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**External dimension of the internal market and financial services**

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**THAILAND**

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## Introduction

In 1993, GDP at current prices in Thailand was 3,132 bn THB (ECU<sup>1</sup> 109 bn). With a population of 58.3 mn, GDP per capita represented 53,723 THB (ECU 1875). A real GDP growth of 8.2% is expected for 1994.

Rapid economic growth, illustrated by an average 7.4% GDP growth a year over the last 20 years, and increasing sophistication of the Thai economy have had significant impact on the structure of the financial sector. Alongside the traditional activities of loan financing dominated by domestic Thai banks, equity financing has been nurtured by a tremendous expansion of the Stock Exchange of Thailand.

## CREDIT INSTITUTIONS

Promotion of Thailand's role as a regional financial center has been enhanced by the issuing in 1993 of offshore licences to foreign and domestic banks under the Bangkok International Banking Facility (BIBF). This action has been prolonged by the subsequent granting, at the beginning of January 1995, of offshore banking licences under the Provincial International Banking Facility. This will allow foreign banks to establish up to two branches in five provinces, as a contribution to rural development.

Controls over foreign exchange movements have been relaxed since 1990. And the government is keen to encourage the establishment of a baht zone in Indochina. The stability of the baht, which has varied by only 5% in the past two decades, is undoubtedly an asset in this respect.

Efforts of the Bank of Thailand to promote the competitiveness and soundness of the financial market have been maintained.

Banks have been required to publish general lending rates, which levels are set by the market, and reduce spreads between borrowing and lending rates, in an effort to narrow the current domestic savings-investment gap. Although the Thai savings rate is substantial, it has indeed fallen behind investment demand. Savings represent 33% of GDP in 1993, but investment projects were valued at 41-42%. Deposits grew only 12% in the year to September, compared with lending growth of 17%, and the difference between bank loans and savings doubled from 12 billion dollars to 24.8 billion dollars. Commercial banks have continued to profit from interest margins averaging 4.5%, and posted average earnings increases of 50-60% for the third quarter.

Capital adequacy standards have closely followed those set by the Basle Committee: as of 1 January 1995, Thai banks will indeed be required to maintain a capital to risk-weighted assets ratio of at least 8%.

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<sup>1</sup> Exchange rates :  
 At 1993 year end 1 ECU = 28.68 THB  
 Annual average 1 ECU = 29.65 THB

## **Commercial banks**

Commercial bank activity traditionally dominates deposit taking in Thailand. However, commercial bank deposits, while continuing to grow in real terms, have seen their share relative to total financial assets dramatically fall from 74% in 1990 to 37% in 1993. This is explained by the substantial shift in the composition of financial portfolios in favour of stockholding that was induced by the high returns generated by investment in Bangkok's stock market.

Commercial banks are now allowed to diversify into lines of activity that, until now, were reserved to finance and securities companies: underwriting of debt instruments, securitization, and asset management.

The 15 Thai commercial banks account in 1993 for 93% of banking assets (compared to 95.3% in 1990), 97.7% of total deposits with commercial banks.

To strengthen their networks and to reduce their almost total dependency on interest-based trading, Thai banks are lobbying for underwriting licenses and expanding into overseas markets. Bangkok Bank and Thai Farmers have both handled recent bond issues, formerly a preserve of finance firms, and started restructuring their retail systems. They are also seeking to expand their operations overseas, mainly in China and Indochina.

## **Finance companies**

The second largest category of financial institutions are the 91 finance and securities companies, which accounted for assets of 516 billion baht at the end of 1993, representing 12.5% of total financial assets, compared to 14% in 1990.

Their activities include short-term finance, hire purchase, underwriting and security trade and other investment and advisory services. The recently allowed access of commercial banks to some of these areas will increase competition and restructuring of a sector where consolidation through mergers and takeovers has been actively encouraged by the government.

## **Other**

The remaining institutions account for 8.5% of total financial assets. The most important of these are government-owned financial institutions: the Government Savings Bank, which aims at mobilizing primary household savings through an extensive branch network and the Government Housing Bank, which facilitates house purchases by persons of moderate income. Other financial institutions include the Bank for Agriculture and Agricultural Cooperatives, the Industrial Finance Corporation of Thailand, a privately owned development bank primarily financed by foreign borrowing, the Small Industries Finance Corporation, 16 credit foncier companies, 1977 agricultural companies, 965 savings cooperatives, 12 life insurance and 367 pawnshops.

	Assets (bn THB)	%
Total commercial banks	3291	79
Government Banking institutions	354	8,5
Finance companies	516	12,5
Total	4161	100

Source : Bank of Thailand

	Number	Assets (bn THB)	Deposits (bn THB)
Domestic commercial banks	15	3324	2526
Non-EU foreign commercial banks	11	186	39
EU foreign commercial banks	3	47	13
BIBF foreign Units of which	20	83	-
EU BIBF Units	6	7	-
Total		3640	2578

Source : Bank of Thailand

### **PRESENCE AND MARKET SHARE OF EC FINANCIAL INSTITUTIONS**

At the end of 1994, there were 14 foreign owned or controlled banks operating onshore in Thailand. Of this number, 3 foreign owned banks were EU owned or controlled. There were also a further 11 EU banks that maintained representative offices in Thailand, out of a total of 38 foreign representative offices.

At the end of 1993 commercial banks incorporated in Thailand operated 794 branches within Thailand and a network of 1762 Automatic Teller Machines. The 14 foreign banks had a total of 14 branches within Thailand.

Measured in terms of assets and deposits, foreign banks incorporated abroad play a marginal role in the Thai onshore banking system accounting for only 6,4% of total assets and 2% of deposits. EU owned or controlled banks accounted for assets of 47 bn of THB, or 1.3% of total banking assets in Thailand and 0.5 of the total bank deposits. In

contrast, the banking sector is highly concentrated, with the five largest domestic banks accounting for 65% of total banking assets.

In March 1993, the Thai financial authorities established the Bangkok International Banking Facility (BIBF) with a view mainly to promote Thailand as a regional offshore center ("out-out" access) and to a lesser extent to provide low-cost foreign loans to Thai businesses ("out-in" access). In this context, 47 licences have been issued to commercial banks to operate offshore banking units. All 15 domestic banks, 12 of the 14 foreign commercial banks already operating in Thailand, and 22 other foreign banks with representatives offices in the country received BIBF licenses. Offshore banking units are limited in their operations and cannot make baht loans and take domestic deposits in the domestic market. By June 1994, there were 20 BIBF foreign units operating in the Thai offshore market. Their assets reached 83 bn of THB (2.3% of total banking assets). Assets of EU offshore banking units were 7 bn of THB. In June 1994, onshore lending of foreign exchange totalled \$12.7 bn, with foreign banks accounting for 47% of the total. International lending amounted to \$5.3 bn with foreign banks accounting to 80% of the total.

This scheme has been extended in January 1995 to 5 Thai provinces under the name of Provincial International Banking Facility. 22 foreign banks, of which 8 were EC controlled or owned, have been granted offshore banking licences to operate 37 offices. A maximum of two offices was allowed for each applicant.

## **MARKET ACCESS AFFORDED TO EU CREDIT INSTITUTIONS**

### **Establishment and acquisition**

New foreign bank entry into commercial banking system is not allowed in Thailand. No new onshore banking license has been granted since 1978. However, the recent granting of offshore banking licenses to foreign commercial banks under the BIBF and PIBF schemes can be viewed as a potential opening, though a limited one, of the Thai banking market. It allows some foreign currency lending to Thai enterprises ("out-in" transactions). In addition, Thailand has committed itself under the GATS to grant up to 5 full banking licences with a deposit-taking capacity by 1997 to some BIBF/PIBF foreign banks. However, their granting will be conditional to the achievement by these banks of the general objective set by the Thai authorities of promoting Thailand as a regional offshore center. Though consideration is being given by the Thai government on the possibility to grant more full banking licences, there is no clear indication about figures or calendar.

Consideration is given to the granting of additional BIBF licenses: at the end of January 1995, 25 banks had already sent a letter applying for a second round.

Foreign banks are not permitted to open "onshore" branches in Thailand. Each foreign bank is permitted to operate only one branch, with the exception of those branches grandfathered in the 1950's. Since Automated Teller Machines are considered by the Thai authorities to be branches, foreign banks are, in practice, denied access to the ATM network since foreign banks may only operate one ATM within its own branch.

The limitation on branching and the use of the ATM network severely hinders the right of establishment of foreign banks and their ability to gain effective market access, since this discriminatory treatment prevents foreign banks from competing effectively with domestic banks. It also results in higher financing costs for foreign banks in relation to the inter-bank market due to the inability to operate an effective retail network.

The limitation on licences and branching might be avoided by the purchase of existing domestic banks and finance and securities companies. However, total foreign ownership of commercial banks and financial companies is limited to 25% of the shareholder capital; in addition, the non-discriminatory limitation on shareholdings prevents this. Both Thai and foreign entities are limited to a maximum equity shareholding of 5% in a locally incorporated commercial bank and a 10% shareholding in a locally incorporated finance company.

### Activity

Stringent loan-to-capital ratios and the limit on lending to one individual of 25% of branch capitalization, place foreign banks at a relative disadvantage. The Royal Thai Government also requires that capital of foreign banks must be invested in Government securities or held in deposits in State financial institutions. Similar requirements apply to domestic banks. However, BIBF banks are required to keep assets of 100 mn bt only, versus the 125mn bt required for regular commercial banks.

BIBF/PIBF operations can only be foreign currency denominated. Under the PIBF, offshore banks will only be allowed to provide loans to a maximum of the equivalent of 1 billion baht outstanding per office. As for Eurodollars loans, each customer should borrow at least \$500,000. BIBF/PIBF offices are permitted to take foreign exchange deposits, both savings and term accounts from local and foreign residents and can offer investment banking services.

The Thai revenue code imposes a 10% withholding tax on foreign funds brought into Thailand but exempts Thai-owned banks with branches overseas from the withholding. There is a 10% withholding tax on interest on off-shore loans from banks and 25% in cases of loans from non banks. However there is no withholding tax if the lender is a state agency, a branch of a Thai bank, or the lender is in a country which has double taxation agreements on loan interest with Thailand. BIBF banks enjoy a 10% corporate income tax rate (vs. the standard 30%) and are exempt of the 3.3% business tax. But the banks are still liable to withholding tax of 10% or 15% on repatriated interest from "out-in" transactions, depending upon negotiated double-taxation agreements.

Strict limitations on the use of expatriate staff (six expatriate managers for full-licensed branches, two for representative offices, four for banks operating as BIBF/PIBF branch only) and the inability for foreign companies to own land create difficulties for the operation and expansion of foreign banks.

## INSURANCE

At the end of 1993 a total of 74 insurance companies carried out insurance business in Thailand. This included 69 companies that were locally registered of which 7 were life companies, 4 composite companies, 6 health insurance companies, 1 reinsurance and 51 were non-life companies. A further 5 companies carried out insurance business through foreign branches, 1 of which was carrying out composited insurance business and the remaining 4 were transacting non-life insurance business.

**Table 3 - Indicators of Insurance Business - Year 1993**

	Life	Non-life	Total
Total premiums (in THB bn)	34.5	33.0	67.5
· Premiums underwritten by non-EU foreign insurance companies	17.2	n.a.	n.a.
· Premiums underwritten by EU insurance companies	-	n.a.	n.a.
· Premiums as % of GDP	1.1	1.0	2.1
· Premiums per capita (in THB)	592.0	566.0	1158.0
Number of insurance companies of which	12	62	74
· EU insurance companies	-	1	1
· Non-EU foreign insurance companies	1	3	4

Source : The Insurance Department and The Thai Life Insurance Association

### **Presence, Market Share And Profitability of Ec And Other Foreign Financial Institutions**

Foreign insurance companies play a very large role in the Thai insurance market. At the end of 1993 foreign life insurance accounted for 50% of total direct premiums in the life insurance sector.

## MARKET ACCESS PROBLEMS FACED BY EC INSURANCE COMPANIES

### Establishment and acquisition

No new licences to operate life or non-life insurance companies are being granted. The only form of commercial presence allowed is a up to 25% participation in joint ventures for both insurance sectors.

### Activity

A branch of a foreign insurance company is not allowed to conduct the business of insurance brokerage and agent.

## SECURITIES MARKET

The Stock Exchange of Thailand (SET), established in 1975, has experienced a very strong development fostered by rapid growth in the Thai economy in the 1980s and a sustained interest of foreign investors.

The Securities and Exchange Commission (SEC) was established in 1992 to regulate and develop Thailand's security industry. Programmes of market reform were pursued through 1993 to enhance Thailand's claim to regional financial status. Reforms include deregulation of debt instruments and private funds and improved access for pension funds and other institutional investors.

By end of 1993, the SET had listed 347 companies and total market capitalization at market value amounted to \$131 billion, compared to \$24 billion in 1990. Expected privatization of large state enterprises would certainly contribute to the expansion of the stock market. However, because of the size of the state sector, these would have to be very progressive. Indeed, the 15 strongest state enterprises account for 55% of GDP and contribute 20 billion dollars a year (16% of GDP) to government income. According to the World Bank, just four simultaneous flotations would account for 16% of total market capitalisation.

Foreigners held 40% or more in 40 listed companies as of mid-1993. Thailand became a market favourite with international investors in 1993 largely because of its undervalued shares, and the foreign capital inflow for portfolio investment reached Bt 12 billion in the first half of the year. About 6 % of total investment comes from foreign source, with portfolio investment accounting for 80%. There are more than a dozen foreign funds serving Thailand; the main overseas listings are London, Hong Kong, and Tokyo. Offshore fund investment was expected to reach Bt 8 billion in 1993, while onshore funds reported total investment of Bt 40 billion as of mid-1993 on assets of \$668 million.



The SET is currently served by 40 member brokers. Other registered securities companies can act as sub-brokers via an exchange member, by taking retail orders and placing them upon payment of a fee through one of the 40 brokers. The SEC is currently seeking separation of the financial and securities operations of the 32 brokerage firms with dual roles. Thai authorities have indeed become concerned, for prudential reasons, about the stability of those finance and securities firms.

	1992	1993
Turnover in equity shares (THB bn)	1826	2128
Turnover as % of GDP	65	68
Capitalisation equity shares (THB bn)	1460	3256
Number of listed companies	305	347

Source : FIBV

## **MARKET ACCESS PROBLEMS FACED BY EC SECURITIES COMPANIES**

### **Establishment and acquisition**

The maximum foreign ownership in a finance company is 25% in the case of finance companies and 49% in the case of securities firms. However, as a result of exceptions granted to revive firms in difficulty, foreigners hold more than 25% (the normal limit) in five finance companies. In addition, separate licenses are required for each activity undertaken by securities companies (securities brokerage, securities dealing, investment advisory, securities underwriting, mutual fund management and private fund management). This cumbersome procedure, applied in a non-discriminatory way, is based on prudential grounds.

Branches of foreign banks under the BIBF programme are permitted to set up private funds on the same basis as local finance and securities houses.

### **Activity and acquisition**

Foreign citizens are prohibited from taking part in brokerage (or sub-brokerage) activities by the Alien Business Law of 1972. Only those finance and securities firms with less than 25% foreign ownership may participate in brokerage activities, with the exception of those companies established before 1979, which may have up to 50% foreign ownership.

Seats in the SET have been made available to successful bidders by auction. However, the approximately 350 million baht entrance fee has deterred potential new members of the exchange.