

# Thai NPL resolution

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# Thai NPL resolution

- Announced new definition of NPL and provisioning requirements in line with international standards
- FIs given 5 accounting periods ( 2.5 years ) to gradually build up required provisioning
- FIs tried to reduce burden by restructuring debts with haircuts, new terms. BOT ensured restructurings were genuine, not just rescheduling → viable corporations able to get financing

# Thai NPL resolution (cont.)

- BOT initiated and facilitated a committee for creditors to work out multi-creditor loans (a la Paris Club) using private sector rules
- Govt scheme to match recapitalization needs of FIs. Only two FIs applied to the scheme for fear of tainted reputation. Majority of FIs accepted foreign investors' equity participation

# Thai NPL resolution (cont.)

- FIs encouraged to set up own AMCs to deal with NPLs
- National AMC an option for FIs to sell NPLs at market prices

# Lessons learned

- Early identification and corrective actions a must for speedy normalization of financial system and financial intermediation
- Recapitalization must be adequate taking into account adequate loss assessment
- Right incentives important for NPL resolution and revitalization of FIs and corporations
- Focus on risk-based supervision and mandate FIs to be risk-focus

# Some additional comments

- “Fundamental resolution of the non-performing loan problem requires the corporate turnaround and recovery of real economy” —yes, but it’s also a chicken and egg issue.
- “Reinforcement of banks self-discipline for preventing recurrence of the non-performing loan problem” ---Agreed and should make it a mandate for FI boards to manage their risks.