The Current State of the Financial Sector and the Regulatory Framework in Asian Economies : The Case of Thailand *

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Three stages of financial development in Thailand





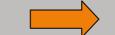
1998 onward





from mid 2007 to 2009

Renewal



Continuation in the reform

from 2009 to present

Key data of Thailand financial system

	1996	2007
Financial System Asset	12,964	26,375
In percent of GDP	281	311
Deposit-Taking Financial Institutions	8,031	11,129
Banks	5,537	9,006
Private banks	3,859	5,981
State-owned	1,206	1,823
Foreign-majority owned	472	1,202
Specialized Financial Institutions (excluding AMC)	718	2,075
Finance Companies	1,767	47
Credit Fonciers	9	-
Non-Banks Financial Institutions and Managed Funds	1,973	3,796
Capital Market	2,960	11,451
Equity	2,474	6,674
Bond	486	4,776
Memorandum item:		
Nominal GDP	4,611	8,485
Derivatives	33	14,272

Rebuilding the financial sector from the AFC

- AFC was very costly to the Thai financial system, with large devastating impact
- The effect was most serious in 1998 but thereafter things began to improve following a comprehensive restructuring of the financial system
- Key reform efforts included :
 - Intervention of weak banks and recapitalization
 - Consolidation of the banking sector
 - Reform of the regulatory and supervisory framework

Financial performance of the Thai banking sector

	1998	2006	2007	2008	2009
Net Profit	-360	65	24	99	92
Net Interest Margin	1.1	3.1	3.1	3.2	2.9
Return on Assets	-5.1	0.8	0.3	1.0	0.9
Capital Adequacy Ratio	10.9	14.1	14.9	14.1	16.1
Non-performing loan as percent of total loan	43.0	7.5	7.3	5.3	4.8
Memorandum item :					
Debt to equity ratio of non-bank corporations	1.2	0.8	0.7	0.8	0.7
Note: ^{1/} Median					
Source: Bank of Thailand					

- FSAP report in 2008 confirmed a return to full health
- But weakness in the legal framework and the increased role of government

in the commercial banking sector continued to weigh on the system

Adjusting to the impact of the GFC

- Financial, real, and confidence were the key channels of effect.
- Direct impact was limited because of the low exposure of Thai banks to toxic assets and low reliance on global market for funding
- Indirect effects from the decline in global growth and deleveraging were more serious and the policy response from the macroeconomic and financial sides were needed



- Macroeconomic
 - Monetary Policy
 - Fiscal Policy
 - US dollar liquidity
- Financial
 - Government guarantee on bank deposits
 - Credit guarantee facility for SMEs
 - Introduction of Basel II standards
 - Legal reform

Renewal : Current regulatory and supervisory reform

• Financial Sector Master Plan Phase II (FSMP II) launched in 2009 as a

five-year development plan for the financial sector

- Three key focus : efficiency, access, and strengthening financial markets, infrastructure, and institutions
- FSMP II has three pillars :

<u>Pillar one</u> => Reduce system-wide operating costs

<u>Pillar two</u> => Promote greater competition and increase financial access through promoting microfinance

<u>Pillar three</u> => Strengthening financial infrastructure in four areas : risk

management capabilities, legal, IT and human resource