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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

Restructuring → Aftermath of the AFC from 1998 onward

Adjustment → Response to the current GFC 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

Policy response

- **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 :

  Pillar one => Reduce system-wide operating costs

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

  Pillar three => Strengthening financial infrastructure in four areas : risk management capabilities, legal, IT and human resource