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.