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Thai banks ready to hand over burden of bad loans

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COMPANIES &FINANCE ASIA-PACIFIC - Thai banks ready to hand over burden of bad loans - The TAMC ...

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COMPANIES &FINANCE ASIA-PACIFIC - Thai banks ready to hand over burden of bad loans - The TAMC will give a breathing space to a struggling sector, but not tackle the deeper structural issues, says Amy Kazmin.

Just a week after Thaksin Shinawatra, the Thai prime minister, formally took office in February, he called leading bankers to a seaside resort for talks about the ailing sector.

His agenda was to help revive banks, still burdened with bad debts from the 1997 Asian economic crisis, so they could become engines of economic recovery by lending money.

After a day of talks, Mr Thaksin unveiled plans for a powerful new state agency to buy out and manage about $28bn in bad debts from state-owned and private commercial banks.

Bad debts are due to be transferred to the newly formed Thai Asset Management Company next month. But for all the government's rhetoric about its swift action to restore the weak financial sector to health, analysts say the bad debt buy-out will do little to ease the woes of private banks, which account for 75 per cent of the Thai banking system's assets.

While the TAMC has been given extraordinary powers to liquidate, restructure and dispose of assets, most of the bad debts it will handle are those at state banks.

Stricter-than-expected conditions for private commercial banks to transfer their loans to TAMC will leave them grappling with the bulk of their bad debts alone.

That means the biggest portion of the banking sector will continue to struggle with weak capital bases, bad asset quality and resulting poor profitability.

Bankers say they do not see any sign of progress so far in the one area that could help them the most: strengthening Thailand's weak bankruptcy and foreclosure laws, which make it difficult for bankers to recover on bad debts.

"The TAMC will help weaker banks, giving them some breathing room for raising capital at a later stage, but the lingering structural problems will remain," says Vincent Milton, managing director of Fitch Ratings Thailand. "The measures to deal with the private banks are still limited."

At their peak in 1999, bad debts accounted for nearly 50 per cent of total loans in Thailand. Though bad debts have since been reduced to about 20 per cent of total loans on banks' balance sheets, many of the distressed assets are sitting in holding vehicles - off the balance sheet, but unresolved, leaving many Thai companies mired in debt.

While the powers granted to the TAMC could speed restructuring, Andrew Maule, head of research at ABN Amro, says private banks will only transfer about Bt69bn ($1.5bn) in bad debts - an estimated 14.5 per cent of their total bad loans - to the TAMC, less than 45 per cent of the initial Bt160bn target.

The transfers will reduce non-performing loans to about 15 per cent of private banks' total loans, down from 18 per cent.

Bangkok Bank, the country's biggest, has indicated it will transfer about Bt27bn, or 20 per cent, of its NPLs.

Andrew Stotz, banking analyst at SG Securities, says the TAMC could help a sector that has been hindered by disagreements among creditors and rules that hold state bank employees liable for losses.

"It's designed to help the government banks and it probably will do that reasonably well," he says. "If you take all the NPLs of the state banks, put them under one roof and manage them in a systematic way ... it's going to cause state bank restructurings that have been stalled to restart."

But even here, analysts see plenty of risks ahead. A group of 100 senators has already petitioned the Constitutional Court to dilute the TAMC's powers, which they contend are excessive and arbitrary.

The senators are particularly upset about provisions that would prevent defaulting debtors from appealing against work-outs developed by the TAMC.

Former finance minister Tarrin Nimmanahaeminda, who strongly opposed setting up a consolidated asset management company during his own tenure, says there is a danger the agency will end up as just another bad debt warehouse. "Without extraordinary power, (the TAMC) is just a house for inventory of things to be kicked around," he says.

Others worry that the TAMC will end up as a means for powerful debt defaulters to be restructured at public expense, undermining Thailand's already fragile credit culture. One area ripe for potential abuse is the TAMC's power to release creditors from "personal guarantees", in which their personal wealth was used as collateral against loans.

One senator claimed that many of the large debts slated for transfer to the TAMC by the state banks were owed by companies run by influential people, including a relative of the premier, and a company started by Adisai Bodharamik, commerce minister.

Kenneth Ng, head of research for ING Barings, says avoiding moral hazard will be a crucial challenge for the TAMC management.

"If you start giving away haircuts without any accountability, debtors under restructuring will see the benefits of being transferred to the AMC," he says. "It doesn't cultivate good financial discipline."

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