

Legal Updates: Revisions of Interest Rate and Interest Calculation under the Thai Civil and Commercial Code

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With no end of the economic downturn caused by the COVID-19 pandemic in sight, the government sector has been launching a series of measures to alleviate financial burdens and increase cash circulation in order to loosen up the economic stiffness. These measures range from legal amendments, enforcement of new tax regulations, and revisions to fiscal policies. To this same extent, on 9 March 2021, the Cabinet approved the amending of traditional provisions in the Thai Civil and Commercial Code (“TCCC”) regarding interest rates which have been enforced for over 95 years. With such aims, the Act Amending the Thai Civil and Commercial Code on the default interest calculation (“Act”) is proposed to eliminate outdated provisions that no longer accord with the evolving economy and impose an excessive burden on all stakeholders in the system.

Although the Act has not yet been finalized and prone to further revisions, this article summarizes the outline and main perspectives of the current draft to provide a glance at these major legal updates as follows:

1. Loan interest rate

As per Section 7 of TCCC, the creditor can generally charge interest at the fixed rate of 7.5% per annum in case the interest to be paid is not stipulated in the loan agreement. With this respect, the Act suggests reducing the fixed rate down to 3% per annum. This loan interest rate shall be revised on a three-year basis and it can be adjusted by the subsequently enacted Royal Decree.

2. Default interest rate

In Section 224 of TCCC, by the force of law, the default interest rate was fixed as of 7.5% per annum. This is regarded as a base rate of the default interest under Thai jurisdiction. With this being considered, the Act proposes the rate to be volumed down to 5% per annum.

3. Principal amount for default interest calculation

In case the repayment is divided into installments, the Act introduces that the default interest calculation shall be computed only on the defaulted installment. As a result, in contrary to their previous practices, creditors can no longer charge default interest on the remaining installments which has not yet been due upon debtors’ failure to pay any single installment.

In this consideration, the comparison between the provisions in TCCC and the proposed calculation principles under the Act could be drawn as follows:

	TCCC	The Act
1. Loan Interest Rate	7.5% per annum	3% per annum
2. Default Interest Rate	7.5% per annum	5% per annum
3. Principal Amount Based for Default Interest Calculation	The creditor can compute default interest on the total principal amount	The creditor can compute default interest only on the overdue installments

Upon enforcement, the provisions in this Act shall only apply to interest calculation for defaulting events that occur after the effective date of the Act. Nevertheless, any previous agreements drafted in contrary to the method of default interest calculation under 3. shall be void.

Concluding Remarks

We expect that the Act shall be enforced within this year due to urgent necessity of alleviating legal measures. Considering the long legislative process of TCCC amendment that could take several months, the efficiency of this Act to reduce burdens of debtors and institutions during the spreading of COVID-19 is highly skeptical and not as promising; these challenges may have to be tackled by other the executive mechanisms.

Despite such inconvenience of Thai legislative procedure, a revision of TCCC to adopt more realistic interest base rates that reflects the current market situation is believed to strengthen Thai economy, contribute compatibility with the current economic states, and benefit the system as a whole. As for this stage, the Act is currently under the process of the House Representative, and the society could only expect the premature enforcement of the Act to readily ease up the current level of national indebtedness of Thailand.

For more information in Thai, please refer to this [link](#).