

Session 3

Improvement of Corporate Governance in Thailand: A Decade after the Crisis

Kanit SANGSUBHAN

Director, Fiscal Policy Research Institute, Ministry of Finance, Thailand

Abstract

Lacking of good corporate governance was among the top factors which caused the economic crisis in 1997. The real estate bubble in 1993 was caused by excessive competition among the group of developers, financial institutions, and speculators. Without proper risk management, their combined forces had supported supply of housing for more than 100,000 units, 3 times higher than the normal demand for housing. Appreciation in value of real estates led the financial institutions to increase the housing loan offered by which in turn increased profit and value of equity of the financial institution. As a result the equity value of the Banking sector of the Securities Exchange of Thailand (SET) increased from 300 billion Baht to 1,100 billion Baht, or more 2.6 times during 2003-2006. When the bubbles burst in 1997, the housing supply reduced to level of thousands, and the equity value of the banking sector deflated to lower than 200 billion baht the year after. Since then, the Thai Authorities and leaders of private corporations and state enterprises had paid high attention to issue of good governance system.


This paper focuses on the policies, measures, and capacity building to improve the governance system of the listed companies, and the private banks. The improvement began with awareness at the high level of policy makers by establishing the “National Committee on Good Governance”, chaired by Prime Minister, in 2002. The committee issued policies and guidelines of good governance for public and private sectors under 5 core principles—gradual moving with target, supporting not enforcing, closely monitoring with punishment when abusing the law, balancing of incentive and enforcing measures, rules and regulations must based on appropriation and practical. The government also announced 2005 as the year of good governance. For the listed companies, there have been several important guidelines including;

- Every director must pass the Director Certification Course organized by the Thai Institution of Directors (IOD).
- Every listed company must institute the auditing committee which chaired by independent directors.
- Strict transparency guideline imposed on the arrangement of Annual Generally Meeting (AGM) of share holders such that the right of minority share holders can be maintained.

In the early 2004, Thailand entered the Corporate Governance - Report on the Observance of Standards and Codes (CG-ROSC) Program of the World Bank. It is an attempt to work towards good corporate governance at the level of the international standard since the assessment criteria were benchmarked against the OECD principles in six areas—corporate governance framework, rights of shareholders, equitable treatment of shareholders, roles of stakeholders in corporate governance, disclosure and transparency, and responsibility of the board. Generally, Thailand passed 22 out of total 32 principles, and no areas of assessment did Thailand below the international standard, a satisfactory ranking against other Asian countries.

In the banking sector, the more stringent guidelines were imposed upon those applied to the listed companies. The Bank of Thailand provided strict supervisory on risk management by which every financial institutions improve capability of personal to comply with the international standard. In 2007, all banks have to comply to the IAS39, an international account standard. Moreover, in 2008, all banks have to meet all Basel II requirements.

For the real estate business, apart from the cautiously lending policy of the financial institutions, since most of the large real estate businesses are listed company, they are subjected to the good governance guideline. Moreover, the information center of the real estate business has been set up. Regularly, the center provides the overall demand, supply and price so that the developer will not create the bubble again.

<p>Kanit SANGSUBHAN Director, Fiscal Policy Research Institute (FPRI), Ministry of Finance, Thailand</p>		
<p>Academic Degrees</p>		
1979	B.A. Economics, Thammasat University	
1983	M.A. Economics, Thammasat University	
1992	Ph. D. Economics, University of Toronto	
<p>Field of Study</p>		
<p>International Finance, Macroeconomics, Regional Cooperation</p>		