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Thailand's Banking System Performance in the Third Quarter of 2008 and Impact of the Global Financial Crisis on Thai banks

Mr. Krirk Vanikkul, Assistant Governor, Financial Institutions Policy Group, reported that the Financial Institutions Policy Committee (FIPC) was established for the first time under the new Financial Institutions Business Act with the power to supervise the Bank of Thailand (BOT)'s conduct on financial institutions stability. The FIPC consists of 11 directors, 6 of which are ex officio directors and the other 5 are honourable directors.

On November 4, 2008, the FIPC convened its first meeting where the BOT presented a report on the financial position and performance of the banking system. Accordingly, the FIPC was informed that in the third quarter of 2008 the banking system recorded a net profit of 24 billion baht, a decrease of 2.3 billion baht from the second quarter. Overall, net profit for the first nine months of the year totaled 81 billion baht, exceeding last year's total by 57 billion baht, on account of high credit growth and improved asset quality from lower NPL. In addition, provisioning requirement declined substantially this year given that banks already completed provisioning in line with the International Accounting Standard Number 39 (IAS 39) since last year.

Total loans of the banking system grew by 13.2% year-on-year, accelerating from 11.0% in the second quarter, and representing the fourth consecutive quarters of loan acceleration. Corporate loans (constituting 75.7% of total loans) grew by 12.3%, up from 9.5% in the second quarter, partly reflecting the higher demand for working capital as a result of increased costs of raw material and transportation. Meanwhile, consumer loans grew by 16.1%, a marginally higher rate than the previous quarter, mainly from the increase in housing loans.

Liquidity in the banking system remained adequate as indicated by the ratio of loan to deposit plus Bill of Exchange (B/E) that stayed within a narrow band around 90% in this quarter. However, the ratio of loan to deposit plus B/E edged up slightly to 90.9% in September, as a result of a continued acceleration in loan growth. Meanwhile, fund mobilization via deposit and B/E grew by 3.6%, the same rate as the previous quarter. In August, several commercial banks accelerated fund mobilization via various forms of time deposits, resulting in a 0.2% growth of deposits in this quarter.

Gross non-performing loans (gross NPL) in the third quarter of 2008 amounted to 432.1 billion baht, down by 15.7 billion baht from the second quarter. The NPL to total loan ratio has been decreasing for the past four quarters with gross NPL and net NPL ratios standing at 6.0% and 3.3%, respectively. The declining NPL ratios were mainly due to cautious monitoring of asset quality by banks as well as progress on debt restructuring and higher loan repayment. A sector-by-sector analysis further revealed that the NPL ratio for corporate loans decreased from 7.2% to 6.7% with the decline in almost all sectors, while NPL ratio for consumer loans also declined slightly from 3.8% to 3.7%.

Regarding provisioning, the IAS 39 has been adopted since 2006 with gradual provisioning during 2006 and 2007, thereby, raising provisioning by 149 billion baht during those two years. At the end of 2007, net profits after deducting provisioning was 24 billion baht while operating profits stood at 157 billion baht. Banks themselves were not complacent, reflecting by the fact that actual provisioning stayed at 120 percent of required amount. Thus, the financial position of the banking system is not of concern.

The banking system's capital strengthened as the BIS ratio increased to 15.7%, up from 15.2% in the previous quarter, and staying above the 8.5% minimum regulatory requirement, as a result of increases in profits and capital.

Recently, the global financial market has become much more volatile and risk of a global economic slowdown turned more pronounced. However, Thai banking system remained stable, with only a marginal direct impact due to banks' exposure to foreign assets of merely 1.2% of total assets as of August 2008, of which 0.04% of total assets was related to CDO investment. Presently, all subprime-related CDOs have been unwound and Thai banks with CDO exposure have already made full provisioning and recognized losses in line with IAS 39. In addition, banks have made a significant improvement in their risk management systems. As a result, the banking system remained resilient.

The FIPC assessed that liquidity remained adequate with no sign of pressure in inter-bank lending given that Thai banks relied predominantly on domestic deposits as a source of fund. Moreover, recent preparation and development in the banking system significantly contributed to its stability. Nevertheless, challenges from indirect impact, which must be carefully monitored, included the implication of the global economic slowdown in combination with other challenges to the Thai economy on asset quality. This impact could become more apparent in the fourth quarter and next year. Thus, we cannot be complacent and emphasis must be placed on improving risk management practices and prudent oversight by the boards and executives of commercial banks. In this regard, policy dialogues concerning important external developments have continuously been maintained between the Bank of Thailand and top management of commercial banks to ensure stability and smooth adjustment of the banking system.

Bank of Thailand

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