

IMPACT OF THE ECONOMIC CRISIS ON THE THAI INSURANCE¹

THANODOM LOKAPHADHANA²

Faculty of Risk Management,

Assumption University, Thailand

INTRODUCTION

In the early 1990s, Thailand enjoyed a high growth rate in the economy with real GDP of over 8%. The poor fundamentals of the country combining with the accumulated current account deficit turned the Thai economy into recession in 1997 with a considerably weakened Thai Baht and a weakened financial position in the international money market. These situations forced the government to devalue the Thai Baht and to entreat the International Monetary Fund (IMF) for financial assistance on July 2, 1997.

The real GDP growth reached the level of -8.0% in 1998 while consumption and investment fell to -8.3% and -29.2% in that year.³ These were due to:

- 1) Tight monetary policy by raising the level of interest rate in mid 1997 – 1998 to protect the value of the currency and to attract more foreign investors. However, the investors decided to hold off their investment because the cost of funding was so high and not attractive for them;
- 2) Tight fiscal policy by maneuvering the Value Added Tax (VAT) from 7% to 10% in 1997 and decrease in government spending. The rise in VAT reduced consumption because it increased the price of goods and services.

The general price level increased to 8.1% in 1998 which was very high when compared to the past. At the same time, the price of imported goods also increased substantially due to the level of the Thai Baht which devalued by 50% on July 2, 1997. The volume of international trade also dropped to the record level of -6.8%, and -33.8% for export and import in 1998.

¹ This is a version of a dissertation presented to the UK Chartered Insurance Institute in 1999. The original contained 24 statistical appendices which have had to be omitted because of space.

² Thanodom Lokaphadhana, MBA, B.Com, CPCU, FCII, FIINZ, ARM, is an Assistant Dean at Assumption University. He is also 1st Senior Vice President of Muang Thai Life Insurance Co. Ltd.