



ข่าวธนาคารแห่งประเทศไทย

สำนักข่าวการ ธนาคารแห่งประเทศไทย โทร. ๒๕๒๖๖๘๘

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Joint Announcement by the Ministry of Finance and Bank of Thailand

The Thai economy has faced problems which have accumulated over the years, leading to the so-called "bubble economy," sluggish property sector and securities business. This has inevitably affected the operations of the finance business and prompted the authorities to take immediate remedial actions, starting with the requirement for finance companies to raise capital. Some companies have already fulfilled this requirement. Subsequently, a package of incentives for merger and acquisition, and grouping classification of finance companies were initiated for such purpose. However, due to constraints and obstacles within the present legal framework, the process did not proceed as envisaged. It is imperative, therefore, that an emergency decree be issued to amend the existing laws governing finance companies, with a view to facilitating purchase and assumption in accordance with the Cabinet Resolution of 24 June 1997.

The Ministry of Finance and the Bank of Thailand wish to clarify that the authorities have continued to closely examine the financial positions and operations of finance companies. There is so far no evidence of fraud or accounting cover-up, as was the case that emerged 14 years ago. However, a certain number of finance companies are facing liquidity problem and weak asset quality linked to the economic slowdown. This problem must be resolved immediately without hurting general depositors while at the same time assisting in the restructuring of the financial institution system. To this end, a policy framework has been formulated and an emergency decree issued providing the core financial institutions with sufficient incentives and forcing weak financial companies to be assumed by the core group. Such process can occur after the loss has been written off, allowing only good-standing debtors and depositors accounts to be transferred to the core financial institutions. In this light, the core group will take over only debtors with the capability to continue operation while general depositors will become customers of the stronger financial institutions which will be upgraded into a commercial bank status. Depositors should be assured of protection for both principal and interest.

Throughout the period, the authorities have urged finance companies to resolve the problems on their own and seek strategic alliance with foreign financial institutions. There has been progress on this front with 26 finance companies which have already increased their capital or are in the process of increasing their capital, while another two have concluded agreement with foreign partners. To a certain extent, finance companies have succeeded in resolving their financial problems on their own. There remain, however, 16 companies which have not been able to independently raise their capital and should therefore transfer ownership and control to the core groups of financial institutions (purchase and assumption method). Such process needs time to materialize, be they to resolve the financial problems and prepare for the transfer, or to arrange for new investors with strong financial position to take over majority shareholding and full management control. The Minister of Finance, therefore, issued an order for these companies to cease their operations for a period of 30 days. The management of these companies must propose rehabilitation plans to the Minister of Finance within a period of 14 days. Taking into account the operations of some other 40 finance companies affiliated to banks which are being looked after by the parent commercial banks, this policy package resolves the financial system problems and ensures the overall soundness of the financial institutions.

Whatever measure is taken, honest depositors shall be protected in all cases. The Bank of Thailand wishes to assure the public not to panic and to have full confidence in this package to solve financial institution problem. There have been clear separation and categorization of finance companies, thus permitting sound finance companies to continue their normal operation. The authorities, meanwhile, stand ready to provide adequate liquidity to the financial system.

Companies proposing to act as a core financial group include the Krungthai Thanakit Public Co, Ltd. which is a government-owned financial institution, with the support of the Financial Institutions Development Fund. Another 3 groups of finance companies with strong financial position have notified the authorities of their interest. Details of the rehabilitation plan will be provided as soon as they become available.

The authorities wish to confirm that stringent and detailed management audit will be made of each company, and legal actions taken as soon as detected.

The Ministry of Finance and the Bank of Thailand

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