

Recapitalisation aid details by next week.2

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FINANCE Minister Tarrin Nimmanahaeminda said on Wednesday that details of government assistance to help financial institutions recapitalise will be submitted to the Cabinet next week.

Tarrin said the guidelines would clear up questions about when and to what extent new loan extension and debt restructuring would allow the institutions to qualify for tier-2 capital support.

The Finance Ministry and the Bank of Thailand announced on Aug 14 that the government will issue Bt300bn in bonds to fund the banking recapitalisation programme. Of that, Bt200bn in bonds can be swapped for preferred shares of qualified institutions and counted as tier-1 capital. Tier-1 capital consists of common shares, preferred shares and warrants.

The rest is set aside to buy subordinated bonds of qualified institutions, to increase their tier-2 capital, which includes subordinated bonds.

The tier-2 assistance will be equivalent to capital write-offs in debt restructuring and 20% of new loan extension.

The guidelines, to be approved next week, will determine at what point in the long process of corporate debt restructuring the institutions can apply for the programme, and define what kind of loans will qualify as new loans.

Institutions have asked the authorities whether new domestic loans used to pay off foreign debt will qualify.

Thailand's financial institutions are struggling to maintain capital levels at a minimum 8.5% of risk assets due to mounting loan-loss reserve requirements. Non-performing loans accounted for 36% of total loans at the end of June on a three-month non-accrual basis.

Thai banks must phase in reserves required on a three-month basis by Jan 1, 2000. But if they want to participate in the tier-1 assistance programme, they must meet the full year 2000 reserve requirements first.

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