

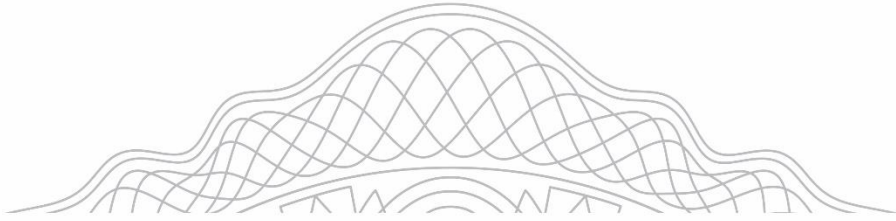


BANK OF THAILAND

# Bank of Thailand's Strategic Plan 2020-2022

## Central Bank in a Transformative World





## **Vision**

**“To be an organization of vision and principles that engages with stakeholders in pursuit of Thailand’s sustainable economic well-being”**

## **Mission**

**“Promoting a stable financial environment to achieve sustainable and inclusive economic development”**

## **Value**

**“Principles, Vision, Collaboration, Humility”**



# Bank of Thailand's Strategic Plan 2020-2022

## "Central Bank in a Transformative World"

### Environmental Scan

The objective of the Bank of Thailand (BOT)'s 2017-2019 strategic plan was to lay the foundation for an economic and financial system that would help promote stability along with sustained and inclusive growth of the Thai economy as well as to support a transition into the digital economy in the volatile, uncertain, complex, and ambiguous (VUCA) environment.

Looking over the next three to five years, the BOT envisages that the Thai economy will face an increasingly VUCA or the so-called **VUCA+ environment** whereby **disruptive technology** will become a key driving force for rapid changes in people lifestyles, business models, financial services and economic systems. **Democratization** will prevail as the economic and social structure is likely to be more decentralized, marginalizing the role of central authority or public agencies. Moreover, household debt, aging society, political pressure towards populist policies, and geopolitical risks will be presenting structural challenges to Thailand's competitiveness and inequality problems going forward.

In this VUCA+ environment, the new **BOT's three-year strategic plan (2020-2022)** carries the theme of "**Central Bank in a Transformative World**". The aim is to navigate the BOT's operations in a rapidly changing environment and to strengthen the resiliency of Thailand's financial and economic system to meet the upcoming challenges as well as to help promote an inclusive and sustainable growth of the Thai economy.

**Guiding Principles** for the formulation of this strategic plan are as follows: **(1) employ a theme-based approach** instead of a function-based approach because the upcoming challenges are more interconnected and, to encounter them, collaborations among related departments are needed; **(2) define outcomes and formulate strategic plans that support the transformation** to meet the fast changing world; **(3) engage with internal and external stakeholders** to ensure holistic planning and shared common visions; and **(4) answer four strategic questions**, including 1) why do we need to change? (**Strategic issues**) 2) what will we change? (**Strategic directions**) 3) how will we implement the change? (**Key initiatives**) and 4) what will success look like? (**Intended outcome**). Detailed action plans are formulated accordingly, together with key milestones and expected outcomes which will be monitored and reviewed over the course of three years.

## Key Challenges

The BOT has identified the following **seven strategic challenges** that have to be effectively addressed over the next three years:

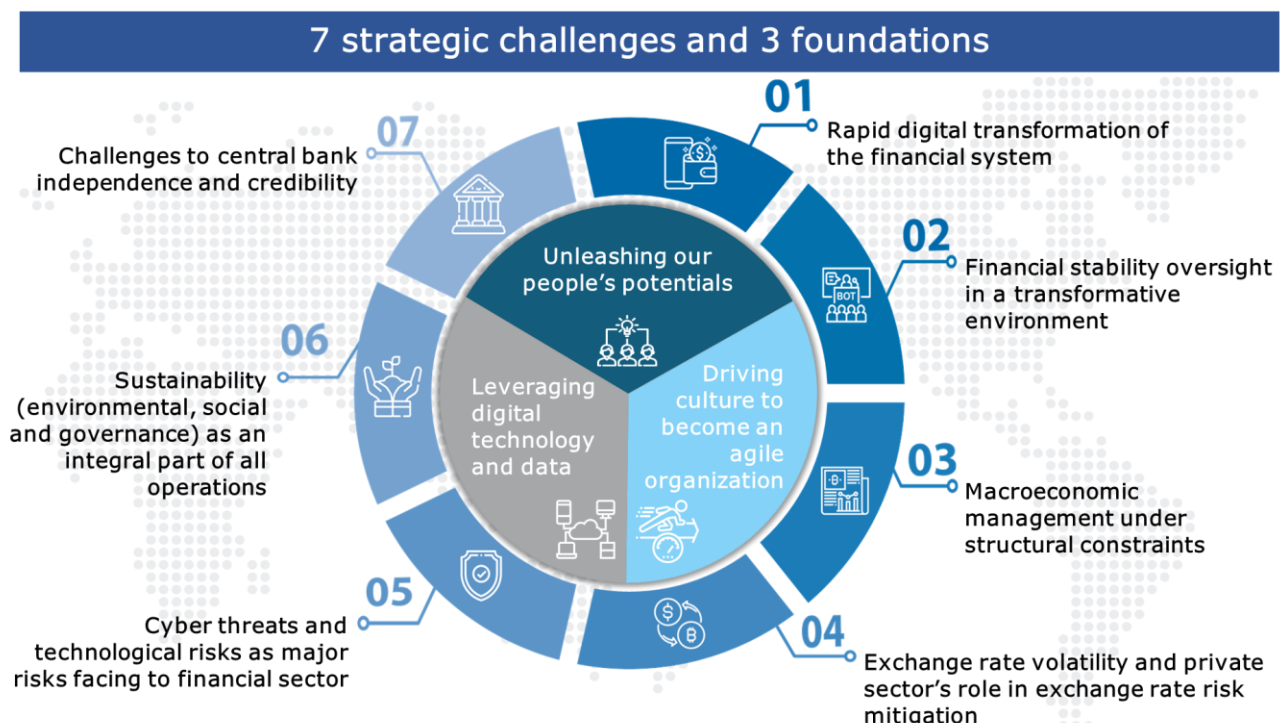
1. **Rapid digital transformation of the financial system**
2. **Financial stability oversight in a transformative environment**
3. **Macroeconomic management under structural constraints**
4. **Exchange rate volatility and private sector's role in exchange rate risk mitigation**
5. **Cyber threats and technological risks as major risks to the financial sector**
6. **Sustainability (environmental, social and governance) as an integral part of all operations**
7. **Challenges to central bank independence and credibility**

In this connection, the BOT recognizes that organizational capability is a critical foundation that supports the achievement of the BOT's strategic objectives over the next three years. Therefore, the organizational transformation will focus on three foundations as follows:

**Foundation 1: Unleashing our people's potentials**

**Foundation 2: Driving culture to become an agile organization**

**Foundation 3: Leveraging digital technology and data in all operations**



# Strategic Challenge 1: Rapid digital transformation of the financial system



## Strategic issues

Technological advancement has paved the way for the development of digital financial services that are more convenient, faster, cheaper, and better connected domestically and internationally. It has also promoted new types of financial services provided through digital platforms or distributed ledger technology (DLT), as well as cryptocurrency and digital assets. These new developments can change the payment and financial investment landscape in the near future.

At the same time, financial service providers besides commercial banks, such as non-bank, FinTech, and BigTech will play a more crucial role and lead to new business models. Technological advancement also enables mass data processing capability and allows financial service providers to customize their products to better accommodate customers' needs.



## Strategic directions

- Enhance the rapid transformation of the digital financial system and ensure an appropriate level of competition for the benefit of the general public and businesses, especially small and medium enterprises (SMEs).
- Hasten the development of open infrastructures and common standards to ensure the interoperability of systems to support digital financial services both domestically and internationally.
- Develop the central bank digital currency (CBDC) and formulate policies and the regulatory framework for the private-sector digital assets to preserve the effectiveness of monetary policy transmission and stability of the financial and payment systems.
- Develop data ecosystem to ensure that transactional data will be effectively utilized for the benefit of the data's owners, the financial system and the economy.
- Promote digital payments as the preferred means of payment transactions.

## Strategic Challenge 2: Financial stability oversight in a transformative environment



### Strategic issues

Digital finance has created new business models and more diverse financial service providers, especially FinTech and BigTech. However, such developments have also introduced new forms of risks, such as cyber threats, which could pose liquidity risks to financial service providers and the financial system.

At the same time, regulations need to ensure a level playing field for banks and other financial service providers, especially those in shadow banking that are not subject to the same rules and regulations as banks, in order to mitigate regulatory arbitrage.



### Strategic directions

- Financial supervision will (1) focus on a principle-based approach to meet new forms of risks and to allow financial service providers flexibility to adjust their business models; and (2) adopt more activity-based supervision according to the proportionality of risk-bearing to avoid regulatory arbitrage.
- Enhance risk culture of financial service providers so that they will better prepare themselves for more complex types of risks.
- Develop technology-based supervisory tools, which will be deployed in the on-going financial supervision.
- Assess financial stability risks by a forward-looking approach whereby covering all possible future scenarios as well as linkages among new forms of risks for timely policy formulation.
- Encourage the set-up of supervision framework for financial service providers outside of the banking system, such as non-bank and BigTech, to effectively safeguard stability of the financial system.
- Establish the national Financial Stability Institutional Arrangement to strengthen the surveillance of interconnectedness among players and risks in the financial system. Formulate the macroprudential policy framework for the entire financial system as well as a safety net and resolution plans.

## Strategic Challenge 3: Macroeconomic management under structural constraints



### Strategic issues

The conduct of macroeconomic policy will face more limitations where monetary policy is constrained by zero lower bound and a prolonged low inflation environment. Moreover, the relationships between key economic variables as well as the structure of economic and financial systems have changed. For example, the flattening of the Phillips curve suggests that employment and economic growth have less pressure on inflation. Digital transformation of the financial system has also affected monetary policy transmission mechanism and effectiveness.

The transition towards aging society, on the other hand, will raise fiscal burden on social welfare expenditure. At the same time, government investment on infrastructure can also put pressure on fiscal position going forward. Other structural problems of the Thai economy, such as low private investment and productivity, and inadequate skilled labors, can impede the policy implementation over the short-term and long-term horizon.



### Strategic directions

- Review and develop the monetary policy framework as well as enhance the effectiveness of policy communication in tandem with the changing economic environment.
- Develop new monetary policy tools, review the effectiveness of the existing ones, as well as deploy the policy tools mix including interest rate, exchange rate and capital flows managements, and macroprudential and microprudential measures, in order to maintain macroeconomic and financial stability, especially when policy space is limited.
- Push forward the restructuring of the Thai economy by providing evidences through research, in-depth analysis, and collaboration with related agencies to enhance the potential growth of the economy, to reduce inequality, and to build monetary and fiscal sustainability.

## Strategic Challenge 4: Exchange rate volatility and private sector's role in exchange rate risk mitigation



### Strategic issues

Global economic and geopolitical uncertainty as well as excess global liquidity will lead to more volatile capital flows going forward. At the same time, continued current account surplus reflects the persistent saving-investment gap which is one of the structural problems facing the Thai economy.

The transformation into the digital finance world may reduce the effectiveness of foreign exchange control measures. Therefore, the Thai economic and financial systems will still face exchange rate volatility and the BOT's foreign exchange rate risk management will be more challenging.



### Strategic directions

- Build the foreign exchange ecosystem whereby private sector can efficiently manage the foreign exchange rate risk by (1) enhancing private sector's understanding and resilience to exchange rate volatility; (2) upgrading foreign exchange market services' accessibility, transparency, fairness, and availability of risk management instruments at a reasonable cost; and (3) encouraging usage of local currency quotations for regional trades to reduce impact from the volatility of major currencies.
- Review exchange control regulations to support private sector's ability to deal with foreign exchange rate risks and to balance capital inflows and outflows. Encourage private sector's wealth diversification both domestically and internationally.
- Shift the BOT's role towards capital flows surveillance and analysis rather than supervision, and enhance the crisis management plan under the new environment.
- Collaborate with other central banks to build a mechanism to reduce the impact of capital flows volatility on the Thai economy.
- Formulate proactive strategies in managing foreign exchange reserves to support digital transformation and changing global economic structure.



## Strategic Challenge 5: Cyber threats and technological risks as major risks to the financial sector

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### Strategic issues

Digital technological advancement increases the efficiency and effectiveness in providing financial services to customers. However, inherent to any invention, it comes with more serious IT risks and cyber threats, including data leakages and system failures or disruptions. Moreover, exposure to IT risks is on an increasing trend and customers who lack technological literacy tend to be more exposed to such risks, which could lead to financial losses as well as breaches of their personal data.



### Strategic directions

- Enhance the resiliency of Critical Information Infrastructure (CII) of the financial sector against IT risks and cyber threats in accordance with the international standards.
- Develop the supervisory framework that meets the technological advancement and changing environment to cope with risks arising from the usage of common infrastructure or technology as well as from the concentration of usage on a few service providers.
- Enhance the supervision on data privacy and data governance of financial service providers to minimize risks inherited from the increased usage of transactional data.
- Strengthen the collaboration and information exchange mechanism on cyber security with other regulators and stakeholders in the financial and other sectors, and expand such collaborations into regional and international levels.
- Establish the mechanism to support capacity development of human resources in the financial sector, both at domestic and regional levels, in coping with IT risks and cyber threats.

## Strategic Challenge 6: Sustainability (environmental, social and governance) as an integral part of all operations

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### Strategic issues

The concept of sustainability has become more crucial for business and financial sector as environmental, social, and governance problems have been increasingly witnessed. Worsening effects of climate change have impacts on businesses and their credit quality over the long-run. Likewise, social problems, arisen from excessive household debt, aging society, and lack of financial literacy, including digital financial literacy, can also pose long-term vulnerability to the financial sector and overall society. In addition, governance problems whereby business emphasis is mostly on short-term benefits can have implications on their reputation and survival in the long-run.



### Strategic directions

- Embrace the organizational culture that always considers sustainability, including Environment, Social, and Governance (ESG) aspects, in all BOT's operations.
- Encourage financial service providers to embed the concept of sustainability, including Environment, Social, and Governance (ESG) aspects, into their organizational culture and various aspects of their business conducts.
- Collaborate proactively with related agencies to mitigate the household debt problem, and to reduce household's financial vulnerability.
- Support consumer protection in financial services and enhance financial and digital financial literacy. Promote financial discipline of the general public to strengthen their financial immunity and readiness for the digital financial services.

## Strategic Challenge 7: Challenges to central bank independence and credibility



### Strategic issues

Independence and credibility of central banks around the world are under challenges from (1) a rapidly changing economic and financial environment, while the effectiveness of the existing monetary policy tools might be constrained by structural factors. In addition, monetary and macroprudential policy tools employed by central banks can have both positive and negative impacts on different interest groups, hence the policy legitimacy and effectiveness might come under question; (2) increased expectations by different groups of stakeholders on the role of central bank, as well as governmental agencies will lead to more public scrutiny, especially by the younger generations and those who lack understanding of central banks' mandate and responsibilities; (3) the increasing trend towards populist policies to boost the economy, while the core function of central bank is to preserve a right balance between economic stability and growth. This situation could add complication on policy alignment among those of the central bank and other government agencies; and (4) the growing influence of social media has changed communication styles and news consumption behavior whereby people generally prefer quick, short, and simple contents. This poses challenge to the central bank in building public understanding on rationales behind central bank's complex policies and measures.



### Strategic directions

- Engage and communicate more directly with target businesses and the public to promote understanding of the rationales behind the BOT's policies, as well as to build confidence on the BOT's roles and responsibilities.
- Use communication as a major tool to increase policy effectiveness and to support stakeholders' timely business planning and adjustment.
- Expand the network of domestic and international alliance to strengthen understanding and cooperation on related issues. Have a cooperative framework that supports the harmonization of policies pursuance systematically and sustainably.
- Strengthen the BOT's governance to be more transparent and accountable.

## Foundation 1: Unleashing our people's potentials



### Strategic issues

The BOT recognizes the importance of its human resources as they are the major foundation for organizational transformation and successful implementation of strategic plans. Over the next three years, the BOT will face various challenges regarding human resources as follows: (1) staff needs to be prepared to meet the complex and interconnected financial world. They must acquire depth and breadth of knowledge with broadening experiences. They also need the right mindset, skills, and capabilities that fit in the fast-changing and more agile working environment; (2) in today's tight labor market, organizations are encountering greater difficulties than ever before to attract and retain high caliber workforce possessing skills and knowledges necessary for the future, since they are scarce and under high demand. At the same time, the younger generations generally have less interest in public sector jobs and are less likely to stay at any job for a long time. Thus, public agencies, including the BOT, will face challenges in acquiring and retaining high-potential staff; (3) the BOT's staff demographic structure will be shifted due to the retirement of a large number of employees over the next three years. The development of potential future leaders must be conducted more swiftly, and all accumulate organizational knowledges must be preserved. More importantly, bridging the generation gaps in the workplace will be crucial; and (4) although the BOT's staff engagement level has improved continuously, there is still room for improvements to be in the competitive level with other leading organizations.



### Strategic directions

- Effectuate a strategic staffing plan to ensure sufficient human resources, both quantitatively and qualitatively, in order to fulfill the BOT's strategic priorities and address changing needs of the organization.
- Support staff developments by fostering learning environments and encouraging staff to improve capabilities to meet future challenges and new responsibilities.
- Promote employee's voice and choice whereby staff have more open opportunities to pursue their own career developments and career paths, as well as the work beyond their normal job descriptions, according to their passion and strengths.
- Embrace diversity among staff by leveraging differences to create values for the organization, and redesign the human resource management model which is more flexible and supportive for such diversity in the workplace.
- Build the BOT's future leaders with strong leadership and change-agent capabilities, in line with the corporate values.

## Foundation 2: Driving culture to become an agile organization



### Strategic issues

The traditional design and operating model that has been long deployed in large organizations, particularly government agencies, is no longer adequate to thrive in the fast-changing environment. For example, the hierarchical structure, emphasizing on control and command mechanism, leads to a time-consuming consideration and decision-making process. The function-based job design creates rigid job description with narrow skill sets and work experience, which is not conducive to an understanding of a holistic picture or linkages between issues. The top-down management approach limits employees' creativities and hinders them from reaching their maximum potentials. The BOT has realized the necessity of changing the organizational culture and work processes to meet the rapidly changing environment going forward.



### Strategic directions

- Promote bottom-up culture, which supports staff's empowerment and ignites creativities.
- Ensure appropriate organizational model and structures to be more agile to support successful delivery of the organization's priorities. Create platforms where staff across departments as well as from external organizations can work together efficiently and effectively. Leverage information exchange and data sharing to achieve common goals.
- Streamline rules and work processes in order to avail staff to allocate time to develop themselves, gain new skills, and ultimately perform higher valued tasks. The Regulatory Impact Assessment (RIA) principles will also be embraced as organizational culture.
- Strengthen the BOT's risk management framework to balance risk tolerance to meet new forms of risks and highly uncertain environment, together with ensuring effective business continuity plans for potential major disruptions.

## Foundation 3: Leveraging digital technology and data in all operations



### Strategic issues

Advancement in digital technology provides opportunities for the BOT to enhance organizational capability by (1) upgrading the operating systems and work processes to better meet the changing businesses and stakeholders' needs in a timely manner; (2) increasing productivity and efficiency of the usage of resources, such as automation of repeated work processes; (3) developing a more agile work approach as well as promoting collaborations between related units internally and externally; (4) leveraging existing data available within the BOT as well as abundant data in the economic system, together with the use of technology in managing and analyzing in-depth data, in order to enhance the evidence-based decision making and implementation of the BOT's policy; and (5) improving BOT's capability to protect and manage growing cyber risks inherited from the technological advancements, which will be of greater variety, more difficult to predict, and more severe.



### Strategic directions

- Transform the organization into the digital workplace where technological innovations are employed to improve all internal work processes. This will support a more agile and collaborative working environment.
- Strengthen the BOT's capability to become a data-driven and evidence-based decision-making organization. Enhance the quality of BOT's data management in terms of accessibility, transparency, and usages, in order to make full use of data safely, both internally and externally.
- Enhance the IT platform (next generation platform) to be more secured, up-to-date, agile, and efficient.
- Enhancing staff's digital mindset and capability in order to improve work processes and encourage innovations.
- Strengthen the robustness of cyber security of the BOT internal systems and those connected to the external parties, particularly enhance response and recovery capabilities, to address impacts of cyber incidences.

# Pursuing Sustainable Economic Well-Being



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