



ข่าวธนาคารแห่งประเทศไทย

Bank of Thailand

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Joint Statement by the Ministry of Finance and the Bank of Thailand

Thailand Financial Restructuring Package

Introduction

The Thai economy is facing its most severe situation in generations. The financial system is particularly exposed due to many causes. These are mainly related to the fundamental economic situation but are also due to legal, institutional, and information deficiencies, including a weak supervisory system. The problem is also to a very large extent due to excessive risk taking in the private sector. Finance companies, in particular, have lent excessively for real estate development and speculative investments, and have financed long-term loans with short-term deposits. Many financial institutions and borrowers alike have taken on too much foreign currency debts.

Over the last year, government policy has been adjusted to deal with the worsening situation. The exchange rate was allowed to float in July and a comprehensive economic package supported by the International Monetary Fund was put in place. This program was in part designed to restore macroeconomic balance and stabilize the exchange rate but it also includes as a crucial element fundamental reforms to the financial sector. The aims of these reforms are to promote a return of confidence, health and efficiency to the system as soon as possible. This will allow credit to start to flow again and interest rates to normalize—both of which are preconditions for a reactivation of economic activity.

Overall Strategy

The authorities' strategy to deal with the financial sector was to separate and suspend the weakest institutions and fully support the remaining ones, while dealing appropriately with each group.

Strategy for Dealing with Banks and Operating Finance Companies

Healthy banks and finance companies are necessary to support economic development. The authorities have therefore, in close consultation with experts from the International Monetary Fund and the World Bank, drawn up the following action plan to strengthen the operating financial institutions :

1. To maintain sound and strong operations, financial institutions should make every effort possible to increase their capital. This can be supported by

(1) their voluntarily refraining from dividend payments over the next 12 months.

(2) allowing foreign owners majority participation for up to ten years, and those investors that enter will be grandfathered. The only limitation will be that those that enter are fit and proper according to international prudential standards. This will help to strengthen management and increase efficiency.

2. The Bank of Thailand will shortly announce a moderate tightening of loan classification rules to become effective at the end of the year. The Bank of Thailand will also introduce new loan classification and provisioning rules that gradually will bring the sector in line with international standards by the year 2000. These rules will be developed in close consultation with the banking industry and international institutions. To help financial institutions adjust, loan loss provisions will be made fully tax deductible also at the end of this year.

3. The authorities recognize that some financial institutions will have difficulty in meeting the new standards; but the public should rest assured that no institution shall close its doors. And, as has been announced by the Government previously, depositors and creditors will be fully protected. The guarantee of depositors and creditors will be honored through the Financial Institutions Development Fund (FIDF), which may borrow funds for this purpose. Such borrowing is fully guaranteed by the Government, as will be made explicit by an amendment in the relevant law that will be passed by the end of this week.

4. If financial institutions are poorly managed and experience large losses that endanger the public interest, the Bank of Thailand will take appropriate actions to replace management and protect the public interest.

To give the Bank of Thailand the power to take quick control over an institution and change its management, two decrees amending the Commercial Banking Act and Finance Companies Act will be passed by the end of this week and announced soon thereafter. The law will empower the Bank of Thailand to write down the value of shares and thus make shareholders pay for the losses. But, in all cases, the institutions will continue to operate as normal and all depositors and creditors will be fully protected.

Resolution of the 58 Suspended Finance Companies

Many borrowers, creditors and depositors have been hurt by the suspension of the 58 finance companies. These institutions need to be efficiently dealt with. Depositors and creditors already have been taken care of under the note exchange scheme. There is now an urgent need to deal with the good borrowers of these suspended finance companies. To address these and other concerns, the Government is immediately establishing two new entities—the Financial Sector Restructuring Authority, or FRA, and the Asset Management Corporation, or AMC.

1. FRA will

1.1 assume the responsibilities of the Resolution Steering Committee. It will review the plans submitted by shareholders and creditors of the suspended finance companies; and it will administer the public auction of finance company assets and the note exchange program.

1.2 review the rehabilitation proposals of the 58 suspended finance companies. A very transparent process that is protected from political interference will be ensured. Decisions will be made as rapidly as possible under the set of clear and practical criteria announced yesterday that permit only the very strongest companies to reopen. Institutions to be recapitalized by current owners must meet a 15 percent capital requirement before they are allowed to reopen. And the 15 percent must be based on a thorough review of the institutions asset portfolio by an internationally recognized audit firm.

A significant amount of new capital will have to be brought into any suspended institution for it to be able to reopen. To facilitate the entry of new capital, restrictions on foreign investments have been relaxed. It is also agreed that funds borrowed from the FIDF, can be restructured along with the debt of other creditors. In cases where equity of existing shareholders is written down and new investors are prepared to recapitalize

a suspended company, the government is willing to assist by converting a portion of FIDF debt into equity.

Where new capital is not available from the private sector at home and abroad to recapitalize any of the closed companies, remaining creditors will be given a fixed-term period to present their own plan for the rehabilitation or liquidation of the suspended company. If no acceptable plan is forthcoming, the assets of the finance company will be sold in open public auction process. The auction will start with the good assets and will be completed within one year.

1.3 FRA will take over from FIDF the role of assisting depositors and creditors of the suspended companies who have been given the opportunity to exchange their claims for notes issued by the Krung Thai Thanakit Plc. (KTT) and Krung Thai Bank Plc. (KTB). These notes are fully guaranteed by the Government.

Depositors and creditors who do not exchange their claims under the note exchange program will be given the opportunity to share in the proceeds from the sale of a financial institution along with the FIDF, which in most cases is the largest creditor. In the interest of fairness, the FIDF is empowered to release its preferential claim to the collateral in the suspended finance companies.

2. The AMC is being set up as a limited company

2.1 to ensure that FRA is able to dispose of the nonperforming assets it auctions. AMC will only buy troubled assets of suspended financial institutions. It will not buy bad assets from institutions operating normally. The private sector will be encouraged to compete with the AMC in the purchase of assets.

2.2 to professionally manage, restructure and sell those assets in a way that minimizes the long run cost to Government.

Future Measures

In addition to these immediate steps, several medium-term actions to strengthen the financial system will be taken. These measures include a complete overhaul of supervisory practices as well as legal and regulatory reforms. This program will be supported by extensive technical assistance from abroad. The World Bank has already agreed with the Government on a program for such assistance.

In the next step, the Ministry of Finance and the Bank of Thailand will cooperate with concerned authorities to improve the foundation of the Thai financial system, particularly in the part that is still outdated, to be in line with the international standards. The measures are as follows:

(1) Improve the Bankruptcy Act so that creditors can collect the collateral faster;

(2) Modify the Banking Act and the Act on the Undertaking of Finance Business, Securities Business, and Credit Foncier Business to be in line with the current need of the financial system;

(3) Improve the system of accounting and public disclosure to increase transparency;

(4) Improve the efficiency and timeliness of supervision and examination of financial institutions.

All this will be under close consultation with experts from the International Monetary Fund and the World Bank.

Finally, the experiences of the present adversity will be used to lay the foundation for a better future and the opportunity to achieve fundamental reforms will create a truly strong financial system, which will give the base for future economic growth and prosperity. Thailand's goal is to make her financial system a very efficient one in Asia by year 2000.

Ministry of Finance and the Bank of Thailand
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