

Thailand's ghosts of 1997 hold growth lessons for Hanoi

Countries can afford to miss growth targets but cannot afford a banking system weighed down by bad loans. Thailand suffered from this 30 years back and Vietnam should take note.

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The International Monetary Fund (IMF) and World Bank annual meetings have returned to Bangkok, 35 years after the city last hosted them. In 1991, Thailand was one of Asia's most admired economies. Six years later, the collapse of the baht set off a regional financial crisis.

Vietnam's rapid growth gives that history renewed relevance. Its economy is now approaching Thailand's in size at market exchange rates. Real gross domestic product (GDP) expanded by just over 8% in 2025, close to Thailand's average annual growth of 8.3% from 1990 to 1996.

Having established itself as a manufacturing hub, Vietnam is now opening its doors further to international finance, much as Thailand did in the 1990s. Vietnam's Communist Party has set a target for annual growth to average at least 10% over 2026-2030 as the country works towards high-income status by 2045. Bank funding rules have been eased to support that ambition.

Thailand's experience gives Hanoi reason to be wary of relying on short-term bank finance for the long-term investments needed to reach that target. The Asian Development Bank (ADB) forecasts growth of 7.6% in 2027 for Vietnam, well below that goal but still the fastest in developing South-east Asia. Vietnam can afford to accept a slower pace of growth while securing finance that gives its investments time to earn their returns.

Singapore is Vietnam's second-largest foreign investor by total registered investment and has a direct stake in its continued success.

HOW THAILAND'S BOOM UNRAVELLED

Foreign direct investment (FDI)



Employees crafting jewellery at a manufacturing plant in Ho Chi Minh City. Vietnam has benefited from manufacturers diversifying production beyond China, much as Thailand benefited from Japanese companies moving overseas decades ago. But that advantage is not guaranteed, says the writer. PHOTO: AFP

in manufacturing helped build Thailand's economy, as it later did Vietnam's. It brought technology and access to overseas markets along with capital. The yen's appreciation after 1985 encouraged Japanese manufacturers to move production abroad, accelerating Thailand's industrial expansion and helping it become an automotive hub eventually dubbed the "Detroit of Asia".

Thailand then sought to become a regional financial centre. The Bangkok International Banking Facilities, launched in 1993, offered tax advantages for borrowing abroad and lending at home. This helped finance an investment boom that outstripped national saving.

Much of this borrowing was short-term but financed longer-term investments, including housing and office developments. The developers borrowed in dollar and earned in baht. Although dollar loans were

cheaper, they left the developers exposed if the baht fell. Borrowers widely expected the baht's link to the dollar to hold, and so gave little weight to the risk that depreciation would increase their debt burden.

Thailand's export model was also coming under strain, with China and other lower-cost producers gaining ground in labour-intensive exports. When Thailand's exports slowed in 1996, an oversupply of homes and offices was already squeezing developers and weakening financial institutions.

As the crisis unfolded, foreign lenders became reluctant to renew their loans. The Thai borrowers faced a liquidity crunch, with short-term debts falling due while funds remained tied up in long-term projects. The baht's fall after it was floated in July 1997 made dollar debts more expensive to repay, deepening the difficulties of firms already struggling to refinance.

Bangkok's unfinished Sathorn Unique tower, dubbed the "Ghost Tower", remains a reminder of that boom and bust. Developers defaulted, saddling banks with losses that constrained new lending.

THE PARALLELS WITH VIETNAM

Vietnam has benefited from manufacturers diversifying production beyond China, much as Thailand benefited from Japanese firms moving overseas. That advantage is not guaranteed. If recent US-China moves towards lower tariffs on selected goods develop into a durable easing of tensions, one incentive to shift production from China to Vietnam would weaken.

Should export and investment growth slow as a result, more lending to construction and property could become a tempting way for Hanoi to keep growth on target without strengthening productivity or

export earnings. Thailand's own exports faltered in 1996 partly because of competition from China, and debts accumulated during its boom became harder to service.

The newly established Vietnam International Financial Centre (VIFC) reflects a similar ambition to draw in global capital. Dollar borrowing can broaden access to finance, though businesses earning dong would face a heavier debt burden if the currency weakened and they had not hedged that risk.

Bank credit stood at an estimated 145% of GDP at the end of 2025. The IMF's 2025 review had already noted that credit relative to GDP was higher than in most emerging markets and highlighted the risk of rising bad loans.

Although lending has been growing faster than deposits, Hanoi has since July allowed funds for the longer-term loans

they make. With most deposits maturing within a year, further expansion of long-term lending makes the banks more dependent on depositors renewing their funds.

The external accounts add another point of comparison. The ADB estimates that Vietnam's current account moved into a deficit of 3.4% of GDP in the first half of 2026 as imports of capital goods and production inputs surged and remittances fell. An external deficit leaves a country reliant on foreign capital, and so more exposed if inflows suddenly stop. The risk is greatest when that capital takes the form of short-term borrowing rather than FDI, as Thailand discovered.

NOT A RERUN OF 1997

The parallels offer a warning about how Vietnam finances growth, although they do not establish that a repeat of 1997 is approaching. Whereas Thailand had run current account deficits for years, reaching about 8% of GDP in 1995-1996, Vietnam's deficit follows large surpluses in 2023 and 2024 and a surplus in the first half of 2025. Its exports and realised FDI are still growing strongly, while public debt remains relatively low.

The exchange rate arrangements differ too. The dong trades within a band around a central rate that the State Bank of Vietnam adjusts daily, giving it more flexibility than Thailand's dollar-linked regime allowed. Stress tests by the ASEAN+3 Macroeconomic Research Office found that the banks examined retained adequate capital under the baseline assumptions, though some fell short under more severe shocks.

Vietnam has also learnt from earlier episodes of financial stress. Banking reforms have given the authorities more tools to intervene when lenders run into trouble, although effective enforcement remains essential for this.

Greater financial openness could nevertheless make a potential future crisis more severe. Some banks are already raising funds abroad to supplement domestic deposits and support lending. If they became increasingly dependent on short-term foreign debt, overseas lenders refusing to renew those loans could compound a domestic credit downturn, while a weaker dong would increase the burden of unhedged dollar debts.

Hanoi should therefore resist further relaxation of bank funding limits, even if some projects have to wait. The VIFC could help companies raise equity and issue long-term bonds, reducing reliance on short-term bank loans that require repeated refinancing.

Vietnam can afford to miss its growth target. It cannot afford a banking system weighed down by bad loans.

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