

Financing SMEs in Thailand

Pongpanu Svetarundra

Small and medium sized enterprises (SMEs) in Thailand form the majority of the country's industrial sector and have been the principal driving force behind its economic development. Recognizing their importance for the economic growth of the country, the Thai government in 1999 provided a series of financial packages for their all-round development. The article discusses the Thai government's financial support to them.

Introduction

Small and medium sized enterprises (SMEs) have been the main driving force behind Thailand's economic development. They account for more than 90 per cent of all enterprises in Thailand and produce more than half of the country's national output. SMEs are important in generating employment and income for much of the Thai labour force. They also account for much of the country's exports of goods and services, which have always been the engine of growth in Thailand.

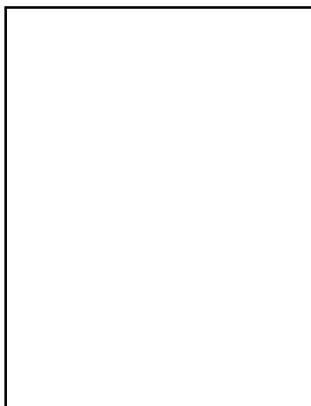
By their very nature, with their relatively high risk, lack of collateral, and inadequate transparency in business management, SMEs have limited access to finances. The Asian financial crisis of 1997 further exacerbated their financial situations. Many of these firms became insolvent and bank loans to them became non-performing, aggravating the banks' excessive aversion to credit risk. And although in recent months there has been a general improvement in the economic and financial situation, economic recovery in Thailand remains fragile and uncertain. Clearly, if the Thai economy is

to continue firmly toward full and broad-based recovery, it is important that SMEs be given adequate access to financing sources.

The Asian financial crisis

The Asian financial crisis which broke out in 1997 dealt a severe blow to the development of SMEs in Thailand. The substantial depreciation of the currency brought soaring costs of foreign debt servicing and foreign exchange losses to firms which had borrowed heavily abroad or which imported their inputs. This compounded the difficulties of firms whose profits had already been squeezed by rising labour costs throughout the 1990s.

The situation worsened after the economic turmoil spread to other Asian countries. The depreciation of currencies across the region and the growth in excess capacity in many manufacturing sectors meant that firms faced declining export prices in dollar terms at the same time that many saw their costs increasing. The recession that followed effectively wiped out domestic demand for their products.



Mr. Pongpanu Svetarundra

Fiscal Policy Office

Ministry of Finance, Rama VI Road

Bangkok 10400, Thailand

Tel: (+66-2) 618-3375

Fax: (+66-2) 273-9952

E-mail: pongpanu@vayu.mof.go.th