**Box 1. Financial Sector Restructuring: Immediate Measures**

- Sixteen finance companies were suspended in late June and will remain suspended until recapitalized, merged with new domestic or foreign partners, absorbed by a few “core” finance companies, or liquidated after the due diligence process has been completed. A second group of 42 finance companies was suspended in early August and will be subject to similar procedures.

- In unviable companies, shareholders’ equity and subordinated debt will be written down in the first instance to cover losses.

- Depositors will be treated as follows:
  - in the 16 suspended finance companies, claims will be restructured in the form of onnegotiable instruments, with 6-60 month maturities depending on size, and carrying market interest rates;
  - in the 42 other suspended companies, the instruments will be on similar terms, but negotiable;
  - in all domestic banks and remaining finance companies, depositors’ claims will be honored promptly in cash (in baht).

- Creditors will be treated as follows:
  - in the first group of 16 suspended finance companies, claims will be renegotiated or honored in accordance with liquidation procedures;
  - in the second group of 42 suspended companies, claims will be restructured in the form of negotiable instruments similar to the arrangements for depositors, but with an interest rate of 2 percent per year, i.e., substantially below market rates; and
  - in all domestic banks and remaining finance companies, creditors’ claims will be honored promptly in cash (in baht) through the Financial Institutions Development Fund (FIDF).

- The government has announced that it will not make available public funds to aid corporate and household borrowers, domestic or external.

- FIDF lending rates have been raised above the highest deposit rates in the system and all liquidity support will be subject to conditionality.

- Asset growth by individual institutions will be closely monitored by supervisors and no net increase in foreign borrowing will be allowed unless approved by the BOT, based on prudential criteria.

- A compulsory contribution to FIDF on all protected liabilities of financial institutions has been introduced; it will be charged semi-annually and will amount to 0.15 percent in December 1997, and it will be raised to 0.2 percent in June 1998 and in December 1998, based on outstanding balances at the end of the previous quarter. To give institutions an incentive to leave the scheme, the fee may be increased further and participation may become voluntary in 1999.

- Deposit rates in the financial system will be officially capped at 3 percentage points above the average deposit rate of the five largest commercial banks **(performance criterion as of September 30, 1997)**.

- Banks will begin making loan loss provisions on the basis of more stringent asset classification rules. Furthermore, banks will be allowed full tax deductibility on their 1997 income for specific provisions required by the BOT **(performance criterion as of December 31, 1997**).

- Commercial banks and remaining finance companies will be required to raise their capital in anticipation of possible further deterioration in their asset quality. Banks have been encouraged to seek foreign participation, and the previous limit on foreign ownership has been waived for troubled banks and finance companies.

- Severely undercapitalized institutions that cannot raise their capital to the legally required level will be taken over by the FIDF **(performance criterion as of November 15, 1997**).