, among other things, possess investment grade bonds (i.e. BBB- and above), and have raised more than 50 per cent of their capital via bank loans. As Thai SMEs do not possess investment grade bonds, they are unable to benefit from this framework.

In addition, Bank of Thailand offers 500-billion-baht worth of low interest rate loans to SMEs via commercial banks. It also bears the interest payments for the firms under the programme for the first six months. In short, SMEs can take interest-free loans (no more than 500 million baht per loan) for the first six months, and then pay the interest rate of two per cent per annum for two years.

Despite the initiative's massive scale, only about 100 billion baht has been disbursed. This is because of two reasons: First, the uncertainties about the global economy and new waves of the virus make financial institutions reluctant to lend and absorb NPLs. Second, the qualifying criteria was set very high, enabling only a handful of SMEs to tap on it. For example, to be eligible, these enterprises must operate within Thailand, are not listed on the stock market, and serviced their debts no less than 90 days as of the end of last year.

How to Better Finance SMEs

The Thai government should adjust these policies to better address SMEs' cashflow needs and lessen the probability of defaults. For instance, the loan payment holiday must be extended to avoid defaults which could exacerbate unemployment and other problems in the economy.

Also, the qualifying criteria of the Corporate Bond Stabilisation Fund should be relaxed to allow SMEs to participate. Moreover, to increase the usage of the low interest rate loan, the government should expand its credit guarantee schemes.

At the time of writing, Thai Credit Guarantee Corporation – a state-owned entity established to provide guarantee services for SMEs – is being asked by the Thai business community to raise its maximum loan guarantee from 30 per cent to 50 per cent.

The government should fulfill this request. Commercial banks avoid lending to SMEs as they fear NPLs. Therefore, the 50 per cent ceiling would entail that the government help these financial institutions bear more risks, making the latter more willing to lend.

The Big Picture

Beyond financing SMEs, the government should examine how other states' macroeconomic policies would likely affect the Thai economy and craft policies to create a viable business environment. The US Federal Reserve last week reaffirmed its commitment to maintain the near-zero interest rate for at least a few years to stimulate the US economy.

The European Central Bank (ECB) chief said that ECB would be as aggressive as the Fed to galvanise the eurozone, revealing its desire to maintain a very low interest rate. These policies would eventually weaken the US dollar and euro, increasing the likelihood of baht appreciation against these currencies.

Such scenario would not bode well for Thailand's economy which exports account for about 67 per cent of GDP. Stronger baht would sap the country's export competitiveness and reduce future export revenues. Therefore, Bank of Thailand should further loosen monetary policy, preventing the baht from being too strong. This will ultimately boost exports and help SMEs in this sector.

To sum up, while the current SMEs schemes contain some merits, and there is room to improve them, the government must act fast as time is running out.

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