

Edited Minutes of the Monetary Policy Committee Meeting (No.1/2021)

3 February 2021, Bank of Thailand

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Members Present

Sethaput Suthiwartnarueput (Chairman), Mathee Supapongse (Vice Chairman), Paiboon Kittisrikangwan, Kanit Sangsubhan, Rapee Sucharitakul, Somchai Jitsuchon, and Subhak Siwaraksa

The Global Economy and Financial Markets

The global economy continued to recover despite new waves of COVID-19 infections. While economic activities in the manufacturing sector improved, those in the services sector were expected to deteriorate, albeit by a lesser degree compared with the first wave of the pandemic thanks to the less strict containment measures undertaken by many countries. Meanwhile, many major economies already began their vaccination campaigns and were expected to achieve herd immunities by mid-2021. Such vaccination progress, along with continued financial and fiscal support, would help bolster the global economic recovery.

The global financial market sentiment continued to improve. However, capital inflows to emerging markets, including Thailand, did not markedly increase. Market participants expected a stronger US economic recovery as the decline in political uncertainties strengthened the likelihood of the US fiscal stimulus package. While long-term US Treasury yields rose in accordance with these expectations, Thailand's long-term government bond yields did not experience a similar increase. On the exchange rate, the baht against the US dollar moved within a narrow range and was in line with regional currencies. The nominal effective exchange rate (NEER) remained stable since the previous meeting.

Looking ahead, once the global health crisis from the COVID-19 pandemic becomes well-contained, and the global economy continues to recover with most central banks maintaining their accommodative stance, risk-on sentiment would likely persist. In such case, bond yields and equity prices could increase. The US dollar would likely weaken, with the regional currencies appreciating against the US dollar. However, the outlook remained highly uncertain and could result in increased volatility in the global financial market. The Committee thus deemed it necessary to closely monitor these developments.

Domestic Economy and Financial Stability

The Thai economy was affected by the resurgence of the COVID-19 outbreak. However, the impact would be less severe than last year thanks to the less strict containment measures, the additional support from the timely and targeted government measures, and the continued export recovery. The economy would thus expand in 2021, albeit at somewhat a lower rate than the December 2020 projection. **Negative factors affecting the economy were as follows.** First, the recent outbreak turned out more severe than previously assessed. As a result, private consumption would significantly weaken in line with lower labor income and higher unemployment. Approximately 4.7 million workers were expected to be at risk of facing severe

income losses. These included daily-hired and self-employed workers in the non-farm sectors, as well as workers in the hotel industry. Among these workers, around 1.2 million could become unemployed or underemployed.^{1/} Second, foreign tourist figures in 2021 were revised downward from the previous assessment as the reopening plan would likely be more gradual. Third, public expenditure for the fiscal year 2022 was expected to be lower than previously assessed. Nonetheless, **some positive developments would partially offset the negative factors**. These are (1) the additional fiscal stimulus in the first half of 2021, (2) better-than-expected recovery of most merchandise exports following the global economic recovery, particularly the US economy which was expected to expand more than previously assessed on the back of fiscal stimulus, and (3) the postponement of some budget disbursement from the fourth quarter of 2020 to 2021. **Headline inflation was projected to return to the target in the middle of 2021 and would stay close to the lower bound of the target range throughout the forecast period**. Medium-term inflation expectations remained anchored within the target.

Uncertainties surrounding the outlook of the Thai economy remained high with considerable downside risks. In the near term, the economic recovery would depend on the resolution of the recent outbreak and the contemporaneous fiscal support. Over the medium term, it would depend on several factors. First, the recovery of foreign tourist figures which could be influenced by many factors including the plan for reopening the country, the situation of the outbreak, and the effectiveness of the vaccines. Second, the procurement and distribution of the COVID-19 vaccines in Thailand, which would have implications for domestic economic activities and the reopening policy. Third, the fiscal support, both in terms of magnitude and duration. Fourth, the labor market situation, which became more fragile and could have an impact on private consumption.

The financial system became more vulnerable due to the negative shocks from the recent outbreak. Financial positions of households became more fragile following income shocks, particularly the low-income households which had not yet recovered from the previous outbreak. Thus, credit quality on these households would have to be closely monitored. Meanwhile, **revenues and financial positions of businesses** were affected, especially those in the sectors relating to tourism and services which had not yet recovered from the previous outbreak. Small and medium enterprises (SMEs) experienced difficulties in accessing credit due to increased credit risks which could lead to higher probabilities of default for some businesses. The shortfall in liquidity, especially for SMEs, could have a negative feedback effect on the economy. Nevertheless, the overall impact on the financial institution system and the bond markets would be limited, as **financial positions of commercial banks** remained robust and were capable of withstanding potential deterioration in loan quality in the future.

Discussions by the Committee

The Committee discussed the impact of the recent the COVID-19 outbreak on the economy and expected the Thai economy to expand at a somewhat slower pace than the previous assessment. Moreover, the pace of the recovery among sectors would become more uneven which would induce increased vulnerabilities in the labor market. Meanwhile, risks to the economic outlook

^{1/} Underemployed workers are defined as those working less than 24 hours per week.

increased, particularly from the uncertainty in the foreign tourist figures. These would have implications for the appropriate mix of financial and fiscal measures. The details were as follows.

- **Although the impact of the recent outbreak on the Thai economy would be less than last year, the pace of the recovery would be slower and more uneven among sectors and firms.** In particular, several groups of firms had not recovered from the previous wave of the outbreak and now were further hit. SMEs were particularly affected more than large corporates. **The Committee expressed concerns over increased vulnerabilities in the labor market, especially for daily-hired and self-employed workers in the non-farm sectors and workers in the hotel industry.** The numbers of unemployed and underemployed workers were projected to spike in the first quarter of 2021, and would subsequently decline gradually in line with the infection rates, the relaxation of the containment measures, and the fiscal stimulus going forward.
- **The Committee viewed that the public sector should implement more targeted measures in a sufficient manner, and these measures should be front-loaded at the onset of the negative shocks** to prevent negative feedbacks on the economy and lessen long-term economic scars. Otherwise, it would become more difficult and costly to reverse the impacts. For example, unemployed workers could take a long time to re-enter the labor force. **On fiscal measures,** the public sector should accelerate the spending on relief and support measures, especially project approvals under the Emergency Decree Authorizing the Ministry of Finance to Raise Loans to Solve Problems, to Remedy and Restore the Economy and Society, since the authorized borrowing period would end in September 2021. **Financial and credit measures** should quickly alleviate the debt burden of affected businesses and facilitate liquidity distribution through the existing loan guarantee scheme (PGS9). **Going forward,** the public sector should prioritize on economic restoration measures and expedite budget disbursements to sustain the momentum of fiscal policy. Additional government support could be tied to clearly stated objectives and conditions, such as employment retention or business model adjustments to the post-COVID environment. These would help alleviate vulnerabilities in the labor market and raise long-term potential growth of the economy.
- **The Committee viewed that the major risk to the economic outlook was the recovery of foreign tourists. External factors** which could affect the pace of border reopening included travel restrictions from China and virus mutations that could reduce vaccine efficacy. **Important domestic factors** included the efficacy and distribution of COVID-19 vaccines, the willingness of the population to take the vaccine, and the ability to control and screen travelers crossing the borders.
- **The Committee deemed it important that the public sector should prepare a package of financial and fiscal measures corresponding to risks and economic development for each period going forward, and such policy package should be readily available if necessary.** For instance, in the case that Thailand could not reopen the borders to admit foreign tourists during the peak season from late 2021 to early 2022, the government should prepare fiscal measures and provide additional stimulus to cushion against such uncertainty. The Committee noted that **rising public debt in the medium term would not**

pose a significant risk to fiscal sustainability.^{2/} Regarding financial measures, the Committee suggested that the Bank of Thailand and related agencies should closely monitor the situation and stand ready to implement additional financial measures, including the potential extension of measures that would expire in 2021 if necessary.

Monetary Policy Decision

The Committee voted unanimously to maintain the policy rate at 0.50 percent to support the economic recovery which remained highly uncertain.

The Committee assessed that the Thai economy would expand somewhat slower than the previous assessment due to the impact of the new wave of the COVID-19 outbreak on the economy. Nevertheless, recoveries across sectors were likely to be more uneven. Additional measures should thus be more targeted in line with the need and potential prospect of businesses. The problem facing the Thai economy was less about the level of the policy interest rate as lending rates and bond yields were already at a record low. While the overall liquidity in the banking system remained ample, the main challenge was about distributing liquidity to businesses and households in need sufficiently. Thus, financial and credit measures such as credit guarantee schemes that reduce credit risks should be enhanced and would be the appropriate solution. Moreover, uncertainties surrounding the economic recovery remained high. **The Committee therefore voted to maintain the policy rate at this meeting to preserve the limited policy space to act at the appropriate and most effective timing to maximize its effectiveness.**

The Committee viewed that if the baht appreciated rapidly, the economic recovery could be affected. Therefore, the Committee would closely monitor developments in foreign exchange markets and capital flows as well as consider the necessity of implementing additional appropriate measures to ensure that the exchange rate movements would not hinder the economic recovery. These could be achieved by reducing pressures on the baht and addressing structural problems in the Thai foreign exchange market through continued efforts in expediting the new foreign exchange ecosystem. In addition, the Committee viewed that by encouraging Thai institutional investors to increase their portfolio investments abroad, it would facilitate capital outflows and improve the balance between inflows and outflows.

The Committee viewed that policy coordination among government agencies would be critical in supporting the economic recovery going forward. In addition, financial and fiscal measures should be expedited and be more targeted in line with the need and potential prospect of businesses. Monetary policy must remain accommodative. Financial and credit measures should expedite liquidity distribution to the affected groups in a targeted and timely manner, for example, through credit guarantee schemes to reduce credit risks. In addition, appropriate conditions and incentive structures for employee retention could be considered. Financial institutions should expedite debt restructuring to have broader impacts. Additional

^{2/} This was due to (1) the low level of pre-pandemic public debt, (2) the remaining average time to maturity of debt being approximately 10 years, (3) the debt being mostly denominated in local currency, and (4) the nominal GDP growth was expected to be higher than interest rates at which the government pays its debt.

fiscal measures should be expedited in a targeted manner to support the economy. Policy packages consisting of financial and fiscal measures should be prepared according to risks in each period going forward in order to safeguard the economy against negative shocks. Furthermore, the government should simultaneously implement supply-side policies to help support sustainable economic recovery in the post-COVID environment. In particular, labor upskilling and infrastructure investment to support the digital economy should be promptly pursued to help support sustainable economic recovery in the long term.

Under the monetary policy framework with the objectives of maintaining price stability, supporting sustainable and full-potential economic growth, and preserving financial stability, **the Committee continued to put emphasis on supporting the economic recovery.** The Committee would monitor the outbreak situation in Thailand, fragility in the labor market, the procurement and distribution of the vaccines, the progress of protocols for admitting foreign tourists, and the adequacy of the government measures, in deliberating monetary policy going forward. The Committee would stand ready to use additional appropriate monetary policy tools if necessary.

Monetary Policy Group

17 February 2021



ธนาคารแห่งประเทศไทย
BANK OF THAILAND

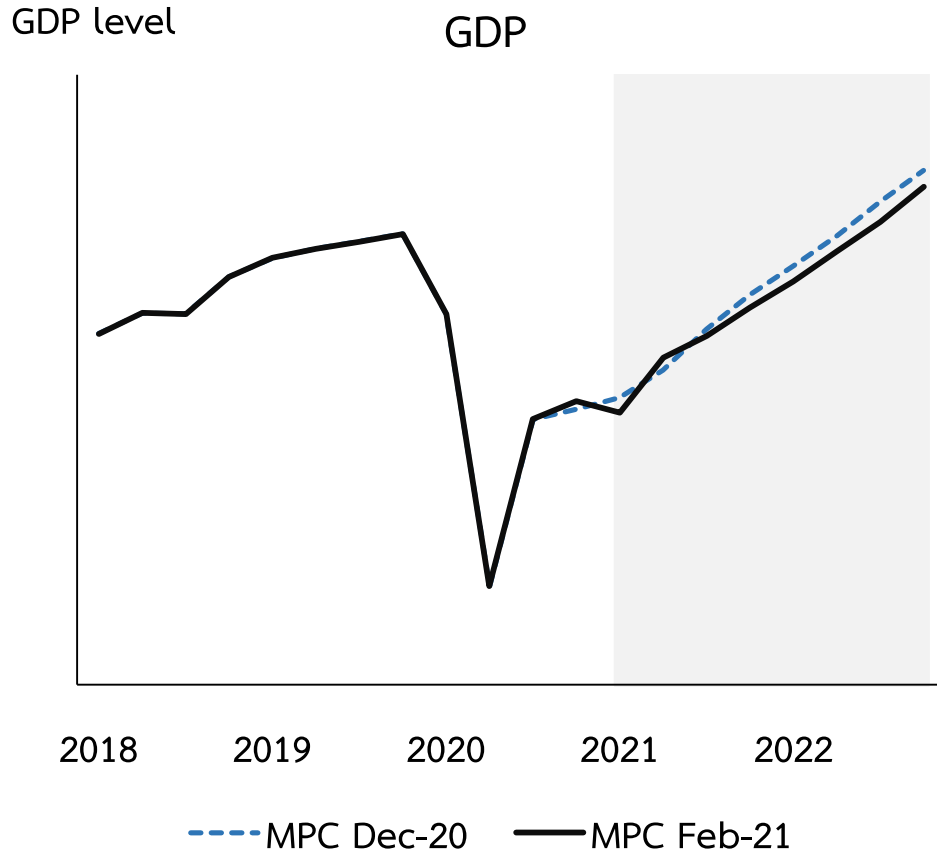
Key Issues of the MPC Meeting No.1/2021

3 February 2021

Impact of the new wave of the COVID-19 outbreak

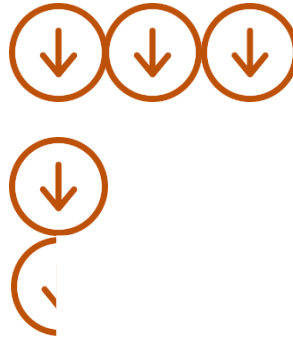


but the pace of expansion would now be somewhat slower than the previous forecast
in line with the latest Fiscal Policy Office's projection



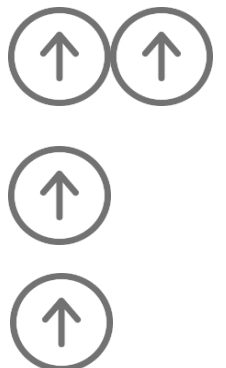
Negative shocks since the previous MPC, namely

- More severe economic impacts from the COVID-19 containment measures than previously assessed
- Lower-than-expected foreign tourist figures
- Lower-than-previously-assessed FY2022 public expenditure



were partially offset by some positive developments:

- Additional fiscal stimulus measures in first and second quarters of 2021
- Export recovery for almost all categories of merchandises
- Postponement of budget disbursement from the fourth quarter of 2020 to 2021



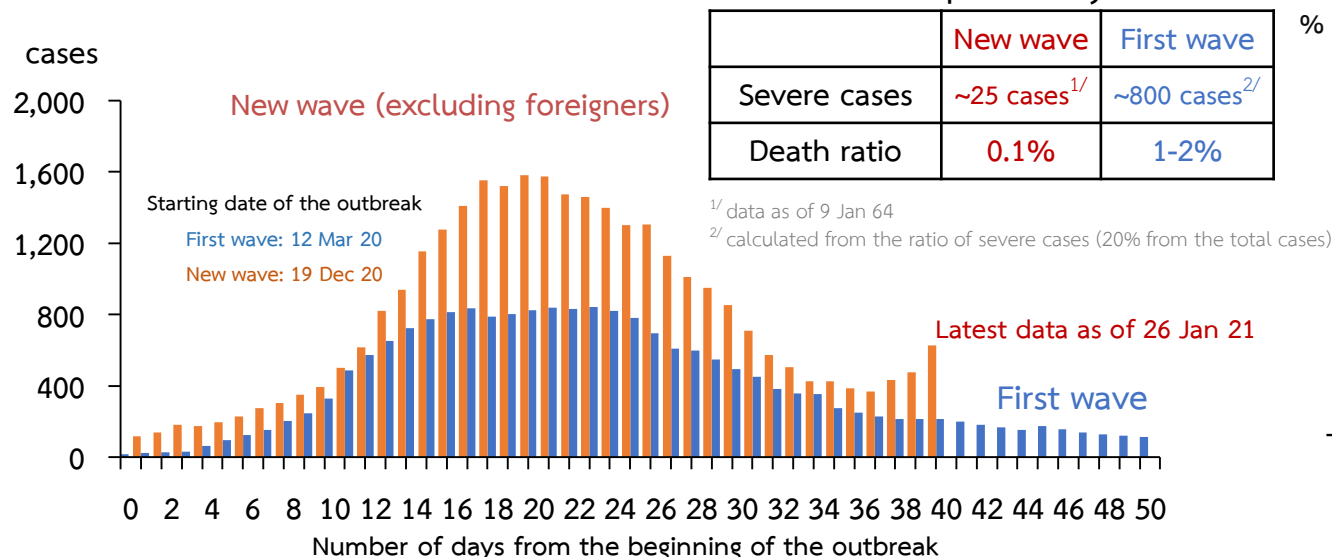


The impact of the recent outbreak on the Thai economy would be less severe than last year due to less strict containment measures

The recent outbreak became more severe and proliferate faster than expected.

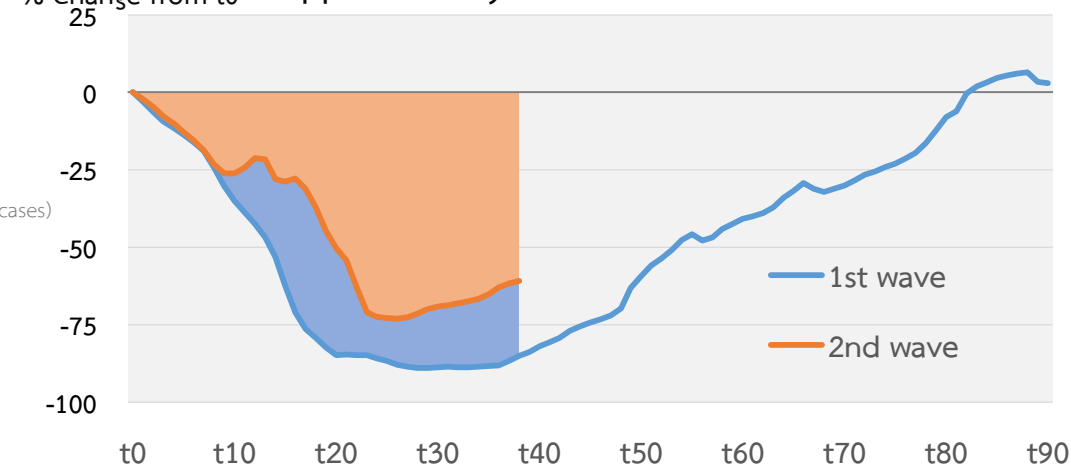
Economic impacts were less compared with last year outbreak thanks to less strict containment measures

Number of accumulative new COVID-19 cases in the past 7 days



Source: Department of Disease Control, calculated by Bank of Thailand

Apple Mobility index (cities in red zone)

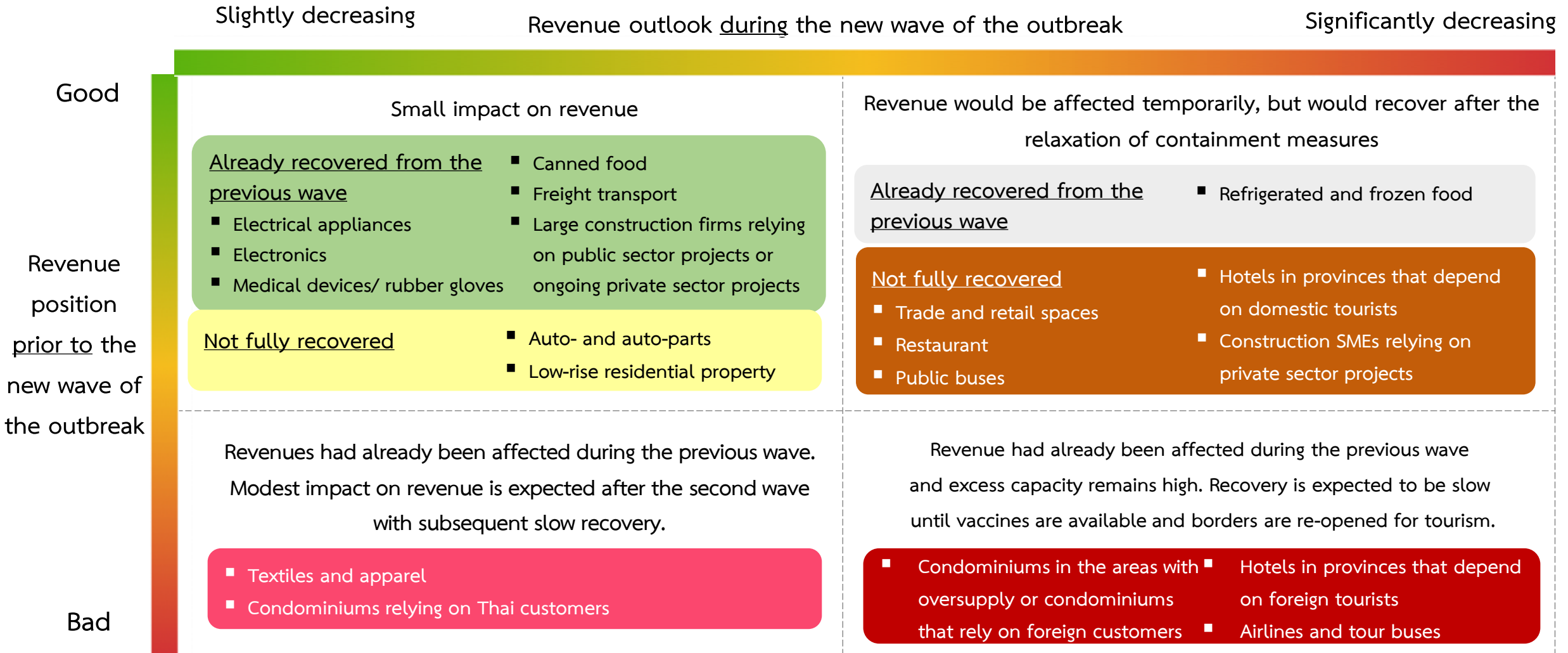


Source: Apple mobility trend report, calculated by Bank of Thailand. Latest data as of 25 Jan 21

	New wave (Jan 21 ~)	First wave (Apr ~ Jun 20)
Severity and duration of the outbreak	The outbreak was severe and spread widely with several clusters. The duration of the outbreak would be more prolonged (containment measures for 2-3 months, gradual re-opening within 2 months)	The outbreak was severe, and strict containment measures were implemented countrywide for a month and gradually relaxed within 2 months.
Stringency of the containment measures	The containment measures are targeted, area-based and less strict relative to the previous outbreak (even in the strictest areas) No closure on shopping malls/Allow dine-in/Able to travel across cities if necessary	Strictest containment measures implemented countrywide
Vaccination timeline	More certain timeline	Unknown timeline
Public health capacity	Greater capacity in testing and hospitalization than the previous outbreak Capacity of COVID-19 testing: max 50,000 persons/day, Capacity of cumulative patients in the hospitals: 20,000 persons	N/A



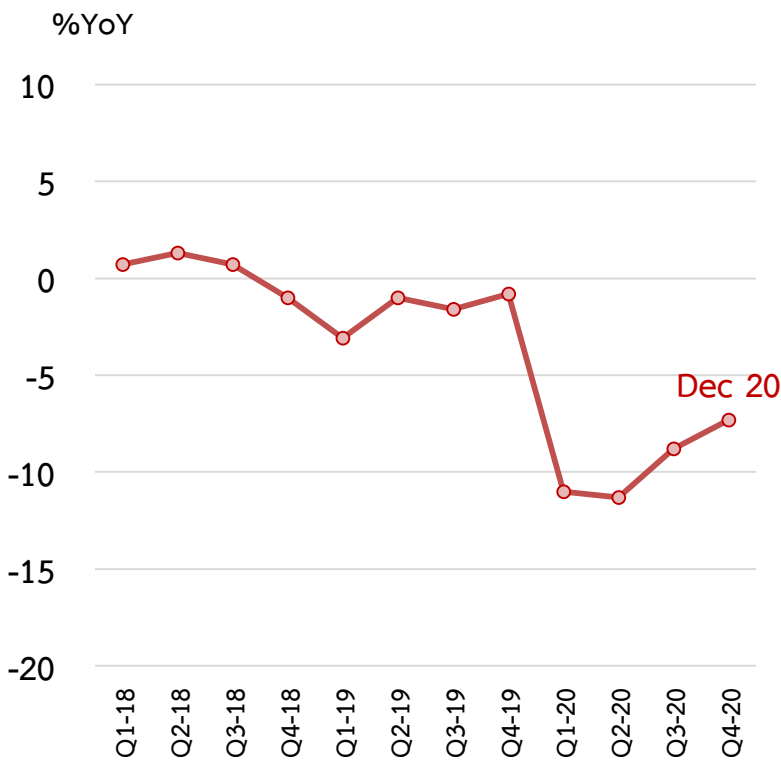
which would require appropriate, targeted, and sufficient measures for each group



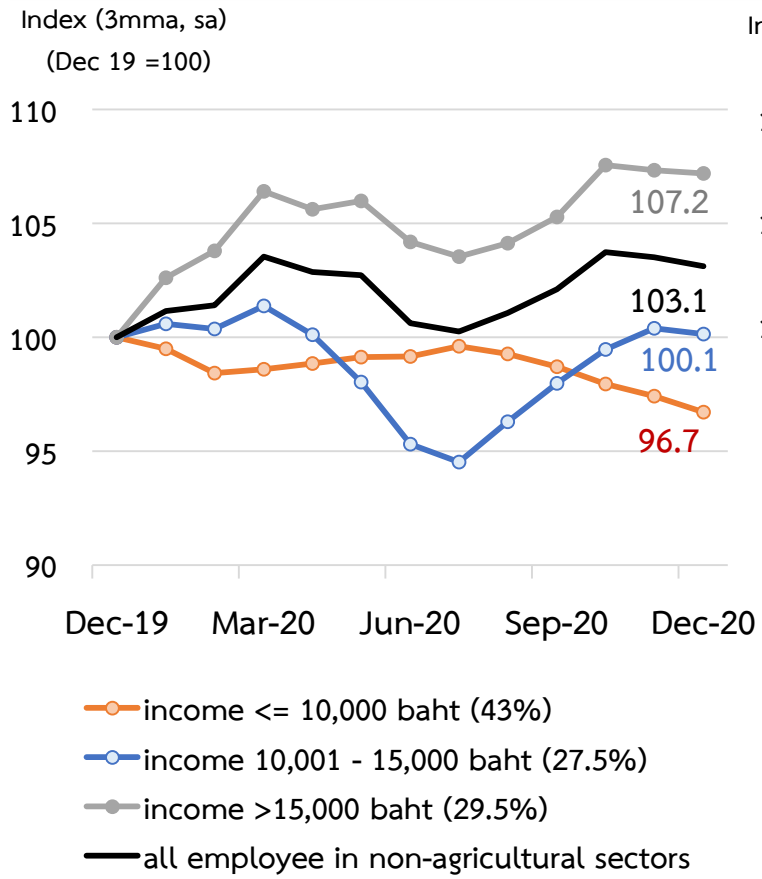


Workers who were self-employed, had low income, or employed in the tourism sector faced significant income loss since the first wave of the outbreak and thus became more vulnerable than other groups

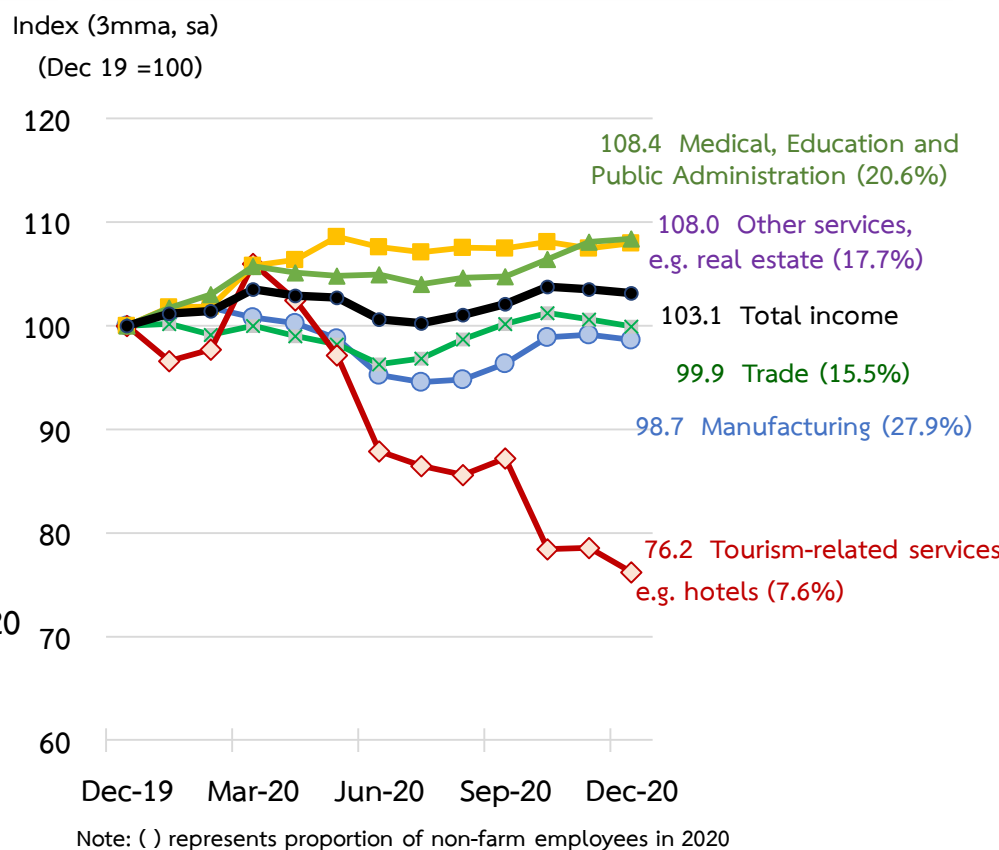
Aggregate income of self-employed workers in non-farm sectors



Aggregate income of non-farm employees classified by income level



Aggregate income of non-farm employees classified by sector



Note: () represents proportion of non-farm employees in 2020

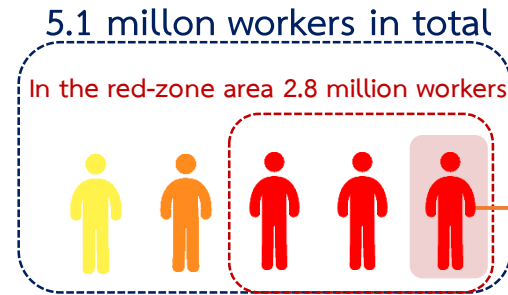
Note: () represents proportion of non-farm employees in 2020

Source: the Household Socio-economic Survey and the Labor Force Survey by National Statistical Office, calculated by Bank of Thailand



Approximately 4.7 million workers were at risk of being affected by the new wave of which 1.2 million workers might become unemployed or underemployed

Daily-hired employees
in non-agricultural sectors

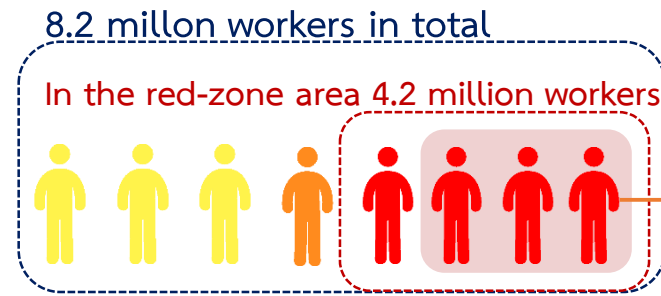


Workers in affected sectors*

underemployed** ~0.5 million workers

significant income loss ~0.5 million workers

Self-employed workers
in non-agricultural sectors

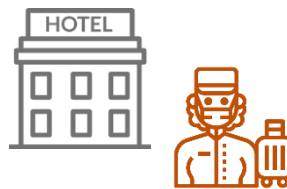


Workers in affected sectors

underemployed ~0.6 million workers

significant income loss ~3 million workers

Full-time hotel employees



more likely to become unemployed ~0.1 million workers

* Significantly-affected sectors included retail trade, hotels, restaurants and other services

** Underemployment defined as hours worked less than 24 hours per week.