The 1997 Asian Financial Crisis and Aftermath in Thailand

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Abstract

This paper examines the lead up and aftermath of the 1997 Asian Financial Crisis in Thailand. The source of the crisis was the financial collapse of Thailand's currency—the baht. The economy at the time was slowing down and had gained a lot of foreign debt. The attempt to regain the baht's value failed and resulted in the financial crisis. I examined the responses to the crisis on the path of economic recovery through the lens of Keynesian economic theory. Immediate short-term solutions were put in place to get the economy out of the recession. These plans included new monetary and fiscal policy. Long-term solutions were planned for the future for further economic development and reform.

Section 1: Introduction

In July 1997, a financial crisis had hit most of East Asia. With multiple economies being affected by the crisis, with some being hit harder than others, there was a worry that the crisis would spread to a worldwide scale. The source of the crisis was Thailand after the financial collapse of Thailand's currency—the baht. In the time leading up to the baht's collapse, Thailand had acquired a lot of foreign debt. In an attempt to get value back to the baht, the Thai government freed the baht in a managed float. By doing this, the baht would fluctuate with foreign currencies instead of with the currency peg it had on the US dollar. However, that failed to have the intended effect, and in July 1997, the financial collapse happened.

Over time, the affected economies, including Thailand, were able to recover. In this paper, I analyze Thailand's path to recovery through the lenses of Keynesian economic theory. After the crisis, immediate short-term solutions were put in place to get out of the recession (with plans in the long-term to also be put in place). Those short-term plans included new monetary policies and fiscal stimuli. In addition, there were guidelines for structural improvement and financial efficiency put in place. The Thai economy's path to recovery has been steady, and through methods such as fiscal stimulus, low interest rates, and a fully functioning banking sector, Thailand's recovery plan was firm by 2010 (Nijathaworn, 2012). After any crisis comes a recovery, and Thailand was able to find firm path to stability by 2010. Later, the Thai government did a comprehensive reform and restructuring of the financial system. The government's intervention worked, and that plan was known as the Financial Sector Master Plan.

Section 2: Background: The Economy in the Years Before the Crisis

Leading up to the Crisis

Before the economic recovery, what led to the financial collapse of the Thai baht and

the resulting financial crisis in 1997? The financial crisis followed the Central Bank of Thailand's decision to devalue the baht in a managed float in July. One newspaper article focused on how the officials of the Central Bank of Thailand seemed to have no set plan for the remainder of 1997. The managed float had been done because the Bank of Thailand realized that it could no longer defend the baht and could be forced to devalue. In the previous months, the value of the baht was already falling. The Stock Exchange index for Thailand was also at a low. Letting the baht go in a managed float was a way to get money to flow back. This shows that even before 1997 financial crisis, Thailand's finances were already strained. When the crisis happened later in July, the situation became worse and there was no plan by the authorities when the baht was freed (Barnes, 1997).

Another newspaper that covered the decision to devalue the baht had also looked into the state of the economy at the time. In the previous year, the Thai economy had slowed down, there was a decline in exports and the nation was facing a budget deficient. Trade deficit had risen and bad property loans were already causing a crisis for financial institutions. The managed float was a way to allow the baht to fluctuate more against other currencies. The bank had taken pressure off the government's foreign exchange reserves. A weaker baht also lowered the cost of Thai exports and stocks. A managed float was a risk that was an effort to try to prevent the baht from a complete sharp fall in the future (Mydans, 1997).

Looking back at the financial crisis, there was also the question of the state economy. Specifically, the relationship-based economy and financial system leading up to the crisis, and how business connections determine access to bank credit. Data sets of Thai firms before the financial crisis were used to determine whether business connections predicted preferential access to long-term bank credit. Firms that had connections with banks and politicians had greater access to long-term debt than firms without those connections. Firms with stronger

connections needed less collateral, obtained more long-term loans, and used fewer short-term loans than firms without the same connections. Firms with weaker connections had a higher chance of going bankrupt and closing down. The data sets on Thai firms was consistent with prior research done that showed that weak corporate governance, and not weak connections that firms and banks have, in part of the reason why the financial crisis was as severe as it was (Charumilind, Kali, Wiwattanakantang, 2006).

Section 3: Theory on Government Responses to a Crisis

Keynesian Theory

To understand Thailand's responses to the crisis, I review Keynesian economic theory that underpins the crisis response. Keynesian Economics was developed as a way to combat issues found in the classical theory of economics in the short term. The "laissez-faire" approach of the classical theory was thought to be ineffective in solving recessions and prolonged them. Keynesian demand management theorized that the economy will not always be able to correct itself and that an outside influence of some kind would be needed so the economy can get out of its recession. The short-term solutions are needed to overcome the lack of aggregate demand, and as a result, the rate of unemployment can be reduced and economic growth can be restored. As a result of the change in aggregate demand, a ripple effect in spending is created and spreads throughout the economy. This multiplier effect in turn creates more total spending.

The short-term solutions in Keynesian economics were not meant to combat problems in the long-term. They are immediate solutions to the problems in a recession. As there is a positive multiplier effect as a solution, there is a negative multiplier effect as a problem. The opposite of the positive multiplier effect, the decrease of injections into the economy creates a ripple in the economy. The lack of change of aggregate demand leads to higher rates of unemployment, and the lower rate of spending

contributes to the ripple in the economy. The liquidity trap is another issue in a recession, where an environment with low interest rates does little to boost demand in the economy, which leads into consumers not wanting to borrow and banks not wanting to lend because it would not be profitable. In theory, a boost in the money supply should lower interest rates and spur investments. A part of Keynesian Theory is the "animal spirit" and how it relates to consumer confidence. Having high confidence in the economy leads to a higher likeliness to invest. But if the consumer has uncertainty or a lack of confidence, there will be a lack of desired investment in the economy. The low interest rates lead to an income effect where people have less to spend and the lack of confidence in money available leaves a recession lasting a long time. However, just injecting money will not raise investment. During a recession, there is a paradox of thrift. People take a rational approach in recessions and are more risk-averse, which contribute to a lack in investment.

To combat the issues present in a prolonged recession, Keynesian demand theory tries to expand demand in order to create supply. During a recession, an economy experiences too little spending and a higher rate of unemployment. Keynesian demand management believes that it is the government's role to stabilize the economy and minimize unemployment. To do this, the government needs to undertake expansionary fiscal policies. For this, the government has to spend more and cut taxes during times of recession, thus putting more money into the hands of the consumers. In order for this to happen, the government has to operate on large deficit spending, such as construction of buildings and roads. This contributes to a positive cycle of a multiplier effect and can have a significant impact on the aggregate demand of the economy, multiplying the original amount spent by the government in the first place. This ties into the ultimate goal of raising consumption and investment through government spending and tax cuts in order to combat recession.

Although Keynesian demand management proposes strong responses to recession, there are criticisms as to why it doesn't work and the negative implications for the long-run it has. The big

increases in government spending and the running of large deficits raises taxes and puts those tax burdens on future generations. The excessive debts accumulated from the temporary solutions must be paid sooner or later. The large amounts of unsustainable public debt will reach a breaking point as relying on other people's money will cause that money to run out. The short-term solutions in Keynesian economics essentially deny the inevitable and forces people to address the original problem, along with any new problems that arose.

Ricardian equivalence, from Ricardian Economic Theory, is another criticism against Keynesian demand management. Essentially, people have rational expectations, so they make rational decisions. When there is a tax cut, people do not spend their tax cuts. Instead, they save their tax cut money for the future in case of tax increases. A zero interest-rate environment tends to create artificial growth, not real growth, so that growth is a temporary one.

Keynesian demand management is not for long-term solutions, as the fine-tuning of fiscal policies is difficult to get right. This makes influencing demand to ensure sufficient, stable growth an almost impossible task. In addition, there are also political costs associated with fiscal policy, and corruption in the government can lead to corrupt and inefficient spending. Any expenditures that are politically driven will add to growing public debt. Another point is that the majority of government spending programs tend to redistribute wages earned by laborers to the unemployed. This can be seen as taking away from any productive investments as it does not create incentives for the unemployed to find work since they have an increase in welfare from the government programs.

Keynesian Economics puts more emphasis on the effectiveness of fiscal policies than on the effectiveness of monetary policies. Unlike in the classical theory of economics, Keynesian Economics does not believe that there is a direct link between supply of money and price level. Rather, there is more of a belief in the indirect link between money supply and real GDP. To Keynesian economists, the

velocity of circulation of money is not constant and the economy is not always at or near the natural level of real GDP.

Keynesian Economics believe that expansionary monetary policies increase the supply of loanable funds available through the banks, and that increase causes interest rates to fall. With lower interest rates, aggregate spending on investment and interest-sensitive goods usually increase, causing real GDP to rise. As banks can simply refuse to lend out their excess reserves, expansionary monetary policies that increase the reserves in banks should not lead to multiple expansions of the money supply. The lower interest rates that result from expansionary monetary policies would also not need to induce an increase in aggregate investment and consumer spending, as demand for investment or goods may not be sensitive to lower interest rates.

Keynesian Model

$$Y = C + I + G + NX$$

The equation above is referred to as the Keynesian model, or the National Income Identity. In the equation, C is for consumer spending, I is for investment, G is for government spending, and NX is for net exports. All of these parts together stand for the total spending on goods and services within the economy. The equation corresponds with the calculation of a country's gross domestic product (GDP). In the Keynesian Model, fiscal stimuli and monetary expansions will stimulate the economy, thus raising individual levels if income. Fiscal stimuli and monetary expansion raise consumption. Monetary expansion increases the money supply, which causes interest rates to drop which spur investments. Government spending can be increased through fiscal stimuli. But fiscal stimuli and monetary policies are not aimed at net exports.

Keynesian Economics in the Crisis

The ideas in Keynesian Economics were during the financial crisis in Thailand. Before the crisis, the economy was already strained. It was facing a budget deficit, rising trade deficit, and bad property

loans were causing a crisis for financial institutions. With its connection-based economy, the right business connection determined access to bank credit. Firms with stronger connections to banks and in politics had higher chances of receiving long-term loans and used fewer short-term loans. The managed float of the baht was supposed to be a "solution" that would bring value back to the currency. After the crisis, immediate short-term solutions were put in place to get out of the recession with plans in the long-term to also be put in place. Those short-term plans included new monetary policies and fiscal stimuli. In addition, there were guidelines for structural improvement and financial efficiency put in place.

Section 4: Responses to the Crisis

Section 4.1 Monetary Policy

The objective of monetary policies is the maintenance of monetary and financial stability for the ultimate objective of sustainable economic growth. Understanding the channels—such as interest rates and exchange rates—of monetary policy is important to the successful conduct of monetary policy. The use of monetary policies plays an important role in maintaining an economy.

Monetary policy affects the economic system, particularly the inflation rate, mainly through two ways: the exchange rate and the interest rate (Hataiseree 1998). The exchange rate influences the price of imports and the level of inflation. The interest rate influences the level of expenditure and investment. With this in mind, the use of a Monetary Conditions Index (MCI) can compare the degree of importance between interest rate and exchange rate in influencing future exchange rates. Having a gauge on interest rates and exchange rates can show the effects of monetary policies on the economy and the financial system. Since an MCI shows the relative importance of both interest rates and exchange rates on inflationary pressure, it can be a better indicator of a policy stance than either of the

factors alone. As it can be used for future movements of inflation rates, an MCI can be a useful indicator for a short-term outlook of monetary conditions.

For Thailand, the decade leading up to the 1997 Financial Crisis and the 1998 recession, there were several shifts in economic systems. Some of the prominent ones include the basket regime and the managed float regime, both relating to the exchange rate. And with such a rapidly changing economic and financial environment at the time, the movements of the exchange rate were becoming increasingly important in the Thai economy (Hataiseree 1998). In 1998, despite the weakening of the baht, there was insufficient evidence at the time supporting an upward adjustment in interest rates. Credit extensions in the private sector tend to decline following unfavorable economic conditions. As a result, it does not support commercial banks to extend credit. Thai authorities rely on many types of economic information and monetary indicators, such as: the manufacturing production index, import and export levels, the behavior of interest rates and exchange rates, monetary aggregates, and credit aggregates. But the economic variables that influence inflation levels can change rather easily as a result of shocks from both domestic and internal factors. Other factors, such as credit expansion and changes in money supply, can also affect predictions of future inflation rates. In small open economies like Thailand, monetary policies can be transmitted through both interest rates and exchange rates.

But as monetary policies aided the economy post-crisis, the failure of old monetary policies may have led to the financial crisis in July 1997. The traditional policy regime of fixed exchange rates and high interest rates that had served Thailand well in the past was inconsistent with the international mobility of capital in the 1990s (Jansen 2001), and the Bank of Thailand was one of the main culprits for the failure. The Bank had stuck with fixed exchange rates for too long, there had been ineffective supervision of financial institutions, and there was too much leniency with financial institutions that had troubles. The combination of tight monetary policies, high capital mobility, and fixed exchange rates led to the financial crisis. It brought an end to more than forty years of uninterrupted economic growth. The

weak fundamentals of the previous boom marked its end. There was a stagnation in exports, a slowdown of growth, a highly indebted corporate sector, and an overextended and poorly supervised financial system. The enormous amounts of withdrawals of funds led to an overshooting of exchange rate and massive bankruptcies. Banks borrowing in dollars and lending in baht were running a risk in the exchange rate. However, the experience of fixed and stable exchange rates led banks and firms to ignore that risk. When the crisis hit, the risks that were taken came to light.

After the devaluation of the baht, the banks and companies that had borrowed dollars suddenly had to generate much more baht to buy the dollars to service their debt (Jansen 2001). This was not something that was easily coped with, as those who borrowed abroad could not generate enough income in local currency to service their debt in dollars. Those who had borrowed on the domestic financial markets could not generate enough income to pay the suddenly much higher interest charges. The sharp devaluation, the rise in interest rates, and the collapse of economic activity gave an enormous shock to the weakened financial system. The collapse of the economy severely reduced income flows. A large number of financial companies were forced to close and non-performing loans (NPL) rose. The NPLs of financial institutions sharply increased and banks were unable to honor their own foreign debt. As the economy collapsed, banks saw more of their outstanding loans turn in NPLs. In 1999, about 47% of all bank loans in Thailand were NPLs. The central bank had to provide liquidity support to financial institutions on a massive scale, and up until early 1999, 1 trillion baht of support was injected to those financial institutions. After 1999 and into the early 2000s, the effectiveness of monetary policies declined.

Thailand had to depart from the fixed exchange rate and choose a new framework of monetary policy. The exchange rate fell from 25 baht to the dollar before the crisis, to 53 baht to the dollar six months after the crisis. The sudden outflow of funds created tension on domestic financial markets. The initial response for the central bank of Thailand to the crisis was to tighten monetary policies. As a

result, interest rates went up. From the middle of 1998, monetary policies loosened up. By 1999, interest rates had fallen to below pre-crisis levels. By May 2000, the baht stabilized to around 37 to 38 baht to the dollar.

I collect data from the World Bank on Thailand's money supply and interest rates from 1996-2002 to illustrate the monetary policy changes occurring at this time. Figure 1 shows the increase in the money supply as a percentage of GDP. It shows an increase in the money supply during the years leading up to the crisis and after the crisis.

Figure 1

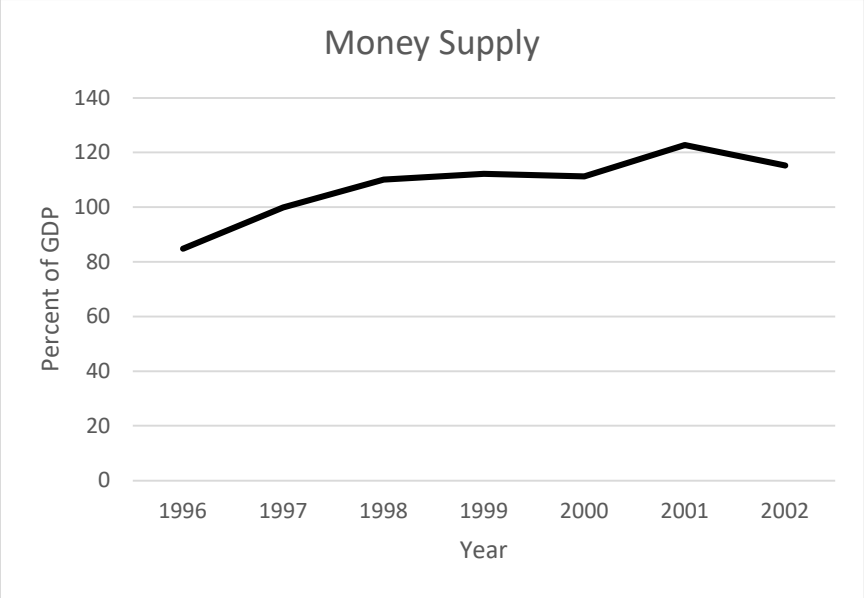
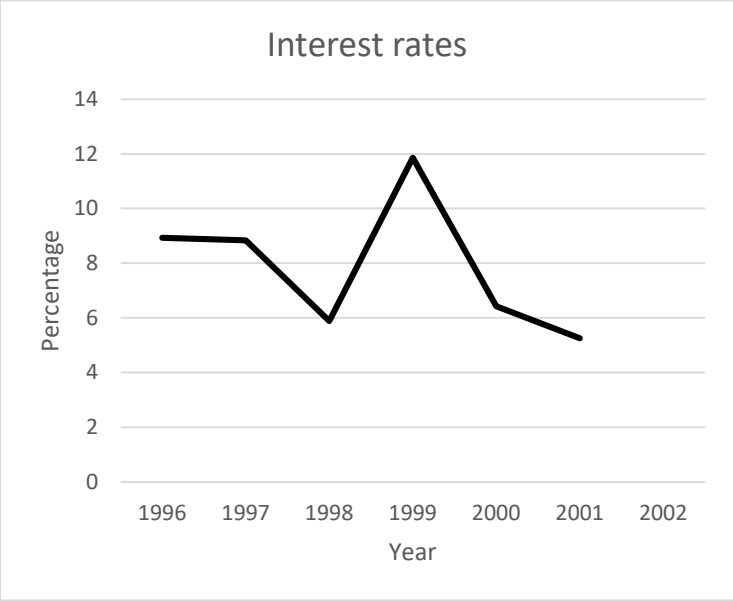


Figure 2 below illustrates how by the middle of 1998, monetary policies loosened up to decrease the interest rates. This is shown by a drastic decrease in interest rates 1999 to 2000, where interest rates fell by half. By 1999, interest rates had fallen to below pre-crisis levels.

Figure 2



In 2001, the Bank of Thailand announced that it would shift to inflation-targeting as its new monetary policy regime. This move made sense as domestic inflation in small, open economies such as Thailand can be quite sensitive to import prices. An inflation-targeting central bank would control the expected inflation by adjusting a key policy interest rate. However, the Bank of Thailand's strategy was to affect private consumption through the credit channel and maintain inflation rates within its target range (Kubo 2008). The Bank of Thailand had at first adopted monetary targeting after the crisis. However, it shortly after switched to inflation targeting after coming to the conclusion that there was no stable relationship between money and output in Thailand. The Bank of Thailand used flexible inflation targeting to find a balance between output and price stabilities. Newer monetary policies were implemented mainly by adjusting short-term interest rates. The inertia in domestic price adjustment allowed the Bank of Thailand to exercise leverage over real interest rates in the short term. With a strong credit channel, the Bank of Thailand's monetary policies could help control fluctuations in the

real economy through real interest rate adjustments, thus exercising its leverage over the Thai economy.

Section 4.2: Fiscal Policy

As with monetary policies, fiscal policies and stimuli also played a role in stabilizing the economy post-crisis. The aim of stabilization policies is to keep the level of output close to its potential, while inflation and current account deficit are kept at acceptable levels (Jansen 2004), and one of the main tools of stabilization policies is fiscal policies. Fiscal policies can be used for the management of the output gap and of the current account. Monetary policies can be used in other areas of stabilization, as fiscal policy on its own can be ineffective in stabilizing output. The tools of fiscal policy are somewhat inflexible in the short run, so it cannot respond to output fluctuations quickly.

During the recession that followed the financial crisis, there were a number of expansionary fiscal policies. Fiscal expansion, with a fixed money supply, would push up interest rates. The capital inflow from that would then result in an appreciation of the exchange rate, which would then lead to a reduced demand for domestically produced goods, which would offset the fiscal expansion (Jansen 2004). Under less-than-perfect capital mobility and a managed float, fiscal policies can retain some effectiveness in stabilizing real output. Fiscal expansion may lead to an increase in the interest rate and an appreciation of the exchange rate. This would then have negative effects on investment and exports, which would lead to negative effects on the prospects of long-term growth. However, when fiscal expansion is undertaken during a recession when output is below the potential level, the crowding-out effects are less likely. Crowding-in of private investment can even be possible.

Even without explicit fiscal measures, fiscal balance fluctuates over the economic cycle. When the economy is in a recession, income falls, collected income taxes fall, imports fall, import duty revenue falls, unemployment rises, and the payment of unemployment benefits rises. As a result, fiscal deficit

emerges or deepens. Changes in the stance of fiscal policy are related to the changes in economic stability. It is economic instability that leads to fiscal policy, rather than the other way around.

Up to 1996, Thailand's fiscal policies were characterized by relatively large budget surpluses. In July 1997, the combination of the overvaluation of the exchange rate and stagnating exports, the large current account deficit and rapidly growing external debt, the weakness of the financial system and the volatility of international financial markets, led to the collapse of the currency and the ensuing crisis. By the middle of 1997, foreign reserves were almost depleted. Fiscal contraction only added to the recession. The International Monetary Fund (IMF) quickly came to the rescue. In August 1997, the first Letter of Intent imposed a very tight fiscal and monetary policy. It aimed at a fiscal surplus of 1% of GDP through increased revenue and restrained expenditure. The second Letter of Intent in November of the same year observed that economic conditions had turned more negative than expected. Aggregate demand was declining faster and the exchange rate was depreciating more than expected. The goal of a fiscal surplus targeted at 1% of GDP was maintained, though. Additional expenditure cuts and tax rises were also introduced. It was said that this was necessary to offset the cost of the restructuring of the financial sector and to provide a clear signal to the market of the government's intention to implement the economic program (Jansen 2004). However, the fiscal surplus than was predicted never materialized. The drastic depreciation of the exchange rate affected the fiscal balance. It had reduced the profits of externally indebted corporation, increased local currency cost of debt service on external government debt, and affected revenue from import duties. At the time, the IMF estimated that the exchange-rate effect caused by the fiscal deficit to deepen by 2% of the GDP in the fiscal year 1997/1998. In February 1998, the third Letter of Intent projected that the fiscal balance would turn out at a deficit of 2% of GDP instead of the target surplus of 1%. In May 1998, the fourth Letter of Intent moved to more expansionary fiscal policies. By that time, a substantial current account surplus had emerged. This created room for an adjustment of the fiscal target. But the effects of these expansionary

policies were small. That year, central government revenue accounted for about 95% of total tax revenue. Total government revenue was 16.2% of GDP. The central government's expenditures were around 92.3% of total government spending. Government expenditures were 23.8% of GDP. Primary expenditure at constant prices declined continuously between 1997 and 2000. Revenue at constant prices declined in 1997 and 1998, but started to rise again in 1999 when the economy started to recover from the 1998 recession. The fiscal balance was is deficit between 1999 and 2001, being 11.2%of GDP in 1999 but declined to 3.2% in 2000 and 2.0% in 2001. In the first quarter of 2001, public debt was at 58% of GDP. In 2002, fiscal expansion was strong and the economy started to benefit from it.

In 2002, Thailand was under the "Thai Rak Thai" Party under Prime Minister Thaksin Shinawatra and its grip on Thai politics. In the same year, there was an economic recovery that was stronger than expected. The government's economic policy was dubbed "Thaksinnomics". Fueled by growth in private consumption, strong export growth, and loose monetary and fiscal conditions, it was a welcomed surprise (Mutebi 2003). There was a sizable excess capacity in the labor and product markets, which helped result in a low inflation rate. Thailand's trade performance became stronger, leading to the baht becoming relatively stable. The government had somewhat shifted away from Keynesian fiscal stimuli and towards a greater reliance on monetary management. The trade balance remained in surplus through the end of 2002. Though, strong import growth and weak export values meant a fall in the surplus.

The latter half of 2002 saw an economy that grew at a faster rate. Inflation had picked up, though the percentage was low, approximately 0.2%. The appreciation of the baht, combined with steady international oil prices, and excess capacity in both the labor and product markets, helped to contain inflation. However, there were concerns about the rise in public debt, and both of these factors prompted a tightening in fiscal policy during this period. At the same time, debt restructuring by the Thai Asset Management Corporation and the financing program of 780 billion baht to make up for the

Financial Institution Development Fund's losses led to more transactions in the money markets and prompted more sophisticated interest rate policy management (Mutebi 2003). Through privatization and state banks being pressured to lend to lift credit growth, the government's economic stimuli continued.

According to the National Economic and Social Development Board, the overall GDP for Thailand continually grew at a high rate in the third quarter of 2002. This was largely due to strong domestic demand and increased exports. Between April and August of 2002, there was a strong demand for export, and the second half of the year saw early stages of recovery in private investment. The boost in investment by the private sector was due to a combination of increased consumer confidence—which contributes to increased consumer spending—low interest rates, loose credit conditions, and increased external demand. This also contributed to the rise of the baht, along with strong portfolio inflows and the strength of international currency, particularly the yen, versus the dollar. The recovery of the economy in 2002 also led to an increase in government revenue. The fiscal deficit was also falling. Total public sector debt was at 35% of GDP in 1997, over 57% in 2000 and 2001, and was at 54% by the end of 2002. The debt was mainly due to bonds issued to finance the restructuring of financial institutions (Jansen 2004). The budget for 2003 proposed a considerable reduction in fiscal stimuli.

Section 5: Further Recovery Plans

The Thai government's plan for a comprehensive reform after the crisis for the financial system is known as the Financial Sector Master Plan. The Master Plan planned to focus on improving the financial system's efficiency by developing better and more complex financial markets and infrastructure as a set of guidelines. Under the supervision of the Bank of Thailand, the Master Plan is split into three phases. Starting in 2004 and ending on 2008, the first phase involved carrying out structural improvements to improve the financial system's efficiency, strength, and access. Part of this process was included voluntary mergers, widening of

commercial bank business scope to “Universal Banking”, which enabled banks to perform a larger variety of financial transactions. New Licenses had also been granted, which included new subsidiary licenses for foreign commercial banks, and introduced the “One Presence” policy to reduce duplication and increase the economy of scale within the financial system. The second phase was implemented during 2010-2014 and was a follow-up to the first phase. Its vision for the future was for a financial system that is: efficient, strong and resilient, diversified, and provides financial services in a fair and transparent manner. The second phase consisted of measures that would reduce system-wide operating costs, promote competition, and strengthen financial infrastructures. The third phase began in 2016 and is expected to go on until 2020. Its current aim is to promote competitiveness within the financial sector, enhance access to financial services, and maintain financial stability. The goal is to make Thailand’s financial sector “competitive, inclusive, connected, and sustainable”. Plans to achieve that include the promotion of adopting of electronic banking and payment services, facilitate regional trade and business expansion, develop regional financial infrastructures, promote greater financial access for the general public, and push for the enactment of necessary financial laws and develop and revise regulations.

Section 6: Conclusion

The source of the Asian Financial Crisis of 1997 was the financial collapse of Thailand’s currency—the baht. Even before the crisis, Thailand’s finances were strained, the economy had slowed down, and the value of the baht was already in decline. The attempted solution of letting the currency go in a managed float failed.

Through the lenses of Keynesian economic theory, I analyzed Thailand’s responses to the economic crisis and resulting recession. The responses can be split into primarily monetary policy and

fiscal policy. Monetary policy has the objective of monetary and financial stability. Thailand went from their previous policy of fixed exchange rate pre-crisis to monetary targeting post-crisis to inflation targeting in 2001. The framework of inflation targeting was used by the Bank of Thailand to find a balance between output and price stabilization. Fiscal policy is used in part with monetary policy in economic stabilization. It is economic instability that leads to fiscal policy. Post-crisis, there a number of expansionary fiscal policies, which can result in a boost of interest rate and exchange rate. However, fiscal balance fluctuates with the economic cycle, so booms and recessions result in surpluses and deficits.

In 2002, the economy saw a strong recovery. Fiscal expansion was strong, inflation had picked up, and overall GDP grew. Fiscal deficit was falling. Government revenue had an increase. The budget for 2003 proposed a considerable reduction in fiscal stimuli.

Further plans for recovery and economic growth include the Financial Sector Master Plan. Split into three main phases, the aim of the plan was to improve the efficiency of the financial system. The first phase took place between 2004 and 2008, the second phase between 2010 and 2014, the third phase began 2016 and expected to go on in 2020.

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