

Thailand's Financial System: Structure and Liberalization

Pakorn Vichyanond



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Preface

This study presents the results of research undertaken by the Thailand Development Research Institute (TDRI) for the Asian Development Bank (ADB) in 1993. The study is part of ADB's project "A Study of Financial Sector Policies of Selected Developing Member Countries." This project includes eight detailed country studies (India, Indonesia, Japan, Pakistan, the Philippines, the Republic of Korea, Taiwan, and Thailand), regional analyses, and an examination of the roles of different financial institutions.

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Pakorn Vichyanond
September 1994

Executive Summary

INSTITUTIONS

The Thai financial sector comprises a variety of institutions. In most respects, such as the volume of deposits or credits and the number of branches or services, commercial banks dominate. In the past decade, they commanded a 73 percentage share in household savings captured by all financial institutions. The same share was also applicable to credits. Nevertheless, the structure of the commercial banking sector remains strongly biased. Though the banking culture was initiated by a foreign bank, 15 Thai banks within the full 29-bank circuit now control a 97 percentage share. This is largely due to continual government protection. Among all Thai banks, the largest three command one half of credits and deposits in the entire banking system.

Finance and securities companies represent the second largest type of financial institution in Thailand, handling a 14 percentage share in all financial institutions' assets. Finance companies obtain funds mostly through issuing promissory notes and through borrowing from domestic and overseas banks. Securities companies, on the other hand, engage primarily in securities issuance and trading. At the end of 1992, Thailand had 92 finance and securities companies. Credit foncier companies specialize in immovable properties. They tap funds by issuing medium-term notes (with maturities longer than one year). As of December 1992, there were 18 credit foncier companies in Thailand.

An important rival in long-term financing is life insurance. Although most of the life insurance companies in Thailand (11 out of 12) are of local origin, the market is largely controlled by a foreign company, because of extensive networks, advanced technology, and know-how. Among the three types of insurance policies (ordinary, industrial, and group), ordinary policies accounted for three quarters of all insurance sold.

Cooperatives are also operative in Thailand. By the end of 1992, the country had 1,797 agricultural cooperatives and 878 savings cooperatives. Agricultural cooperatives are organized by farmers to facilitate efforts in farming activities and to make low interest credits available to members. Savings cooperatives, on the other hand, are formed mostly on an occupational basis, such as those organized by schoolteachers, policemen, and public employees. Pawnshops,

either privately run or government owned, are units which lend money against personal articles. By December 1992, Thailand had 367 pawnshops.

Among government owned financial institutions, the Government Savings Bank (GSB) outranks all others in numerous respects, for instance, by the number of branches and the volume of deposits. Traditionally, GSB's main function was to tap funds in order to finance government deficits. In recent years, however, the government's perpetual fiscal surplus has enabled GSB to interact with the private sector to a greater extent.

The Bank for Agriculture and Agricultural Cooperatives (BAAC) provides low interest credits to farmers and cooperatives. A considerable portion of BAAC's resources are drawn from commercial banks on a compulsory basis. On some occasions, the Central Bank supplies BAAC with additional credit facilities. The Government Housing Bank (GHB), on the other hand, helps people of moderate income to buy their own homes. Both BAAC and GHB accept time and savings deposits from the general public.

Two other specialized financial institutions are the Industrial Finance Corporation of Thailand (IFCT) and the Small Industrial Finance Corporation of Thailand (SIFCT). IFCT operates along the lines of a private development bank, extending medium- and long-term loans to different private industries. SIFCT is the IFCT's counterpart for small-scale industrial undertakings, including cottage and handicraft industries.

REGULATIONS

The Thai monetary authorities have placed strong emphasis on preserving financial stability. Various stringent rules are therefore imposed on the two influential groups of financial institutions—commercial banks and finance companies. Shareholding, for instance, has to be adequately divested. Each bank or finance company must continually maintain liquid assets amounting to at least 7 percent of its total deposits. In addition, the minimum capital funds to risk assets ratio has to be abided by, and this ratio must comply with an international guideline (or that of the Bank for International Settlements) within a specific time frame.

In order to maintain financial stability, commercial banks and finance companies are required to diversify their customer profiles. Each is not allowed to extend credits of more than a certain percentage of its capital funds to any individual client. A similar rule also applies to off-balance-sheet obligations, such as avals and guarantees. Banks and finance companies are prohibited from concentrating their equity holding in any one enterprise, regardless of the prospects.

As commercial banks have been heavily engaged in foreign exchange transactions—especially in recent years when more funds moved liberally across borders and exchange rate fluctuations occurred to an unanticipated extent—the monetary authorities have imposed ceilings on commercial banks' foreign exchange positions (covering both spot and forward status). Commercial banks' net foreign exchange assets cannot exceed 25 percent, while net foreign exchange liabilities cannot exceed 20 percent, of their capital funds. These limits are meant to prevent commercial banks from suffering unexpected and/or sizeable exchange losses.

Once new bank branches are established, they have to extend credits to community clients, amounting to at least 60 percent of their outstanding deposits. For small districts, one third of these community credits must be agriculturally related. In contrast to compulsory credits, the Commercial Banking Act prohibits

commercial banks from extending credits or obligations to their executives, executives' family members, and affiliated firms. Furthermore, the Act stipulates that persons to be employed as bank executives must not come from the allegedly liable category list.

After the Stock Exchange of Thailand (SET) was established in 1975, several laws controlled the securities business, but in a piecemeal fashion. The Securities Exchange of Thailand Act, B.E. 2517 governed SET activities; the Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business, B.E. 2522 governed the securities companies' business; the Public Company Act, B.E. 2521 governed the public offering of shares and debentures; and the Civil and Commercial Codes governed such civil and commercial practices as the setting up of limited companies. Other than these confusing regulations, there was no single supervisory agency overlooking all facets of the securities business.

In 1992, the enactment of the Securities and Exchange Act and the establishment of the Securities and Exchange Commission (SEC) completely rectified the above shortcomings. Under the SEC Act, an issuer of shares and equity-related securities is restricted to a public limited company, while an issuer of debt instruments can be both a public limited company and a limited company. Issuers have to disclose reliable and adequate information in order to provide greater investor protection. Different types of securities business require different licenses. These include: securities brokerage, securities dealing, investment advisory services, securities underwriting, mutual fund management, and private fund management.

The SEC Act also provides for setting up an over-the-counter center (OTC) to facilitate the trading of unlisted securities. Ordinarily, public offering of securities must be processed through SEC. If the securities cannot be listed in SET, they can be traded in OTC. SEC retains the power to investigate all unfair securities trading practices and to impose appropriate penalties.

MARKETS

Financial markets in Thailand comprise money markets, the foreign exchange market, government securities and commercial paper markets, and the stock market.

Money Markets There is a wide range of money markets in the Thai financial system, including the ones for interbank, government bond repurchases, Treasury bills, and Bank of Thailand bonds. Among these, the interbank is not only the oldest but also the most popular one, despite its inherent partiality. Because of their widespread branches and abundant deposits tapped therefrom, few large Thai banks have conventionally been influential lenders in the interbank market, while small Thai banks, foreign banks, and finance companies often act as perpetual borrowers. Transactions are normally unsecured. Interbank rates tend to be volatile and more variable than Eurodollar rates, reflecting both seasonalities and the thinness of the market.

The government bond repurchase (RP) market, established in 1979, serves as a counterbalance to the oligopolistic and personal features of the interbank market. The RP market also helps increase the liquidity of government bonds and functions as another channel for the Central Bank's monetary policy. The Treasury bill market, which recently ceased to operate due to the government's persistent

fiscal surplus, was largely captive and heavily dominated by the Central Bank. Bills were auctioned and purchased mainly by financial institutions to satisfy certain requirements.

The Bank of Thailand bonds were issued on an occasional basis so as to absorb excess liquidity from the financial system. In 1987, 1988, and 1990, these bonds, mostly short-dated and meant for particular purposes, were sold to commercial banks. These infrequent issuances did not facilitate the establishment of the secondary market.

Foreign Exchange Market The two primary actors in this field are commercial banks and the Central Bank affiliated Exchange Equalization Fund. The former serves exporters, importers, and borrowers, while the latter accommodates the former as the country's foreign exchange bufferstock. Several recent steps to deregulate exchange controls have led to more international movements of funds and more transactions between the baht and foreign currencies. Residents can now maintain foreign currency accounts domestically, whereas non-residents can hold baht accounts locally. Additionally, out-in and out-out flows of Bangkok International Banking Facilities (BIBF), established in 1993, have augmented to a record level the transaction volume in the foreign exchange market.

What should be noted in this regard is that exchange rates in Thailand are still unilaterally specified by the monetary authorities. And the value of the baht has not fluctuated much relative to the U.S. dollar, the major constituent of the currency basket utilized in the current exchange rate policy.

Government Bond Market This market has been rather dormant, because the authorities often require the bond holding for specific purposes, e.g. liquidity reserves ratio. Consequently, the coupon rates have not reflected the market condition and thin market status has hindered the development of secondary market trading. Further, the government's recurrent fiscal surplus since 1988 has dampened the prospect of the government bond market.

Commercial Papers These debt instruments have lately attracted strong attention in the financial arena as alternative means to tap funds, especially after the new securities law and SEC came into play. Commercial papers are normally issued by financial institutions or large and well-recognized corporations without any guarantee. Such issuance is encouraged by the authorities and it will help develop secondary market trading.

Stock Market The Stock Exchange of Thailand (SET) started operation in April 1975. Its initial period did not see much trading. The atmosphere in the subsequent period deteriorated markedly as a result of the second oil price crisis and the worldwide surge of interest rates. The Black Monday event on October 19, 1987 and the Persian Gulf War (August 2, 1990) represented other clear-cut evidence that SET is highly susceptible to external factors. Meanwhile, the authorities did not hesitate to implement policy actions or to amend pertinent regulations in order to correct the problematic situation. A number of common funds, for instance, were pooled from the Government Savings Bank, the Thai Bankers Association, the Central Bank, and SET brokers as a means to prop up stock prices and rescue investors. At times finance and securities companies were allowed to invest more in stocks, and borrowing margins were loosened.

The year 1992 saw several significant developments in the Thai capital markets. The new Securities and Exchange Act was enacted, while the governing body or the Securities and Exchange Commission (SEC) was established. The Act paves the way for further development of both primary and secondary markets for debt and stock instruments, e.g. warrants, mutual funds, and convertible debentures. These changes represent a major renovation, since the previous rules and regulations—which were either too stringent or intricate—were properly relaxed. Moreover, various regulators or supervisors were unified into a single unit, or SEC, which not only screens and approves stock/debt issuance but also oversees SET's patterns of trading.

PREDICAMENTS

The stock market was not the only financial institution which suffered strokes of disturbances from the world markets. Finance and securities companies and commercial banks in Thailand also underwent several rounds of stresses and strains, partly due to fluctuations on the external frontier.

Prior to 1979, the growth of finance and securities companies was very rapid, but the quality of their performances was questionable. Given that these financial firms emerged in the late 1960s, their mismanagement and/or immaturity were understandable. During 1978 to 1979, liquidity shortages were exacerbated by excessive speculation and stock price manipulation. The difficulties were further compounded by high interest rates around the world. Fearing repercussions affecting the overall financial stability of the country, the monetary authorities finally intervened and offered assistance to the market.

Despite this intervention, a number of finance companies still suffered from the aftermath of the first crisis. The economy during that period (1981 to 1983) was weakened by major changes in the world economy: a slackening global demand, an increase in foreign interest rates relative to domestic rates, and a larger extent of exchange rate volatility. Some finance companies tried to compensate the sluggish atmosphere by extending voluminous credits, but without sufficient care. Frauds and mismanagement were rampant in many other finance companies. These factors led to a second crisis in 1983.

The magnitude and severity of the second crisis were far greater than those of the first, resulting in numerous revocations of licenses and mergers as well as acquisitions of finance companies. The number of firms decreased—from 127 in 1982 to 107 in 1987. In addition, the central authorities amended the pertinent laws and set up in 1984 the “April 4 Lifeboat Scheme” to rehabilitate troubled companies while offering rescue to their depositors.

In spite of the fact that commercial banks had more experience in the financial arena than finance companies, they still encountered difficulties which arose from frauds, mismanagement, and exchange and interest rate fluctuations. One small bank, for instance, suffered from imprudent portfolio management caused by maturity mismatching and excessive exchange risks. In these cases, the Thai monetary authorities did not hesitate to step in to preserve financial stability in the market. Examples of rescue measures included: the reorganization of management teams, the enlargement of capital bases, and the provision of soft loans. In addition, the Commercial Banking Act was amended for the purpose of enabling the authorities to deal with troubled banks in a more flexible, effective, and timely fashion. The Financial Institutions Development Fund was also established

as a separate legal entity to rehabilitate ailing financial institutions and to safeguard depositors.

LIBERALIZATION

The above-mentioned measures to restore economic and financial stability typically characterize the persistent attitude among most economic policymakers in Thailand. This was the prime reason why between 1980 and 1987 financial liberalization received little attention from the Thai authorities, despite the rapid advancement of telecommunication technology and a growing volatility in interest rate and exchange rate movements in world markets. The central authorities gave top priority to resolving fundamental macroeconomic problems (e.g. economic slackening, current account deficit or savings gap, and inflation) and microeconomic plights (e.g. ailing finance companies, problematic banks, and chit funds). When all these entanglements were under control in the late 1980s, Thailand then began to experience impressive economic expansion and recurrent surpluses on the fiscal balance and the balance of payments. Enhancing the competitiveness of domestic financial institutions and restructuring the financial system then became more pressing issues.

Amidst waves of deregulation and stronger competition worldwide in both trade and finance, the Thai monetary authorities believed that though financial liberalization had not been imposed by any country or agency, it seemed to be the only viable choice for the Thai financial system to cope with rapid market fluctuations. It came as no surprise, then, that after 1988, a number of market-oriented policies were implemented. These included the dilution of exchange controls, the liberalization of interest rates, and a wider scope of financial institutions' operations. Furthermore, the basic financial infrastructure was upgraded in several respects. The Bank for International Settlements' guideline on capital adequacy was adopted, for example, while offshore Bangkok International Banking Facilities (BIBF) were initiated. The following crucial agencies were also established: the Securities Exchange Commission, more mutual fund companies, a credit rating agency, and the Export-Import Bank.

Because the monetary authorities gradually relaxed certain regulations, broadened the scope of financial institutions' operations, and allowed branches of financial institutions in both metropolitan and rural areas more room to function, Thai financial institutions are expected to be improved and upgraded via takeovers or mergers and acquisitions, and via entries of new members for each type of financial institution.

Overall, the government may seem to have forgone some of its previous directive control over the temperature of the economy. Valuable benefits from financial liberalization have, however, emerged, though gradually and implicitly via automatic adjustments of prices and quantities. The central authorities have not lost all their discretion. They can still utilize indirect means to influence the market, such as intervention in the repurchase market and moral suasion. These means have thus far proven effective in creating the conditions for a smooth transition to a dynamic and efficient financial system.

บทสรุป

นโยบายเปิดเสรีทางการเงิน

ในช่วงเวลา 2-3 ปีที่ผ่านมา การเปิดตลาดการเงินของไทยให้เสรียิ่งขึ้นเป็นหัวข้อที่ปรากฏบนหน้าหนังสือพิมพ์บ่อยครั้ง และได้รับความสนใจเป็นอันมากจากทั้งเจ้าหน้าที่ของรัฐบาลหน่วยงานเอกชน รวมทั้งสามัญชนทั่วไป ประชาชนส่วนมากได้พบเห็นด้วยตนเองแล้วและเชื่อว่าคงมีการเปลี่ยนแปลงขั้นพื้นฐานในตลาดการเงินของไทยอย่างแน่นอน ตัวอย่างที่เห็นได้ชัดได้แก่ การซื้อและจัดส่งเงินตราต่างประเทศไปให้บุตรหลานหรือญาติมิตรในต่างประเทศ ปัจจุบันธุรกรรมเช่นนั้นสามารถกระทำได้อย่างสะดวก รวดเร็ว และไม่มีกฎเกณฑ์ข้อบังคับที่ยู่ยากหรือสลับซับซ้อนดังเช่นในอดีต อัตราแลกเปลี่ยนสำหรับเงินตราต่างประเทศเหล่านั้นทุกสกุลผันแปรพอควรด้วยความถี่วันต่อวัน ต่างกับที่เคยตายตัวเมื่อเทียบกับเงินดอลลาร์สหรัฐ. ในอดีต ทางด้านอัตราดอกเบี้ยก็เช่นกัน ธนาคารพาณิชย์และบริษัทเงินทุนในปัจจุบันได้ปรับอัตราดอกเบี้ยเงินฝากและสินเชื่อด้วยตนเองบ่อยครั้งกว่าในอดีต การเปลี่ยนแปลงเหล่านี้แสดงให้เห็นว่า ในขณะนี้รัฐได้เพิ่มเสรีภาพให้แก่ตลาดการเงินของไทยในหลายแง่มุม อีกนัยหนึ่ง คือ รัฐได้ผ่อนคลายหรือยกเลิกกฎเกณฑ์ข้อบังคับเป็นจำนวนมากที่เคยใช้กับตลาดเงินในอดีต

ก่อนที่จะตั้งคำถามถึงรายละเอียดหรือขั้นตอนของมาตรการเปิดเสรีทางการเงินเหล่านั้น ควรถามถึงจุดประสงค์หลักของนโยบายเปิดเสรีทางการเงิน เพื่อให้เข้าใจถึงเหตุผลพื้นฐานอย่างถูกต้องว่าทำไมรัฐจึงมีนโยบายและดำเนินมาตรการเช่นนั้น

จุดประสงค์

จุดประสงค์หลักของมาตรการเปิดเสรีทางการเงินคือ รัฐต้องการเพิ่มการแข่งขันในตลาดเงินให้มากขึ้น เพราะการแข่งขันที่มากขึ้นนั้นจะช่วยเพิ่มประสิทธิภาพให้แก่การใช้

ทรัพยากรทางเศรษฐกิจของประเทศ ข้อเสนอเช่นนี้อาจฟังดูเข้าใจยากสำหรับบุคคลนอกวงการเศรษฐศาสตร์ หากเปรียบเทียบตลาดเงินกับตลาดน้ำมันภายในประเทศไทยก็จะเข้าใจได้ง่ายขึ้น ในอดีต รัฐเป็นผู้กำหนดราคาน้ำมันทุกประเภทให้ผู้ขายปลีกปฏิบัติตาม แต่ในปัจจุบันรัฐได้ยกเลิกการกำหนดราคาเช่นนั้น โดยอนุญาตให้บริษัทผู้ผลิตและค้าน้ำมันแต่ละยี่ห้อกำหนดราคาของตนเอง แต่มีเงื่อนไขว่าต้องประกาศราคาที่กำหนดออกไปโรงสีให้ประชาชนทั่วไปทราบได้ ทั้งนี้ควบคู่กับการเปิดเสรีให้แก่ราคาน้ำมัน รัฐก็ดำเนินกิจการผลิตและขายปลีกน้ำมันผ่านการปิโตรเลียมแห่งประเทศไทย หรือ ปตท. ไปด้วย เพื่อป้องกันมิให้ผู้ค้าบางยี่ห้อรวมกลุ่มกันเพื่อยึดครองตลาดและโก่งราคาเพื่อขูดรีดผู้บริโภค ตัวอย่างของการเปิดเสรีราคาน้ำมันนี้ชี้ให้เห็นชัดเจนว่า มาตรการเปิดเสรีจะช่วยเพิ่มการแข่งขันในตลาดให้เข้มข้นขึ้น เพราะเมื่อลูกค้าสามารถทราบและเปรียบเทียบราคาของน้ำมันต่างยี่ห้อได้เสมอ ผู้ผลิตแต่ละยี่ห้อพยายามลดต้นทุนของตนให้มากที่สุดพร้อมกับปรับปรุงคุณภาพของผลผลิต เพื่อที่จะสามารถตั้งราคาได้ต่ำกว่าคู่แข่งและแย่งลูกค้ามาได้ ความพยายามลดต้นทุนการผลิตพร้อมทั้งปรับปรุงคุณภาพนั้นจะช่วยเพิ่มประสิทธิภาพในการใช้วัตถุดิบสินค้าต้นทุน และขั้นตอนต่าง ๆ ของการผลิต หากมองในแง่ผู้บริโภค การแข่งขันระหว่างผู้ผลิตจะสร้างประโยชน์ให้แก่ผู้บริโภค โดยสรุป เมื่อใดที่การแข่งขันมีมากขึ้นตามกลไกตลาด ผลที่ตามมาคือประสิทธิภาพการใช้ทรัพยากรของประเทศจะดีขึ้น และประโยชน์สูงสุดก็จะตกแก่ผู้บริโภค

การเปิดเสรีราคาน้ำมันเป็นตัวอย่างเปรียบเทียบที่ช่วยชี้ให้เห็นว่า ทำไมรัฐจึงต้องการเปิดเสรีทางการเงินด้วยมาตรการต่าง ๆ หลังจากการดำเนินนโยบายเช่นนั้น แรงกดดันตลาดและเสรีภาพในการกำหนดราคาคงช่วยให้ราคาของเงินหรืออัตราดอกเบี้ยอยู่ในระดับที่เหมาะสมกับสภาพคล่องของตลาดเงิน หรือความต้องการเงินเมื่อเปรียบเทียบกับปริมาณเงินหมุนเวียนในตลาด และอัตราดอกเบี้ยที่สถาบันการเงินตกลงกับลูกค้าก็ควรเป็นอัตราที่ดีที่สุดสำหรับลูกค้า พร้อมทั้งช่วยให้การใช้ทรัพยากรการเงินมีประสิทธิภาพดีขึ้น ต่างกับการกำหนดอัตราดอกเบี้ยโดยรัฐในอดีต นอกจากนั้นการผ่อนคลายกฎเกณฑ์ควบคุมการซื้อขายและจัดส่งเงินตราต่างประเทศ (หรือที่เรียกกันว่า มาตรการควบคุมปรวรรตเงินตรา) ให้เอกชนสามารถเข้าถึงและฟุ้งเงินทุนจากต่างประเทศได้มากและสะดวกขึ้นก็เป็นกลไกช่วยด้านการรวมกลุ่มของสถาบันการเงินภายในประเทศเพื่อยึดครองตลาดสินเชื่อหรือเอาเปรียบลูกค้า อีกนัยหนึ่ง ความสามารถที่จะเข้าถึงเงินทุนจากต่างประเทศนี้ทำหน้าที่เปรียบเสมือนน้ำมัน ปตท. ที่ช่วยป้องกันมิให้เกิดการรวมกลุ่มของบริษัทน้ำมันเอกชนรายใหญ่ ๆ

จุดเริ่มต้น

เมื่อเข้าใจถึงจุดประสงค์หลักของนโยบายเปิดเสรีทางการเงินแล้ว บางคนอาจถามต่อไปว่าแล้วทำไมรัฐจึงมีจุดประสงค์เช่นนั้น การแข่งขันที่เข้มข้นขึ้นในตลาดเงินนั้นสำคัญหรือจำเป็นขนาดไหน เมื่อประมาณปี 2531 ผู้วางนโยบายการเงินคาดว่าในอนาคตตลาดโลกจะเต็มไปด้วยการแข่งขัน ในขณะที่กำแพงภาษีและข้อกีดกันทางการค้าและบริการต่าง ๆ จะลดน้อยลงและถูกยกเลิกไป เพราะประเทศต่าง ๆ คงบรรลุข้อตกลงระหว่างประเทศที่จะเปิดตลาดให้เสรี ท่ามกลางสถานการณ์เช่นนั้นไทยคงหลีกเลี่ยงไม่ได้ที่จะต้องเป็นผู้แข่งขันรายหนึ่ง ดังนั้นผู้วางนโยบายการเงินจึงวางแผนเปิดเสรีทางการเงินแต่เนิ่น ๆ เพื่อช่วยฝึกฝนหรือปรับปรุงประสิทธิภาพการปฏิบัติงานของสถาบันการเงินภายในประเทศให้สามารถแข่งขันกับสถาบันการเงินอื่น ๆ ในตลาดโลกได้

โชคดีที่การคาดการณ์ดังกล่าวถูกต้อง เพราะยิ่งนานวัน การค้าขายทั้งสินค้าและบริการในตลาดโลกได้ขยายและกระจายตัวมากขึ้น เนื่องจากกำแพงภาษีและข้อกีดกันต่าง ๆ ได้ลดลงตามข้อตกลงระหว่างประเทศ ตัวอย่างเช่น การเจรจาขอบริการของข้อตกลงแกตต์เมื่อกลางเดือนธันวาคมที่ผ่านมา และก็โชคดีอีกเช่นกันที่ผู้วางนโยบายการเงินได้เตรียมรับมือโลกเสรีหรือโลกาภิวัตน์เช่นนั้นด้วย มาตรการใน 4 แนวทางดังที่จะกล่าวต่อไป ทั้งนี้ นโยบายเปิดเสรีทางการเงินเหล่านั้นมิได้เป็นผลของแรงกดดันจากองค์กรระหว่างประเทศหรือประเทศคู่ค้าใด ๆ

- (1) ผ่อนคลายข้อจำกัดเกี่ยวกับอัตราดอกเบี้ย การควบคุมปริวรรตเงินตรา การบริหารสินทรัพย์และเปิดสาขาของสถาบันการเงิน พร้อมทั้งขยายขอบเขตการประกอบธุรกิจของสถาบันการเงิน
- (2) ปรับปรุงการกำกับและตรวจสอบสถาบันการเงิน
- (3) พัฒนาระบบการเงินและบริการทางการเงิน
- (4) พัฒนาระบบการชำระเงินให้สะดวกขึ้น มีต้นทุนต่ำ และมีประสิทธิภาพมากขึ้น

มาตรการ

มาตรการส่วนใหญ่ที่รัฐบาลออกใช้ตั้งแต่ปี 2532 เป็นต้นมา สอดคล้องกับแนวทางที่กล่าวถึงข้างต้น ตัวอย่างเช่น ทางด้านอัตราดอกเบี้ย รัฐยกเลิกเพดานดอกเบี้ยเงินฝากระยะยาวในปี 2532 เพดานดอกเบี้ยเงินฝากประจำในปี 2533 เพดานดอกเบี้ยเงินฝากออมทรัพย์ และ

เพดานดอกเบี้ยเงินกู้ในปี 2535 ทางด้านการควบคุมปริวรรตเงินตรา รัฐได้ผ่อนคลายกฎเกณฑ์มาถึง 4 ระลอก คือ ในปี 2533, 2534, 2535 และ 2537 จนในปัจจุบันเอกชนสามารถถือเงินฝากเป็นเงินตราต่างประเทศและนำเงินไปลงทุนในต่างประเทศอย่างที่ไม่เคยกระทำได้ในอดีต นอกจากนั้นรัฐยังได้อนุญาตให้สถาบันการเงินประกอบธุรกิจเงินตราต่างประเทศประเภทใหม่ที่เรียกว่าวิเทศธนกิจ หรือ BIBF (Bangkok International Banking Facilities) วิเทศธนกิจนี้เป็นบริการทางการเงินประเภทหนึ่งที่สถาบันการเงินภายในประเทศช่วยติดต่อและจัดหาสินเชื่อจากต่างประเทศให้แก่ลูกค้าในไทยและต่างประเทศ รัฐเห็นว่าควรอนุญาตให้สถาบันการเงินประกอบวิเทศธนกิจ เพราะเห็นว่าระบบการเงินของไทยได้พัฒนาไปมากแล้ว และในอนาคต กรุงเทพมหานครมีโอกาที่จะเป็นศูนย์กลางทางการเงินของภูมิภาคได้มาก

ทางด้านการบริหารสินทรัพย์ของธนาคารพาณิชย์ แต่เดิมรัฐมีข้อบังคับให้ธนาคารพาณิชย์ปล่อยสินเชื่อให้แก่ภาคเกษตรกรรมเป็นสัดส่วนอย่างต่ำระดับหนึ่งของยอดเงินฝากคงค้าง เพราะรัฐเกรงว่าธนาคารพาณิชย์จะไม่เหลียวแลภาคเกษตรหรือให้ความสนใจน้อยเกินไป ในขณะที่ครัวเรือนที่ประกอบอาชีพในภาคนี้ก็มีเป็นจำนวนมาก เมื่อเวลาผ่านไประยะหนึ่ง การประกอบอาชีพกสิกรรมดังกล่าวได้ลดลง รัฐจึงเปลี่ยนสินเชื่อบังคับเพื่อการเกษตรมาเป็นสินเชื่อแก่ชนบทแทน ตัวอย่างเช่น สินเชื่อเพื่ออุตสาหกรรมพื้นบ้านกั้นับได้ว่าอยู่ในข่ายสินเชื่อแก่ชนบทที่รัฐต้องการสนับสนุน การเปลี่ยนแปลงกฎหมายใช้สินเชื่อชนบทนี้ครอบคลุมความหมายกว้างกว่าเดิมและเหมาะสมกับสถานะเศรษฐกิจที่ได้เปลี่ยนแปลงไป จึงเพิ่มความคล่องตัวให้แก่ธนาคารพาณิชย์ในการจัดสรรสินเชื่อตามความชำนาญของตนและตามกลไกตลาดมากขึ้น สำหรับเงื่อนไขของการเปิดสาขาของธนาคารพาณิชย์ก็เช่นกัน แต่เดิมฐานะการคลังของรัฐอยู่ในภาวะขาดดุล เพราะรายได้จากภาษีอากรไม่เพียงพอแก่รายจ่าย รัฐจึงจำเป็นต้องกู้เงินจากสาธารณชนโดยการออกพันธบัตรในแต่ละปี และบังคับให้ธนาคารพาณิชย์ (ซึ่งเป็นผู้บริหารเงินออมของสาธารณชน) ซื้อและถือพันธบัตรรัฐบาลเหล่านั้นเป็นสัดส่วนอย่างต่ำระดับหนึ่งของยอดเงินฝากคงค้าง โดยถือข้อบังคับนั้นเป็นเงื่อนไขหนึ่งก่อนที่จะอนุญาตให้ธนาคารพาณิชย์เปิดสาขา อย่างไรก็ตาม ตั้งแต่ปี 2531 เป็นต้นมา ฐานะดุลเงินสดของรัฐกลับกลายเป็นเกินดุลตลอดมาจนถึงปัจจุบัน จึงไม่จำเป็นต้องออกพันธบัตรรัฐบาลเช่นเดิม ดังนั้น รัฐจึงลดอัตราส่วนที่ธนาคารพาณิชย์ต้องถือพันธบัตรรัฐบาลเพื่อเปิดสาขาลงจากร้อยละ 16 ของยอดเงินฝากตั้งแต่ปี 2513 มาเหลือร้อยละ 8 ในปี 2534 และยกเลิกในเดือนพฤษภาคม ปี 2536 อีกเงื่อนไขหนึ่งของการเปิดสาขาเคยกำหนดว่า เมื่อธนาคารพาณิชย์มีสาขาในท้องถิ่นใดก็ตาม จะต้องปล่อยสินเชื่อให้แก่ท้องถิ่นนั้นเป็นจำนวนไม่ต่ำกว่าร้อยละ 60 ของเงินฝากที่สาขานั้น ๆ ระดมได้ เพื่อป้องกันมิให้ธนาคารพาณิชย์ระดมเงินจากท้องถิ่นในต่างจังหวัดมาปล่อยสินเชื่อแต่เฉพาะภายในส่วนกลางหรือ กทม. เงื่อนไขนี้ได้ทำให้

ธนาคารพาณิชย์ประสบปัญหาทางด้านสินเชื่อกว้างขวาง ทั้งในแง่จัดสรรสินเชื่อและคุณภาพสินเชื่อ ในระยะหลัง รัฐได้ผ่อนคลายนโยบายนี้โดยอนุญาตให้นำสินเชื่อท้องถิ่นในต่างเขตกันมาถัวเฉลี่ยเป็นรายภาค ตัวอย่างเช่น ธนาคารพาณิชย์ที่ได้ไปเปิดสาขาในจังหวัดแม่ฮ่องสอนแต่ไม่สามารถปล่อยสินเชื่อในจังหวัดนั้นได้พอเพียงตามกฎหมาย อาจปล่อยสินเชื่อในจังหวัดใกล้เคียง เช่น เชียงรายหรือเชียงใหม่เพื่อทดแทนได้ นอกจากนั้นยังขยายคำจำกัดความของสินเชื่อท้องถิ่นให้รวมถึงสินเชื่อแก่อุตสาหกรรมขนาดย่อม สหกรณ์-ออมทรัพย์ และผู้ไปทำงานต่างประเทศด้วย การผ่อนคลายนี้นี้ช่วยให้ธนาคารพาณิชย์มีอิสระและความคล่องตัวในการทำธุรกิจมากขึ้น

ควบคู่กับการผ่อนคลายนโยบายเกี่ยวกับอัตราดอกเบี้ย การควบคุมปริวรรตเงินตรา การบริหารสินทรัพย์และเปิดสาขาของสถาบันการเงิน รัฐได้พัฒนาหรือปรับปรุงโครงสร้างของตลาดการเงินอีกหลายประการ ตัวอย่างเช่น ในแง่การกำกับและตรวจสอบ ได้มีการจัดตั้งสำนักงานคณะกรรมการกำกับหลักทรัพย์และตลาดหลักทรัพย์หรือ ก.ล.ต. ขึ้นเพื่อดูแลตลาดทุน ส่วนสำหรับสถาบันการเงินก็ได้มีกฎหมายมาตรฐานระหว่างประเทศ หรือ BIS (Bank for International Settlements) มาใช้กับการดำรงเงินกองทุนต่อสินทรัพย์เสี่ยงของสถาบันการเงินเพื่อรักษาความมั่นคงของสถาบันการเงิน กฎเกณฑ์ BIS นี้ กำหนดไว้ว่าเมื่อสถาบันการเงินถือสินทรัพย์ที่มีความเสี่ยงแตกต่างกัน ก็ควรนำเอาความเสี่ยงเหล่านั้นมาถ่วงน้ำหนักสินทรัพย์ก่อนที่จะรวมสินทรัพย์ทั้งสิ้นเพื่อคำนวณดูว่า สถาบันการเงินจะต้องถือเงินกองทุนเป็นจำนวนเท่าใด เพื่อคุ้มครองมูลค่าความเสี่ยงของสินทรัพย์เหล่านั้น นอกจากนี้ กฎเกณฑ์ BIS ยังแยกประเภทเงินกองทุนละเอียดลงไปอีกด้วย ซึ่งช่วยในการรักษาเสถียรภาพทางการเงิน ในแง่การพัฒนากฎหมายและบริการทางการเงิน ได้มีการออกพระราชบัญญัติ-หลักทรัพย์และตลาดหลักทรัพย์ ซึ่งเปิดช่องทางให้บริษัทเอกชนออกตราสารทั้งในและนอกประเทศเพื่อระดมทุน การปฏิรูปตลาดหลักทรัพย์ในปี 2535 นับว่าเปิดช่องทางเลือกอื่นให้แก่ผู้ออมด้วย นอกเหนือจากการฝากเงินออมไว้กับธนาคารพาณิชย์หรือบริษัทเงินทุนดังเช่นในอดีต ตัวอย่างเช่น ผู้ออมอาจเลือกลงทุนในกองทุนรวมประเภทต่าง ๆ หรือตราสารที่ออกโดยบริษัทจดทะเบียนในตลาดหลักทรัพย์ อีกนัยหนึ่งอาจกล่าวได้ว่า รัฐมิได้สร้างแรงแข่งขันมาแย่งเฉพาะลูกค้าสินเชื่อจากธนาคารพาณิชย์และบริษัทเงินทุนเท่านั้น แต่แย่งลูกค้าเงินฝากด้วย เพราะในแง่ของผู้กู้ ก็จะเลือกจากแหล่งต่าง ๆ ได้มากขึ้น และในแง่ของผู้ออม ก็สามารถเลือกฝากหรือลงทุนในเครื่องมือต่าง ๆ ได้มากขึ้นเช่นกัน

นอกจากนั้น รัฐยังได้จัดตั้งสถาบันที่สำคัญขึ้นหลายสถาบัน เช่น ธนาคารเพื่อการส่งออกและนำเข้า เพื่อสนับสนุนการค้าระหว่างประเทศและกระจายความเจริญไปสู่ภูมิภาค บริษัทจัดการกองทุนรวมเพิ่มขึ้นอีกหลายแห่ง เพื่อสนับสนุนผู้ลงทุนรายย่อยใน

ตลาดหลักทรัพย์ และบริษัทจัดอันดับความน่าเชื่อถือของลูกหนี้เพื่อส่งเสริมการออกตราสารทางการเงิน

สำหรับสถาบันการเงินที่มีอยู่แล้ว อันได้แก่ ธนาคารพาณิชย์และบริษัทเงินทุน รัฐได้ขยายขอบเขตธุรกิจของสถาบันการเงินแต่ละประเภทออกให้กว้างขึ้น และให้สถาบันการเงินเหล่านั้นแข่งขันกันทำธุรกิจชนิดเดียวกันมากขึ้น ตัวอย่างเช่น ทางฝ่ายธนาคารพาณิชย์ก็สามารถเข้าเป็นนายหน้าตัวแทนจำหน่ายหลักทรัพย์รัฐบาลและรัฐวิสาหกิจ เป็นที่ปรึกษาทางการเงิน จัดการออก/จำหน่าย/ค้าตราสารหนี้ เป็นนายทะเบียนหลักทรัพย์ สนับสนุนการจำหน่ายหน่วยลงทุนและดูแลผลประโยชน์ของกองทุนรวม ทางฝ่ายบริษัทเงินทุน นอกจากจะสามารถทำธุรกิจประเภทใหม่ ๆ ของธนาคารพาณิชย์ได้แล้ว ยังสามารถทำธุรกิจเงินตราต่างประเทศ ซึ่งเคยถูกผูกขาดโดยธนาคารพาณิชย์มาก่อน นอกจากนั้น บริษัทเงินทุนที่มีฐานะและผลประกอบการดี ก็มีโอกาสไปเปิดสำนักงานอำนวยความสะดวกในต่างจังหวัดซึ่งเทียบเท่ากับกิ่งสาขาอีกด้วย ในอนาคตอันใกล้คือ ภายใน 5 ปีข้างหน้า คงไม่น่าแปลกใจที่จะได้เห็นบริษัทเงินทุนบางแห่งยกระดับขึ้นเป็นธนาคารพาณิชย์เต็มตัว ในขณะที่เดียวกันธนาคารพาณิชย์จากต่างประเทศแห่งใหม่ ๆ จะได้รับอนุญาตให้มาเปิดสาขาในไทยด้วย ทั้งนี้เป็นไปตามแนวโน้มของโลกาภิวัตน์ที่การค้าขายสินค้าและบริการระหว่างประเทศมีขีดจำกัดน้อยลง ในขณะที่ความก้าวหน้าทางเทคโนโลยีและระบบโทรคมนาคมแผนใหม่ก็ช่วยเชื่อมประเทศเข้าถึงกันอย่างรวดเร็วขึ้น ดังที่เห็นได้จากความเร็วของการไหลเวียนของเงินทุนระหว่างประเทศและการปรับตัวของอัตราดอกเบี้ยในตลาดเงินปัจจุบัน

ค่อยเป็นค่อยไป

สิ่งที่น่าสังเกตประการหนึ่งเกี่ยวกับมาตรการเปิดเสรีทางการเงินที่กล่าวข้างต้น คือ รัฐได้นำมาตรการเหล่านี้นอกใช้แบบค่อยเป็นค่อยไป ไม่ฉุกละหุกหรือเฉียบพลันทันทีทันใด ตัวอย่างเช่น การยกเลิกเพดานอัตราดอกเบี้ย รัฐก็ค่อย ๆ ยกเลิกทีละประเภท การผ่อนคลายปฏิรูปตราเงินตรา รัฐได้ประกาศเป็นระลอก ๆ โดยทิ้งช่วงเวลาระหว่างกันพอควร การอนุญาตให้สถาบันการเงินประกอบธุรกิจประเภทใหม่ ๆ ก็มีใ้คอนุญาตให้แก่ทุกสถาบันการเงิน แต่คัดเลือกเฉพาะสถาบันการเงินที่มีฐานะมั่นคงและผลประกอบการดีพร้อมทั้งมีบุคลากรที่มีประสิทธิภาพ สาเหตุสำคัญที่รัฐดำเนินนโยบายเปิดเสรีทางการเงินอย่างค่อยเป็นค่อยไปเช่นนี้ เพราะว่ารัฐต้องการให้สถาบันการเงินมีเวลาพอเพียงที่จะปรับตัวเข้าสู่ตลาดการเงินในยุคใหม่ที่เต็มไปด้วยการแข่งขัน หากการเปิดตลาดเงินกระทำไปอย่างรวดเร็วหรือฉับพลัน สถาบันการเงินอาจประสบปัญหาได้ง่าย เนื่องจากบุคลากรขาดประสบการณ์หรือความคุ้นเคยกับเครื่องมือหรือเทคนิคทางการเงินใหม่ ๆ และเมื่อปัญหาของสถาบันการเงิน

รุนแรงขึ้นถึงขั้นวิกฤติ เสถียรภาพหรือความมั่นคงในระบบการเงินของประเทศอาจสั่นคลอนได้ เสถียรภาพทางการเงินนี้มีคุณค่าสูงยิ่งและหากสั่นคลอนหรือสูญเสียไป ก็ยากที่จะเรียกกลับคืนมาได้ เพราะสินค้าในตลาดการเงินซึ่งถูกบริหารโดยสถาบันการเงิน คือ เงินฝากจากประชาชน หากสถาบันการเงินประสบภาวะขาดทุนหรือล้มละลาย นอกจากจะก่อความเดือดร้อนโดยตรงแก่ผู้ฝากแล้ว ยังทำลายความเชื่อมั่นของประชาชนส่วนใหญ่ในความมั่นคงของระบบสถาบันการเงินอีกด้วย และเมื่อความเชื่อมั่นนั้นถดถอยลง ความลำบากที่คงตามมา คือ การระดมเงินออมภายในประเทศเพื่อนำไปลงทุนเชิงโครงการลงทุนตามแผนพัฒนาประเทศได้ ด้วยเหตุนี้หน่วยงานของรัฐอันได้แก่กระทรวงการคลังและธนาคารแห่งประเทศไทย จึงได้ให้ความสำคัญเป็นอย่างมากแก่การกำกับและตรวจสอบสถาบันการเงิน ควบคู่กับการเปิดเสรีทางการเงิน เพราะการเปิดเสรีทางการเงินย่อมเพิ่มทั้งการแข่งขันภายในตลาดและความเสี่ยงควบคู่กันไป

ผลลัพธ์

แม้ว่ามาตรการเปิดเสรีหรือผ่อนคลายนโยบายการเงินจะส่งผลให้หลายฝ่ายได้เห็นกันบ้างแล้ว แต่การประเมินผลการปฏิรูปทางการเงินของไทยยังมีข้อจำกัดอยู่บ้าง เพราะบางมาตรการเพิ่งดำเนินการไปได้ไม่นาน ตัวอย่างเช่น เพดานอัตราดอกเบี้ยเงินกู้เพิ่งยกเลิกไปได้ประมาณ 2 ปี ผลลัพธ์จึงอาจยังไม่ชัดเจน อย่างไรก็ตาม การเปิดช่องทางอื่นให้ธุรกิจเอกชนสามารถระดมทุน เช่น ออกตราสารการเงินหรือกู้ยืมเงินจากภายในและนอกประเทศได้ก่อให้เกิดแรงแข่งขันกับแหล่งเงินทุนเดิม (คือ ธนาคารพาณิชย์และบริษัทเงินทุน) อย่างแน่นอน หลักฐานในกรณีนี้ได้แก่ การเปลี่ยนแปลงในโครงสร้างรายได้ของธนาคารพาณิชย์ไทยทั้ง 15 ธนาคาร กล่าวคือ เนื่องจากแรงแข่งขันในตลาดสินเชื่อและเงินฝากมีมากขึ้นเพราะมาตรการเปิดเสรีทางการเงิน ธนาคารพาณิชย์จึงทำกำไรจากส่วนต่างของดอกเบี้ยได้น้อยลง อีกนัยหนึ่งคือ รายได้ของธนาคารพาณิชย์ที่มาจากดอกเบี้ยได้ลดความสำคัญลง ในขณะที่รายได้ค่าธรรมเนียมและบริการของธนาคารพาณิชย์มีสัดส่วนที่สูงขึ้นจากร้อยละ 4.4 ในปี 2534 เป็นร้อยละ 5.0 ในปี 2535 และร้อยละ 6.1 ในปี 2536 และเริ่มเห็นกันได้ทั่วไปว่า กลยุทธ์ที่แพร่หลายในหมู่ธนาคารพาณิชย์ขณะนี้ คือ การเสนอบริการประเภทใหม่ ๆ (เช่น บริหารกองทุน ให้คำปรึกษาทางการเงิน หรือคำประกัน) เพื่อหารายได้ประเภทค่าบริการมากขึ้น เพราะธนาคารพาณิชย์เห็นแล้วว่าลูกค้าสินเชื่อมีทางเลือกอื่น ๆ หลายทาง โดยเฉพาะลูกค้ารายใหญ่ ๆ

หากหันมามองทางด้านลูกค้าของธนาคารพาณิชย์บ้าง ข้อมูลโครงสร้างทางการเงินของธุรกิจเอกชนก็ชี้แนะไปในทิศทางเดียวกับที่กล่าวถึงข้างต้น สัดส่วนหนี้สินต่อเงินทุนของ

ธุรกิจเอกชนมีแนวโน้มลดลงจากระดับ 2.03 ในปี 2529 มาอยู่ในระดับ 1.13 ในเดือนมิถุนายน 2536 เนื่องจากบริษัทเอกชนต่าง ๆ ลดการพึ่งพาหนี้สินเป็นอันมากอย่างที่เคยกระทำในอดีต และทดแทนหนี้สินเหล่านั้นด้วยการระดมเงินทุน โดยออกตราสารทั้งในและนอกประเทศเป็นจำนวนมากตั้งแต่พระราชบัญญัติหลักทรัพย์และตลาดหลักทรัพย์มีผลบังคับใช้ การนำเงินทุนจากต่างประเทศเข้าและออกก็มีจำนวนเพิ่มขึ้นมากจนตลาดเงินตราต่างประเทศมีสภาพคล่องสูงและอัตราดอกเบี้ยระหว่างธนาคารภายในประเทศมีแนวโน้มลดลงใกล้เคียงและเปลี่ยนแปลงสอดคล้องกับอัตราดอกเบี้ยในต่างประเทศมากขึ้น

หลังจากที่รัฐได้ผ่อนคลายมาตรการควบคุมปริวรรตเงินตราลงตั้งแต่ปี 2533 ปริมาณเงินทุนจากต่างประเทศที่เอกชนไทยนำเข้าสุทธิได้เพิ่มขึ้นอย่างเกินคาด คือ ประมาณ 3 เท่าตัวจากระดับเฉลี่ยปีละ 84 พันล้านบาทในช่วงปี 2530-32 ถึงระดับเฉลี่ยปีละ 255 พันล้านบาทในช่วงปี 2533-36 การนำเข้าเงินทุนจากต่างประเทศเป็นจำนวนมากเช่นนี้ ทำให้หนี้ต่างประเทศคงค้างของภาคเอกชนพุ่งสูงขึ้นจากระดับเฉลี่ยร้อยละ 9 ของผลผลิตประชาชาติในช่วงปี 2530-32 เป็นร้อยละ 19 ในช่วงปี 2533-36

ปี	จำนวนเงินทุนที่ภาคเอกชน นำเข้าสุทธิจากต่างประเทศ (พันล้านบาท)	หนี้ต่างประเทศคงค้าง ของภาคเอกชน	
		(พันล้านดอลลาร์สหรัฐ.)	(% ของ GDP)
2530	16.5	4.543	9.0
2531	74.0	5.290	8.6
2532	160.3	7.585	10.5
2533	238.3	13.551	15.9
2534	268.8	20.476	20.8
2535	199.0	24.286	16.1
2536	313.7	28.739	23.4

แหล่งข้อมูล: รายงานเศรษฐกิจรายเดือนและเครื่องชี้ภาวะเศรษฐกิจที่สำคัญ ธนาคารแห่งประเทศไทย

ปริมาณเงินทุนจากต่างประเทศที่เข้าสู่ภาคเอกชนของไทยเป็นจำนวนมากดังที่กล่าวข้างต้นไม่เป็นที่น่าแปลกใจ เพราะขนาดของสถาบันการเงินและตลาดเงินทุนในต่างประเทศใหญ่กว่าของไทยหลายเท่าตัว ตัวอย่างเช่น ธนาคารขนาดใหญ่ของสหรัฐอเมริกาหรือเยอรมันมีขนาดใหญ่กว่าธนาคารที่ใหญ่ที่สุดของไทยประมาณหกถึงเก้าเท่า และธนาคารพาณิชย์ของ

ญี่ปุ่นใหญ่กว่าถึงกว่าสิบเท่า เงินทุนจากต่างประเทศที่ไหลเข้าไทยนั้น บางส่วนเป็นผลจากการตัดสินใจของนักลงทุนต่างชาติเอง (ตัวอย่างเช่น การลงทุนในหลักทรัพย์) มิใช่ว่าการไหลเข้าออกของเงินทุนเหล่านั้นทั้งสิ้นเป็นผลจากการตัดสินใจของคนไทยแต่ฝ่ายเดียว นอกจากนั้นความก้าวหน้าทางเทคโนโลยีและเครื่องมือสื่อสารที่ทันสมัยในขณะนี้ ได้ช่วยเพิ่มความเร็วให้แก่การเคลื่อนย้ายเงินทุนระหว่างประเทศอีกด้วย ดังนั้น การลดกำแพงควบคุมปริวรรตเงินตรา จึงส่งผลให้เงินทุนจากต่างประเทศไหลเข้าและออกจากประเทศไทยได้อย่างเร็วและแรง ความเร็วและแรงนี้สามารถส่งผลกระทบต่อสภาพคล่องของตลาดเงินและตลาดทุนของไทยได้เป็นอย่างมาก ความผันผวนของอัตราดอกเบี้ยและราคาของหลักทรัพย์ก็กว้างขึ้นเช่นกัน ตัวอย่างได้แก่ การเพิ่มขึ้นอย่างรวดเร็วและรุนแรงของดัชนีและปริมาณการซื้อขายในตลาดหลักทรัพย์แห่งประเทศไทยในช่วงไตรมาสสุดท้ายของปี 2536

ข้อสังเกต

แม้สัดส่วนรายได้ของธนาคารพาณิชย์จากดอกเบี้ยที่ลดลงจะชี้ให้เห็นว่า การแข่งขันในตลาดสินเชื่อมีมากขึ้น แต่หากพิจารณาละเอียดลงไปถึงอัตราดอกเบี้ยเงินกู้สำหรับลูกค้าแต่ละระดับ จะเห็นได้ว่ากลไกตลาดยังทำงานไม่ได้เต็มที่ตามที่รัฐต้องการ กล่าวคือ ธนาคารพาณิชย์ได้ลดอัตราดอกเบี้ยเงินกู้แก่ลูกค้าชั้นดีลงมากกว่าอัตราดอกเบี้ยเงินกู้แก่ลูกค้าปานกลางและรายย่อย หากเปรียบเทียบ ณ สิ้นปี 2533 กับสิ้นปี 2535 ธนาคารพาณิชย์ลดอัตราดอกเบี้ยเงินกู้แก่ลูกค้าชั้นดีลงร้อยละ 4.5 จากร้อยละ 16.25 เป็นร้อยละ 11.75 ส่วนอัตราสำหรับลูกค้าปานกลางและรายย่อยลดลงเพียงร้อยละ 1 จากร้อยละ 17.5 เป็นร้อยละ 16.5 ปรากฏการณ์เช่นนี้ดูเหมือนกับว่า ธนาคารพาณิชย์ไม่ให้ความสำคัญแก่ลูกค้าปานกลางและรายย่อย ภาพพจน์เช่นนี้ดูน่าวิตกยิ่งขึ้นเมื่อลูกค้าปานกลางและรายย่อยมีจำนวนมากถึงประมาณร้อยละ 60 ของสินเชื่อจากธนาคารพาณิชย์ทั้งสิ้นในช่วงปี 2535-36 อย่างไรก็ตาม ธนาคารพาณิชย์ก็เปิดโอกาสให้ลูกค้าปานกลางและรายย่อยเข้าถึงสินเชื่อจากธนาคารพาณิชย์ได้มากขึ้น เพราะเมื่อลูกค้าชั้นดีมีทางเลือกที่จะกู้เงินได้หลายทางนอกเหนือจากธนาคารพาณิชย์ เช่น ออกตราสารในตลาดหลักทรัพย์หรือกู้จากตลาดต่างประเทศ ธนาคารพาณิชย์จึงมีวงเงินสินเชื่อเหลือเพิ่มเติมสำหรับลูกค้าปานกลางและรายย่อย

สาเหตุหลักที่อัตราดอกเบี้ยเงินกู้ของลูกค้าปานกลางและรายย่อยปรับตัวลดลงน้อยกว่าของลูกค้าชั้นดี สืบเนื่องมาจากการที่ลูกค้ารายย่อยไม่สามารถเข้าถึงเงินกู้จากต่างประเทศหรือวิเทศธนกิจ หรือออกตราสารการเงินในตลาดทุนภายในประเทศได้ดังเช่นลูกค้าชั้นดี ดังนั้นจึงยังต้องพึ่งสินเชื่อจากธนาคารพาณิชย์หรือบริษัทเงินทุน (ควบคู่กับตลาดเงินนอก-

ระบบ) ต่อไปอย่างหลีกเลี่ยงไม่ได้ สถาบันการเงินเห็นว่าลูกค้ารายย่อยมีฐานะการเงินไม่ดี หรือขาดหลักประกัน จึงมักให้สินเชื่อนอัตราคอกเบี้ยที่สูงเพื่อชดเชยกับความเสี่ยง ทางฝ่ายรัฐเห็นว่าสถาบันการเงินเลือกกระทำเช่นนั้นบ่อยครั้งหรือในอัตราที่แพงเกินควร จึงพยายามผลักดันให้ธนาคารพาณิชย์อิงกับอัตราคอกเบี้ยสำหรับลูกค้ารายย่อยขั้นดี (หรือเอมอาร์อาร์) โดยเอมอาร์อาร์นั้นอยู่ในระดับใกล้เคียงกับอัตราต้นทุนของธนาคารพาณิชย์ สิ่งที่น่าสังเกตในแง่ก็คือ แรงกดดันเรื่องเอมอาร์อาร์นี้ไม่น่าจะเป็นทางเลือกทางเดียวของรัฐที่จะช่วยเหลือลูกค้ารายย่อย เพราะการบังคับให้ธนาคารพาณิชย์ใช้เอมอาร์อาร์เช่นนั้นจะไม่สอดคล้องกับหลักการของนโยบายเปิดเสรีทางการเงินที่กล่าวข้างต้น ทางเลือกอื่น ๆ ที่จะช่วยลูกค้ารายย่อยได้แก่ โครงการปล่อยสินเชื่อเป็นรางวัลให้แก่ธุรกิจรายย่อยหรือผู้มีรายได้น้อยแต่ฝากเงินออมอย่างสม่ำเสมอ โดยผ่านธนาคารของรัฐที่มีเครือข่ายกระจายทั่วประเทศ หรือสถาบันการเงินที่รัฐอาจจัดตั้งขึ้นใหม่ โครงการเช่นนั้นจะช่วยทั้งระดมเงินออมและสร้างแรงแข่งขันหรือกระตุ้นให้ธนาคารพาณิชย์และบริษัทเงินทุนลดอัตราคอกเบี้ยเงินกู้ที่เรียกเก็บจากลูกค้ารายย่อยลง

ข้อสังเกตประการต่อไปเกี่ยวข้องกับบทบาทของเงินกู้จากต่างประเทศ มาตรการผ่อนคลายการควบคุมปริวรรตเงินตราและเปิดเสรีแก่อัตราคอกเบี้ยทำให้เอกชนสามารถเคลื่อนย้ายเงินทุนเข้าและออกนอกประเทศได้อย่างคล่องตัว ความสามารถดังกล่าวจะบังคับให้อัตราคอกเบี้ยระหว่างธนาคารภายในประเทศอยู่ในระดับใกล้เคียงกับต่างประเทศ สถานการณ์เช่นนั้นทำให้ประสิทธิภาพของรัฐในการดำเนินนโยบายการเงินภายในประเทศลดน้อยลงกว่าที่ควรจะเป็น ตัวอย่างเช่น หากในปีใดปีหนึ่งความต้องการสินค้าและบริการในเศรษฐกิจของไทยขยายตัวอย่างรุนแรงเกินเหตุ สืบเนื่องมาจากการลงทุนและการบริโภคแต่ในปีนั้นอัตราคอกเบี้ยของตลาดโลกอยู่ในระดับที่ต่ำมาก ในภาวะเช่นนั้นรัฐคงไม่สามารถดำเนินนโยบายการเงินที่เข้มงวดเพื่อลดความต้องการภายในประเทศ ลดแรงกดดันทางด้านเงินเพื่อ และลดส่วนขาดดุลเงินออมลงได้อย่างมีประสิทธิภาพ เพราะแม้รัฐอาจผลักดันให้อัตราคอกเบี้ยภายในประเทศสูงขึ้นบ้าง แต่ผู้บริโภคและผู้ลงทุนบางกลุ่มก็ยังสามารถเข้าถึงแหล่งเงินทุนจากต่างประเทศที่ถูกกว่าได้ และไม่ว่าปัญหาจะซับซ้อนเพียงไร รัฐคงไม่หันกลับมาใช้มาตรการควบคุมปริวรรตเงินตราอย่างเข้มงวดดังที่เคยใช้ในอดีต เพราะการย้อนรอยเช่นนั้นย่อมก่อผลเสียแก่ชื่อเสียงหรือความน่าเชื่อถือของประเทศไทยในตลาดโลก โดยสรุป แม้เงินนโยบายเปิดเสรีทางการเงินจะช่วยกระตุ้นการแข่งขันในตลาดการเงินก็ตาม แต่ประสิทธิภาพของรัฐในการดำเนินนโยบายการเงินย่อมจะลดน้อยลงไป

ผลกระทบจากการเปิดกำแพงควบคุมปริวรรตและวิเทศธนกิจอีกประการหนึ่ง คือ การที่ทั้งธนาคารพาณิชย์และธุรกิจเอกชนสามารถเข้าพึ่งเงินทุนจากต่างประเทศได้สะดวกขึ้น อาจก่อปัญหานี้ต่างประเทศได้ เพราะหากสภาพคล่องในตลาดต่างประเทศอยู่ในระดับสูง

ธนาคารพาณิชย์ก็จะให้ความสนใจแก่การระดมเงินออมภายในประเทศน้อยลง เนื่องจากเงินทุนจากต่างประเทศให้ความคล่องตัวทั้งในแง่เบิกจ่ายและชำระคืน ทางฝ่ายธุรกิจเอกชนที่มีฐานะดีก็เช่นกัน ดังนั้นเมื่อหลายฝ่ายเข้าพึ่งเงินกู้จากต่างประเทศเป็นจำนวนมากในเวลาใกล้เคียงกันแล้ว อาจทำให้ประเทศประสบปัญหานี้ต่างประเทศในรูปแบบใดรูปแบบหนึ่งได้ เช่น การเกาะกลุ่มหรือผันผวนของภาระหนี้ นอกจากนั้นการนำเข้าหรือส่งคืนหนี้ต่างประเทศเป็นจำนวนมาก ๆ ยังส่งผลกระทบต่อสภาพคล่องของตลาดเงินและตลาดทุนภายในประเทศได้ง่ายและรวดเร็วดังที่ได้กล่าวแล้วข้างต้น ทางออกของปัญหานี้คงอยู่ที่การเปลี่ยนแปลงของกลไกในตลาดเงินตราต่างประเทศของไทย และ/หรือ นโยบายอัตราแลกเปลี่ยนในทางใดทางหนึ่ง

พัฒนาการที่ค่อยเป็นค่อยไปของธุรกิจสถาบันการเงินที่ผ่านมา ชี้แนะให้เห็นถึงวิวัฒนาการของทุกฝ่ายที่จะเกิดขึ้นต่อไปในอนาคต กล่าวคือ ทางฝ่ายสถาบันการเงิน เมื่อมีเสรีภาพมากขึ้นย่อมประกอบธุรกิจประเภทใหม่ ๆ และก่อหรือถือความเสี่ยงประเภทใหม่ ๆ เพิ่มเติม ทางฝ่ายผู้ออมก็มีทางเลือกมากขึ้นที่จะลงทุนเงินออมในช่องทางต่าง ๆ แต่ผู้ออมจะต้องยอมรับความเสี่ยงที่มากขึ้นเหล่านั้นด้วยตนเอง เพราะเครื่องมือประเภทใหม่ ๆ ที่สถาบันการเงินหรือตลาดเงินทุนเสนอมา สร้างทั้งผลตอบแทนและความเสี่ยงที่ผู้ออมควรทราบตั้งแต่นั้น สำหรับทางฝ่ายรัฐ มักเพ่งเล็งเกี่ยวกับการกำกับและตรวจสอบสถาบันการเงิน เพื่อพยายามช่วยไม่ให้ความเสี่ยงที่มากควบคู่กับเสรีภาพนั้น บั่นทอนความมั่นคงของสถาบันการเงินลงเป็นอันมาก อย่างไรก็ตาม ในอนาคต รัฐคงไม่สามารถและไม่ต้องการมีข้อผูกพันให้เข้าพยุงบanksการเงินทุกแห่งให้อยู่รอดและเสมอไปอย่างแน่นอนดังเช่นในอดีต เพราะหากรัฐทำเช่นนั้น เปรียบเสมือนช่วยกระตุ้นให้สถาบันการเงินก่อและถือความเสี่ยงมากเกินไป เมื่อปัญหาของสถาบันการเงินรุนแรงขึ้นถึงจุดหนึ่ง รัฐคงต้องปล่อยให้กลไกตลาดเข้าควบคุมการอยู่รอดของสถาบันการเงิน ดังเช่นที่ปล่อยให้กลไกตลาดเข้าควบคุมปริมาณและราคาในตลาดการเงินในปัจจุบัน ความช่วยเหลืออย่างมากที่สุดจากรัฐสำหรับกรณีวิกฤติที่อาจเกิดขึ้นได้เช่นนั้นคือ ผลักดันให้มีการจัดตั้งสถาบันประกันเงินฝาก ซึ่งเป็นการรวมพลังระหว่างสถาบันการเงินด้วยกันเอง เพื่อสร้างความมั่นใจให้แก่ผู้ฝากเงิน โดยสรุป รัฐคงต้องระวังถึงผลเสียที่อาจเกิดขึ้นได้ในอนาคต เพราะการเปิดเสรีทางการเงินทำให้เกิดความเสี่ยงควบคู่ไปกับการแข่งขันภายในตลาดเงินทุน และเมื่อสถาบันการเงิน ธุรกิจเอกชน และผู้ออมคุ้นเคยกับความอิสระที่มีมากขึ้นในตลาดการเงินแล้ว อาจใช้ความอิสระเหล่านั้นมากเกินไป

Chapter 1

Introduction

The beginning of the 1990s saw crucial changes in most financial markets around the world. Numerous types of financial institutions were liberalized to undertake businesses that they had never engaged in before. Stringent rules and regulations formerly imposed by monetary authorities were relaxed, allowing greater flexibility and increased business opportunities. One clear-cut motive behind deregulation policies was to strengthen competition between financial institutions, thus offering the public more choices in financial intermediation. One cannot assume, however, that stronger competition or better efficiency will guarantee financial stability. The outcome largely depends on both the tactics adopted by the monetary authorities at different stages of liberalization and financial institutions' readiness or ability to adjust.

The above trends in global financial markets also apply to Thailand. When the Bank of Thailand allowed more room for competition, financial institutions responded well by resorting to new technology and know-how to provide new products and services to customers. A controversial question remains: in the drive toward deregulation, what will be the trade-off between efficiency and stability in the financial system? If gains in the former come only at the expense of the latter, the monetary authorities may not act as quickly as they should in the future. At present, the authorities are already concerned about preserving financial stability, given that a large number of financial institutions are rapidly exercising their new rights in a seemingly formidable fashion. This intricate trade-off issue partly corresponds with the central aim of the Asian Development Bank's study entitled *Financial Sector Policies of Selected Developing Member Countries*. This study's country report for Thailand serves as the core of this book.

The second chapter of this book presents a broad perspective on all financial institutions in Thailand—their roles, relative sizes, and evolution. Given the dominance of commercial banks and finance companies, Chapter 3 investigates how these institutions are regulated, provides a concise description of the evolution and current status of the Financial Institutions Development Fund and the stock exchange in Thailand, and briefly examines accounting standards and the recently adopted Value Added Tax (VAT).

Chapters 4 to 7 focus on different types of financial institutions, i.e., commercial banks, non-bank savings institutions, government finance institutions, and non-intermediary financial firms. Their outstanding features are described, as are their past experiences, problems and the lessons learnt therefrom. Their

performances to date and the efficacy of their financial management are also analyzed.

Chapter 8 examines the macroeconomic issues which are continual overriding concerns of the Central Bank and the Thai government. These issues involve the objectives of and the instruments for monetary, fiscal, and exchange rate policies. The development of various parts of Thailand's financial markets is then traced in Chapter 9. They include money markets, the foreign exchange market, government securities and commercial paper markets, and the stock market.

Recent reform experience, described in Chapter 10, covers various aspects of liberalization in the country's financial markets. Examples are the dilution of exchange controls, more freedom in interest rate specifications, increased flexibility in portfolio management, a broader scope of operations, a globalized standard of capital adequacy, and the establishment of the Bangkok International Banking Facilities (BIBF). The underlying motives, the sequencing of measures, and private enterprises' reaction to each facet of liberalization are also covered. The final chapter offers an overview of the past experiences in Thai financial circles, and a synopsis of different financial liberalization stages. It also highlights the remaining drawbacks and the future prospects of the Thai financial system, as well as trade-off between costs and benefits in liberalization efforts.

Chapter 2

The Evolution of the Thai Financial Sector

ACTORS

Thailand's financial system consists of a wide variety of institutions, the majority of which are privately owned. Although each type has its own specialty, *commercial banks* predominate, accounting for 70 percent of all financial institutions' total assets in the past two decades (see Tables 1 and 2).

Commercial banking first came to Thailand in 1888 with the establishment of a foreign bank's branch. The first Thai commercial bank emerged later, in 1906. Initially, the foreign banks' branches were most active. Later, however, the Thai banks caught up, through continual protection from the Thai government. By the end of 1992, 15 Thai commercial banks commanded an extensive network of 2,566 branches, while foreign banks were restricted to just 15 local branches. In assets, advances, and deposits, Thai banks controlled roughly 97 percent of the market share and foreign banks were in charge of only 3 percent.

Commercial banks mobilize funds by accepting time, savings, and demand deposits and by borrowing from domestic and foreign sources. They play an important role in fostering the country's rapid growth and development, as evidenced by their 73 percentage share in household savings captured by all financial institutions over the past decade (see Tables 3 to 6). The same percentage share is also applicable to credits. The country's commercial banking sector is under the control of a limited number of banks. Assets of the largest three banks, for example, accounted in 1992 for 50 percent of the whole banking system's assets, while those of the smallest five banks totalled only 6 percent.

Table 1 Salient Features of Thailand's Financial Institutions at the End of 1992

	Operations began	No.	No. of branches
Commercial banks	1888	30	2,581
Finance companies	1969	92	42
Credit foncier companies	1969	18	-
Life insurance companies	1929	12	1,016
Agricultural cooperatives	1916	1,797	-
Savings cooperatives	1946	898	-
Pawnshops	1866	367	-
Government Savings Bank	1946	1	525
BAAC	1966	1	266
Government Housing Bank	1953	1	18
Industrial Finance Corp. of Thailand	1959	1	7
SIFCT	1992	1	-
Total	-	3,219	4,455

Source: Bank of Thailand.

Finance and Securities Companies represent the second largest type of financial institution in Thailand, with a 14 percentage share in all financial institutions' assets in the formal market. The first full-fledged finance companies began operations in 1969, and many more were set up since then. Finance companies obtain funds mostly through issuing promissory notes and through borrowing from domestic and overseas banks. Securities companies, on the other hand, engage primarily in securities issuance and trading. At the end of 1992, Thailand had 92 finance and securities companies. *Credit foncier companies* are similar to finance and securities companies, but they specialize in immovable properties. This type of company is allowed to tap funds by issuing medium-term notes (with maturities longer than one year). Such funds may then be used in the following schemes: accepting mortgages of immovable properties, buying immovable properties under sales contracts with rights of redemption, and other activities as specified in ministerial regulations. By December 1992, Thailand had 18 credit foncier companies.

An important rival in long-term financing is *life insurance*. Although most of the *life insurance companies* in Thailand (11 out of 12) are now of local origin, the market was earlier dominated by a foreign life insurance company, due to extensive networks, advanced technology, and know-how. In 1993, for instance, only one foreign company commanded 48 percent of the life insurance market in Thailand. Insurance companies mobilize funds through sales of packages, the most popular being the endowment policy (roughly 60 percent). Life insurance policies in Thailand may be broadly classified into three types: ordinary, industrial, and group. Of these types, ordinary policies account for three quarters of all insurance policies.

Table 1

(Billions of baht)

Household savings captured	Capital account	Credits extended	Total assets
1,552.2	170.2	2,161.9	2,528.1
293.7	66.9	547.7	671.0
3.4	1.2	5.1	6.2
53.0	12.5	19.7	66.9
6.9	7.3	13.8	17.8
52.3	51.9	69.2	75.0
-	2.0	8.5	9.2
130.4	11.1	18.5	150.9
19.0	6.1	62.0	76.9
38.3	3.5	53.5	57.1
-	7.7	35.9	57.1
-	0.3	0.1	0.6
2,149.0	340.7	2,996.1	3,716.7

Cooperatives are also active in Thailand. The country's cooperative movement began in 1916. Over the years, cooperatives have become widespread and, by the end of 1992, the country had 1,797 agricultural cooperatives and 878 savings cooperatives. *Agricultural cooperatives* are organized by farmers to facilitate and coordinate joint farming activities and to make low interest credits available to members. Their principal sources of funds are borrowings and capital accounts. *Savings cooperatives*, on the other hand, are formed mostly on an occupational basis, e.g. for school teachers, university employees, policemen, and public employees. Most members of savings cooperatives are salary earners, and their dominant source of funds is paid-up capital from members. While subordinate sources are reserves and deposits, savings cooperatives sometimes borrow from commercial banks. They use most of their funds to provide loans to their members for a variety of purposes.

Pawnshops are institutions which lend money against personal articles, such as gold ornaments, jewelry, wrist watches, sewing machines, and electrical appliances. They typically operate as small single units without branches. At the end of 1992, Thailand had 367 pawnshops, some privately run and others government owned. Private pawnshops rely heavily on their own resources for loanable funds, although they occasionally borrow from commercial banks and other sources. Municipal and government pawnshops' initial capital comes from municipal and central government budgets, though they may also borrow from other sources. Most loans extended by pawnshops are of small amounts, used mostly for household consumption.

Table 2 Financial Institutions' Total Assets

	1977	1978	1979	1980	1981	1982	1983
Commercial banks	173.3	218.2	259.9	300.0	353.2	423.7	528.2
Finance companies	38.3	56.7	58.3	66.2	76.9	94.9	105.4
Life insurance companies	3.3	4.0	5.1	6.5	8.1	10.1	12.2
Agricultural cooperatives	4.1	4.7	5.2	5.7	6.7	8.5	9.7
Savings cooperatives	2.1	2.7	3.4	4.4	5.6	7.4	8.0
Pawnshops	1.8	2.1	2.8	3.2	3.3	3.8	3.8
Credit foncier companies	1.7	2.8	3.3	3.9	5.1	5.6	5.3
Government Savings Bank	18.2	19.8	24.2	28.0	31.2	37.0	45.2
BAAC	9.6	12.6	14.4	17.3	19.3	20.9	22.4
Industrial Finance Corp. of Thailand	2.0	2.5	3.2	4.2	5.5	6.6	7.4
Government Housing Bank	3.1	5.0	7.4	10.1	11.7	11.5	10.8
SIFCT	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	257.6	331.2	387.2	449.6	526.8	630.1	758.5

Source: Bank of Thailand.

Table 3 Percentage Shares of Financial Institutions' Total Assets

	1977	1978	1979	1980	1981	1982	1983
Commercial banks	67.3	65.9	67.1	66.7	67.0	67.2	69.6
Finance companies	14.9	17.1	15.1	14.7	14.6	15.1	13.9
Life insurance companies	1.3	1.2	1.3	1.4	1.5	1.6	1.6
Agricultural cooperatives	1.6	1.4	1.3	1.3	1.3	1.3	1.3
Savings cooperatives	0.8	0.8	0.9	1.0	1.1	1.2	1.1
Pawnshops	0.7	0.6	0.7	0.7	0.6	0.6	0.5
Credit foncier companies	0.7	0.8	0.9	0.9	1.0	0.9	0.7
Government Savings Bank	7.1	6.0	6.3	6.2	5.9	5.9	6.0
BAAC	3.7	3.8	3.7	3.8	3.7	3.3	3.0
Industrial Finance Corp. of Thailand	0.8	0.8	0.8	0.9	1.0	1.0	1.0
Government Housing Bank	1.2	1.5	1.9	2.2	2.2	1.8	1.4
SIFCT	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Bank of Thailand.

Table 2

(Billions of baht)

	1984	1985	1986	1987	1988	1989	1990	1991	1992
	639.4	701.9	767.6	920.1	1,126.1	1,406.5	1,789.6	2,147.6	2,528.1
	118.1	131.0	139.8	160.0	195.7	281.7	365.6	481.0	671.0
	15.2	18.4	21.2	25.0	29.3	37.7	47.4	54.7	66.9
	7.2	7.8	8.5	11.2	14.0	17.7	12.7	15.4	17.8
	12.1	15.7	19.6	24.4	30.9	39.1	56.8	65.0	75.0
	4.1	5.1	5.1	5.4	6.5	7.3	9.7	8.5	9.2
	4.4	4.2	4.3	3.8	3.9	4.1	4.4	5.0	6.2
	54.2	64.9	94.1	111.5	124.3	125.7	138.8	140.2	150.9
	25.2	28.5	30.2	33.6	37.3	45.0	54.8	67.2	76.9
	11.1	15.0	17.9	22.6	24.1	29.6	38.0	47.8	57.1
	12.9	13.7	14.7	15.4	19.5	27.8	35.8	45.4	57.1
	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.6
	903.9	1,006.0	1,123.2	1,333.0	1,611.6	2,022.3	2,553.8	3,078.0	3,716.7

Table 3

(Percent)

[illegible]

Table 4 Household Savings at Financial Institutions (Outstanding Amounts at Year-end)

	1971	1972	1973	1974
Commercial banks	26.7	34.6	42.3	54.1
Finance companies	0.7	1.7	3.2	6.3
Life insurance companies	1.0	1.1	1.4	1.6
Agricultural cooperatives	0.1	0.1	0.1	0.2
Savings cooperatives	0.7	0.8	1.0	1.1
Pawnshops	-	-	-	-
Credit foncier companies	n.a.	n.a.	0.3	0.5
Government Savings Bank	6.2	7.5	9.5	10.5
BAAC	0.1	0.2	0.3	0.4
Industrial Finance Corp. of Thailand	-	-	-	-
Government Housing Bank	-	-	0.1	0.1
SIFCT	-	-	-	-
Total	35.4	46.0	58.1	74.9
	1982	1983	1984	1985
Commercial banks	253.3	328.1	394.5	452.9
Finance companies	49.8	54.1	48.6	62.1
Life insurance companies	8.8	11.1	13.4	15.9
Agricultural cooperatives	1.3	1.4	1.6	2.0
Savings cooperatives	6.1	7.9	9.8	12.3
Pawnshops	-	-	-	-
Credit foncier companies	3.6	3.1	2.3	2.1
Government Savings Bank	31.9	39.0	45.9	56.1
BAAC	1.5	1.8	2.0	2.6
Industrial Finance Corp. of Thailand	-	-	-	-
Government Housing Bank	1.6	1.7	5.2	7.1
SIFCT	-	-	-	-
Total	358.0	448.2	523.2	613.2

Source: Bank of Thailand.

Table 4

(Billions of baht)

1975	1976	1977	1978	1979	1980	1981
65.9	80.8	99.6	115.5	128.5	163.8	198.3
7.3	9.8	14.0	22.3	23.0	29.3	38.8
1.9	2.3	2.8	3.5	4.3	5.4	6.9
0.3	0.4	0.5	0.7	0.8	0.9	1.1
1.4	1.4	1.7	2.2	2.8	3.7	4.7
-	-	-	-	-	-	-
0.5	0.5	0.6	1.0	1.3	2.0	2.8
10.8	12.9	15.5	17.0	20.8	24.1	26.8
0.6	0.6	0.6	0.8	1.1	1.3	1.3
-	-	-	-	-	-	-
0.2	0.4	0.4	0.6	0.7	1.6	1.6
-	-	-	-	-	-	-
88.9	109.2	135.9	163.6	183.5	232.1	282.3
1986	1987	1988	1989	1990	1991	1992
505.2	588.7	704.6	887.6	1,148.8	1,332.1	1,552.2
64.2	64.8	86.1	124.6	154.6	201.9	293.7
17.5	20.5	24.2	30.0	34.3	40.4	53.0
2.2	2.8	3.5	4.4	5.1	6.0	6.9
15.9	20.8	26.7	32.5	38.5	45.3	52.2
-	-	-	-	-	-	-
2.2	2.0	1.9	1.8	1.8	2.5	3.3
81.2	96.9	105.9	107.2	112.2	119.8	130.4
3.7	4.5	5.9	9.6	13.7	15.6	19.0
-	-	-	-	-	-	-
8.2	7.8	11.1	19.3	25.4	33.8	38.3
-	-	-	-	-	-	-
700.3	808.9	970.1	1,217.1	1,534.5	1,801.8	2,149.1

Table 5 Percentage Shares of Household Savings at Financial Institutions

	1971	1972	1973	1974
Commercial banks	75.4	75.2	72.8	72.2
Finance companies	2.0	3.7	5.5	8.4
Life insurance companies	2.8	2.4	2.4	2.1
Agricultural cooperatives	0.3	0.2	0.2	0.3
Savings cooperatives	2.0	1.7	1.7	1.5
Pawnshops	-	-	-	-
Credit foncier companies	n.a.	n.a.	0.5	0.7
Government Savings Bank	17.5	16.3	16.4	14.0
BAAC	0.3	0.4	0.5	0.5
Industrial Finance Corp. of Thailand	-	-	-	-
Government Housing Bank	-	-	0.2	0.1
SIFCT	-	-	-	-
	1982	1983	1984	1985
Commercial banks	70.8	73.2	75.4	73.9
Finance companies	13.9	12.1	9.3	10.1
Life insurance companies	2.5	2.5	2.6	2.6
Agricultural cooperatives	0.4	0.3	0.3	0.3
Savings cooperatives	1.7	1.8	1.9	2.0
Pawnshops	-	-	-	-
Credit foncier companies	1.0	0.7	0.4	0.3
Government Savings Bank	8.9	8.7	8.8	9.1
BAAC	0.4	0.4	0.4	0.4
Industrial Finance Corp. of Thailand	-	-	-	-
Government Housing Bank	0.4	0.4	1.0	1.2
SIFCT	-	-	-	-

Source: Bank of Thailand.

Among government-owned financial institutions, the *Government Savings Bank* (GSB) outranks all others, in numerous respects. By 1992, for instance, GSB had an extensive network of 525 branches throughout the country. The fact that its deposits and total assets accounted for 6 percent and 11 percent of the entire financial system during the past two decades, respectively, is, therefore, not surprising. GSB's history dates back to 1913 when King Rama VI set up the Savings Office, attached to the Royal Treasury. In 1929, the Savings Office was transferred to the Post and Telegraph Department, where it remained until 1947, when all its assets and liabilities were transferred to the newly created GSB.

GSB's main function is to mobilize small savings through demand, savings, and time deposits. It also issues savings certificates and premium bonds. In the past, a large portion of GSB's funds were invested in government securities. In recent years, however, the government's fiscal status has markedly improved; hence GSB is allowed to extend credits to state enterprises as well as private entrepreneurs.

Table 5
(Percent)

1975	1976	1977	1978	1979	1980	1981
74.1	74.0	73.3	70.6	70.0	70.6	70.2
8.2	9.0	10.3	13.6	12.5	12.6	13.7
2.1	2.1	2.1	2.1	2.3	2.3	2.4
0.3	0.4	0.4	0.4	0.4	0.4	0.4
1.6	1.3	1.3	1.3	1.5	1.6	1.7
-	-	-	-	-	-	-
0.6	0.5	0.4	0.6	0.7	0.9	1.0
12.1	11.8	11.4	10.4	11.3	10.4	9.5
0.7	0.5	0.4	0.5	0.6	0.6	0.5
-	-	-	-	-	-	-
0.2	0.4	0.3	0.4	0.4	0.7	0.6
-	-	-	-	-	-	-
1986	1987	1988	1989	1990	1991	1992
72.1	72.8	72.6	72.9	74.9	73.9	72.2
9.2	8.0	8.9	10.2	10.1	11.2	13.7
2.5	2.5	2.5	2.5	2.2	2.2	2.5
0.3	0.3	0.4	0.4	0.3	0.3	0.3
2.3	2.6	2.8	2.7	2.5	2.5	2.4
-	-	-	-	-	-	-
0.3	0.2	0.2	0.1	0.1	0.1	0.2
11.6	12.0	10.9	8.8	7.3	6.6	6.1
0.5	0.6	0.6	0.8	0.9	0.9	0.9
-	-	-	-	-	-	-
1.2	1.0	1.1	1.6	1.7	1.9	1.8
-	-	-	-	-	-	-

The *Bank for Agriculture and Agricultural Cooperatives* (BAAC) was set up in 1966 to take over the role of the Bank for Cooperatives. BAAC provides low interest credits to farmers and cooperatives. Recently, BAAC has broadened its scope of operation to cover advancements in both technology and manpower. A considerable portion of BAAC's resources are drawn from commercial banks, which lend to BAAC as one means of satisfying their compulsory rural credit extension. BAAC also accepts time and savings deposits from the private sector. The Central Bank supplies BAAC with additional credit facilities on special occasions or on an ad hoc basis.

The *Government Housing Bank* (GHB), established in 1953, helps people of moderate income to buy their own homes. GHB is permitted to accept deposits of any type and maturity from the public. Its lending may also hinge upon funds borrowed from abroad.

Table 6 Credits Extended by Financial Institutions (Outstanding Amounts at Year-end)

	1971	1972	1973	1974
Commercial banks	31.6	35.7	51.2	67.7
Finance companies	2.3	6.2	10.1	16.2
Life insurance companies	0.5	0.6	0.7	0.8
Agricultural cooperatives	0.7	0.7	0.9	1.2
Savings cooperatives	0.6	0.7	0.9	1.1
Pawnshops	0.6	0.6	0.8	1.1
Credit foncier companies	0.1	0.1	0.3	0.6
Government Savings Bank	0.4	0.4	0.3	0.3
BAAC	1.4	1.7	2.0	2.7
Industrial Finance Corp. of Thailand	0.5	0.6	0.6	0.9
Government Housing Bank	0.1	0.1	-	0.1
SIFCT	0.1	0.1	0.1	0.1
Total	39.0	47.5	67.8	92.8
	1982	1983	1984	1985
Commercial banks	299.8	401.6	475.0	521.0
Finance companies	79.5	90.7	95.0	98.1
Life insurance companies	4.1	5.1	6.2	7.1
Agricultural cooperatives	4.6	4.9	5.3	5.9
Savings cooperatives	6.7	8.6	10.9	13.4
Pawnshops	3.2	3.6	4.3	4.6
Credit foncier companies	3.5	3.6	3.0	2.8
Government Savings Bank	2.0	3.3	1.2	1.4
BAAC	15.7	17.1	19.6	21.6
Industrial Finance Corp. of Thailand	4.7	4.9	6.1	7.8
Government Housing Bank	9.5	9.3	10.1	11.2
SIFCT	0.1	-	-	-
Total	433.4	552.8	636.7	695.0

Source: Bank of Thailand.

Table 6

(Billions of baht)

1975	1976	1977	1978	1979	1980	1981
81.3	95.1	121.8	158.6	195.1	218.9	254.4
20.5	25.2	33.7	48.1	47.6	55.0	65.4
0.9	1.2	3.3	1.4	2.1	2.7	3.4
1.9	2.3	2.9	3.5	3.8	3.9	4.2
1.3	1.6	2.0	2.5	3.2	4.0	5.2
1.2	1.3	1.4	1.8	2.4	2.8	3.1
0.6	0.6	0.9	1.4	1.9	2.4	2.9
0.3	0.5	0.7	0.7	1.1	1.1	2.1
4.7	6.8	8.5	9.7	10.9	12.5	14.1
1.3	1.7	1.6	1.9	2.5	3.3	4.3
0.3	0.9	1.7	2.7	4.9	8.1	9.4
0.1	0.1	0.1	0.1	0.1	0.1	0.1
114.6	137.2	176.6	232.3	275.6	314.9	368.7
1986	1987	1988	1989	1990	1991	1992
543.7	672.9	853.5	1,110.6	1,482.0	1,789.4	2,161.9
102.2	113.3	154.2	238.5	314.9	405.9	547.7
7.3	7.5	8.6	11.3	16.5	18.8	19.7
6.3	6.6	6.9	7.9	10.0	12.0	13.8
17.2	22.9	30.4	40.2	49.5	60.0	69.2
4.5	5.1	5.5	5.8	7.0	7.2	8.5
2.6	2.4	2.5	2.8	3.2	3.7	5.1
1.6	3.6	4.5	6.0	11.4	14.9	18.5
23.1	25.1	26.4	29.8	38.8	48.6	62.0
8.0	8.7	10.7	15.0	21.1	26.3	36.0
11.9	12.7	15.9	21.6	29.6	39.7	53.5
-	-	-	0.1	0.1	0.1	0.1
728.5	880.9	1,119.3	1,489.5	1,984.0	2,426.8	2,996.1

Table 7 Percentage Shares of Credits Extended by Financial Institutions

	1971	1972	1973	1974
Commercial banks	81.0	75.2	75.5	73.0
Finance companies	5.9	13.1	14.9	17.5
Life insurance companies	1.3	1.3	1.0	0.9
Agricultural cooperatives	1.8	1.5	1.3	1.3
Savings cooperatives	1.5	1.5	1.3	1.2
Pawnshops	1.5	1.3	1.2	1.2
Credit foncier companies	0.3	0.2	0.4	0.6
Government Savings Bank	1.0	0.8	0.4	0.3
BAAC	3.6	3.6	2.9	2.9
Industrial Finance Corp. of Thailand	1.3	1.3	0.9	1.0
Government Housing Bank	0.3	0.2	0.0	0.1
SIFCT	0.3	0.2	0.1	0.1
	1982	1983	1984	1985
Commercial banks	69.2	72.6	74.6	75.0
Finance companies	18.3	16.4	14.9	14.1
Life insurance companies	0.9	0.9	1.0	1.0
Agricultural cooperatives	1.1	0.9	0.8	0.8
Savings cooperatives	1.5	1.6	1.7	1.9
Pawnshops	0.7	0.7	0.7	0.7
Credit foncier companies	0.8	0.7	0.5	0.4
Government Savings Bank	0.5	0.6	0.2	0.2
BAAC	3.6	3.1	3.1	3.1
Industrial Finance Corp. of Thailand	1.1	0.9	1.0	1.1
Government Housing Bank	2.2	1.7	1.6	1.6
SIFCT	0.0	0.0	0.0	0.0

Source: Bank of Thailand.

Table 7
(Percent)

1975	1976	1977	1978	1979	1980	1981
70.9	69.3	69.0	68.3	70.8	69.5	69.0
17.9	18.4	19.1	20.7	17.3	17.5	17.7
0.8	0.9	1.9	0.6	0.8	0.9	0.9
1.7	1.7	1.6	1.5	1.4	1.2	1.1
1.1	1.2	1.1	1.1	1.2	1.3	1.4
1.0	0.9	0.8	0.8	0.9	0.9	0.8
0.5	0.4	0.5	0.6	0.7	0.8	0.8
0.3	0.4	0.4	0.3	0.4	0.3	0.6
4.1	5.0	4.8	4.2	4.0	4.0	3.8
1.1	1.2	0.9	0.8	0.9	1.0	1.2
0.3	0.7	1.0	1.2	1.8	2.6	2.5
0.1	0.1	0.1	0.0	0.0	0.0	0.0
1986	1987	1988	1989	1990	1991	1992
74.6	76.4	76.3	74.6	74.7	73.7	72.2
14.0	12.9	13.8	16.0	15.9	16.7	18.3
1.0	0.9	0.8	0.9	0.8	0.8	0.7
0.9	0.7	0.6	0.5	0.5	0.5	0.5
2.4	2.6	2.7	2.7	2.5	2.5	2.3
0.6	0.6	0.5	0.4	0.4	0.3	0.3
0.4	0.3	0.2	0.2	0.2	0.2	0.2
0.2	0.4	0.4	0.4	0.6	0.6	0.6
3.2	2.8	2.4	2.0	2.0	2.0	2.1
1.1	1.0	1.0	1.0	1.1	1.1	1.2
1.6	1.4	1.4	1.5	1.5	1.6	1.8
0.0	0.0	0.0	0.0	0.0	0.0	0.0

Two other specialized financial institutions are industrial financing units: the *Industrial Finance Corporation of Thailand* (IFCT) and the *Small Industrial Finance Corporation of Thailand* (SIFCT). Established in 1959 to supersede the Industrial Bank of Thailand, IFCT assumed some of its predecessor's assets in the form of an interest free 50-year government loan. Nevertheless, the ownership pattern has changed to rely more upon private entities, principally the Thai commercial banks, while the remainder is owned by the Ministry of Finance. IFCT operates along the lines of a private development bank or development finance company. It focuses on financing fixed assets through the extension of medium- and long-term loans to different industries. IFCT also participates in its customers' equity, but it is not allowed to extend credits to companies which are more than a third government owned. Nevertheless, it may issue guarantees to commercial banks on behalf of its customers to obtain letters of credit, as it has no foreign exchange license. In the past, IFCT was largely funded by foreign borrowing under government guarantee which supplemented its own capital. In recent years, IFCT has come to depend more on borrowings in local currency, due to rapid and volatile exchange rate fluctuations. SIFCT is the IFCT's counterpart for small-scale industrial undertakings, which includes cottage and handicraft industries. Initially, SIFCT was not allowed to extend credits to enterprises with total assets over 10 million baht. This was handled by the Department of Industrial Promotion in the Ministry of Industry. Recently, SIFCT's status has been raised to that of a juristic entity which can mobilize funds from the public. SIFCT's paid-in capital and scope of operation have also expanded.

Table 1 shows the contrasts and salient features of the various financial institutions in Thailand. While Tables 2 and 3 indicate total assets in absolute and relative terms, respectively, Tables 4 and 5 focus on the household savings captured by different financial institutions. Tables 6 and 7 highlight credits extended and their shares.

FINANCIAL MARKETS

The money market is an arena for short-term dealings utilizing such financial instruments as treasury bills, interbank loans, repurchase agreements, certificates of deposits, and commercial bills, among others. The capital market, on the other hand, involves the trading of stock issues, long-term bonds or debentures, and floating rate notes. The credit market is different from the money and capital markets in that it handles both short- and long-term credits, including direct loans, overdrafts (which may or may not be rolled over), bills discounted, and leasing extended by different financial institutions (see Chapter 9 for more details).

RELATIVE SIZES

Table 8 shows the size of Thailand's financial system relative to the national economy. Broad money supply, or M2, and total assets of financial institutions (TAFI) have been selected to represent the banking sector and the whole financial system, respectively. Two points are immediately evident. First, the banking sector and the whole financial system grew steadily between 1977 and 1986, as M2/GDP rose from 37 percent to 59 percent while TAFI/GDP increased from 64 percent to 99 percent. Six years later, these two ratios grew much faster—

to 79 percent and 139 percent, respectively. GDP's rapid expansion was a primary factor inducing financial institutions to enlarge their assets. And gradual financial liberalization undertaken since the late 1980s also encouraged new activities, resulting in the expansion of assets. Second, the banking sector was able to retain its dominance over other financial institutions, as the M2/TAFI remained constant throughout, at around 58 percent. This indicates that throughout the 1980s and the early 1990s, rapid improvements in the Thai financial scenario occurred not only among commercial banks, but also among other financial institutions.

Table 9 compares the performances of the credit and capital markets. Between 1975 and 1986, the stock market (SET) played an insignificant role. Annual changes of credit outstanding relative to GDP averaged 7 percent, while capital funds tapped from SET to GDP stayed at only 0.3 percent. The main reason for such imbalance was that SET was in its infancy—it was established in 1975—and its regulations were excessively intricate and burdensome. Therefore, SET was not well developed during that period and the general public lacked familiarity with and confidence in capital market activities. The period of 1987 to 1992 saw not only exuberant upturns in the Thai economy, with real GDP growing at the pace of 7 to 13 percent per annum, but also much greater contributions from both credit and capital markets. The credit flows/GDP ratio surged to 21 percent, for example, while the capital tapped from the SET to GDP ratio rose to 2.1 percent in 1992. The more active capital market can be attributed to confidence gained through familiarity, as well as conducive legal amendments.

There are close links between the real and financial sectors, as the following section explains.

REAL SECTOR LINKAGE

Overall, the Thai economy underwent three periods of economic development. The first wave came in the 1960s, when the government emphasized two targets: building necessary economic infrastructure (such as roads, dams, reservoirs) and diversifying agricultural production (which had largely hinged on rice). Efforts during this period were quite successful, as agricultural statistics clearly indicate. In the early 1960s, paddy amounted to 50 percent of all crop production, but this declined to only 35 percent in 1970. All crops constituted 74 percent of agricultural output in the early 1960s, falling to 70 percent in 1970.

The second wave of economic development occurred in the 1970s. During this decade, focus was shifted toward import substitution. The government felt that Thai industries were readily equipped with market, labor, and raw materials. They thus deserved tariff protection. The protective measures granted were quite effective, as reflected in the country's lower import figures. The consumer goods portion of total imports dropped from 19 percent in 1970 to only 10 percent in 1980. Even the capital goods portion sank from 35 percent to 24 percent over the same period. By the end of the 1970s, the government began to feel that a formidable constraint in the import substitution strategy was limited market potential.

Table 8 M2, TAFI, GDP

	1976	1977	1978	1979	1980	1981	1982	1983
M2	43.5	151.1	180.3	205.5	251.8	292.9	363.8	450.5
TAFI	52.4	257.6	331.2	387.2	449.6	526.8	630.1	758.5
GDP	136.1	403.5	488.2	558.9	662.5	760.4	841.6	921.0
M2/GDP (%)	0.3	37.4	36.9	36.8	38.0	38.5	43.2	48.9
TAFI/GDP (%)	0.4	63.8	67.8	69.3	67.9	69.3	74.9	82.4
M2/TAFI (%)	0.8	58.7	54.4	53.1	56.0	55.6	57.7	59.4

M2 = Broad money supply
 TAFI = Total assets of financial institutions
 GDP = Gross domestic product

Source: Bank of Thailand and National Economic and Social Development Board.

Table 9 Credit Extension and Capital Funds Tapped from SET

	1975	1978	1979	1980
Credit flows from 12 financial institutions	21.8	55.8	43.2	39.3
Capital mobilized by quoted companies in SET	0.1	4.0	2.9	0.7
GDP	303.3	488.2	558.9	662.5
Credit flows / GDP (%)	7.2	11.4	7.7	5.9
Capital tapped / GDP (%)	0.0	0.8	0.5	0.1

Source: Bank of Thailand and Securities Exchange of Thailand.

It is thus not surprising that the third wave of economic development, which began in the early 1980s, shifted to export production. Aiming for a higher degree of competitiveness and efficiency, the government dismantled tariff walls one after the other. The Board of Investment's policy also became geared toward export promotion. Attempts in this direction proved highly fruitful. The ratio of exports to GDP grew from 22 percent in the first half of the 1980s to 32 percent in the second half. Macroeconomic policies also became more market-oriented, with flexible exchange rates and fewer constraints on interest rates. It should be noted that the 1980s corresponded to the period when several industrial countries were trying to relocate their industries abroad.

Table 8

(Billions of baht)

1984	1985	1986	1987	1988	1989	1990	1991	1992
537.9	593.5	672.8	808.6	956.1	1,207.1	1,529.1	1,832.4	2,117.7
903.9	1,006.0	1,123.2	1,333.0	1,611.6	2,022.3	2,553.8	3,078.0	3,716.7
988.1	1,056.5	1,133.4	1,299.9	1,559.8	1,857.0	2,191.1	2,505.6	2,804.9
54.4	56.2	59.4	62.2	61.3	65.0	69.8	73.1	75.5
91.5	95.2	99.1	102.5	103.3	108.9	116.6	122.8	132.5
59.5	59.0	59.9	60.7	59.3	59.7	59.9	59.5	57.0

Table 9

(Billions of baht)

1986	1987	1988	1989	1990	1991	1992
33.5	152.4	238.4	370.2	494.5	442.8	569.3
2.2	14.5	10.9	25.3	46.6	55.6	55.3
1,133.4	1,299.9	1,559.8	1,857.0	2,191.1	2,505.6	2,804.9
3.0	11.7	15.3	19.9	22.6	17.7	20.3
0.2	1.1	0.7	1.4	2.1	2.2	2.0

As regards the financial system, the first and second waves of economic development did not generate much pressure on the financial sector. Agricultural diversification was not a capital intensive endeavor and, during the first wave, the government resorted to loans from international organizations for building up infrastructure. Throughout the second wave, because import substitution had limited markets, the scale of production was rather small. During the first and second waves, therefore, the primary task assigned to the domestic financial system was to allocate financial resources. This resulted in the following regulations imposed on commercial banking: 1) Banks were required to annually extend agricultural credits up to a certain portion of their outstanding deposits; and 2) If banks wished to open up new branches, one prerequisite was to hold government securities up to 16 percent of their outstanding deposits. This latter regulation was to give financial support to government efforts. Once new bank branches became operative, they were obligated to extend credits to customers located in the same vicinity as bank branches by at least 60 percent of the deposits tapped. Furthermore, for branches in

small regional districts, one third of the required local credits had to be set aside for agricultural purposes. Although these regulations may be perceived as market interference, they were designed to accommodate the underlying objectives of the government's economic development policies, even at the expense of efficiency.

The third wave of development, or export promotion, had a strong impact on Thailand's financial system, as it targeted the world market. Supporting export industries created a huge demand for funds to cater to related investments, personnel, and machinery. Domestic financial institutions have begun to recognize the need to upgrade their systems with respect to both efficiency and fund mobilization. Otherwise, they could easily lose their market shares to foreign rivals.

On the part of the government, it is widely believed that the final outcome of international trade negotiations (e.g. the Uruguay Round) will be in favor of liberalization in both goods and services. Entries and branching of foreign banks are highly likely. Therefore, if Thai banks do not adjust or make improvements beforehand, they could easily suffer under the increasing force of competition. Government authorities have thus started to relax regulations step-by-step to encourage more competition between domestic commercial banks. It is hoped that a greater degree of competition will strengthen these banks. In short, the trend toward economic globalization practically forces Thailand to liberalize its financial system to be able to compete on equal terms with foreign banks. Consequently, in the third wave of economic development, the Thai financial arena has undergone several structural changes (see details in Chapter 10).

The two fundamental principles underlying financial policy direction during the third wave of economic development are to favor market mechanisms and to build up the country's financial infrastructure. Examples of market-oriented policies are the relaxation of exchange controls, liberalization of interest rate specifications, and a wider scope for financial institutions' businesses. Examples of financial infrastructure are the establishment of the Securities and Exchange Commission (1992), the adoption of the Bank for International Settlements' rule on capital adequacy (1993), the initiation of the Bangkok International Banking Facilities (1993), and most recently, the establishment of the EXIM Bank, more mutual funds companies, and a credit rating agency. Before describing these financial reforms, attention must be given to the basic elements of the financial infrastructure, including its legal requirements, accounting standards, taxation, and government supervision or regulatory agencies.

Chapter 3

Financial Infrastructure

Of the various types of financial institutions now operating in Thailand, commercial banks and finance companies command predominant shares, i.e., 68 percent and 18 percent of all financial institutions' total assets at the end of 1992. This chapter primarily focuses on how these two groups of financial institutions are regulated. Included are some of the cardinal rules that the central authorities have long deemed appropriate to impose on commercial banks and finance companies. Little attention is devoted to the minute details of these rules, such as particular ratios, as they vary according to the prevailing economic and political atmosphere, as well as the inclinations of the executives in charge of economic policies.

COMMERCIAL BANKS

Thailand's commercial banks are governed by the Commercial Banking Acts of 1962 and 1979, which were amended in 1985 and 1992. Under these Acts, the term "commercial banking" is defined as "the business of accepting deposits of money subject to withdrawal on demand or at the end of a specified period, and of employing such money in one or several ways, such as: (1) granting credits; (2) buying and selling bills of exchange or any other negotiable instruments; and (3) buying and selling foreign exchange." In addition, commercial banks may undertake related businesses, such as collecting payments for bills, giving avals to bills, accepting bills, issuing letters of credit, providing guarantees, or any other transactions of a similar nature. A commercial bank can be established only in the form of a limited public company, under a license granted by the Ministry of Finance.

Restricted Shareholding

To divest shareholding in commercial banks to the public, the 1979 Act requires that a commercial bank have at least 250 individual shareholders. Such shareholders must altogether hold shares of not less than 50 percent of the total shares issued, and each shareholder cannot hold more than 0.5 percent of the total shares. Thai nationals must also hold not less than three-fourths of the total shares issued. This Act does not allow any one "person" to hold shares in excess of 5

percent of the total shares issued. Included in the definition of "person" are (1) his or her spouse or offspring; and (2) his or her partner in an ordinary or limited partnership or limited company who holds more than 30 percent of the total shares issued by such a partnership or company.

Adequate Cushion

Each bank is required to keep a minimum "liquidity reserve ratio" of 7 percent of the total deposits as reserves to ensure that there is always enough cash to meet withdrawals. At least 2 percent of this 7 percent must be held at the Bank of Thailand without accruing interest, at most 2.5 percent as cash in hand, and the rest as eligible securities. Furthermore, provisions must be made for possible losses resulting from bad debts.

Commercial banks have to maintain capital funds of not less than 8 percent of risk assets, i.e., credits cannot be extended beyond 12.5 times their capital base. The 1992 amendment lowered this ratio to 7 percent, effective January 1, 1993. Nevertheless, this adjustment was made in consonance with the Bank of International Settlements guidelines, whereby two tiers of capital are recognized and different assets are given different weights, according to their associated risks. It is expected that the BIS standard of 8 percent can be reached from January 1995 onwards.

In addition, commercial banks have to cover their contingent liabilities and foreign exchange exposure with sufficient capital funds. In other words, a bank's capital should amount to at least 20 percent of its total contingent liabilities, while its net foreign exchange liabilities and assets must remain within 20 percent and 25 percent of its capital accounts, respectively.

Risk Diversification

To achieve good financial stability, the 1979 Act demands that commercial banks diversify their customer profiles. Each bank is not allowed to extend credits of more than 25 percent of its capital funds to any individual client. Nor can it offer off-balance-sheet obligations of more than 50 percent of its capital funds to any one customer. Moreover, each bank can neither hold shares/debentures of other incorporated companies amounting to over 20 percent of the bank's capital funds, nor hold more than a 10 percent share in any company's equity. These rules help the banks avoid clustering risks, regardless of the prospects of specific clients.

Branching

One former prerequisite for opening up a bank branch was that the bank hold government bonds worth at least 16 percent of its total outstanding deposits. The intention was to help finance budgetary deficits or bond issuance. As the government's fiscal balance has improved markedly in the late 1980s, however, no government bonds have been issued since 1992, and the 16 percent ratio on branching was lowered gradually from 1990 to 1992, before being abolished in the middle of 1993.

Three additional conditions for establishing new bank branches in suburban districts are still in effect. They are: 1) that credits extended by such branches to community clients must amount to at least 60 percent of their outstanding deposits; 2) that for small districts in particular, one third of the

community credits must be agriculturally related; 3) that if bank branches cannot fulfil community credit targets, they must deposit the residual at the Central Bank, or buy government/state enterprise bonds of up to 4.5 times the residual, or Government Housing Bank bonds amounting to three times the residual.

Compulsory Credits

Although the Central Bank does not explicitly require commercial banks to extend special credits to specific customers under particular terms, it formally requests “collaborative” efforts in two respects. First, effective as of 1975, commercial banks “should” offer credits totalling at least 5 percent of their outstanding deposits to agriculture. This ratio was increased gradually between 1976 and 1986 to 7 percent, 9 percent, 11 percent, and 13 percent, with its 2 percent constituent belonging to agro-businesses. In 1987, these “requested” credits reached 20 percent of outstanding deposits, but their coverage was also broadened to include credits offered to small-scale industrial enterprises.

Furthermore, the more credits that commercial banks extend to the so-called “priority sectors” (agriculture, mining, manufacturing, exports, and wholesale purchases from farmers), the more the privileges awarded in the form of rediscount facilities from the Central Bank, or partial exemption from the minimum capital/risk asset requirement.

Scrutiny of the rationale behind compulsory credit extension reveals that the monetary authorities wish to circulate credits to vital rural economic sectors which tend to be rather weak. If left to commercial bankers, these sectors would be ignored because, from the viewpoint of typical bankers, investment in these weak economic sectors yield little, if any, steady and satisfactory financial returns. The monetary authorities still insist upon their original intention, however, and “development credit” has become a mandate for all commercial banks.

Intra-affiliate Services

Commercial banks may be tempted to offer excessive credits and financial services to the family members of their executives, as well as to their affiliated firms. It is thus not surprising to find the following items in the Commercial Banking Act:

- Section 12(2) prohibits commercial banks from extending credits or obligations to their executives. Section 12 bis expands the coverage of Section 12(2) to cover bank executives' family members and affiliated firms in which bank executives hold more than a 30 percent stake.
- To effect management control, the Commercial Banking Act stipulates that employment as bank director, manager, deputy manager, assistant manager or adviser, be prohibited to the following:
 - a bankrupt person;
 - a person who has been sentenced in final judgment to imprisonment for an offence related to property committed with dishonest intent;

- a person who has been dismissed or discharged from the government or government agencies for fraudulent conduct in the performance of his or her duties;
- a person who was previously employed as the director, manager, deputy manager, or assistant manager of a commercial bank that has had its license revoked;
- a person who has been removed by the Minister of Finance from a position in a commercial bank;
- a political civil servant;
- a government official who controls the operations of commercial banks, or an officer of the Bank of Thailand; and
- a manager, deputy manager, or assistant manager of a partnership of a company in which he himself or the person pursuant to Section 12 bis has held or currently holds shares. This does not apply to directors or advisers of a commercial bank who do not have the power to sign on behalf of the bank.

Three quarters of the directors of each bank must be of Thai nationality.

FINANCE COMPANIES

Finance companies borrow funds from the public through issuing promissory notes or similar financial papers to lend to third parties. Such companies are regulated under the Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business, B.E. 2522 (1979). This Act has been amended twice, in 1983 and in 1985.

Under this Act, "finance business" is defined as procuring funds to use for various types of business operations. These may be categorized as follows:

- Finance for commerce;
- Finance for development;
- Finance for disposition and consumption;
- Finance for housing; and
- Other types of finance business as prescribed in ministerial regulations.

A finance business may be undertaken only by a limited public company, after a license from the Minister of Finance has been obtained. A finance company may also be granted a license for securities business under the same Act. By the end of 1992, the Ministry of Finance had authorized 92 finance companies.

Finance companies are regulated in similar fashion to commercial banks. Crucial elements of these regulations are as follows:

- ***Restricted Shareholding*** A finance company must have at least 100 ordinary persons holding shares of not less than 50 percent of the total shares sold. Each shareholder must not hold shares of more than 0.6 percent of the total shares sold, while shares held by Thai nationals must not be less than three quarters.
- ***Adequate Cushion*** Finance companies have to maintain liquid assets amounting to at least 7 percent of their total borrowings from the public. Liquid assets can be held in the form of balances at the Bank of Thailand (no less than 0.5 percent), government securities and other unobligated bonds and debentures guaranteed by the Thai government (no less than 5.5 percent), and the rest as deposits or call loans at domestic commercial banks. As regards capital adequacy, finance companies are required to satisfy the minimum capital funds to risk assets ratio of 6 percent. Each company's registered and paid-up capital must amount to at least 60 million baht.
- ***Risk Diversification*** Finance companies cannot offer loans of more than 30 percent of their capital funds to any one person. Neither can they invest in securities by more than 60 percent of their capital funds. Avals and guarantees are subject to a similar limit, i.e., those given to any one person must not exceed 25 percent of capital funds and the aggregate of avals plus guarantees should stay within a quadruple of capital funds. Collectively, all financial commitments given to any one person must not exceed 35 percent of capital funds. Finance companies are also prohibited from concentrating their holdings in any one enterprise. The maximum shareholding in a limited company is 10 percent of such company's shares.
- ***Branching*** A finance company may only set up a branch office if it is permitted by the Minister of Finance, who may attach conditions to the authorization.
- ***Controls on Credits and Borrowings*** At times, the Central Bank specifies restrictions on credits and borrowings, for example, on the terms for car hire-purchase financing (minimum downpayment, maximum hire-purchase period), the maximum interest rates on loans, or the minimum amounts of borrowing from the public. The Bank may also prohibit discount payments.
- ***Company Linkage*** A finance company cannot purchase or hold shares in other finance companies except for: 1) those acquired as a result of debt settlement or as a guarantee in respect of a loan granted (Such shares, however, have to be disposed of within six months of their acquisition date.); 2) those acquired as a result of other business activities authorized by the Minister; 3) those permitted by the Minister on the recommendation of the Bank of Thailand.

FINANCIAL INSTITUTIONS DEVELOPMENT FUND

In November 1985, after a series of crises and bankruptcies in the finance companies circle, the Bank of Thailand established the Financial Institutions Development Fund. This Fund has a separate legal entity status with the official objective of "rehabilitating and developing the financial institution system so as to attain stability, especially at times when severe crises occur in the financial institution system." In practical terms, the Fund is meant to either bail out troubled banks or firms, if it is possible, or otherwise provide assistance to their depositors.

Financial institutions (either commercial banks, finance companies, credit foncier companies, or finance and securities companies) have to remit a sum of money to the Fund at the rate prescribed by the Fund Management Committee. The rate may not exceed 0.5 percent of the total deposits, borrowings or funds received by the financial institutions from the public by the end of the financial year preceding the year in which the remittance is to be made. In addition, the Bank of Thailand from time to time will allocate varying amounts from its own reserves to the Fund.

The Fund is empowered to conduct business within the scope of the above-mentioned purposes and has the authority to:

- Hold ownership or possessory rights or any real rights to build, buy, acquire, sell, dispose of, hire, lease, buy on hire-purchase, extend hire-purchase, borrow, lend, accept pledges, accept mortgages, exchange, transfer, accept transfer of or engage in any act concerning properties, within or outside the country, including accepting properties from donors;
- Lend money to financial institutions against reasonable security;
- Guarantee or certify, accept, give aval to or intervene to honor bills;
- Give financial assistance in reasonable amounts to those depositors or financial institution lenders who have sustained losses as a consequence of serious financial crisis;
- Hold deposits with such financial institutions as the Fund Management Committee deems necessary and appropriate;
- Purchase or hold shares in any financial institution;
- Purchase, discount or re-discount debt instruments or accept transfers of claims from any financial institution;
- Borrow money with or without interest, and issue bills and bonds;
- Make investments for the purpose of earning income as permitted by the Fund Management Committee; and
- Undertake all business in connection with or incidental to the attainment of the purposes of the Fund.

The Fund Management Committee has the duty and authority to lay down policies, control, and supervise Fund affairs. It consists of the Governor of the Bank of Thailand (who serves as Chairman), the Permanent-Secretary for Finance (who serves as Deputy Chairman), and no fewer than five, but no more than nine, other committee members appointed by the Minister of Finance.

The Committee appoints an officer of the Bank of Thailand as the Fund's Manager; he/she has the duty of administering Fund affairs in accordance with the purposes and responsibilities stipulated in Fund regulations. The Manager is also the Secretary of the Fund Management Committee.

STOCK EXCHANGE

After the enactment of the Public Company Act and the amendments to the Civil and Commercial Codes in 1973, limited companies were not allowed to make any initial public offerings (IPOs) of their shares. Neither were they allowed to offer debentures to the public. New shares first had to be offered to existing shareholders. These provisions significantly slackened the mobilization of funds in the primary market, and also had an adverse effect on the secondary market.

According to the provisions in the Public Company Act, only public companies can make IPOs of their shares and debentures. In the ten years following the enactment of the Public Company Act, only 33 companies became public companies, due to strict regulations and other weaknesses in the Act. Stipulations in the Act included: 1) severe criminal and civil liabilities for guilty company directors; 2) the requirement that directors must be company shareholders and that they hold their posts on the board for only one year; and 3) the requirement that a company with more than 99 shareholders must be converted into a public company, regardless of whether or not it intended to raise funds from the public.

In 1984, an attempt was made to alleviate these obstacles through using the Securities Exchange of Thailand Act to overrule some of the provisions in both the Public Company Act and the Amendments to the Civil and Commercial Codes. The Securities Exchange of Thailand Act allows companies already listed and authorized in the Securities Exchange of Thailand (SET), or those tentatively approved for inclusion in the SET and awaiting final approval from the Finance Minister, to offer their shares and debentures to the public. The Securities Exchange of Thailand Act was, however, primarily designed to regulate securities trading in the secondary, not the primary, market. Most of the companies listed in SET were limited companies, according to the Civil and Commercial Codes, and hence were not regulated by the Public Company Act. Consequently, there was no effective legal framework to supervise the primary market; in other words, no agency was responsible for its development.

A further weakness in the previous legal system was that securities market participants had to observe too many laws, i.e., the Securities Exchange of Thailand Act, B.E. 2517, governing SET activities; the Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business, B.E. 2522, governing the business of securities companies; the Public Company Act, B.E. 2521, governing the public offering of shares and debentures; and the Civil and Commercial Codes, specifying general provisions regarding such civil and commercial practices in Thailand as the setting up of limited companies. The greater the number of laws, the greater the chances of inconsistency among them, which certainly created a burden on market participants.

Thailand also had various supervisory agencies which oversaw the securities business: the Ministry of Finance, the Securities Exchange of Thailand, the Bank of Thailand, and the Ministry of Commerce. The absence of a single supervisory agency inevitably caused some confusion. The Bank of Thailand, for example, supervised securities companies, but did not supervise SET activities; SET

supervised brokers, but did not have authority to regulate sub-brokers. This created inefficiency in the enforcement of securities regulations.

The Securities and Exchange Act was enacted in March 1992. Its objectives can be categorized as follows:

- To set up a framework for the development of financial instruments that would serve as important funding vehicles for Thai businesses;
- To provide greater investor protection;
- To make the supervisory systems for securities companies and other related institutions more transparent and unified; and
- To facilitate the development of the securities business and SET.

The main features of this Act can be summarized as follows:

- **Public Offering of Securities** Under the provisions of the Securities and Exchange (SEC) Act, an eligible issuer of shares and equity-related securities is restricted to a public limited company. On the other hand, an issuer of debt instruments can be both a public limited company and a limited company. Strong emphasis has also been placed on issuers disclosing reliable information by filing registration statements and draft prospectuses with the Securities and Exchange Commission or SEC. The registration statement's contents are stipulated by SEC and contain specific information about the issuers, for example, their registered capital, nature of business, financial condition, management team, and major shareholders. Under the SEC Act, it is both a criminal and civil offense for anyone involved in the preparation of registration statements and draft prospectuses to mislead the public by making false disclosures.
- **Securities Business** The securities business is now under SEC supervision, while the Bank of Thailand retains the power to supervise finance companies. It is important to note that the 1992 Act allows other types of financial institutions (e.g. commercial banks and finance companies) to take part in the securities business under license by the Minister of Finance and upon SEC's recommendation.

Under the SEC Act, the following are considered to be securities business:

- securities brokerage;
- securities dealing;
- investment advisory services;
- securities underwriting;
- mutual fund management; and
- private fund management.

Each type of securities business will require a different license. The rules and conditions concerning securities brokerage, securities dealing, investment advisory services, and securities underwriting are similar to those previously prescribed in the law relating to the undertaking of the finance, securities, and credit foncier businesses.

- **Securities Exchange** The Stock Exchange of Thailand (SET) was set up in 1974 under the Securities Exchange of Thailand Act of 1974. Amendments were made to the Act in 1984 to better control listed companies and trading activities. In 1992, the 1974 Act was repealed, and most of its provisions were incorporated into the SEC Act. Under the law, SET was set up by statute as a service center for trading listed securities. SET's board of directors comprises 11 persons. Five are appointed by SEC, five are elected by the members, and the president is appointed by the Board. Under the SEC Act, SET operates solely as a trading center for securities, while matters concerning primary issues remain with SEC. In addition, the power to grant listing approval, which was initially entrusted to the Finance Minister, is now vested in SEC.
- **Over-the-counter Center (OTC)** The SEC Act also provides for setting up an OTC to facilitate the trading of unlisted securities. Under the Act, public offering of securities must be processed through SEC, after which issuers can apply to SET to list their securities. If the securities cannot be listed in SET, they can be traded through an OTC. An OTC can be formed if at least 15 securities companies obtain permission from SEC. An OTC will be managed and operated by its own board of directors, which is wholly elected by its members.
- **Unfair Securities Trading Practice** Such practices are criminal offenses, which carry severe penalties under the SEC Act. SEC holds the power of investigation into reported offences. Although the legal framework in this respect is only slightly different from the previous statute, the power of investigation has now been transferred to SEC, as an independent regulator. This is crucial, as the effectiveness of the law largely depends on strict enforcement.
- **Takeover** In this regard, the SEC Act requires that the names of individuals and their associates be disclosed for every five percent holding of securities. Once a holding reaches 25 percent of all securities sold, the person holding such securities may be required to make a tender offer to existing shareholders.

ACCOUNTING STANDARDS

Ordinarily, all business enterprises in Thailand are required by the Institute of Certified Accountants and Auditors to complete and submit financial statements in accordance with the Generally Accepted Accounting Principles, or GAAP. These financial statements are meant to serve as public information; they consist of four components: a balance sheet, a statement of income, changes in financial positions, and notes to financial statements. Most financial institutions have to supply additional information to comply with the disclosure stipulation. Finance and securities companies, for example, must complete several FC forms, which must be submitted to the Bank of Thailand for examination and supervision. Other government-controlled businesses, such as insurance, also have to furnish the responsible agencies with additional information, for example, the Ministry of Commerce in the case of insurance businesses.

VALUE ADDED TAX

The Value Added Tax (VAT) was introduced in Thailand in January 1992 to replace the business tax. Based on the value of the goods or services provided, VAT is collected at each stage of production and distribution.

Entities required to pay VAT include: traders—whether as individuals or juristic entities; providers of services; importers; and others deemed by law as traders. The sale of goods and services must be professional in nature; it should serve in furthering the sellers' business interests; and it must be undertaken in the regular course of business. The one-time sale of a personal item, for example, would not subject the seller to VAT requirements.

Parties exempt from VAT are: 1) businesses subject to specific tax laws (e.g. commercial banks, financial institutions); 2) businesses expressly exempt from VAT liability; 3) businesses with an annual income not exceeding 600,000 baht; and 4) businesses exempt by law, including sellers of farm products, newspapers and magazines.

The VAT obligations for the sale of goods arise at the earliest occurrence of the following events: 1) on delivery; 2) when titles are transferred; 3) when the price has been paid; or 4) when the related tax invoice has been issued. For the sale of services, the obligation occurs when the service provider receives compensation. VAT obligations, however, will also arise upon the issuance of a related tax invoice.

All taxable revenue from the sale of goods and services, defined as the tax base, is calculated as the sum of the sales value plus the excise tax, if any. Calculation of the tax base differs for activities other than the sale of goods and services which are subject to VAT. The tax rate is then applied to the tax base. The standard VAT rate of 7 percent applies to the sale of goods and services. There are, however, many exceptions to this rate. Small-scale traders with an annual gross sales revenue exceeding 600,000 baht but less than 1,200,000 baht may elect to pay 7 percent VAT, instead of paying 1.5 percent tax on the gross receipts. There are no taxes applied to certain business activities, including export of goods or services, international transportation by air or sea, and the sale of goods and services to U.N.-related organizations.

The amount of VAT either payable by, or refundable to, a party is calculated monthly by subtracting the total input VAT from the total output VAT. If the output VAT exceeds the input VAT, the business remits the excess to the tax authorities. If the input VAT exceeds the output VAT, the excess is either refunded or credited to the business.

VAT must be paid by tax-paying entities within the first 15 days of the month following the month of taxation. The VAT law contains detailed provisions for reporting and record-keeping, and these regulations dictate the required type, format, and contents of the taxation report.

Various penalties and surcharges are levied for failure to undergo VAT registration, failure to file, pay, prepare and deliver tax invoices, and failure to report and keep documents. These penalties range from nominal fees to imprisonment. Individuals acting for juristic parties, such as directors and managers, are personally liable for the said penalties if there is proof that the individuals had knowledge of, or involvement in, the offense committed.

Chapter 4

The Commercial Banking System

EVOLUTION

Thailand's commercial banking business began during the reign of King Rama V. The first bank, a branch of a foreign bank, opened in 1888. Its main objective was to facilitate international trade. In the early stages, the Thai banking system was heavily influenced by British banking traditions. Thus, it developed into a branch banking system with a network of branches throughout the country.

Between 1888 and 1941, the banking business was largely confined to trade financing and remittances of funds to China. By the end of this period, Thailand had 12 banks—five local and the remainder overseas affiliates. During World War II, when Thailand was forced to enter into an alliance with Japan, trade with western nations ground to a halt; many foreign bank branches in Thailand closed down, with five new local banks replacing them. From the end of World War II to 1962, foreign banks in Thailand resumed their previous roles, and more locally incorporated banks opened up. Of the 12 locally incorporated banks, seven were Thai and the remainder were foreign bank branches. By the end of 1992, Thailand had 29 commercial banks, 15 locally incorporated and 14 foreign. Thai bank branches totaled 2,566, excluding head offices, while foreign bank branches numbered 15.

The Thai commercial banking system has steadily developed over the past century, particularly during the three decades following the introduction in 1961 of the Economic and Social Development Plan. During the 1960s and early 1970s, banking operations proceeded smoothly and in line with economic expansion. Commercial banks encountered no rivals in the business of finance; and they easily exercised a clear oligopolistic edge.

In the late 1970s, commercial banks in Thailand were heavily shaken by two major factors. First, the emergence of finance companies brought about a greater degree of competition. Second, their distress was worsened by more volatility in the world markets in terms of commodity prices, interest rates, and exchange rates. Consequently, commercial banks in Thailand became more cautious in their operations, management, and expansion.

In 1979, the Central Bank revised the Commercial Banking Act, with the following multiple objectives: 1) to increase share divestiture; 2) to prevent commercial banks from becoming involved in the businesses of their executives or related persons; 3) to limit exposure on contingent liabilities; and 4) to improve the flexibility and effectiveness of bank supervision. In the first half of the 1980s, however, commercial banks were severely hit by a global recession and volatilities of exchange and interest rates. Nevertheless, the revision of the above Act gave more flexibility to the Central Bank to deal with problems more effectively.

At the height of the finance company crisis in 1984, the financial positions of some Thai commercial banks were notably weakened by mismanagement and fraud. This was in addition to the adverse effects of the then prevailing recession. Asia Trust Bank, for example, faced perilous tension due to imprudent management, maturity mismatching, and excessive exchange risks. Its financial position deteriorated to such an extent that foreign creditors, losing confidence, stopped lending to the bank. The authorities felt obliged to step in and offer assistance much as they did in the "April 4 Lifeboat Scheme,"* which helped rehabilitate in 1984 troubled finance and securities companies. A new management team was sent in to replace the old one, organizational and operational systems were revamped, and soft loans or new equity were injected. This in effect nationalized the bank, which was then renamed Sayam Bank. The rescue measures were successful, to a certain degree, in regaining the bank's former financial position. Sayam Bank was finally merged with Krung Thai Bank in 1987, as it was considered unnecessary to have two state-owned banks operating simultaneously.

From 1985 to 1987, critical problems occurred in two other commercial banks. One was caused by excessive speculation in foreign exchange, the other by unscrupulous lending practices. The authorities ordered both banks to upgrade their management systems and operational efficiency. Their capital bases had to be enlarged and strengthened. After writing off losses and injecting new equity, the banks' shareholders were encouraged to take up new shares alongside new investors. Shareholding by the authorities and the granting of soft loans were restricted. In cases where soft loans were necessary, stringent covenants were attached.

The Commercial Banking Act was amended again in 1985, as were the Bank of Thailand Act and the Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business. These amendments aimed at enabling the authorities to deal with troubled financial institutions in a more flexible, effective, and timely fashion. There are, for example, provisions under which the Bank of Thailand can be legally deemed as the damaged party, and where it would be entitled to press criminal charges against fraudulent managers of financial institutions. The accused managers could be prevented from leaving the country and their assets frozen pending trial. The amendment to the Bank of Thailand Act also led to the establishment of the Financial Institutions

* The "April 4 Lifeboat Scheme" was the rescue package that the Thai monetary authorities extended to 25 finance companies and credit foncier companies. Those companies encountered severe financial crises in 1983 to 1984 due to fraud and mismanagement. The authorities stepped in to provide liquidity cushion and restore public confidence in financial institutions. In return, these companies must comply with the conditions specified by the authorities, such as transfer of partial ownership, delegation of public officers to executive positions in troubled firms, and seeking adequate collaterals for intra-affiliate lending.

Development Fund as a separate legal entity to rehabilitate ailing financial institutions and safeguard depositors.

LINES OF BUSINESS

In 1970, Thai commercial banks began to adopt electronic banking systems. They provided deposit and withdrawal services through an on-line system in Bangkok. By 1987, this was extended to all provincial branches. At present, it is possible for commercial banks throughout the country to communicate with one another via the satellite VSAT (Very Small Aperture Terminal) system. SWIFT (Society for Worldwide International Funds Transfers) has been in use since 1985 for the international transfer of funds. Additionally, a central credit center has been set up for exchanges of data between banks; and check clearing was recently computerized. Over a thousand ATMs in one pool now provide nationwide after-hours deposit and withdrawal services. Commercial banks are pursuing more fee-based activities by offering investment advice, private and office banking services, and credit card administration.

In 1992, commercial banks were allowed to undertake the following lines of business:

- Underwriting government and state enterprises' debt instruments;
- Managing, issuing, underwriting, and trading private debt instruments;
- Providing economic, financial, and investment information, as well as financial advisory services; and
- Acting as agents for the sale of mutual funds, as representatives for holders of secured debentures, as supervisors for mutual funds, and as registrars for securities.

At the end of 1992, commercial banking assets stood at 2,555.6 billion baht. Deposits amounted to 2,010.7 billion baht, or 75.2 percent of GDP. Thai commercial banks held a 98 percentage share in deposits while the remainder, 2 percent, belonged to foreign bank branches. Credits totaled 2,183.4 billion baht, or 81.7 percent of GDP, with Thai commercial banks commanding a 95 percentage share and foreign bank branches holding 5 percent.

In 1992, capital funds amounted to 170.2 billion baht and net profits were 31.1 billion baht. Bangkok branch offices numbered 722, whereas 1,860 branches were located in the provinces. Comparing this to 1960 figures—133 in Bangkok and 202 in the provinces—a considerable increase is evident. Over the last three decades, the expansion of provincial branching networks has reduced the proportion of population per branch—from 101,250 to 22,266.

STRUCTURE AND CURRENT ISSUES

From a microeconomic perspective, commercial banks in Thailand are highly concentrated. The three largest Thai banks' combined assets account for half of the entire banking system's assets. These banks' behavior and policies greatly influence the country's general banking atmosphere. Their decisions to adjust

interest rates, for example, used to be followed, to some extent, by medium- and small-sized banks. This was especially true when the interest rate ceilings were in effect. After financial liberalization, however, competition between commercial banks intensified with respect to both prices and services offered. Unfortunately, such competition benefits only large customers, i.e., major depositors and borrowers. Large depositors now have more investment alternatives, such as equities, private debt instruments, and real estate. To attract large deposits, commercial banks thus need to offer high deposit rates on a case-by-case basis. Rates offered to small depositors are now 2 to 3 percent lower than those offered to large savers. On the lending front, large borrowers can borrow from abroad or they can raise funds directly from the local equity market. As a result, lending rates to prime customers, i.e., the minimum lending rate, have been steadily reduced, while those to general customers have hardly changed. This has led to a situation where new borrowers with high credit risks have inadequate access to commercial banks' credits and where commercial banks may exercise oligopolistic power over small borrowers.

Exchange rate liberalization has encouraged commercial banks to rely more on foreign borrowing; this has become a major source of funds, in addition to domestic deposits. Consequently, the net foreign liabilities of the commercial banking system have steadily increased, from 11.4 billion baht in 1989 to 94.4 billion baht in 1992. This trend may jeopardize the central authorities' attempts to encourage domestic savings mobilization. Nevertheless, as will be demonstrated in Chapter 11, past records indicate that thus far the Thai financial system has been able to capture a growing portion of gross national savings. At the same time, the financial system—of which the commercial banks form the backbone—has financed a larger part of gross domestic investment. It can therefore be concluded that the Thai commercial banking sector has substantially contributed to the “financialization” process along the savings-investment growth path. The only remaining question involves the stability of commercial banks.

As described above, the central authorities have long been highly concerned about the stability of the country's commercial banks. These banks constitute the cornerstone of the Thai financial system; it is thus not surprising that when banks face financial problems, the authorities are ready to extend assistance. This assures the overall stability of commercial banks. But analysts may wonder whether they would remain stable if relying entirely on their own resources.

In this context, the loan-loss reserves and the capital funds maintained by commercial banks as a buffer against risks must be investigated. Table 10 shows that in the early 1980s commercial banks held loan-loss reserves amounting to 3.6 percent of their capital, while their capital to risk assets ratio stood at 9 percent. When the growth momentum of the Thai economy accelerated in the late 1980s and the early 1990s, commercial banks were adequately prudent, as witnessed in the rise of their loan-loss reserves/capital ratio to 6.4 percent between 1986-1989 and 7.9 percent between 1990-1992. In these two periods, their capital/risk asset ratios grew to 9.8 percent and 9.2 percent, respectively. These figures indicate that Thailand's commercial banking system is endogenously stable to a satisfactory degree.

Table 10 Indicators of Commercial Banks' Stability

Year	Loan-loss Reserves (million baht)	Loan-loss Reserves as % of Capital	Capital to Risk Asset Ratio (%)
1981	959.9	4.5	10.2
1982	782.4	3.2	9.9
1983	1,300.2	4.6	8.6
1984	993.9	2.8	9.1
1985	1,195.3	2.8	7.4
1986	1,568.8	3.6	10.0
1987	3,773.4	6.6	10.3
1988	5,161.6	7.6	9.8
1989	6,390.2	7.7	9.0
1990	10,654.8	9.6	9.9
1991	7,672.2	5.4	9.1
1992	14,801.0	8.7	8.7

Source: Bank of Thailand.

Another characteristic which indicates a greater degree of commercial bank stability is their decline in overdrafts in proportion to all outstanding credits. From the commercial banks' viewpoint, overdrafts are normally harder to manage than term loans, due to the pending uncertainty on credit drawdown. From the Central Bank's viewpoint, term loans are more controllable with respect to credit targets. It is thus not surprising that in 1988, while the economy was booming with widespread inflationary pressure, the Bank of Thailand restricted the extent of overdrafts to 50 million baht per customer. The limit later was reduced in 1989 to 30 million baht. Another reason why the popularity of overdrafts dwindled was the impact of financial liberalization in Thailand. When borrowers were allowed more credit channels (e.g. issuing securities in the stock market, Bangkok International Banking Facilities, and fewer exchange controls), they cared less about overdrafts.

Table 11 confirms the declining importance of overdrafts. When all credits of commercial banks were decomposed into bills, loans overdrafts, and investments, the percentage share of overdrafts in the past decade continually fell—from 43 percent in 1980 to 22 percent in 1993.

Table 11 Percentage Shares of Commercial Bank Credits

Year	Bills	Loans	Overdrafts	Investments
1980	24.8	19.2	43.0	13.0
1981	24.8	18.4	42.2	14.6
1982	23.1	18.6	39.0	19.3
1983	25.6	20.6	41.7	12.7
1984	24.4	22.3	37.9	15.4
1985	23.8	24.8	37.3	14.1
1986	23.8	26.2	32.5	17.5
1987	26.3	29.7	28.1	15.9
1988	25.2	33.6	27.0	14.2
1989	25.0	37.9	25.6	11.5
1990	24.4	40.8	26.1	8.7
1991	23.6	44.1	24.7	7.6
1992	23.6	45.8	24.2	6.4
1993	22.5	49.6	22.2	5.7

Source: Bank of Thailand.

Chapter 5

Non-Bank Savings Institutions

Although there are several types of non-bank savings institutions in Thailand, including finance companies, credit foncier companies, life insurance companies, agricultural cooperatives, and savings cooperatives, finance companies outrank all other rivals in most respects. At the end of 1992, for instance, finance companies commanded an 18 percentage share in all financial institutions' assets, second only to commercial banks (68 percent). Four other types of non-bank savings institutions together controlled less than a 4.5 percentage share of the total assets of all financial institutions. Therefore, primary attention will hereafter be focused on finance companies, including their evolution, performance, and development.

FINANCE COMPANIES*

Origin and Rules

The emergence of finance companies in the late 1960s occurred at a time when the banking industry needed competition. Initially, finance companies were allowed to operate without restriction, and they had neither specific licenses nor supervision. Before 1969, in fact, private limited companies were able to mobilize funds from the public without prior permission from the Ministry of Finance. On January 26, 1972, Revolutionary Council Announcement No. 58 was issued to regulate business undertakings, including finance and securities businesses which affected the financial well-being of the public. On September 19, 1972, the Ministry of Finance, authorized by Section 14 of the Announcement, delegated the Bank of Thailand as the regulatory authority over finance and securities transactions. These transactions included: acceptance or purchase of bills; mobilization of funds for on-lending or discounting bills and other negotiable instruments; trading of debt instruments and securities (such as stocks, bonds, debentures and commercial

* For further details and a comprehensive analysis on this topic, see Prasarn Trairatvorakul and Prakid Punyashthiti, "Some Structural Changes and Performances of Finance and Securities Companies in Thailand During 1981-1990," *Pacific-Basin Capital Markets Research*, Volume III, edited by S.G. Rhee and R.P. Chang, North-Holland, 1992, pp.487-505.

papers); and brokerage, management, and advisory services relating to the trading of debt instruments and securities.

Finance companies are not allowed to accept deposits in the same form as commercial banks. Rather, these companies borrow funds from the public through issuing promissory notes or similar instruments. Ordinarily, finance companies tap funds from middle-income savers, because promissory notes must be worth at least 10,000 baht in the Bangkok Metropolis and adjacent provinces, and at least 5,000 baht in other provinces. Typical promissory notes carry higher interest rates than bank deposits; their maturity dates rarely exceed one year. Another important source of funds is borrowing from other financial institutions. Finance companies are, however, prohibited from foreign exchange trading activities.

Finance companies use their funds in the following ways: through various types of lending, such as acting as acceptors and givers of avals; through extending medium- and long-term credits to industrial, agricultural or commercial undertakings; and through providing hire purchase or installment plan services and housing credits. It is worth noting that the discounting of postdated cheques and the issuing of bills of exchange have traditionally been the main short-term activities of finance companies, while consumer financing and hire purchase serve as medium-term lending channels. A wide variety of goods are eligible for loans under hire purchase agreements, ranging from automobiles and motorcycles to computers and electrical appliances. Under this type of loan, the down payment must be at least 25 percent of the merchandise value and the repayment period must not exceed 48 months.

Consolidation Period

Prior to 1979, finance and securities companies grew rapidly, but the quality of their performance was questionable. One major finance company, for example, faced liquidity shortages due to mismanagement, widespread speculation, and manipulation of stock prices. This company's problems were further compounded by the economic environment at that time, which was characterized by tight money markets and high interest rates. Fearing repercussions on the overall financial system, the Ministry of Finance and the Bank of Thailand took control of the company. After an unsuccessful rescue attempt, hindered by a major owner's uncooperative attitude, the finance company was closed in August 1979. Although the authorities dealt with the crisis by intervening in the securities market to assure a certain degree of market stability, and by implementing measures to assist finance companies in their liquidity management, many companies surviving the crisis still suffered from its aftermath. These companies included those which had invested in that major finance company's stocks, those which had made loans to the company, and those whose borrowers incurred securities losses during the crisis.

Between 1981 and 1983, the economy was also weakened by major changes in the world economy: the slackening global demand, the increase in foreign interest rates relative to domestic rates, and the larger extent of exchange rate volatility. Trying to capture bigger market shares, a number of finance companies did not exercise sufficient care when extending credits. Fraud and mismanagement were rampant in many finance companies. These factors led to a second crisis in 1983.

The magnitude and severity of the second crisis were much greater than that of the first, leading to revocations of licenses and mergers, as well as acquisitions of companies. From Table 12, it can be seen that, before the second

crisis in 1982, there were 127 companies in the finance and securities industry. This number declined to 105 in 1987, due to the above-mentioned license revocations, despite rescue measures adopted between 1983 and 1987.

Moreover, amendments to the Act on the Undertakings of Finance Business, Securities Business and Credit Foncier Business, B.E. 2522 (1979) were made under Royal Decree in 1983 and 1985. The Ministry of Finance and the Bank of Thailand also jointly set up in 1984 the "April 4 Lifeboat Scheme" to rehabilitate 25 finance and securities companies which were encountering severe financial difficulties. Since then, ailing finance companies have markedly improved.

Table 12 The Revocations of Licenses, Mergers and Acquisitions of Finance and Securities Companies

Year	Number of Companies		
	Finance Companies/Finance and Securities Companies	Securities Companies	Total
1982	112	15	127
1983	109 ^{1/}	15	124
1984	104 ^{2/}	15	119
1985	100 ^{3/}	15	115
1986	98 ^{4/}	11 ^{6/}	109
1987	94 ^{5/}	11	105
1988	94	11	105
1989	94	11	105
1990	94	11	105

Notes: 1/ 3 revocations of licenses

2/ 5 revocations of licenses

3/ 4 revocations of licenses

4/ 1 finance company and 1 finance and securities company merged to form a new finance and securities company; 1 revocation of license

5/ 2 finance companies, 3 finance and securities companies and 1 credit foncier company merged to form a new finance and securities company; 1 finance company and 2 credit foncier companies merged to form a new finance and securities company

6/ 4 revocations of licenses

Source: Bank of Thailand.

Pluralistic Character

Although many small and weak companies' licenses were revoked and a number of small companies were merged, the character of the finance and securities industry remained pluralistic. Market participants consisted of various companies at quite different stages of development. The current level of market concentration is one indicator of this pluralistic character.

Table 13 clearly indicates an increase in the market concentration. In 1986, for example, the top five companies' assets accounted for 24.9 percent of the whole industry's assets. By 1990, the figure reached 28.9 percent. Nevertheless, the concentration in Thailand's finance and securities industry was still less than that of the commercial banking circuit. In 1990, the top three commercial banks' assets amounted to 56.3 percent of those of the whole industry.

Table 13 Market Share of the Top Five Companies in the Finance and Securities Industry in Total Assets

(Amount in millions of baht)		
Year	Amount	% of Industry's Total Assets
1986	35,362	24.9
1987	45,041	28.2
1988	51,526	26.3
1989	75,747	26.9
1990	105,773	28.9

Source: Bank of Thailand.

Soundness

After the two above-mentioned crises occurred, Thailand's finance and securities companies steadily improved; and they were able to satisfactorily sustain their bufferstocks. This is evident from the data on capitalization and capital/risk assets ratios (see Tables 14 and 15). The industry's capital/risk ratio has also exceeded the six percent legal requirement. A further assurance of finance companies' soundness is their ability to maintain the required level of reserves for doubtful debts (see Table 16). Throughout the second half of the 1980s, these reserves remained firm and steady. In April 1991, for example, only 16 of 105 such companies failed to meet these reserve requirements, a clear improvement over the industry's past performance. And 10 of these 16 companies were in the Lifeboat Scheme. The rates of return, e.g. return on assets and return on equity, achieved by finance and securities firms since 1986, also certify that their performance notably improved (see Table 17).

Table 14 Capital Increase of the Finance and Securities Industry and That of Listed Finance and Securities Companies

(Amount in millions of baht)

	1986	1987	1988	1989	1990
Capital increase of the industry					
- Finance companies / finance and securities companies	1,472	1,126	3,496	1,726	3,756
- Securities companies	(4) ^{1/}	15	260	30	553
- Total	1,468	1,141	3,756	1,756	4,309
Capital increase of listed companies (in the Stock Exchange of Thailand) in the finance and securities industry	277	275	966.5	986.5	1,135
As a percentage of the industry's total capital increase	18.9	24.1	25.7	56.2	26.3
Number of listed companies in the finance and securities industry	12	15	20	22	25

Note: ^{1/} In 1986, the number of securities companies decreased from 15 to 11 companies.

Source: Bank of Thailand.

Table 15 The Finance and Securities Industry's Capital to Risk Assets Ratio

(Percent)

Year	Capital to Risk Assets Ratio	Growth Rate	
		Capital	Risk Assets
1986	9.52	11.19	4.48
1987	8.63	5.04	15.96
1988	9.51	43.07	29.72
1989	7.63	22.02	52.11
1990	9.43	66.14 ^{1/}	34.48

Notes: The legal requirement for the capital to risk assets ratio is 6 percent.

^{1/} The reason behind the high capital growth rate in 1990 was a high capital injection (over 800 million baht) by a new investor group which took over Dynamic Eastern Finance Thailand Co., Ltd., a firm in the Lifeboat Scheme.

Source: Bank of Thailand.

Table 16 The Finance and Securities Industry's Required Reserves to Cover Doubtful Debts

(Amount in millions of baht)

	1986	1987	1988	1989	1990
Finance Companies, Finance and Securities Companies	2.60	3.21	2.87	2.34	2.66

Source: Bank of Thailand.

Table 17 The Performance of Companies in the Finance and Securities Industry

(Amount in millions of baht)

Year	Finance Companies and Finance & Securities Companies								
	Including companies in the Lifeboat Scheme			Excluding companies in the Lifeboat Scheme			Securities companies		
	Net profit	ROA*	ROE**	Net profit	ROA	ROE	Net profit	ROA	ROE
1986	(571)	(0.43)	(5.96)	15	0.18	2.17	26	1.55	3.65
1987	34	0.02	0.32	860	0.70	8.08	275	10.77	27.89
1988	1089	0.58	7.13	1861	1.15	11.39	173	7.31	12.55
1989	3024	1.12	14.63	4010	1.62	17.56	582	9.89	28.57
1990	4500	1.24	14.38	6350	1.88	18.89	579	11.74	26.57

* ROA - Return on Assets

** ROE - Return on Equity

Source: Bank of Thailand.

CREDIT FONCIER COMPANIES

The credit foncier business, or mortgage lending, has operated in Thailand for many decades under the regulations stated in Article 104 of the Civil and Commercial Codes of January 1924. The name "credit foncier" first appeared when Article 104 was replaced in 1928 by the Act on Controlling Trading Activities Which Affect the Welfare of the General Public. In 1942, the Ministry of Finance officially specified the definition of and the allowable terms for the credit foncier business. Later, the business was subject to Announcement No. 58 of the Revolutionary Council, dated January 1972. Under the Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business, 1979 (amended in 1983, 1985, and 1992), credit foncier companies are examined, supervised, and controlled by the Bank of Thailand.

In the first half of the 1980s, when several finance and securities companies faced financial crises, a number of credit foncier companies also experienced severe difficulties. The problems they encountered were similar, but the effect on credit foncier companies worsened because of their difficulties in liquidating abundant immovable properties. This gave rise to a persistent inadequacy of liquidity, plus a burden of accumulated losses. Thus the licenses of eight credit foncier companies were revoked, while six others joined the Lifeboat Scheme of April 4, 1984.

In the future, credit foncier businesses are likely to experience stronger competition from both commercial banks and finance companies in the mortgage sector, one primary reason being that mortgage loans carry low risks or weights according to the newly adopted BIS rule on capital adequacy. Another reason is that commercial banks have more experience and expertise in liquidity management than credit foncier companies. If the government wishes to keep current credit foncier companies alive, they should be allowed to tap more short-term funds and issue mortgage-backed securities to achieve greater efficiency in asset management.

LIFE INSURANCE COMPANIES

It is not entirely clear just when the life insurance business was first undertaken in Thailand, but the record shows that King Rama V authorized the East Asiatic Company from the U.K. to act as a representative of the Equitable Insurance firm to offer life insurance services. During the reign of King Rama VI, insurance matters were referred to in the Civil and Commercial Codes of January 1924. Life insurance first became regulated in 1929 by the Act on Controlling Trading Businesses Which Affect the Safety of the Public. In the initial period (1930 to 1938), Thailand had five operating life insurance companies, all belonging to foreign corporations. After the second world war, these companies had to close down. The first Thai life insurance company emerged in 1942. Later, many more were set up, almost all owned by Thai entities. At present the country has eleven Thai and one foreign life insurance companies.

Most life insurance companies in Thailand largely depend on policy reserves and capital funds. In 1992, for instance, life insurance policy reserves and capital funds accounted for 75 percent and 18.7 percent respectively of total liabilities. Nevertheless, these policy reserves remained small relative to the total amount of private savings placed at financial institutions in Thailand. The ratio of the former to the latter fluctuated between 2.09 percent (in 1977) and 2.77 percent (in 1971). As for 1992, the ratio remained at 2.47 percent, demonstrating the very minor role life insurance companies played in tapping savings.

Regarding the use of funds, investments in government and private securities attract strong attention from life insurance companies. They also extend credits to customers with collateral or guarantees. These two channels of fund allocations absorbed, in 1992, 42 percent and 29.5 percent, respectively, of life insurance companies' total assets. Credits released to the private sector (including those via securities) by life insurance companies, however, represent a small portion of the total private credits extended by all financial institutions, i.e., 1.4 percent in 1992. This indicates the limited role life insurance companies have in credit extension.

All life insurance companies now operate under the Life Insurance Act, B.E. 2535 (1992). They are regulated and supervised by the Ministry of Commerce.

The Act requires that each life insurance company make a security deposit, maintain minimum capital funds of 20 million baht, and deposit a minimum portion of insurance reserves with the official insurance registrar. The Act also empowers the Ministry of Commerce to specify which forms of investment life insurance companies may make. Changes in insurance premium rates must be approved by the Ministry of Commerce.

From the above statistics, it could be concluded that life insurance companies in Thailand have remained continually lethargic. One should be aware, however, that the growth prospects for the life insurance business depend on several important factors: average income level, population growth, and value judgement. In Thailand, the immediate problem facing life insurance companies is the lack of capable personnel in actuarial science. The majority of potential clients are still farmers with low income who feel that buying life insurance is neither affordable nor worthwhile. Worse yet, very few have a correct understanding of the objectives of life insurance policies. A further drawback is that the current regulations imposed on Thailand's life insurance enterprises are both stringent and out-dated. In other words, life insurance companies lack the flexibility to successfully compete with other financial institutions. It is not surprising then, that in Thailand only 5 percent of the population holds life insurance policies, whereas the proportion reaches 90 percent in such industrial countries as Japan and the United States.

AGRICULTURAL COOPERATIVES

Despite their large number, agricultural cooperatives have been beset by numerous constraints and problems. First, individual cooperatives are very small and there is little collaboration between them. It is thus impossible for them to derive economy-of-scale benefits. Second, agricultural cooperatives have to rely on the Bank for Agriculture and Agricultural Cooperatives (BAAC) as a primary source of funds. This is because most cooperative members belong to the agricultural sector where income and savings are too low to serve as reliable sources of funds. Agricultural cooperatives thus largely operate under BAAC policy. Third, most agricultural cooperatives' staff lack ability in analyzing both credit worthiness and the feasibility of business undertakings. They therefore contribute very little to the growth of their organizations. Finally, the status of agricultural cooperatives essentially fluctuates in consonance with how agricultural output fares in the economy. In the recent past (1990 to 1992), the Thai agricultural sector has suffered a protracted downturn. Consequently, the bad debts of farmers grew at such a pace that BAAC, as well as the central authorities, had no alternative but to step in and provide assistance.

At present, all cooperatives operate under the Cooperative Act of 1968. The Department of Cooperatives Promotion and the Department of Cooperative Auditing, both of which are under the Ministry of Agriculture and Cooperatives, are empowered to regulate cooperatives. They are also in charge of their organization, registration, liquidation, supervision, and auditing.

SAVINGS COOPERATIVES

In principle, savings cooperatives should find it easier than other financial institutions to tap savings from members of the community. Not only should they

have close contact with members, but members should also hold joint ownership and directly share in benefits accrued. In practice, however, savings cooperatives fail to prosper, mainly because they lack managers capable of prudently handling both credit extension and long-term planning. This defect is becoming increasingly painful in the current financial markets, which are becoming more and more liberalized and which afford stronger competition. Examples of unsuccessful savings cooperatives are those among schoolteachers, which are often fraught with frauds. Another hindering factor may be regulating agencies. Savings cooperatives are at present subject to the same regulating agencies as agricultural cooperatives. If these controlling units would provide some financial support to savings cooperatives, give more attention to updating technology and management techniques, and encourage worthwhile business opportunities, then savings cooperatives would in all probability upgrade themselves. This would enable them to begin to catch up with competing financial institutions.

Chapter 6

Government Finance Institutions

Government or state financial institutions in Thailand comprise the Government Savings Bank, the Bank for Agriculture and Agricultural Cooperatives, the Government Housing Bank, and the Industrial Finance Corporation of Thailand. The following sections examine the evolution of these organizations, including their experiences, problems as well as prospects and potential.

GOVERNMENT SAVINGS BANK (GSB)

Since its establishment in 1946, the primary goal of the Government Savings Bank (GSB) has been to encourage the general public to save. The Bank therefore offers various savings schemes, ranging from ordinary deposits to premium bonds and savings certificates for such purposes as housing, education, and raising families. Normally, GSB allocates most of its tapped funds to government, government agencies, and state enterprises by way of notes and bonds. Occasionally, it extends short-term credits to private traders and welfare lending facilities to civil servants.

Most GSB funds (87 percent) come from deposits. Unfortunately, the Bank has experienced in the past two decades a decline in the share of savings captured by all financial institutions, i.e., 17.3 percent in 1971, 9.5 percent in 1981, and falling to only 6.1 percent in 1992. On the asset side, recent trends favor the private sector. Since 1988, the government has persistently achieved a surplus cash balance, thus leaving GSB with no financing burdens. Consequently, the Bank has been able to allot more credits to private customers.

In examining GSB's internal structure and operations, both pluses and minuses can be clearly detected. On the negative side, GSB is currently subject to many constraints, as stipulated in the Government Savings Bank Act, B.E. 2489 (1946). Management decisions, for example, have to go through a lengthy bureaucratic process which engenders costly delays. Modern technology or instruments, such as ATMs, are absent. Worse still, GSB is short of capable personnel with the expertise to effectively handle flows of funds, especially credit extension. Additionally, while the scope of other financial institutions' operations is remarkably broadened due to waves of financial liberalization, such opportunity is virtually absent for GSB because of legal hindrances and complicated difficulties

involved in the amendment procedure. These drawbacks help explain the Bank's low and still declining market share in the country's total deposits at all financial institutions. Simultaneously, the average cost for GSB funding remains high.

On the positive side, however, the Bank commands some edge over commercial banks. GSB's most outstanding advantages are linked to its long history and its widespread dispersal of its branches. First, GSB has had extensive experience in savings mobilization; and, for many generations, saving money has long been associated with GSB. Schoolchildren are often induced, or even indoctrinated, into having close contacts with GSB. Second, it is easy for customers to find a GSB branch. The Bank has a large number of branches or agencies throughout the country. In 1992, for example, GSB operated 525 branches, while the two largest commercial banks (Bangkok Bank and Krung Thai Bank) had only 386 and 401 branches, respectively. Moreover, GSB branches are not concentrated in any one region or city, as are some commercial banks (see Table 18), because GSB does not give as high a priority as commercial banks to credit extension or business opportunities. GSB's prospects for promoting domestic savings remain promising. Should GSB have access to better technology, improved management know-how, and more capable staff, chances are that commercial banks as well as capital markets will be toughly challenged.

GSB can further develop its deposit-capturing techniques by penetrating informal lending circuits or "pia-share." Given its widespread network, this can be done by offering credit lines to clients not having either collateral or guarantees but who have placed deposits at GSB branches on a continual basis for a long period of time. The likelihood of success in tapping deposits through such a scheme is high, because commercial banks rarely equip clients who do not have collateral or guarantees with credit lines and because low-ranking clients view credit lines as highly valuable. Therefore, the resulting credit risk that GSB has to bear is unlikely to be excessive, because low-ranking debtors will try their best to satisfy debt obligations and preserve their credit worthiness. Otherwise, no other financial institutions will assist them if financial pressures do arise. Another reason for controllable credit risk in this scheme is that GSB's credits are to be extended to pia-share groups, not any individual participant. Whenever any particular fund-user is unable to repay the debt obligations, chances are that other members of the same group will be willing to repay on his behalf in order to retain the group's credit standing. Additionally, GSB can closely monitor the status of its debtors, as it keeps "close touch" with its customers.

Viewed from another angle, tapping deposits via credits is likely to be successful, because savers normally prefer some liquidity attached to their savings. This preference can be immediately verified by the popularity of securities trading in the Stock Exchange of Thailand. Inducing deposits through providing credits will help create positive attitudes toward banks among the low- and middle-income population. They will begin to feel that the financial community is not meant to serve only wealthy people. Should they steadily deposit their savings at GSB, their credit worthiness will be elevated and their credit lines will become accessible. The extent of credit lines should be adjusted according to how much has been deposited, how steadily deposits have been made, and how long depositors have participated in the savings program. The question may be asked as to whether tempting depositors with credits will benefit the country by reducing the savings gap, since offering credits will encourage spending. Indeed benefits will be accrued, because GSB's widespread branching network will enable it to coordinate the flow of funds from different branches or stations and arrange volume as well as terms of credit lines in

a way that will bring neither liquidity shortage to GSB, nor excessive net spending to the country as a whole. In other words, having numerous branches will make it possible for GSB to stagger streams of spending so that it is not overly concentrated at any particular period of time. The program of tapping deposits via credits may seem expensive, but since GSB is currently equipped with excess liquidity, the program will be not only feasible but also worthwhile.

From a broader perspective, attracting deposits by providing credits will help strengthen competition in Thailand's solidly protected money market. This deposits-by-credits scheme will funnel funds and potential borrowers from commercial banks. Commercial banks will therefore be more prone to adjust their interest rates and credit volume.

Table 18 Bank Branches in Thailand in 1992

	GSB	Bangkok Bank	Krung Thai Bank	Other Commercial Banks
Number of branches	525	386	401	1,794
Percentage share of number of branches in each region				
Bangkok	8.5	12.4	8.4	70.7
Central	16.2	11.2	12.8	59.8
North	21.7	13.1	15.5	49.7
Northeast	24.7	13.1	15.1	47.1
South	20.4	13.3	16.0	50.3
Whole country	16.9	12.4	12.9	57.8

Source: Bank of Thailand.

BANK FOR AGRICULTURE AND AGRICULTURAL COOPERATIVES (BAAC)

Established in 1966 to assume the role and responsibilities of the Bank for Cooperatives, the Bank for Agriculture and Agricultural Cooperatives (BAAC) provides farmers and cooperatives with concessional credits. Since 1977, BAAC has cooperated with both the government and private corporations to supply credits, technology, and personnel to participating farmers and cooperatives under a number of agricultural development projects. These include: the Rice Production Promotion Project, the Para-Rubber Production Promotion Project, and the Agricultural Development Project in Land Reform Areas. The agricultural sector involves the production of primary agricultural products, not processed ones. Under current regulations, BAAC is not allowed to extend direct credits to sectors outside primary agriculture. Presently, the Ministry of Finance owns 99 percent of BAAC shares. The remaining ones belong to agricultural cooperatives, farmers groups, and individuals.

BAAC's funding heavily depends on deposits from the public and commercial banks (in accordance with the rule on compulsory rural credit extension); these deposits total approximately 58 percent of all liabilities. Other

domestic borrowings amount to 14 percent. BAAC credits granted to agriculture absorb 81 percent of total assets. Such concessional lending is managed through an extensive network of 266 branches. Most BAAC loans are short- and medium-term. Very few have maturities over three years.

If BAAC deposits and credits are compared to those of all financial institutions in Thailand, it is readily noticeable that BAAC was not energetic in tapping deposits and its role in credit extension may seem ambiguous. This is because BAAC's deposit share was always less than 1 percent, whereas its credit share fluctuated broadly between 2 percent and 4.9 percent. Such variation must be largely attributed to price volatility and the market conditions of agricultural products.

Some of BAAC's problems are similar to those of GSB, e.g. lack of qualified staff, lack of managerial skills, and subjection to stringent ceilings on interest rates, which lead to high operating costs and unsatisfactory financial performances. BAAC's liquidity problem, however, contrasts sharply with that of GSB. While GSB has been flooded with growing liquidity since 1988, BAAC has been continually set back by an inadequacy of fund inflows. Resolving this situation would undoubtedly involve reconstruction of the Bank's fundamental structure and management policies, especially those concerning manpower and interest rate specification. But doing so is inevitably time-consuming and burdensome. Cooperation between GSB and BAAC, for example in GSB purchasing BAAC securities, may temporarily facilitate positive development, while each party pursues major reconstruction of its own organization.

GOVERNMENT HOUSING BANK (GHB)

The Government Housing Bank (GHB) was established in 1953 under the Government Housing Act, B.E. 2496 (1953). It is wholly owned by the government and is under the control and supervision of the Ministry of Finance. GHB's basic function is to offer mortgage loans to moderate income earners. GHB at one time supplied land and houses to medium-income groups under a long-term installment scheme. Such operations, however, were transferred in 1972 to the newly established National Housing Authority. Since then, GHB has been delegated the responsibility to give only financial services to low- and middle-income people for housing and real estate purposes.

Deposits are a major source of funds—68.7 percent of GHB's total liabilities—while 21.2 percent of funds come from local and foreign creditors. Most GHB funds (94 percent of total assets) are allocated to housing.

GHB faces two major problems. First, because it has very few branches, GHB is often troubled by an insufficiency of fund inflows. It thus resorts to borrowing from foreign sources from time to time. Second, the Bank's present regulations entail some rigidities which curtail effective funds management (e.g. all fund usage must be housing-related); this partly restricts GHB's competitive edge. In this respect, GHB is facing stiffer competition from commercial banks, due to the newly adopted Bank for International Settlements (BIS) rule on capital adequacy, which assigns a low risk to housing credit.

GHB has, nevertheless, improved or upgraded its operations to some extent, e.g. by offering loans for real estate, by hiring outsiders to appraise clients' collaterals for the sake of expedition, and by adopting flexible interest rates in order to compete more with other financial institutions. Owing to these efforts, GHB

credits have grown to some degree relative to credits granted by all of the country's financial institutions, i.e., 1.4 percent in 1987 and 1.8 percent in 1992.

INDUSTRIAL FINANCE CORPORATION OF THAILAND (IFCT)

Classified as a private limited company whose main purpose is to promote domestic industries, IFCT comprises six groups of shareholders: commercial banks, finance companies, life insurance companies, private corporations, ordinary persons, and the Ministry of Finance. IFCT's operations fall into three categories:

- ***Development of Industries*** Examples of these projects include export industries, energy saving programs, industries using domestic raw materials, rural-based industries, and industries depending on heavy labor input. IFCT supplies this type of customer with credits, financial advice, merchant banking facilities, and investment data.
- ***Capital Market Development*** This is effected through three units attached to IFCT: the Mutual Fund Company, the Para Pattana Finance and Securities Company, and the Capital Market Research Institute. The Mutual Fund Company specializes in the issuance and trading of unit trusts, which represent one channel of IFCT's fund mobilization. The Para Pattana Finance and Securities Company focuses on securities businesses as well as tapping short-term funds, while the Capital Market Research Institute studies various facets of capital markets and offers information to investors.
- ***Operations Concerning Affiliated Firms*** These stem from the companies in which IFCT holds equity and for which it bears partial responsibility in laying down management policies.

Legal constraints have caused IFCT to devote much of its efforts to capital market development. IFCT itself cannot tap funds directly from savers, like commercial banks or finance companies. It therefore has to borrow funds from capital and money markets through other means. In other words, IFCT practically functions as a private development bank.

Before 1985, IFCT was heavily dependent on foreign debts as an important source of funds. External debts amounted to 64.4 percent of total liabilities in 1984. After the devaluation of the Thai baht and the adoption of a flexible exchange rate regime in Thailand in November 1984 (see Chapter 8 for more details), IFCT was critically beset by colossal exchange losses, and its debt obligations fluctuated to a frightening degree due to exchange rate volatility in the world markets. IFCT therefore turned to tapping funds from domestic markets by issuing bonds and debentures. This is clearly reflected in the changing composition of its total liabilities. Baht bonds and debentures grew from 2 percent in 1984 to 36 percent in 1992, whereas the portion due abroad fell to 23 percent.

Regarding the use of funds, 63 percent of IFCT's total assets are loans given to private industries, while 17.5 percent are held as bank deposits and short-term notes. IFCT's lending to private enterprises constituted 1.2 percent of credits released by all financial institutions to the private sector in 1992.

Chapter 7

Non-Intermediary Financial Firms

SECURITIES COMPANIES

P rivate entrepreneurs became interested in undertaking securities businesses from 1959 to 1961. Led by foreign partners, several companies were set up to promote securities trading. In 1962, these companies jointly founded an organized stock exchange called the Bangkok Stock Exchange (BSE). But BSE was rather inactive. Local private corporations were not convinced of the benefits of listing in the stock exchange. Meanwhile, potential investors were concerned about the degree of risk involved in investing in securities as well as the returns that corporate securities could yield. This is why few securities were then listed in BSE, and only a quarter of those were traded, while the rest stood idle. In the early 1970s, most securities companies in BSE turned their attention to other areas of financing, for example, automobile hire-purchase and housing loans; this was partly due to the economic slowdown.

The securities business was revived when the Stock Exchange of Thailand (SET) began operation in 1975 (see Chapter 9 for details on SET). Securities businesses involve a number of activities:

- Tendering custodian services;
- Acting as registrars and paying agents for securities;
- Providing economic, financial, and investment information;
- Underwriting stocks and debt instruments;
- Supplying investment consultancy services;
- Acting as sponsors for companies which seek listing in the SET; and
- Trading securities on behalf of clients in return for a brokerage fee or a commission charge. When both domestic and foreign investors' interests in Thai securities emerge, brokers help guide them by providing information about listed stocks, including both fundamental and technical analyses. To efficiently serve customers, securities companies adopt advanced technology, such as an on-line network

between their trading rooms and the floor at SET. These linkages facilitate order processing and confirmation of securities transactions.

One important and highly intricate issue concerns the proper status of securities companies. In the 1970s when the stock market was still in its fledgling state, the central authorities allowed finance companies to simultaneously pursue securities businesses so that securities companies had firm financial back-up. But after some finance and securities companies encountered severe shortages of funds in the early 1980s, it was discovered that one cause of the difficulties was the intermingling between finance and securities affairs. Therefore, the authorities started to feel that if overall stability is to be well kept, these two activities should be separately managed by two different institutions, similar to the stipulation in the Glass-Steagall Act in the United States and the situation in Japan. Simply stated, separation of finance and securities businesses will help preserve the safety of deposits at finance companies. Otherwise, a large part of these deposits may be devoted to speculative investment in the stock market.

An immediate regulation in favor of partitioning finance and securities activities cannot be imposed, however, because at present the linkage between the two activities is tight among numerous finance and securities companies in Thailand. Compulsory separation may lead to tension in both the money market and the security market. Therefore, in this transitional stage, the central authorities leave it up to the discretion of each finance and securities company, though separation of their activities is encouraged via several incentives, as stated in the August 1994 policy direction of the Finance Ministry. A number of finance and securities companies have already opted to effect this separation of activities.

MUTUAL FUND COMPANIES (MFC)

Mutual Fund Companies (MFC) ordinarily mobilize funds from the general public by issuing unit trusts which are sold by underwriters in the stock market. The acquired funds are then invested in various firms' equity together with fixed-income securities, as allowed by the central authorities. Subsequently, MFC recycles returns from those investments to unit trust holders in the form of dividends. Alternatively, unit trust holders may decide to reinvest those returns in whatever options MFC may propose.

Channelling savings to investment through MFC generates the following favorable effects:

- People from the low- and medium-income brackets are given opportunities to place their savings in the capital market; this is because of the small denominations of unit trusts.
- Laymen or outsiders without any knowledge or time can be linked with stock and securities investment, provided that MFC managers have adequate expertise and skills.
- MFC can diversify risks in stock and securities investment more efficiently than each small investor can; this is due to the economy of scale.
- The demand in the stock and securities market is strengthened and this widens the chance to further develop the capital market.

From the investors' viewpoint, however, there are certain constraints or limitations attached to investment via MFC. These include:

- The returns which investors expect from unit trusts are typically not high, as a result of the adopted risk diversification tactics.
- The prices of unit trusts tend to fluctuate in accordance with the general sentiment in the stock market. Since unit trust holders are ordinarily uninformed about particular securities in SET, they can be psychologically disturbed by rapid fluctuations of stock prices. Such disturbance may reach a level that leads to liquidation of unit trusts, even though MFC may not have allotted funds to the falling stocks or securities.
- As of 1993, all mutual funds offered in SET are close-end; the investors therefore have to bear the long-term risk that the capital market may experience severe or lengthy recession, resulting in unsatisfactory returns when those unit trusts fall due. This drawback can be averted by issuance of open-end unit trusts which allow investors to liquidate them with MFC before the due dates. Investors are likely to have more confidence in placing their funds at those open-end unit trusts. Meanwhile, the open-end quality will impinge on MFC as one binding constraint in investment strategy. Consequently, returns to open-end unit trusts may not equal or exceed those to the close-end ones.

Prior to 1992, there was only one MFC authorized by the Bank of Thailand to mobilize on-shore funds from the general public for investment in both listed and unlisted securities in SET. In 1992, financial institutions were allowed to jointly establish mutual fund management companies and apply for such license. Shareholding in those companies, however, had to be diversified in order to avoid biased decision-making.

The maximum equity holding is specified as follows: 25 percent for commercial banks, 50 percent for finance companies and securities companies combined, and 25 percent for foreign juristic with expertise in the business. People eligible to apply for these licenses must hold at least 25 percent of the company's total shares, have a sound financial position, and present plans to operate mutual funds. Currently, there are eight mutual fund companies operating in Thailand.

As the unit trusts managed by MFC are designed to function as a bridge between the capital market and low-income earners whose locations are widely scattered, one way to reach these people is to allow branches of banks or finance and securities companies in remote areas to serve the order placement and processing. Otherwise, people in rural districts will not be able to participate in the capital market, despite the fact that their potential to speed up its development remains unquestionably strong. The central authorities can also encourage unit trust investment by differentiating between equity-related and fixed-income unit trusts. MFC uses the proceeds from equity-related unit trusts to invest in equities of firms listed in the stock market, whereas proceeds from fixed-income unit trusts are allotted to securities with fixed interest rates. Compensations or dividends from the former vary from year to year depending on firms' performances, but returns from the latter are fixed or assured. This differentiation will fit in with different investors' tastes, with the result that they may be tempted to buy more unit trusts. Moreover, the differentiation will help circumvent or lessen the adverse side-effects that plummeting share prices may have on the confidence of unit trust holders.

Chapter 8

Macroeconomic Issues

MONETARY POLICY

The Bank of Thailand is the sole agent responsible for the formulation and conduct of monetary policy in Thailand. Its main objective is to maintain the growth and stability of the country's economy and its financial system. The Bank performs other roles, such as acting as fiscal agent and providing development financing; these sometimes conflict with the Bank's main objective.

In formulating monetary policy, the Bank first needs to find appropriate monetary aggregates with certain characteristics. These are:

- **Stability** Good monetary aggregates should have a stable relationship with the ultimate economic targets, i.e., economic growth, inflation, unemployment.
- **Predictability** The relationship between selected monetary aggregates and the ultimate economic targets should be adequately predictable so that monetary policy will have a desirable impact.
- **Controllability** The selected monetary aggregates should be under the Bank's full command through available monetary instruments.
- **Simplicity** The aggregates should be simple and easily understood by the public, especially in the countries which announce monetary targets.

The Bank of Thailand currently monitors the expansion of narrow money (M_1), broad money (M_2) and domestic credits. They are not treated, however, as monetary targets in a conventional fashion. The Bank has so far considered them monetary indicators which are subject to economic conditions and policy direction. Under certain circumstances, one monetary aggregate may receive more attention than others. During the period of severe external instability (1983-1984), for example, the Bank exercised stringent credit policy by setting the 1984 credit growth target at 18 percent. Thereafter, the Bank gave priority to exchange rate policy to facilitate international trade while forgoing, to some extent, its autonomy in controlling monetary aggregates. Presently, with the need to mobilize domestic savings in order to contain the widening savings-investment gap, the Bank pays

more attention to M_2 growth and implements various measures to boost financial savings.

In practice, the Bank does not command full control of the above-mentioned monetary aggregates. It selects another variable which can be closely managed on a day-to-day basis and which has a stable and predictable relationship with other monetary aggregates. For that purpose, a monetary base has been adopted, since it is essentially part of the Bank's balance sheet and since it is linked up with other monetary aggregates through multipliers. The effectiveness of the monetary base in terms of control procedure depends on the ability of the Bank to handle its own balance sheet and to predict the multipliers' movements. In Thailand's case, the Bank can exert control on only parts of the monetary base. Under the present exchange rate arrangement, the Bank's net foreign assets can vary considerably, depending on how the Bank sets daily exchange rates and the exchange rate fluctuations of Thailand's major trading partners. Regarding the Bank's net claims on the government, it is preset and largely hinges upon the government's fiscal position. The Bank has a better grip on the net claims of financial institutions. Nevertheless, the Bank's financial assistance to ailing banks and finance companies during the 1980s and the development financing given to priority sectors sometimes complicate its operations and, in turn, reduce its ability to control the monetary base. Furthermore, under the relatively fixed exchange rate mechanism and diminution of exchange control measures, difficulties in sterilizing capital inflows partly undermine the effectiveness of the monetary base control.

With regard to the factors affecting money multipliers, they act in accordance with theory. The fall in cash reserve ratio, for example, will increase both M_1 and M_2 multipliers. The development of the payment system, as well as the increasing use of credit cards, will strengthen both multipliers, whereas the rise in interest rates will also increase the M_2 multipliers but reduce the M_1 multipliers. In practice, these relationships are rather weak in the short term due to various types of friction in the financial system, which make it difficult for the Bank to fine-tune its monetary operations.

In controlling the monetary base, the Bank has a number of monetary instruments which are normally used in daily and medium-term operations, as follows:

- **Liquidity Ratio** This is currently set at 7 percent of the total deposits in commercial banks. Two percent of the liquidity ratio is in the form of deposits at the Central Bank, 2.5 percent is cash in hand, and the rest is eligible securities. The Bank does not usually use this ratio for monetary control, but rather for prudential purpose.
- **Credits to Priority Sectors** These are given to commercial banks on a semi-annual basis. Under the present format, once commercial banks commit themselves to 50 percent of the credits requested by priority sectors, the Central Bank will furnish them with the remaining half. Although this facility charges priority sectors concessional interest rates, the demand is constrained by limited credit lines and the qualifications of eligible borrowers as pre-specified by the Bank.
- **Loan Window** This is the Central Bank's lending facility and is available to commercial banks when they face short-term liquidity shortages. The borrowing must be pledged by government bonds and has a maximum maturity of seven days. The Bank can influence the

demand for this type of borrowing by varying the bank rate or the credit ceiling set for each commercial bank.

- **Repurchase Market** This was established in 1979 to add liquidity to government bonds held by financial institutions and to reduce the oligopolistic practices of large commercial banks in the interbank market. The Central Bank can exercise its monetary policy by intervening in the repurchase market, but the principal discipline of anonymity in this market is always adhered to. Normally, the Bank's intervention aims at reducing the degree of volatility in money market rates. This measure sometimes counteracts the pursuance of monetary control.

FISCAL POLICY

The government normally formulates budget expenditures in April of each year for the following fiscal year, which begins in October. The expenditures depend on the projection of government revenue, the financial needs of each ministry and, most importantly, the government's fiscal stance.

During the first half of the 1980s when the Thai economy was in difficulty, the government adopted disciplinary fiscal policy with packages of austerity measures. Although such fiscal policy was perceived as inevitable at that time, it was also the intention to reform the government sector and to reduce its role as the main economic locomotive. By the end of the 1980s, which brought a continued disciplinary fiscal stance and an extraordinary pace of economic growth, the government experienced a fiscal surplus (in 1989) for the first time in 30 years. This surplus has persisted until the present period.

Lately, the current fiscal stance has shifted toward more economic stimulation, particularly in rural development and income distribution. Nevertheless, from past experiences, the prolonged use of fiscal stimulus may not be very effective, since government revenue usually varies with economic conditions. When the economy encounters a slowdown, government revenue tends to fall, leaving little room for expenditure increase without jeopardizing economic stability. In contrast, when the country experiences a boom, revenue tends to rise; and there is no need for further stimulation.

The following are the essential features of the prevailing tax structure in Thailand:

- **Personal Income Tax** As of January 1, 1992, there were five income tax brackets and the minimum tax rate was set at 5 percent, while the maximum tax rate was 37 percent. The maximum expenditure exempted for income taxes was fixed at 60,000 baht or 40 percent of taxable income, whichever is lower.
- **Corporate Income Tax** As of January 1, 1992, the corporate income tax rates imposed on listed and unlisted companies in the Stock Exchange of Thailand were unified at the rate of 30 percent.

- ***Tax on Interest Income and Dividends*** Taxpayers have two options:
 - 1) To pay a flat rate of 15 percent; or
 - 2) To add these incomes to other types of income, which are subject to progressive personal income tax.
- ***Tax on Capital Gains***
 - 1) As for 1) and 2) in tax on interest income and dividends;
 - 2) For common stocks issued by listed companies, investors who are juristic entities have to add the received capital gains to other types of income and they are subject to progressive income tax. But capital gains received by ordinary persons are tax-exempted.
 - 3) Capital gains from the sale of government bonds and debentures are exempted from this tax.
- ***Sales Tax*** In 1992, the sales tax was replaced by a 7 percent Value Added Tax (VAT) which was lower than the revenue neutral rate. VAT was intended to reduce tax evasion and to increase efficiency in tax collection.
- ***Tariffs*** In 1990, the tariffs on imported capital and the raw materials of 419 items were harmonized and reduced to 5 percent so as to increase the efficiency and the competitiveness of domestic industries.

EXCHANGE RATE POLICY

Thailand abolished the par value of the baht vis-a-vis the US dollar on March 8, 1978 and adopted a daily fixing system, which based the baht value broadly on a basket of its major trading partners' currencies. With regard to the relevant legislative procedures, the Currency Act B.E.2501 (1958) was amended to enable Thailand to choose any exchange rate regime which was consistent with the IMF's Agreement. The new system followed the exchange rate regime adopted by most countries at that time, and helped liberate the baht value from movements of any particular currency. It also reflected more accurately the prevailing economic and monetary situations, particularly those related to Thailand's external positions. To render the exchange rate determination process more flexible and amenable to adjustment to domestic and international monetary conditions, the Exchange Equalization Fund (EEF), which is the sole agent attached to the Central Bank responsible for the exchange rate policy, ceased to announce bid and offered exchange rates to deal with commercial banks. It allowed commercial banks to participate in the process of determining exchange rates on a daily basis—called the “daily fixing.” This method took effect on November 1, 1978.

In 1981, confidence in the baht value waned, as the public perceived that EEF deliberately overvalued the baht in relation to the basket of currencies in order to stabilize the baht/dollar exchange rate, regardless of the rapidly appreciating US dollar. Meanwhile, the balance of payments condition was rapidly deteriorating. Speculative activities in the foreign exchange market and prepayments of foreign borrowings were thus widespread, leading to continuous depletion of foreign exchange reserves.

On May 12, 1981, EEF intervened in the foreign exchange market, setting the exchange rate at 21 baht per US dollar as against 20.775 baht per US dollar the previous day. This was equivalent to a 1.07 percent devaluation of the baht. This devaluation could not revive public confidence, because the US dollar continued to surge and the balance of payments showed no sign of improvement. In addition, the "daily fixing" system clearly revealed daily EEF transactions to commercial banks (including large, sustained sales of US dollars), thus inducing bankers to engage in speculative transactions. In light of this, EEF for the second time devalued the baht vis-a-vis the US dollar by 8.7 percent—from 21 baht per US dollar to 23 baht per US dollar. It also replaced as of July 15, 1981 the "daily fixing" system with a system that entitled EEF to independently fix the US dollar/baht rate.

The growth-oriented economic policies adopted in the following years and the rapidly appreciating US dollar, caused by high US interest rates, brought about serious economic problems in 1984. This was especially the case for external accounts. Thus, the baht value which had been firmly tied with the US dollar since 1981 began to appreciate at an alarming rate relative to major currencies, such as the Deutschmark and the Pound Sterling.

To counteract the adverse impact on the economy, the authorities announced that the exchange rate system would be modified in two major respects, effective as of November 2, 1984. First, while EEF continued to be the central agency to specify baht exchange rates, the specifications could vary on a daily basis depending on fluctuations in the value of major currencies selected to constitute a reference basket for the Thai baht. Second, an adjustment in the exchange rate between the baht and the US dollar was considered necessary for a successful transition to the new exchange rate mechanism. In this connection, EEF on November 5, 1984 set an initial mid-rate of 27 baht per US dollar, equivalent to a 15 percent devaluation of the baht against the US dollar, from 23 baht per US dollar. Along with the new exchange rate regime, supplementary measures were launched to prevent unfair exchange gains and to closely monitor commercial bank activities in foreign exchange markets. To comply with these measures, commercial banks were required to submit any windfall profits from exchange rate differentials to EEF and to report their daily foreign exchange positions to the Bank of Thailand.

The 1984 exchange rate arrangement is still in effect. In conducting the exchange rate policy, EEF has three objectives which correspond to its short-, medium-, and long-term goals. In the short-term, EEF adjusts the exchange rate according to the basket of currencies and day-to-day developments in foreign exchange markets abroad. In the medium-term, it usually takes into account the amount of foreign exchange traded with commercial banks. In the long-term, EEF tries its best to minimize exchange rate disturbances to exports, since the overall performance of the Thai economy heavily relies upon this sector.

Chapter 9

Financial Markets

Financial markets in Thailand comprise money markets, the foreign exchange market, government securities and commercial paper markets, and the stock market.

MONEY MARKETS

There is a wide range of money markets in Thailand, including the ones for interbank, government bond repurchases, Treasury bills, and Bank of Thailand bonds.

The interbank market, the oldest among all formal money markets, is relatively well developed with regard to lending at call and fixed terms. Transactions are normally unsecured. Because of their widespread branches and abundant deposits tapped therefrom, a few large Thai banks have traditionally been influential lenders in the market, while small Thai banks, foreign banks, and finance companies act as perpetual borrowers.

In March 1985, commercial banks introduced Baht Interbank Offered Rates (BIBORs), which were the average rates at which prime banks lent to one another; these functioned as reference rates for floating rate loans. Lending committed at BIBORs was inactive, however, because prime banks tended to adjust their liquidity positions through repurchase or foreign exchange markets. Interbank rates have been rather volatile and more variable than Eurodollar rates. This may reflect, to some extent, the seasonal pattern of cash demands during crop financing and tax payments seasons. The variability also reflects the thinness of the market as well as the Bank of Thailand's limited day-to-day intervention in the repurchase market. The efficiency of the market is rather low as a result of a small number of participants and the oligopolistic practice of lenders, which allows them to discern borrowers' positions and in turn gives rise to multiple interest rates.

The government bond repurchase market was established on April 9, 1979 with four main objectives. The first was to increase the liquidity of government bonds held by commercial banks to satisfy the branch opening requirement. The second was to reduce the oligopolistic edge of large commercial banks in the interbank market. The third was to introduce an impersonal money market which would not reveal either the identities or the liquidity positions of lenders and

borrowers, as was typically evident in the interbank market. The last was to create a new channel for the Bank of Thailand to conduct monetary policy. The Bank usually acts as a principal on one side of the repurchase transactions and matches the demand for and supply of repurchases. Moreover, the Bank can also intervene in the repurchase market by purchasing or selling from its own account. Presently, there are seven maturities in the market, namely, 1, 7, 15, 30, 60, 90, 180 days. Most of the activities, however, are concentrated in the short end, i.e., 1 and 7 days. The repurchase market has an advantage in that transactions are secured against government bonds; therefore rates can be more uniform, although they appear to be as volatile over time as in the interbank market.

The Treasury bill market in Thailand is very restricted. Bills are auctioned on a weekly basis and are purchased mainly by commercial banks and other financial institutions to satisfy certain requirements. At times those bills are also purchased by the Bank of Thailand. The secondary market is small. This situation of captive market and limited supply normally gives rise to Treasury bill rates which are below other market rates. The Bank usually stands ready to sell bills from its portfolios and has occasionally purchased bills before maturity. The Treasury bill market, however, disappeared in the past few years, due to the government's persistent fiscal surplus. In the future, the Bank can reactivate Treasury bills in its day-to-day management of money market liquidity as a supplementary instrument to its repurchase market transactions.

The market for the Bank of Thailand bonds was created in May 1987 when, for the first time, the Bank issued its bonds to absorb excess liquidity from the financial system. The bonds were worth two billion baht, with a coupon rate of 6 percent per annum and a 180-day maturity. The bonds were sold to commercial banks which could use them to satisfy the branch opening requirement. Foreign bank branches could use them to meet the rule on capital adequacy. The enduring excess liquidity exerted pressure upon the Bank to issue its second batch of bonds in 1988. The two billion baht bonds, carrying a 6 percent annual interest rate with a one-year maturity, were sold to commercial banks and the Government Savings Bank. To slow down the growth of domestic credits, the Bank, in March 1990, sold its bonds by auction. This amounted to 13,485 million baht with a coupon rate of 9.125 percent per annum and a one-year maturity. The infrequent issuance of the Bank of Thailand bonds led to limited supply and did not facilitate the establishment of its secondary market, since most of the bonds were short-dated and meant for particular purposes or held to satisfy certain requirements.

FOREIGN EXCHANGE MARKET

At present, there are two types of institutions which can accommodate foreign exchange transactions, namely, the Exchange Equalization Fund and commercial banks (including the recently established offshore units). Major suppliers of foreign exchange in the Thai market are: exporters, foreign investors, and large corporations which rely on foreign borrowings to finance their businesses. Major foreign exchange buyers are importers and large Thai corporations which are just beginning to invest abroad. Lately, due to exchange control deregulation, commercial banks have tended to rely more on foreign borrowings. As a result, commercial banks have also become one of the major providers of foreign exchange.

The recent exchange control liberalization allows residents to have foreign currency accounts and non-residents to hold baht accounts. This has led to more international movements of funds and more frequent transactions between baht and foreign currencies. The forward market between the baht and the US dollar, or the dominant foreign currency, has not been very active, however, since the exchange rate between the baht and the US dollar is considerably stable and there have yet to be benchmark interest rates for the determination of appropriate premiums or discounts. Cross-currency transactions are normally done in the interbank foreign exchange market so as to hedge against risks and to seek profits.

According to bank regulations, certain ceilings are imposed on commercial banks' foreign exchange positions (covering both spot and forward status): net foreign assets not exceeding 25 percent of capital funds, or net foreign liabilities not exceeding 20 percent of capital funds. This regulation was designed to limit the extent of foreign exchange exposure; but it does not contribute much to monetary control, as commercial banks can cover their spot positions in the forward market.

GOVERNMENT BOND MARKET

Since its inception, Thailand's government bond market has been dormant. Government bonds have had a somewhat captive nature, brought about by the requirement imposed on commercial banks to hold government bonds if they intend to satisfy the branch opening prerequisite. As a result, the coupon rates do not reflect the market condition. The government typically fixes coupon rates at 1 to 1.5 percent above the time deposit rates of commercial banks. The captive market also hinders the development of the secondary market because commercial banks cannot release their bonds, and if they do, they would realize losses due to thin market status.

The government ran a fiscal surplus from 1988 to 1992, and there was no need to issue new government bonds. Consequently, the government bond market has steadily diminished. After the Bank of Thailand abolished the branch opening prerequisite (on May 17, 1993), a large number of government bonds were released. Some of them, however, must be maintained under liquidity requirement for prudential reasons. It is expected that if the government continues to run a fiscal surplus in the next few years, there will be an insufficient amount of government bonds for commercial banks to satisfy the liquidity requirement. The Central Bank may need to allow commercial banks to hold other types of securities, or to issue its own bonds.

COMMERCIAL PAPERS

In Thailand, commercial papers serve two main purposes. The first is for short-term borrowing while the second is for debt payments. Transactions of debt-payment commercial papers have risen fairly rapidly, especially those without guarantee from commercial banks or finance companies. With respect to short-term borrowing, commercial papers are normally issued by financial institutions or large corporations, e.g. Citinotes by Citibank and IFCT-notes by the Industrial Finance Corporation of Thailand.

STOCK MARKET

Evolution

In 1953, Houseman & Co. Ltd., Siamerican Securities Ltd., and Z & R Investment and Consultants began to act as intermediaries for securities transactions, but their volume of business was negligible and prices did not truly reflect demand and supply. The Bangkok Stock Exchange was set up as a limited company in 1962 and it was registered later on with 250,000 baht as capital funds. Only seven or eight out of 35 listed securities were frequently traded, however, demonstrating tenuous attention from the general public. The annual market turnover during 1964 to 1973 was only 50 million baht. Worse still, the fees for various securities differed.

In 1969, the Central Bank hired Professor S. M. Robbins to study the feasibility of establishing a stock market in Thailand. His recommendations proved useful and they led to the creation of the Securities Exchange of Thailand Act in May 1974. The Stock Exchange of Thailand (SET) came into operation in April 1975.

Initial Period (1975-1978)

SET's first two years of operation did not see much trading; and though activities picked up considerably in 1977 (trading volume: 26.6 billion baht, index: 181), most transactions were short-term speculations. In May 1978, the government thus decided to impose a 10 percent tax penalty on capital gains realized from securities held no longer than six months. As a result, SET prices and business volume plunged. The government therefore replaced the capital gain tax on short-term trading with a much lower sales tax, which in 1978 increased the trading volume to 57.3 billion baht and the price index to 258.

Recession (1979-1983)

The atmosphere in SET deteriorated markedly as a consequence of the second oil price crisis and the worldwide surge of interest rates. In 1979, the performances of listed companies notably declined, as did the trading volume to 22.5 billion baht and the SET index to 149. The monetary authorities implemented a few rescue measures, for example setting up the Capital Market Development Fund. This occurred in August 1979 with contributions from the Central Bank, Government Savings Bank, and Thai Bankers Association, amounting to a total of 1 billion baht. This Fund, operated by the Industrial Finance Corporation of Thailand (IFCT), intervened in SET affairs whenever share prices were too low. Moreover, the Thai Bankers Association lined up two pooled funds (1 billion baht each) to support the liquidity positions of SET members, while the government organized the Krung Thai Fund (3 billion baht) for a program to buy securities with repurchase rights left with sellers.

In 1980, several rounds of oil price and interest rate increases in the domestic market worsened the performances of listed companies, leading to further downfalls of both the trading volume to 6.6 billion baht and the SET index to 125. The period between 1981 and 1983 brought further decline to the Thai economy. Deficits in foreign trade and current account rose precipitously, while those in the government's fiscal balance were equally threatening. Volatility of exchange rates

and interest rates also climbed to a formidable extent. The widespread lack of confidence in the baht value and the collapses of a few finance companies at that time thus came as no surprise. In 1981, the trading volume and the SET index sank to a low of 2.9 billion baht and 106, respectively. In response to such tension, the government set up a special committee to study the situation and suggest suitable resolutions.

Recuperation (1984-1986)

Even though in 1983 to 1984 several financial firms in Thailand encountered a second round of bankruptcy crises, along with a breakdown of several chit funds, the central authorities were adequately efficient to step in and solve these problems. In 1984, a new scheme of exchange rate specification was adopted (see also Chapter 8), the SET Act was amended, and an emergency decree on illegal borrowings was authorized. Furthermore, some recovery in the world economy emerged, while oil prices and interest rates started to decline. Consequently, the stock market was revived, with the trading volume jumping to 10.9 billion baht in 1984 and 16.5 billion baht in 1985.

High liquidity persisted in 1986 to such an extent that commercial banks lowered their interest rates five times. Additionally, the central authorities amended the exchange control regulations so that foreign investors could easily transfer returns abroad. The Bangkok Fund and Thailand Fund were created to attract foreign investment. The trading volume thus grew to 29.8 billion baht, while the SET index closed at 207.

Expansion (1987-1989)

Despite the Black Monday event on October 19, 1987, which precipitated the SET index's 229-point drop within two months, the stock market experienced appreciable growth in 1987, with the trading volume reaching 123.4 billion baht and the SET index climbing to 285. In 1988 and 1989, an unusually high pace of economic expansion (13.2 percent and 12.0 percent respectively) took place, enabling SET listed firms to perform remarkably well. In addition, six more foreign funds were formed. These factors, together with favorable trends in the world stock markets, tripled the 1989 SET trading volume to 377.1 billion baht and caused the index to rise to 879.

Regarding the policy reaction to the Black Monday incident, finance and securities companies were allowed to invest more in stocks—from 60 percent to 100 percent of their capital funds. SET members constructed in November 1987 a close-end, six-year Ruam Pattana Fund of 1 billion baht. SET responded by decreasing the limit on daily fluctuations of stock prices between October 30 and November 26, 1987—from 10 percent to 5 percent.

Adjustment (1990-present)

SET performed robustly in the first half of 1990. There was greater public confidence in SET and this was partly attributed to the Central Bank's declaration to accept the IMF's Article 8 obligations and the creation of three more foreign funds, which totalled 8.6 billion baht. SET's operating hours were lengthened from two to three hours per day. The Persian Gulf War (August 1990), however, generated an adverse impact worldwide; and the Thai SET was no exception. The SET index fell

to 613 in 1990, while the trading volume amounted to only 627.3 billion baht. To cope with the Persian Gulf crisis, the government lowered the stock purchasing margin from 100 percent to 70 percent on August 10, 1990, and reduced it further to 50 percent on September 20, 1990. Finance and securities companies were permitted to invest more in stocks—from 60 percent to 100 percent of their capital funds. And the second close-end, five-year Ruam Pattana Fund of 5 billion baht was set up to supply SET with liquidity.

Although the public sentiment worsened with the National Peace-keeping Force's political takeover in February 1991, the trading volume in that year remained heavy at 793 billion baht, while the SET index recovered to 711.

Several crucial developments in the Thai capital markets occurred in 1992. In spite of the political unrest in May, a new law entitled Securities and Exchange Act was enacted, while the governing body, the Securities and Exchange Commission (SEC), was established (see details in Chapter 3). This law paves the way for further development of both primary and secondary markets for debt and stock instruments, e.g. warrants, mutual funds, and convertible debentures. These changes represented a major renovation of the capital markets in Thailand, since the previous rules and regulations, which were either too stringent or too intricate, were properly relaxed. Moreover, various regulators or supervisors were unified into a single unit, or SEC, which not only screens and approves stock/debt issuance but also oversees SET's patterns of trading. Because of the above favorable developments, the trading volume in 1992 doubled to 1.83 trillion baht and the SET index rose to 893. This occurred despite political agitation, stock price rigging, and subsequent prosecutions, all of which took place in 1992. A part of the 1992 stock market boom may be attributed to the extension of trading hours—from three to four hours in two sessions—and the establishment of more funds for the purpose of maintaining stability in SET.

SET underwent a wild run in 1993, owing to the following factors. After SEC undertook several crackdowns on share manipulations, a large degree of confidence returned to both domestic and foreign investors. Funds from abroad flooded the Thai market with liquidity, which was a primary force in elevating the SET index to a record high level—1,682 at the end of December 1993. The trading volume also skyrocketed to 2.2 trillion baht.

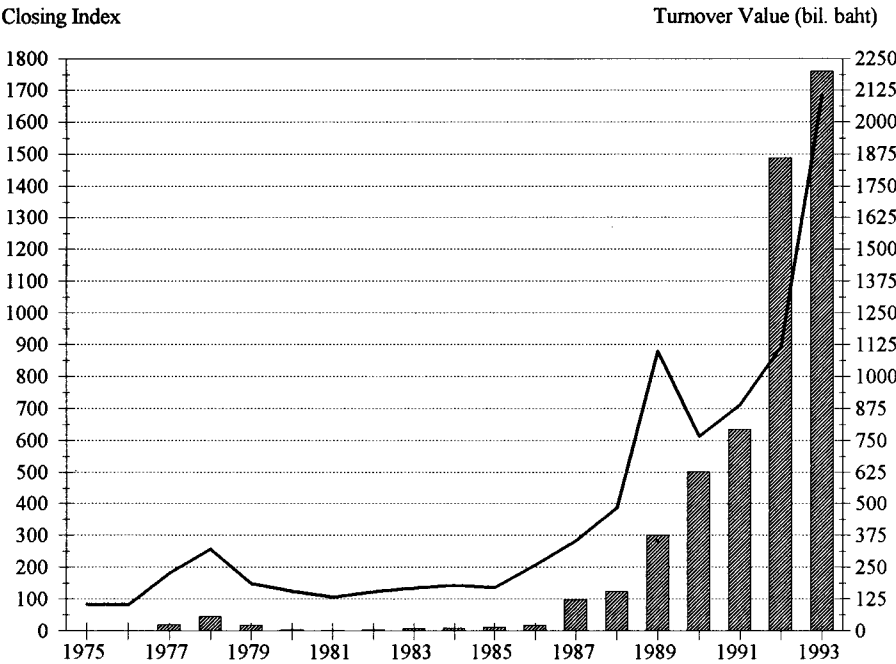
In the first quarter of 1994, international capital flows were reversed when the U.S. interest rates rapidly increased, generating a negative impact on stock markets worldwide. The SET index drastically fell to 1,204 in March 1994. But a move toward liberalizing stock brokerage and several enterprise takeovers demonstrated increasing maturity in Thailand's stock market.

Table 19 Market Performance (Corporate Securities)

Year	Turnover Value Mil. Baht (,000,000)		SET Index				
	Total	Daily Average	High	(Date)	Low	(Date)	Close
Early							
1975	559.54	3.37	100.12	(23/7)	84.08	(30/12)	84.08
1976	993.54	4.01	83.96	(2/1)	76.44	(17/3)	82.70
1977	26,282.10	106.84	205.80	(7/11)	82.48	(4/1)	181.59
1978	57,065.75	231.97	266.20	(24/11)	180.79	(1/8)	257.73
Stagnation							
1979	22,450.55	90.53	259.82	(2/1)	146.12	(12/11)	149.40
1980	6,543.22	26.41	148.23	(2/1)	113.33	(9/9)	124.67
1981	2,521.20	10.21	129.03	(12/2)	103.19	(8/9)	106.62
1982	5,877.97	23.89	138.77	(13/9)	102.03	(14/4)	123.50
1983	9,120.55	36.93	148.36	(29/7)	122.88	(13/1)	134.47
1984	10,595.19	42.72	144.83	(3/12)	128.69	(18/4)	142.29
1985	15,333.99	62.59	158.08	(31/7)	132.76	(24/12)	134.95
First Boom							
1986	24,993.46	101.19	207.98	(26/12)	127.26	(19/6)	207.20
1987	122,138.49	494.49	472.86	(16/10)	203.14	(16/2)	284.94
1988	156,457.23	633.43	471.45	(8/8)	287.71	(4/1)	386.73
1989	377,028.18	1,526.43	879.19	(29/12)	391.23	(3/1)	879.19
Present							
1990	627,232.75	2,539.40	1,143.78	(25/7)	544.30	(30/11)	612.86
1991	793,068.01	3,237.01	908.90	(22/4)	582.48	(16/1)	711.36
1992	1,860,070.21	7,530.65	963.03	(5/11)	667.84	(19/5)	893.42
1993	2,201,148.18	8,984.28	1,682.85	(30/12)	818.84	(1/6)	1,682.85

Source: Stock Exchange of Thailand.

Figure 1 Corporate Securities Traded and SET Index



Chapter 10

Recent Reform Experience

Historically, the Thai financial system was highly regulated, and it was shielded from both domestic and foreign competition. Financial operations were subject to interest rate ceilings on both deposits and lending, portfolio and branching restrictions, and various types of compulsory credits, to name a few. Even so, the financial system in the 1960s and 1970s managed to cope with Thailand's relatively slow pace of economic development and its economy's limited openness. During the 1980s, in the presence of rapidly advancing computer and telecommunications technology and increasing volatilities of interest rates and exchange rates, numerous financial innovations were developed. These helped hedge against risks and helped circumvent financial regulations to create greater profit opportunities or to enable companies to survive in the highly competitive and volatile financial markets.

In order to maintain a healthy and stable banking environment, there should be competition amongst financial and non-financial companies, for example in the realms of consumer credits and housing loans. Although the above scenario already prevailed in the Thai financial system, financial liberalization policy received little attention between 1980 and 1987. This was due to two main factors. First, the Thai economy was experiencing a slow-down, caused in part by frequent internal and external instabilities. Second, a score of ailing finance companies, problematic banks, and the failures of various chit funds brought about instabilities to the financial system. The authorities, therefore, gave top priority to restoring the country's economic and financial stability.

When this had been accomplished, Thailand experienced impressive economic expansion. Such growth was coupled with record balance-of-payments surpluses and persistent positive cash balance on the fiscal budget, resulting from increased revenue collection and cautious budgeting. Balancing growth in the manufacturing and financial sectors, enhancing the competitiveness of domestic financial institutions, and restructuring the financial system became more pressing policy issues.

In this light, medium- and long-term plans were drawn up to address domestic problems. These also helped the financial sector to cope with competition on the external front, which arose from rapid modernization of technology and integration of international money and capital markets. The major thrust was the development and modernization of the financial system and the diminution of government intervention. Efforts were directed at encouraging savings mobilization

to support future economic development, boosting the competitiveness of financial institutions, promoting the development of new financial instruments and services, and turning Thailand into a regional financial center.

To facilitate these goals, the Bank of Thailand implemented between 1990 and 1992 a three-year financial reform plan. This plan had four components:

- Deregulating interest rates and financial institutions' portfolio management and relaxing exchange controls;
- Developing the supervision and examination system, improving monitoring and analytical procedures, adjusting the capital to risk asset ratio in line with the guideline set by the Bank for International Settlements, training bank examiners, and developing an information system;
- Promoting financial innovations in both primary and secondary markets; and
- Improving the payment system—its targets were to reform the interbank clearing system and to establish the second note-printing works.

DEREGULATION AND RELAXATION

Financial deregulation is normally related to the relaxation of supervisory constraints or the intervention of the authorities, thereby allowing the market mechanism to function more freely. In Thailand, deregulation has been gradually introduced, starting with the interest rate reform after the second oil shock (1979-1980). Since 1924, Section 654 of the Civil and Commercial Codes restricted general interest rates to remain within 15 percent. Wide variations in international interest rates in 1979 and 1980 induced the promulgation of the Financial Institutions Lending Rate Act, B.E.2523 (1980). This helped increase flexibility within the domestic financial system and realigned it with volatile world interest rates. In other words, the ceiling on financial institutions' lending rates was raised from 15 percent to the level deemed appropriate by the Minister of Finance.

The government bond repurchase market was established in 1979 to create a new channel for financial institutions to adjust their liquidity positions and to provide an additional tool for the implementation of monetary policy. The exchange rate system was revamped in 1984; the previous practice of pegging the baht solely to the US dollar was replaced with the basket system which linked the baht to the currencies of its major trading partners. It was felt that this would better reflect genuine economic and financial relationships.

Deregulation measures implemented under the three-year plan are meant to reduce the role of monetary authorities in the financial system. Financial institutions have the opportunity to adjust their operations in preparation for greater future competition when the financial liberalization process will have taken its full course. In addition, the financial system must be geared toward interest rate liberalization, the relaxation of constraints on financial institutions' portfolio management, an expanded scope of operations, and Thailand's future development as a regional financial center.

DISMANTLEMENT OF EXCHANGE CONTROLS

Acceptance of the obligations under Article VIII of the International Monetary Fund's Articles of Agreement and the implementation of the first phase of the exchange control relaxation on May 21, 1990 were important steps in the process of exchange control deregulation. The aim was to liberalize the foreign exchange regime in line with the globalization of economic and financial systems, and to provide greater freedom to international capital movements. In essence, Phase I of the exchange control deregulation allowed commercial banks to process customers' applications for the purchase of foreign exchange without prior approval from the Bank of Thailand. The Bank also raised the limit on foreign exchange transactions for services and allowed commercial banks to process applications for minor foreign exchange purchases, remittances of loan repayments, sales of securities, and company liquidations.

The deregulation was expected to benefit the public at large, as it streamlined the approval process without altering the major elements of exchange control. Preparations for further exchange control liberalization were under way when the second phase required an amendment in the Ministerial Regulation No. 13, B.E. 2497 (1954) pursuant to the Exchange Control Act, B.E. 2485 (1942). This proved a lengthy process, and the commercial banks needed a transitional period to prepare for the necessary adjustments. On April 1, 1991, the Bank of Thailand announced Phase II of the exchange control deregulation. This allowed greater flexibility to private businesses and the general public in the purchase and sale of foreign exchange, while retaining minimum controls to monitor and safeguard the system. Under Phase II, the public could freely purchase foreign exchange from commercial banks for current account transactions without prior approval from the authorities.

The authorities' role was reduced to the adjustment of rules, regulations, and operational guidelines to ensure greater convenience for the public. Measures to streamline procedures for export proceeds were implemented on May 1, 1992. Exporters were allowed to receive payments from non-resident baht accounts and to transfer foreign currency receipts to pay for imports or to debit foreign liabilities to non-residents. With regard to foreign currency deposit accounts, commercial banks were permitted to freely withdraw funds from their accounts and/or to accept deposits from government departments and state enterprises to facilitate foreign currency transfers.

Given a very healthy spurt of trading activities in Indochina and its vicinity, the central authorities deemed it appropriate to broaden the role of the baht currency. On January 10, 1994, Phase III of the exchange control deregulation came into effect. The objective was to upgrade Thailand into a regional financial center. The limit on baht notes permitted to be carried into neighboring countries was raised from 250,000 baht to 500,000 baht. Similarly, the amount of allowable foreign exchange transferred abroad for the purposes of either investment overseas or intra-affiliate lending was doubled—from US\$5 million to US\$10 million. Moreover, several exchange control regulations were further relaxed. These included the repeal of the prerequisite that a foreign exchange account be held only if its source was from abroad, and the extension of foreign exchange credits from Thai commercial banks to non-residents. The only remaining foreign exchange restrictions concern purchasing foreign currency for the acquisition of foreign securities or purchasing real estate abroad.

INTEREST RATE LIBERALIZATION

The Bank of Thailand's three-year plan aimed to fully liberalize the interest rate structure, thereby enabling the financial system to adjust to fluctuating domestic and external demand and supply conditions. With continuous economic expansion since 1987, the growing need to mobilize long-term funds for economic development became urgent. When it was evident that long-term deposits had not expanded in line with borrowing needs, the Bank of Thailand decided in June 1989 to lift the ceiling rate on term deposit with a maturity greater than one year so as to accelerate the process of savings mobilization. Thereafter, interest rates on deposits with maturities longer than one year moved up in 1989 from the previous ceiling of 9.5 percent to 10.5 - 11.0 percent per annum.

On March 16, 1990, the remaining ceilings on time deposits of all maturities were abolished. On January 8, 1992, the cap on savings deposits was removed. Afterwards, in June 1992, the interest rate ceilings on finance companies' and credit foncier companies' borrowings, deposits, and lending, and on commercial banks' lending were terminated. This effectively completed the liberalization of all types of interest rates. In addition, the central authorities felt that competition in the financial market could be further strengthened by transparency in pricing. The Bank of Thailand thus stipulated that from October 26, 1993 onward each commercial bank should declare public its minimum loan rate (MLR is the rate charged on term credits extended to prime large customers) and its minimum retail rate (MRR is the rate charged upon prime small customers), together with specific definitions of those "prime large" and "prime small" customers. Furthermore, each bank has to inform the public of the widest margin to be added to MRR to reach a reference interest rate applicable to the customers who do not fall into the two aforementioned customer categories. In other words, commercial banks can no longer charge their clients above MRR plus the declared widest margin. Exceptions are allowed only in fraudulent cases whereby banks have to specify beforehand the maximum penalty interest rates. As for mortgage lending to low-income individuals contracted before June 1, 1992, banks may not use any rate higher than MLR. On the deposit side, commercial banks must also declare public the interest rates they offer to general or large depositors. This policy on interest rate transparency is meant to fully equip customers with correct and updated information on pricing in the local financial market. With continual information on actual interest rates, customers will in all probability exert pressure upon commercial banks to compete against one another. This corresponds with the primary objective of liberalizing the local financial arena.

FEWER CONSTRAINTS ON FINANCIAL INSTITUTIONS' PORTFOLIO MANAGEMENT

As was the case with other developing countries, the Bank of Thailand deemed it appropriate for financial institutions to contribute to the economic development of the country, with an emphasis on rural development. Commercial banks were therefore required to fulfill the agricultural credit target and, whenever they opened up new branches, they had to extend adequate credits to local vicinities. During the past few years, however, the fundamental structure and economic environment of the country have changed markedly. The Bank of Thailand therefore tried to reduce its role of intervening in the decision-making process of

financial institutions. In retrospect, the intervention policy could be perceived as unfair to the financial institutions concerned, as well as to their customers and other economic sectors. Additionally, the inefficient allocation of resources must have arisen, as the market fell short of free competition.

The Central Bank's three-year plan was designed to streamline, and in some instances, eliminate certain requirements imposed on financial institutions, while retaining only those needed to maintain the financial system's stability and solvency. This was intended to provide greater flexibility in management while reducing the costs of operation.

RURAL CREDIT POLICY

In the past, the Bank of Thailand set targets for commercial banks to allocate credits to the agricultural sector; this had to be in proportion to total bank deposits (see also Chapter 3 on compulsory credits). In 1987, however, a new definition and ratio were defined under the "rural credit policy." This occurred because the structure of the country's agricultural production had shifted toward small-scale industries and the service sector. To give commercial banks greater flexibility in asset management and to operate in accordance with the government's policy to support regional small-scale industries, the rural credit policy was modified to cover a wider scope of activities beside the narrowly defined agricultural activities. In January 1991, rural credit coverage was broadened to include credits for the wholesale trading of agricultural produce and regional industrial estates. The definition was further expanded in 1992 to incorporate credits for farmers' secondary occupations and for the exportation of farm products. To facilitate compliance with this requirement, computation of the deposit base was also adjusted to exclude interbank deposits.

BRANCH OPENING REQUIREMENT

A mandatory requirement was instituted which stipulated that commercial banks hold adequate government and other eligible bonds before opening branches. This came about when the government needed to issue a large number of bonds to finance budget deficits arising from huge expenditures devoted to economic development. At present, however, the government's fiscal position has improved considerably, and no government bonds have been issued since 1991. The Central Bank, therefore, progressively relaxed this requirement so that commercial banks could better handle their tapped resources. The ratio was reduced from 16 percent of total deposits to 9.5 percent on November 13, 1990, 8 percent on September 13, 1991, 7 percent on February 14, 1992, 6.5 percent on October 30, 1992, and 5.5 percent on February 14, 1993. Finally, this bond holding for branch opening was abolished on May 17, 1993.

MODIFICATION OF THE RESERVE REQUIREMENT

Effective June 23, 1991, the Bank of Thailand relaxed the constraints on commercial banks' portfolio management by replacing the reserve requirement ratio with the liquidity ratio. Although in practice commercial banks have to maintain

the same minimum of 7 percent of deposits in securities and cash, in accordance with the Bank's regulations, the liquidity ratio permits commercial banks to substitute other securities for government securities, namely, Bank of Thailand bonds, debentures, bonds of government organizations and state enterprises. This provides commercial banks with greater opportunities in investment options and asset management. It should be noted that since the Bank has not used the liquidity ratio as an instrument to conduct monetary policy, the change has no significant policy implications.

In addition to the above measures, the Central Bank revamped a regulation on compulsory credits. This regulation formerly required each bank branch to lend to customers living within close proximity to it, in proportion to its total deposits. Under the revised regulation, regional bank branches are required to *collectively extend credits* to customers in their regions, in proportion to total deposits.

EXPANSION OF FINANCIAL INSTITUTIONS' SCOPE OF OPERATIONS

In the early 1990s, financial institutions were permitted to broaden their scope of activities and better utilize their resources and expertise. Customers would benefit from a wider variety of financial services and greater competition among financial institutions. Recently, the customary practice of receiving deposits and extending loans has not been as profitable as before, because clients have more options as to where to save or borrow. Financial institutions, therefore, need to seek more revenue from fee-based income. The policy to widen the scope of operations has been undertaken in gradual steps, with due regard to the institutions' efficiency and their expertise. In the initial stages, the Bank of Thailand expanded financial institutions' scope of activities within the framework of relevant legislation.

At present, commercial banks are allowed to conduct businesses related to banking practice, such as loan syndication, recommending insurance companies to customers, completing feasibility studies for projects or investment options, advisory services in mergers and acquisitions, and safekeeping or custodian services. In 1992, commercial banks were permitted to do more business related to financial instruments, including managing issuance, underwriting and distribution of debt securities, trading of debt instruments, acting as supervisors as well as selling agents for mutual funds, and securities registrars.

Other types of financial institutions are also entitled to broaden their scope of activities. Since the end of 1991, finance companies can conduct leasing business. In March 1992, finance companies were authorized to act as selling agents for government bonds, to provide economic, financial and investment information service, and to advise companies seeking listing in the Stock Exchange of Thailand. Securities companies are allowed to carry out these same businesses, in addition to safekeeping and custodian services and acting as registrars or selling agents of securities.

CAPITAL ADEQUACY

The Bank of Thailand, as the supervisory authority of the country's financial system, closely monitors financial institutions' operations to ensure the stability and soundness of the financial system and the viability of market

participants. In this regard, the Central Bank amended relevant legislation to suit specific situations. The Commercial Banking Act, B.E. 2505 (1962) was revised in 1979, 1985, and 1992, while the Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business, B.E. 2522 (1979) was adjusted in 1983, 1985, and 1992.

The Central Bank has also focused on the development of supervision and examination procedures. As this involves several stages of operation, the Bank first placed emphasis on making financial institutions' capital funds sufficient in order that they be consistent with international standards. The conventional capital risk asset ratio, which had been in use since 1962, was replaced by the Bank for International Settlements (BIS) guideline on capital adequacy, modified to local conditions.

Commercial banks' capital funds are divided into first-tier and second-tier capital. First-tier capital comprises paid-up capital, retained earnings, reserves appropriated from net profits, and statutory reserves. Second-tier capital includes revaluation of land and buildings and certain types of instruments issued by banks, such as hybrid debt capital instruments and subordinated term debts. Moreover, risk assets are weighted by the degree of their risks, according to the BIS guideline. Effective January 1, 1993, Thai commercial banks are required to maintain a capital risk asset ratio of not less than 7 percent, within which at least 5 percent must be maintained as first-tier capital. These two ratios will be adjusted to 8 percent and 5.5 percent respectively by the end of 1994. Due to the differences in the structure of their capital funds, foreign bank branches will be required to maintain a minimum of 6.25 percent capital risk asset ratio, to be adjusted to 6.75 percent by the end of 1994.

Given the recent popularity of contingent liabilities or off-balance-sheet items, the Bank of Thailand finds it proper to add those items to risk assets after appropriate conversion factors and risk weighing methodology are applied. In other words, the new 8 percent rule will take into account the correct extent of risks from both credits and off-balance-sheet obligations. In addition, the traditional rule on capital adequacy restricted the amount of credits and obligations that banks could extend to any single entity. After the BIS standard was adopted, the single-entity limit was similarly adjusted by weighing both credits and obligations by their associated risks before summing them up and comparing them with lenders' capital funds.

BANGKOK INTERNATIONAL BANKING FACILITIES (BIBF)

Thailand's stable economic conditions, liberal exchange controls, and high level of international borrowing transactions have induced the Central Bank to begin to take action to make Thailand a regional funding center. The Bank proposed the establishment of Bangkok International Banking Facilities (BIBF) in 1993 to facilitate international borrowings, to reduce their costs, and to encourage fund inflows to finance the current account deficit. The BIBF is also meant to gradually introduce a greater degree of competition into the local financial system, via new market participants.

Local banks, existing foreign bank branches and new banks, which the Bank of Thailand and the Ministry of Finance deemed ready and qualified, were granted licenses for international banking facilities. This type of license permits the following activities: acceptance of deposits in foreign currencies, lending in foreign

currencies to both residents and non-residents, and foreign exchange transactions (cross-currency only), with relevant tax concessions.

In 1993, there were 47 commercial banks granted BIBF licenses. Of these, 15 were domestic commercial banks, 12 were foreign bank branches already established in Thailand, and 20 were new foreign banks with no branches in Thailand.

BIBF's major competitors are the offshore markets in Hong Kong and Singapore. One of BIBF's main objectives is to provide financing for regional development, particularly in Indochina. Comparable tax incentives are given to the commercial banks with BIBF licenses. Other types of taxes are also exempted or reduced, such as the withholding tax on interest payments abroad and the permanent establishment tax.

The Bank of Thailand's second three-year plan, which began in 1993, consists of two parts. The first concerns deregulation and financial development, the improvement of supervision and examination, as well as the development of the payment system; this is a continuation of the 1990 to 1992 plan. The second part deals with savings mobilization, Thailand's development into a regional financial center, and the improvement of the Central Bank's operations with respect to monetary policy and internal organization.

With these first and second three-year plans, the Bank of Thailand's ability to directly influence the monetary conditions and operations of financial institutions has been notably weakened; and this may adversely affect the effectiveness of monetary policy. Therefore, the Bank has begun to develop new financial instruments and methods of monetary controls which are market-oriented. At present, the Bank is considering using its own bonds and state enterprise bonds to actively conduct open market operations, since the secondary market for government bonds is virtually non-existent. Before beginning open market operations, however, the Bank must be able to forecast short-term liquidity conditions in the money market and establish secondary markets for those securities. To correctly forecast short-term liquidity, the Bank has to be aware of the timing and extent of major inflows or outflows of funds from money markets, and it must understand the behavior of money and credit demand. To establish active secondary markets, the returns to those securities must be market-determined, and there should be a wide range of maturities.

Meanwhile, with inadequate indirect monetary instruments, the Bank sometimes returns to less market-oriented methods, such as moral suasion or market intervention. In 1993, for example, the Bank noticed that after financial liberalization, the gap between the lending rates for general customers and those for prime customers, and the gap between the effective lending rate and deposit rate, were widening. To solve this problem, competition in the banking industry had to be strengthened by allowing new entries and by continuing the deregulation process. But, in the short term, the Bank tried to convince bankers to adjust their interest rates on credits to a reasonable level. In addition, the Bank decided to supply more liquidity to the market by offering concessionary financing to new factories in the rural areas, which would receive promotion from the Board of Investment. Under this concessionary scheme, commercial banks have to extend 70 percent of the credits to clients at the minimum lending rate, while the Central Bank covers the rest. Commercial banks are caught in a quandary, because sharing the involved risks with the Central Bank means less profits than if the commercial banks handled all requested credits solely by themselves.

From a broader perspective, the Bank of Thailand seems to be entangled in a self-inflicted dilemma. The wider interest rate margin or profits that commercial banks now enjoy is primarily due to interest rate liberalization. Exchange control deregulation, on the other hand, does not equip all borrowers with equal access to credits abroad. Therefore, in the initial period after such interest rate liberalization, commercial banks are the parties which gain from inadequate competition in the market. The central authorities should counteract such bias by increasing the degree of competition in money markets, for example, by allowing finance companies to perform commercial banks' functions, or by granting local licenses to more foreign bank branches. These means may help lead to quicker adjustment or narrower spreads than waiting for general customers' improved credit ratings or access to funds abroad.

OTHER RECENT MOVES

As indicated in Chapter 2, in the early 1990s Thailand's financial policies favored the emergence of market mechanism and the build-up of financial infrastructure. Examples of the measures taken in favor of the market mechanism are: exchange control deregulation, interest rate liberalization, and creating a wider scope of financial institution businesses. Examples of the means adopted to strengthen financial infrastructure are: the adoption of the BIS rule on capital adequacy and the establishment of the Bangkok International Banking Facilities.

Three new institutions concern the capital market. The Securities and Exchange Act was enacted in March 1992 to unravel the legal intricacies and to correct the drawbacks of previous laws, and to reinvigorate the local capital market so that the local money market was not depended upon too heavily. In other words, the stock market is supported to strengthen market competition in the financial market and to consequently scale down the oligopoly long held by powerful commercial banks. Functioning as an overseer of the Act is the newly established Securities and Exchange Commission (SEC) (see Chapter 3 for more details). Another institution recently set up is the credit rating agency. This links investors with borrowers in the capital market with respect to the disclosure and evaluation of pertinent financial information. At the end of 1993, there was one credit rating agency which was still in a fledgling state but whose future looked promising, given the strong potential of the Thai capital market and the high likelihood of Bangkok emerging as a regional financial center.

Along with the credit rating agency, SEC allowed several mutual funds companies to be set up. These companies typically organize and manage mutual funds; small unit trusts are sold to investors, and the receipts therefrom are collectively handled by means of different investment possibilities in the local stock market. Mutual funds act as channels to link small savers with the capital markets. Without them, the savers would not participate in capital market activities because of inadequate funds and a lack of expertise.

One final development was the establishment of the Export-Import Bank for several trade-related purposes, one being to replace the packing credits previously offered by the Central Bank. Overall, the newly established EXIM Bank intends to promote internationally trade-related sectors of the economy by offering various financial arrangements and risk sharing schemes. From a broader perspective, the EXIM Bank represents a new element of the Thai financial

infrastructure and is proving essential amid current globalization and trade liberalization trends.

After seven years of concerted negotiations, 125 country members of the General Agreement of Tariffs and Trade (GATT) agreed at the end of 1993 on the means to open up the global trade arena, e.g. tariff and quota reductions. Along with such trade resolutions, several GATT members agreed with, though did not commit themselves to, the principle of liberalizing financial services. In this regard, the Thai authority plans to give more market access to foreign entities by permitting BIBF to branch out in rural provinces within 1994 and by upgrading to full banking status by no later than 1997 five foreign BIBFs which do not have bank branches in Thailand. Furthermore, stringent restrictions upon the electronic banking facilities of foreign banks will be relaxed. On the local front, at the beginning of 1994, the Thai monetary authorities announced two distinct policies which were closely related to financial liberalization. First, eligible finance companies may now open up rural credit extension offices; this will help strengthen competition and disperse economic development to remote provincial areas. Second, finance and securities companies are encouraged to split apart their finance and securities businesses for the purpose of preserving financial stability. And whenever the separation takes place, some privileges may be granted thereafter to finance firms and securities companies. The final decision and timing of separation, however, is on a voluntary basis, depending on each firm's readiness. This policy on voluntary separation is meant to smooth the transition to financial liberalization.

Chapter 11

Overview and Outlook

The previous chapters of this book have covered the evolution, operations, markets, and recent reforms of Thailand's major financial institutions. This chapter offers a broad overview of how these financial institutions interact with each other and how they function as a complete system. First, the sequencing of Thailand's financial liberalization is examined. Second, the consequences of such measures are evaluated—from the macro- and micro-economic points of view. Both favorable and unfavorable outcomes are examined, and their causes traced. Finally, possible trends for the future development of Thailand's financial system are discussed.

SEQUENCING

It is well known among economists that, theoretically, financial liberalization efforts should be exerted first on the domestic market, and second on external linkages. Such sequencing should help minimize disruption to the domestic economy. But the actual sequencing of liberalization measures as pursued in Thailand has principally been based on policymakers' political considerations, which determined the timing and direction of financial liberalization in the country.

Although the sequencing of financial liberalization in Thailand did not correspond to theory, the country's economy was not adversely affected. The financial liberalization policies adopted by the Thai government include:

- Exchange control deregulation, Phase 1 (1990), Phase 2 (1991), and Phase 3 (1992);
- Liberalizing interest rates, long-term deposits (1989), time deposits (1990), savings deposits (1992), and lending rates (1992); and
- Instituting a broader scope of operations (1992), e.g. for banks to underwrite and distribute securities, trade debt instruments, and sell mutual funds; for finance and securities companies to undertake leasing, sell government bonds and financial information, and serve as securities custodians and registrars.

One characteristic of Thai society which assisted in the smooth transition to these more liberal regulations is, ironically, its conservatism. This inclination

prevails in the financial circuit as well as in macroeconomic management. Therefore, even though the actual sequencing of financial liberalization in Thailand deviated from what theory deems as desirable, it did not give rise to any strong adverse repercussions, such as the ones experienced with financial liberalization in Latin America.

CONSEQUENCES

In most developing countries, economic planners are often strained by inadequate domestic savings which inhibit targeted investment. The stress could be exacerbated by the ineffective transfer of scarce domestic savings to investment projects. In this regard, it is useful to examine the relative extent of national savings and domestic investment “processed” through the financial sector. This should help indicate the degree of efficiency that the financial system has attained in funneling available resources to proper uses.

Table 20 compares Thailand's gross national savings to changes in broadly defined money supply (M2). M2 has been selected because it represents the financial liabilities of both the monetary authorities and commercial banks, or currency plus deposits. In other words, the ratio of changes in M2 to gross national savings should reflect to what extent the financial system has been able to capture savings. Statistics suggest that the Thai financial sector has become increasingly efficient in financializing savings in the past three decades. The ratio of changes in M2 to gross national savings grew, on average, from 27 percent in the 1970s to 37 percent in the 1980s and 38 percent in 1990 to 1992. The same conclusion is reached when examining investment financing. The ratio of changes in domestic credits to gross domestic investment confirms greater efficiency in the Thai financial sector in financializing investment. That ratio rose on average from 30 percent in the 1970s to 32 percent in the 1980s and 38 percent between 1990 and 1992.

The above statistics may indicate that the efforts at “financializing” resources in Thailand have proved fairly successful from a macroeconomic context. And the financial liberalization measures undertaken since 1990 must have partly contributed to this growing financialization. From a microeconomic viewpoint, however, the data are rather disappointing. After one to two years of financial liberalization, the effective profit margin on interest rates attained by commercial banks grew from 0.9 percent in 1988 to 1.3 percent in 1990 and 2.3 percent in 1993 (see Table 21). These seemingly contradictory data may be misleading, as they suggest less competition and therefore may belittle financial liberalization. Theoretically, the atmosphere which suits liberalization contains no barriers, but the Thai banking industry has been permeated by such rigidities.

Table 20 Financialization of Gross National Savings and Gross Domestic Investment

(Amount in billions of baht)

Year	(1) Gross National Savings (GNS)	(2) Changes in M2*	(3) (2)/GNS	(4) Gross Domestic Investment (GDI)	(5) Changes in Domestic Credits**	(6) (5)/GDI
1972	35.9	11.6	32.3	36.9	11.6	31.4
1974	72.7	15.7	21.6	74.4	15.1	20.3
1976	74.4	21.9	29.4	83.1	26.0	31.3
1978	114.5	29.2	25.5	137.5	49.1	35.7
1980	131.9	46.3	35.1	174.0	49.4	28.4
1982	167.6	70.9	42.3	189.6	80.2	42.3
1984	193.8	87.4	45.1	242.5	97.9	40.4
1986	245.5	79.3	32.3	238.6	46.4	19.4
1988	468.1	147.5	31.5	508.4	147.0	28.9
1990	713.6	322.0	45.1	899.9	384.8	42.8
1992	961.5	285.3	29.7	1125.4	373.9	33.2

* Broadly defined money supply.

** Extended by commercial banks and central authorities.

Source: Bank of Thailand and National Economic and Social Development Board.

Table 21 Effective Interest Rates of Commercial Banks in Thailand

(Percent)

	1987	1988	1989	1990	1991	1992	1993
(1) Effective Deposit and Borrowing Rate	6.57	6.44	7.77	9.34	11.45	8.90	7.72
(2) Regulatory Costs	0.21	0.21	0.24	0.27	0.31	0.27	0.23
(3) Administrative Costs	1.91	1.93	1.92	1.94	1.92	1.93	1.96
(4) Total Costs = (1) + (2) + (3)	8.69	8.58	9.93	11.55	13.68	11.10	9.91
(5) Effective Lending Rate	9.53	9.51	10.82	12.90	14.50	12.66	12.21
(6) Effective Profit Margin = (5) - (4)	0.84	0.93	0.89	1.35	0.82	1.56	2.30

Source: Bank of Thailand.

Past records immediately demonstrate that the financial scenario in Thailand had, and continues to have, far less than perfect competition. For decades, entries or exits of commercial banks did not exist, since the central authorities always top-ranked stability over all other objectives. By all means, they tried to maintain stability by limiting the number of operating banks, by helping ailing

banks to survive, or by rehabilitating their financial positions. Even in the case of fraud or mismanagement, troubled banks or financial firms were rarely closed down. Neither were their unlucky depositors left uncompensated. Most problem banks or finance companies were taken over by other private or state banks, or companies which were jointly owned by a group of financial institutions. In short, the industry was well protected to preserve the country's financial stability and to maintain the confidence of the general public.

Because of this protectionist approach, the number of powerful banks was limited and price competition scarcely existed. Interest rate changes were always spelled out in an oligopolistic fashion by a few large banks, or by the Thai Bankers' Association. Other aspects of cartel also occurred, due to the fact that few suppliers of funds commanded a large portion of the market shares in all regards, e.g. deposits, credits, number of branches, variety of services, and technology. The circuit of finance and securities companies developed similar characteristics, especially after a series of crises was experienced in the early 1980s.

FUTURE OUTLOOK

Even though the aforementioned obstacles to financial liberalization may appear discouraging, they are not insurmountable. In 1993 and 1994, the degree of market competition in the Thai financial system rose markedly, as a result of liberalization measures already undertaken. Commercial banks and finance companies, for instance, became more alert in adjusting their deposit rates as a means to capture or retain deposits. This was done because domestic savers had more options as to where to place their savings, including securities in the stock market, unit trusts managed by the mutual fund companies, and bills of exchange or debt instruments issued by reputable private corporations. In other words, commercial banks and finance companies have been gradually losing their predominant market shares in handling domestic savings.

Once the government devotes more time and efforts to further trim down market barriers and rigidities, thus giving customers added mobility, more competition and efficiency will be achieved. Possible future measures could include:

- **Entry** The government may have to further broaden the role of finance companies so that they can better compete with commercial banks. More foreign banks and more Thai banks may then be allowed to open.
- **Exit** The government should also give thorough consideration to the exit policy and the disclosures of examination results.

These two policy directions are consistent with market mechanisms which facilitate financial liberalization. If such disclosures and exits are permissible, financial institutions will automatically feel pressurized to achieve admirable performances. In other words, these two policy channels function as a safety valve.

On the contrary, if the government insists on no exit, ostensibly for the sake of stability, customers will be more tempted to take risks, and moral hazard may be encouraged. Financial institutions may very well fall into the same trap. In other words, they may adopt a riskier strategy of financial management, frequently referred to as adverse selection. If and when the exit and disclosure policies are implemented, the role of the current Financial Institutions Development Fund will

have to be revised. More emphasis needs to be given to depositors' protection and less to the rehabilitation of troubled banks or financial firms.

The stages of financial liberalization are listed below, in increasing degrees of liberty.

- Relaxing the stringency of previous rules, step by step, e.g. branch opening requirements, mandatory rural credits, foreign exchange exposure, exchange controls, and interest rates;
- Broadening the scope of operations;
- Allowing financial institutions to branch out in both metropolitan and provincial or rural areas, and allowing eligible branches more freedom to opt for unconventional practices;
- Upgrading the status of financial institutions by means of mergers and acquisitions; and
- Authorizing the establishment of new members for each type of financial institution.

As demonstrated above, different degrees of financial liberalization are applicable to all types of financial institutions, e.g. commercial banks, finance and securities companies, credit fonciers, and mutual fund companies.

Thus far, the liberalization measures pursued in Thailand correspond to the first three steps listed above, and in sequential order. Gradualism is continually sought for the sake of prudence and stability. This may indicate the pattern of liberalization that the Thai monetary authorities will choose in the future.

In 1988, the authorities foresaw that waves of liberalization and globalism would prevail worldwide in the 1990s. Thai financial institutions were fortunate that liberalization measures were introduced early, since the entire adjustment process normally takes time. The remaining question is whether the Thai financial system has been sufficiently developed to withstand stronger competition in the global financial markets, or whether new financial institutions should be granted licenses. Practically, introducing new financial institutions is almost out of the question, because they could very well pose threats to financial stability. An attractive alternative to entries is to further develop and upgrade existing financial institutions. Several finance and securities companies are now ready (e.g. with respect to capital base, manpower, and facilities) to assume the status of commercial banks.

It comes as no surprise, therefore, that the monetary authorities have recently provided certain special privileges to motivate finance and securities companies to separate their finance businesses and securities businesses. Such separation is generally seen as one essential prerequisite for conversion to commercial banks. Similarly, the authorities have given finance companies the opportunity to set up provincial credit extension offices to strengthen their operation bases. This coincidentally corresponds to the government's objective to spread economic development to the rural areas.

As for small and unqualified financial firms, mergers and acquisitions should serve as a promising means to improve their capability to compete and to upgrade their status. Toward this end, the government may need to provide incentives to healthy finance companies to take over ailing ones or credit foncier companies. An example of these incentives is giving permission to finance companies to set up more branches or to undertake a broader scope of operations.

These methods also apply to other types of financial institutions. Insurance companies, for example, are numerous in Thailand, but few operate efficiently. The same can be said of savings and agricultural cooperatives. Improving the competitive capacity of domestic financial institutions will definitely enable them to cope with foreign ones in the current atmosphere of worldwide liberalization.

Regarding the exchange rate frontier, since the current foreign exchange market is still dominated by a few traders, i.e., mostly commercial banks, it is understandable that the Thai monetary authorities have decided to unilaterally fix the baht value to a basket of currencies on a daily basis. If the exchange rate was left to market forces, excessive fluctuations, which disturb domestic price stability, could easily occur, due to speculation and the market remaining too thin or fragile. These events took place several times between 1979 and 1981, resulting in waning confidence in the baht and a reversion to the previous unilateral exchange rate specification. Nevertheless, more permits are being given to new foreign exchange traders, e.g. eligible finance companies. Once the Thai foreign exchange market is equipped with a large number of traders and adequate competition comes into play, the authorities will be more willing to allow the exchange rates to be (partially) determined by market forces.

From another angle, the government seems to have foregone some of the interest rate and exchange control policies which formerly controlled the economic climate of the country. Benefits of such a sacrifice may not be evident. Nevertheless, the automatic adjustments of prices and quantities help the central authorities to avoid resorting to financially repressive measures. At a time of high inflation, for example, the Central Bank previously had to impose a ceiling on credit growth; it also had to give emphasis to particular credit direction, and to lean on moral suasion. The utilization of interest rate instruments was also subject to several types of constraints, especially political ones. Under liberalization, on the other hand, market distortions or constraints can be ignored. Yet, these implicit gains from financial liberalization, or automatic adjustments, do not immediately occur, since the entire adjustment process takes a certain period of time.

Careful appraisal of the situation indicates that the government has not lost all its control of the pace of overall economic activities. It can still utilize indirect means to influence the market, e.g. intervention in the repurchase market and moral suasion. These means are effective, but they are distinctly different from the previous system, which was full of directives or explicit interference.

Amid the present global economic atmosphere, which is flooded with competition, it seems that financial liberalization, though not imposed by any international organization, is the only viable alternative which will enable Thailand to cope with rapid market fluctuations. Once the appropriate extent of competition is authorized, it is expected that the final outcome of financial liberalization in Thailand will prove better than that of the previous directive system.

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Thailand's Financial System: Structure and Liberalization

The early 1990s saw fundamental changes in Thailand's conventional financial system, the most important of which was a broad liberalization in nearly every component of the system. This study investigates Thailand's major financial institutions, describing their roles, sizes, and evolution. Macroeconomic issues are also examined, as are the development of various aspects of the financial markets, including money markets, the foreign exchange market, government securities and commercial paper markets, and the stock market.

The prime focus is on recent reforms, principally the dilution of exchange controls, more freedom in interest rate specifications, growing flexibility in portfolio management, a globalized standard of capital adequacy, a broader scope of operations, and the establishment of Bangkok International Banking Facilities (BIBF). In each facet of liberalization, the underlying motives, sequencing of measures, and responses from private enterprises are analyzed. The study concludes by presenting an overview of the financial system's achievements and its likely future trends.

