Edited Minutes of the Monetary Policy Committee Meeting (No.3/2021)
5 May 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, particularly advanced economies, would continue to recover thanks to the progress in COVID-19 vaccination. The continued support from monetary and fiscal policies also helped to improve private consumption and exports. Looking ahead, the global economy would continue to recover in tandem with the COVID-19 vaccination progress and large-scale economic stimulus in the US. The global economic recovery would improve cross-border trade, particularly in capital and electronics goods. Nevertheless, the recovery would remain uncertain due to virus mutations and the efficacy of COVID-19 vaccines.

Volatilities in global financial markets decreased as the Federal Reserve signaled its intention to continue accommodative monetary policy, resulting in an increase in prices of risky assets. Commodity prices and equity prices rose. Meanwhile, long-term US Treasury yields and Thai government bond yields became stabilized. However, investors remained cautious about emerging market assets including those of Thailand. The intensified third wave of the COVID-19 outbreak in Thailand would result in slower economic recovery compared with other regional countries. Domestic assets, particularly equities, thus underperformed regional counterparts. On exchange rates, the baht depreciated against the US dollar relatively more than regional currencies. The nominal effective exchange rate (NEER) depreciated from the previous meeting.

Looking ahead, volatility in global financial markets would remain high. Significant risks included (1) uncertainties surrounding the COVID-19 outbreak, particularly with regard to the distribution and efficacy of vaccines and mutations and (2) US monetary and fiscal policies going forward. If the US economy exhibited robust recovery with rising inflation, US monetary policy could be normalized faster than expected. Nevertheless, spillover effects on capital flows and asset prices of most emerging markets including Thailand would be limited and less severe compared with the 2013 Taper Tantrum. This is because the Federal Reserve would gradually normalize monetary policy and carefully communicate to the public to alleviate the adverse impact on global financial markets. In addition, external stability of emerging markets, including Thailand, improved from the 2013 Taper Tantrum. Many emerging countries accumulated larger international reserves along with a decline in external debt.

Domestic Economy and Financial Stability

The Thai economy would expand at a much lower rate due to more severe impacts of the third-wave outbreak relative to the second. Domestic spending and the recovery of foreign tourist figures would be restrained by containment measures. In addition, new virus variants appeared to spread more easily and became harder to control. It would thus take longer time to achieve herd immunity. Meanwhile, the labor market would become more fragile because of additional income loss, particularly for workers in the service sector and the self-employed workers. Nevertheless, **merchandise exports**, which improved in all categories and destinations in line with the trading partner economic recovery, **would be a major economic driver**. Positive impacts of increased exports on the labor market would be limited, however, since most export firms chose to expand working hours instead of hiring more workers. In addition, employment in the export sector was small relative to the total labor force. Meanwhile, the government's relief and financial measures additionally announced would partly support the economic recovery in the short term. Fiscal stimulus for the fiscal year 2022 would decelerate somewhat owing to the expedition of budget disbursement under the Emergency Decree Authorizing the Ministry of Finance to Raise Loans to Solve Problems, to Remedy and Restore the Economy and Society as Affected by the Coronavirus Disease Pandemic, B.E. 2563 (2020) that was front-loaded to the current fiscal year to relieve impacts of the third-wave outbreak. **Headline inflation would temporarily increase in the second quarter of 2021** due to the low level of crude oil prices in the same quarter of last year. Medium-term inflation expectations remained anchored within the target.

Looking ahead, there remain significant risks to the Thai economy. First, the procurement and distribution of vaccines as well as the efficacy of COVID-19 vaccination would determine the timing of herd immunity attainment and the re-opening to foreign tourists. Second, uneven recovery across economic sectors was intensified by the recurring outbreak, causing the labor market to be more vulnerable. Some workers became unemployed for longer and that could leave scarring effects on the economy. Third, financial positions, particularly among SMEs and tourism businesses with lower debt servicing capability, became more vulnerable in line with lower income. Some businesses, already with fragile financial positions caused by the previous outbreak, would now fare worse with inadequate liquidity. Fourth, a lack of continuity in fiscal support could be another significant risk.

The financial system became more vulnerable due to the negative shocks from the recent outbreak. Financial positions of Thai households became more fragile as reflected in the elevated debt-to-income ratio which was relatively high compared with other countries. The majority of household debt was personal consumption loans with high interest rates which resulted in high monthly debt service burden. In addition, household savings as a share of income declined especially among self-employed workers and employees in the service sector. This could reduce the household's ability to cover expenses. Looking ahead, the Thai economy faced risks from the spread of COVID-19 which would additionally affect income and the already fragile financial positions of borrowers. This would increase the likelihood of debt at risk that could lead to cross defaults if not properly assisted. While the impacts from the aforementioned risks on overall financial stability would be limited, there would be a need to monitor the quality of household debt which could further deteriorate as well as the slowdown in credit extended by financial institutions amid high credit risk in the period ahead.

<u>Discussions by the Committee</u>

The Committee discussed important measures that should be swiftly implemented in the short and long term as well as the combination of policy tools that would be suitable to the Thai context to achieve the monetary policy objectives. The details were as follows.

- **The Committee viewed that procurement and distribution of vaccines in an adequate and timely manner was the most important issue for Thailand's economic recovery at the present.** Scenario analysis regarding the amount and speed of vaccination, the timing to achieve herd immunity in Thailand, and the impacts on tourism, the labor market, and economic expansion was conducted. **The results suggested that the acceleration in the procurement and distribution of vaccines would help the economy to expand by an additional 3.0–5.7 percent of GDP during 2021–2022.** If the outbreak could be contained, economic activities and domestic demand would recover fast. This would help accelerate the re-opening to foreign tourists. In addition, a sufficient supply of vaccines would reduce the likelihood of another outbreak. This would help the Thai economy to recover without disruption and support the government to speed up policies to restore the economy to suit the post-COVID-19 environment.
- **The Committee assessed that the third wave of outbreak resulted in slower and more uneven economic recovery across sectors.** Despite the gradual recovery in economic activities in the manufacturing sector which had returned to pre-COVID-19 levels, activities in the tourism sector were significantly lower compared with the period before the first-wave outbreak. In addition, the recovery varied greatly among different labor groups. Some workers, especially those in the service sector employed in restaurants and retail businesses, could face a longer period of unemployment or leave the workforce. This would increase the risks of scarring effects on the economy. **Thus, the government should implement measures that are targeted, adequate, and timely to accelerate the recovery and reduce the possibility of economic scars. Fiscal measures** must be adequate and should ensure the continuity of fiscal impulses by expediting the disbursements of relief and government support. **Financial and credit measures** should accelerate the distribution of liquidity to and reduce debt burden for businesses and households additionally impacted by the new outbreak in a targeted manner. This could be achieved through the special loan facility for businesses and asset warehousing. Financial institutions should expedite debt restructuring.
- **Financial positions of households became more fragile following the new outbreak**, which resulted in decreased income and increased debt burden relative to income. In the recent period, financial institutions had provided assistance to aid retail borrowers. However, the assistance was primarily loan repayment holiday which provided short-term relief. **The Committee viewed that the Bank of Thailand should assist financial institutions to expedite additional assistance to help borrowers. In the short term** measures to help reduce debt burden, generate income, and reduce expenses to enhance liquidity for affected households should be expedited. For example, the measures should expand the options for debt restructuring tailored to debt servicing ability of the borrowers and increase the channels for credit assistance through

Specialized Financial Institutions (SFIs) and key non-banks in the retail loan market. **In the long run** the expedition of measures to sustainably address the problem of household debt would require cooperation from all parties. The measures should emphasize preventing excessive debt formation, promoting financial literacy, and expanding the options to reduce debt burden though the refinancing market. In addition, measures to generate sustainable income and promote long-term savings would also be necessary.

- **The Committee viewed that the economic structure and long-term potential growth of the Thai economy would change after the end of the COVID-19 outbreak due to several factors**. For example, the recovery among different sectors would become more uneven, especially for the tourism sector that was severely hit. In addition, income inequality would increase, some workers would be unemployed for longer, and the financial positions of households and businesses would become more fragile. **Such factors reiterated the need for structural reforms policies to elevate the long-term potential growth of the Thai economy.** Facilitating business model adjustments as well as upskilling and reskilling labor to fit the post-COVID-19 environment, for instance, would support sustainable economic recovery and increase income in the long run. **In addition, coordination among agencies would be required to identify key objectives and establish policy guidelines for both the short and long term in order to support structural transformation as well as to push forward policy implementation.**

<u>**Monetary Policy Decision**</u>

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 at a much lower rate due to the third wave of the COVID-19 outbreak. As a result, the financial positions of some private sector segments became more fragile, particularly SMEs and households. 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 are already low. While the overall liquidity in the banking system remained ample, the main challenges were about distributing liquidity in a broad-based manner to businesses and households additionally affected by the new outbreak. Financial and credit measures, together with credit guarantee mechanisms and expedited debt restructuring, would be the appropriate solution. These measures would alleviate financial burden in a more targeted manner than cutting the policy rate from the current low level which might provide limited support to the economic recovery. **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 would continue to monitor developments in foreign exchange markets and capital flows, as well as consider the necessity of implementing additional appropriate measures to ensure that exchange rate movements would not hinder the economic recovery going forward. Although pressures on the baht would abate in tandem with the projected reduction of the current account surplus in 2021, the Committee would continuously expedite the new foreign exchange ecosystem to improve the structure of the Thai foreign exchange markets over the medium term. 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 capital inflows and outflows.

The Committee viewed that the continuity of government measures and policy coordination among agencies would be critical in restoring the economy. The procurement and distribution of vaccines should be accelerated to limit the duration of the pandemic and reduce economic costs. Fiscal measures should ensure sustained fiscal support to alleviate the impact of the outbreak, especially by expediting the approvals and disbursements under the remaining restoration budget. Monetary policy must remain accommodative. The new financial rehabilitation measures to restore businesses affected by COVID-19 should expedite the distribution of liquidity to the affected groups in a targeted manner. This would reduce debt burden and support economic restoration. Meanwhile, financial institutions should expedite debt restructuring to have broader impacts. Furthermore, the government should engage the private sector to accelerate structural reforms, enable business model adjustments, and upskill workers. These would support a sustainable economic recovery and uplift the long-term economic potential.

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 situation of the third wave of the COVID-19 outbreak, the efficacy and distribution of the vaccines, the admission of foreign tourists, fragility in the labor market, as well as the adequacy and continuity of the government measures together with the recently announced financial and credit measures, in deliberating monetary policy going forward. The Committee would stand ready to use additional appropriate monetary policy tools if necessary.

Monetary Policy Group
19 May 2021

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Key Issues from the MPC Meeting No.3/2021

5 May 2021

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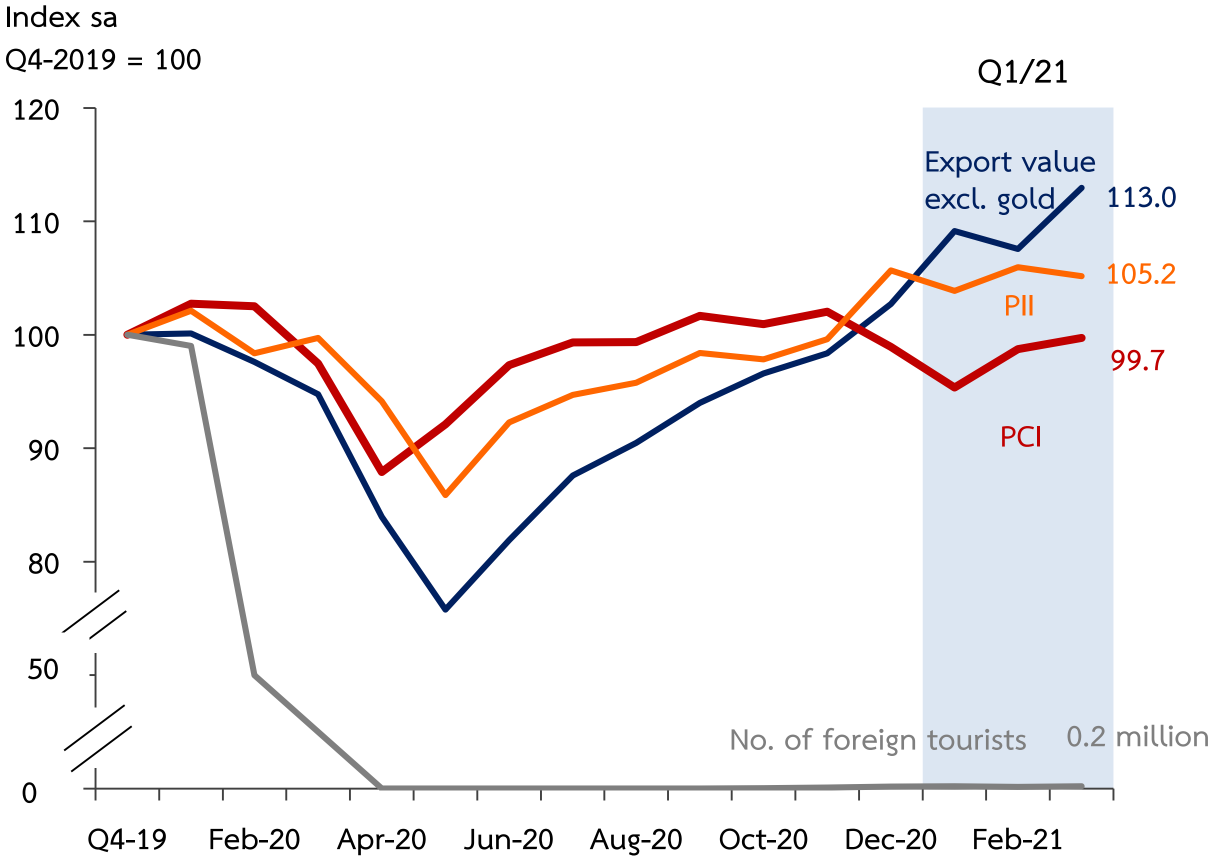
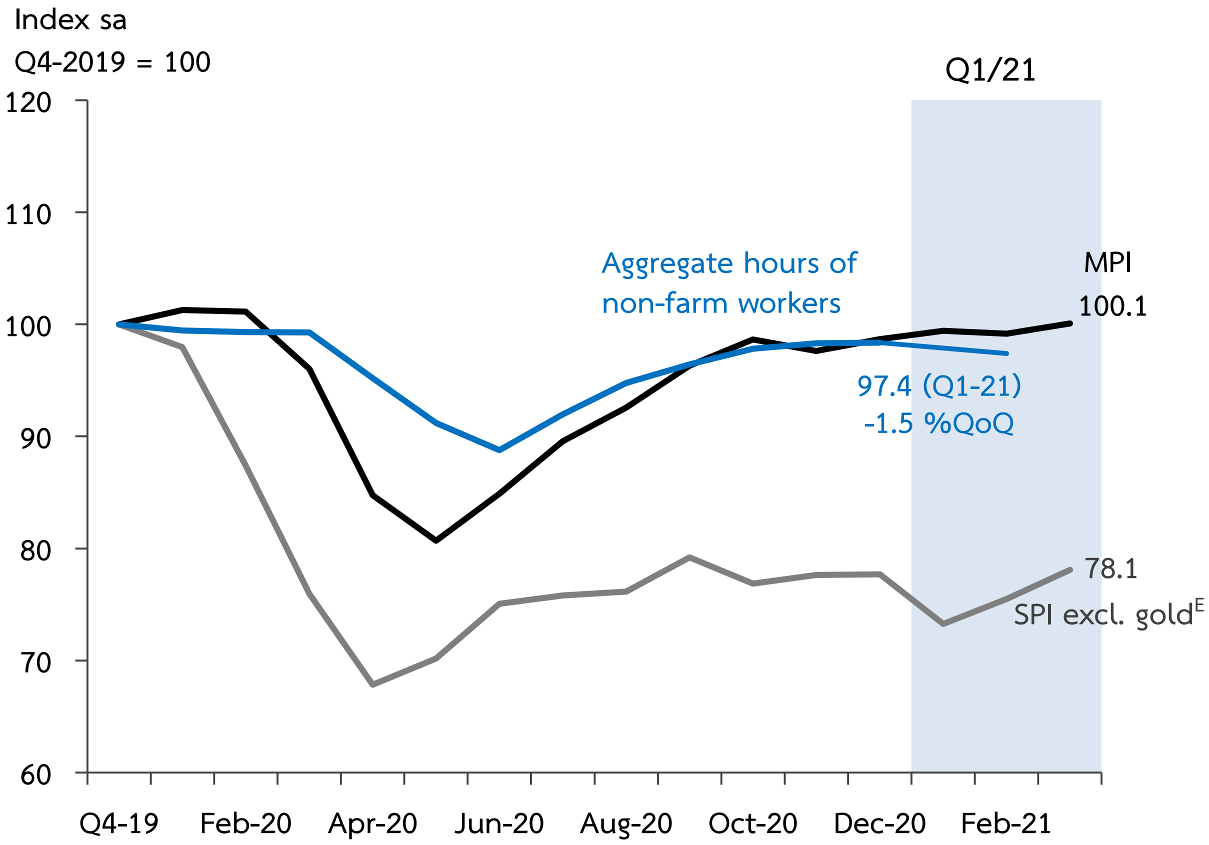
Recent developments reflected more uneven economic recovery due to the new wave of the outbreak.

Demand-side indicators



Note: PCI = Private Consumption Indicators PII = Private Investment Indicators
Source: BOT

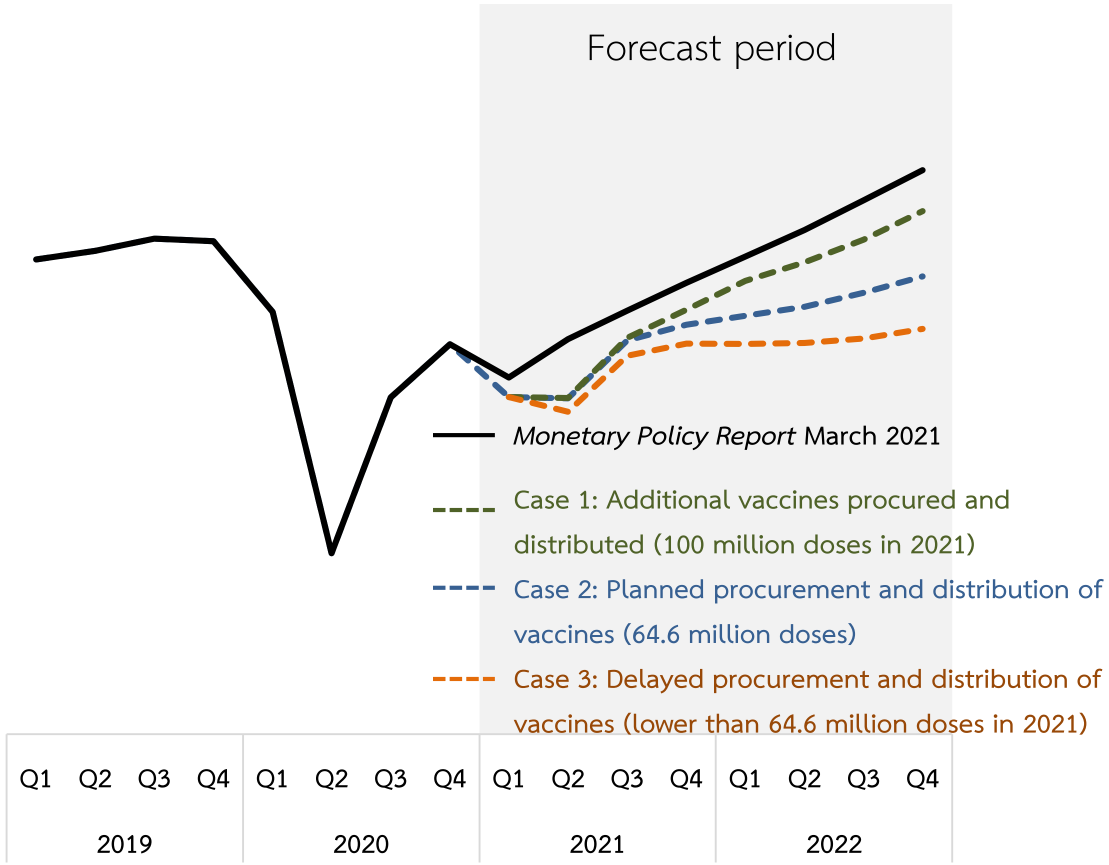
Supply-side indicators



Note: MPI = Manufacturing Production Index
SPI = Service Production Index (Excludes public administration and services, and gold activities)
E = Estimated data

The pace of the Thai economic recovery would be much slower. Recovery in the period ahead would mainly depend on the procurement and distribution of the vaccines.

Economic projection after the third wave of the outbreak



Risks and uncertainties going forward

- Severity and duration of the third wave of outbreak
- Additional fiscal stimulus measures
- Procurement and distribution of vaccines, which would affect sentiment, domestic spending, and border re-opening to foreign tourists

Vaccination benefits

- Reduced likelihood of additional waves of outbreak and reduced burden of fiscal relief measures
- Sooner re-opening of the country to foreign tourists (“sandbox measure”) in time for the tourist season of 2021, which would contribute to tourism recovery in Thailand
- Reduced long-term impact on businesses and employment

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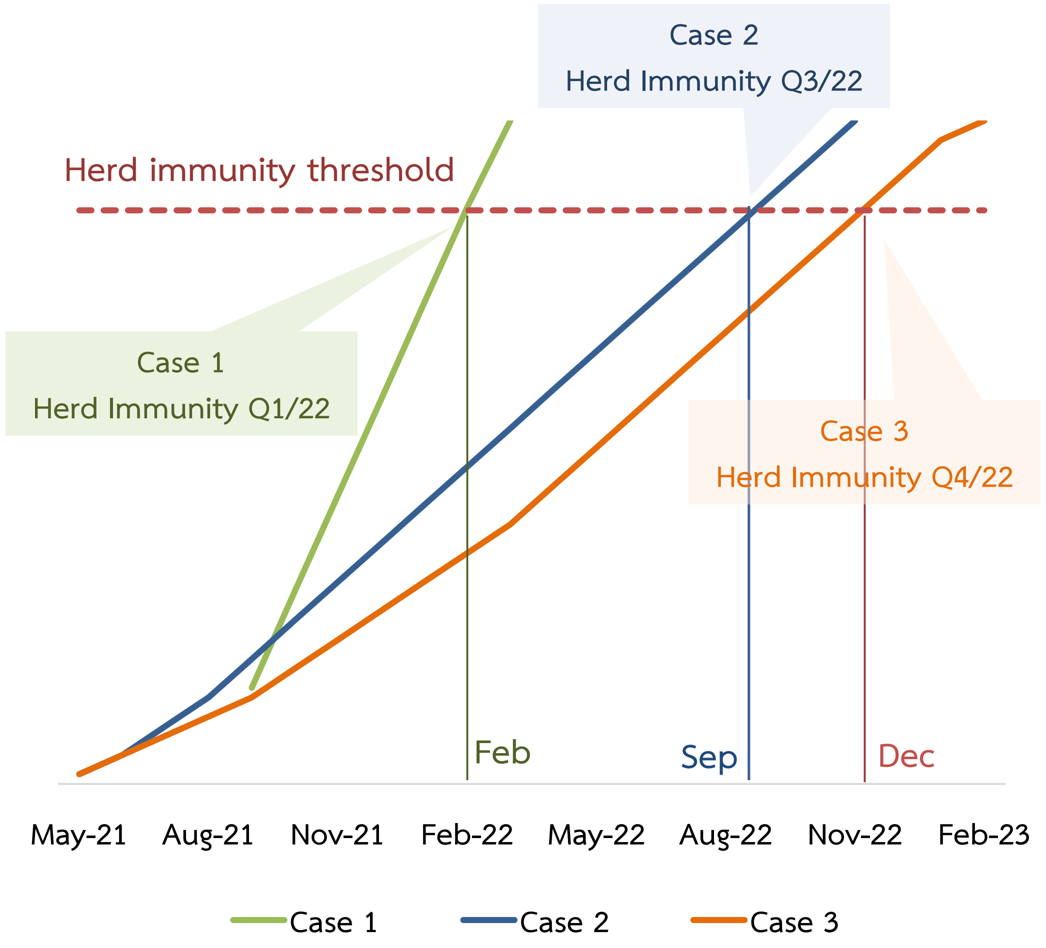
Timely vaccination would facilitate economic expansion by 3.0%-5.7% of GDP during 2021-22.

Expected vaccination path and timing of herd immunity attainment



	Case 1		Case 2		Case 3	
	Additional vaccines procured and distributed (100 million doses in 2021)		Planned procurement and distribution of vaccines (64.6 million doses)		Delayed procurement and distribution of vaccines (below 64.6 million doses in 2021)	
Herd immunity attainment	Q1/22		Q3/22		Q4/22	
	2021	2022	2021	2022	2021	2022
GDP (%YoY)	2.0	4.7	1.5	2.8	1.0	1.1
Foreign tourist figures (millions)	1.2	15.0	1.0	12.0	0.8	8.0
Economic impact from delayed vaccination and herd immunity*	-		-3.0% of GDP (THB 460 bn)		-5.7% of GDP (THB 890 bn)	
Unemployment and underemployment at the end of 2022 (millions)	2.7		2.8		2.9	

*Differences in total economic value for the period 2021-2022 compared to Case 1

The projection does not include potential additional government measures to offset the shock

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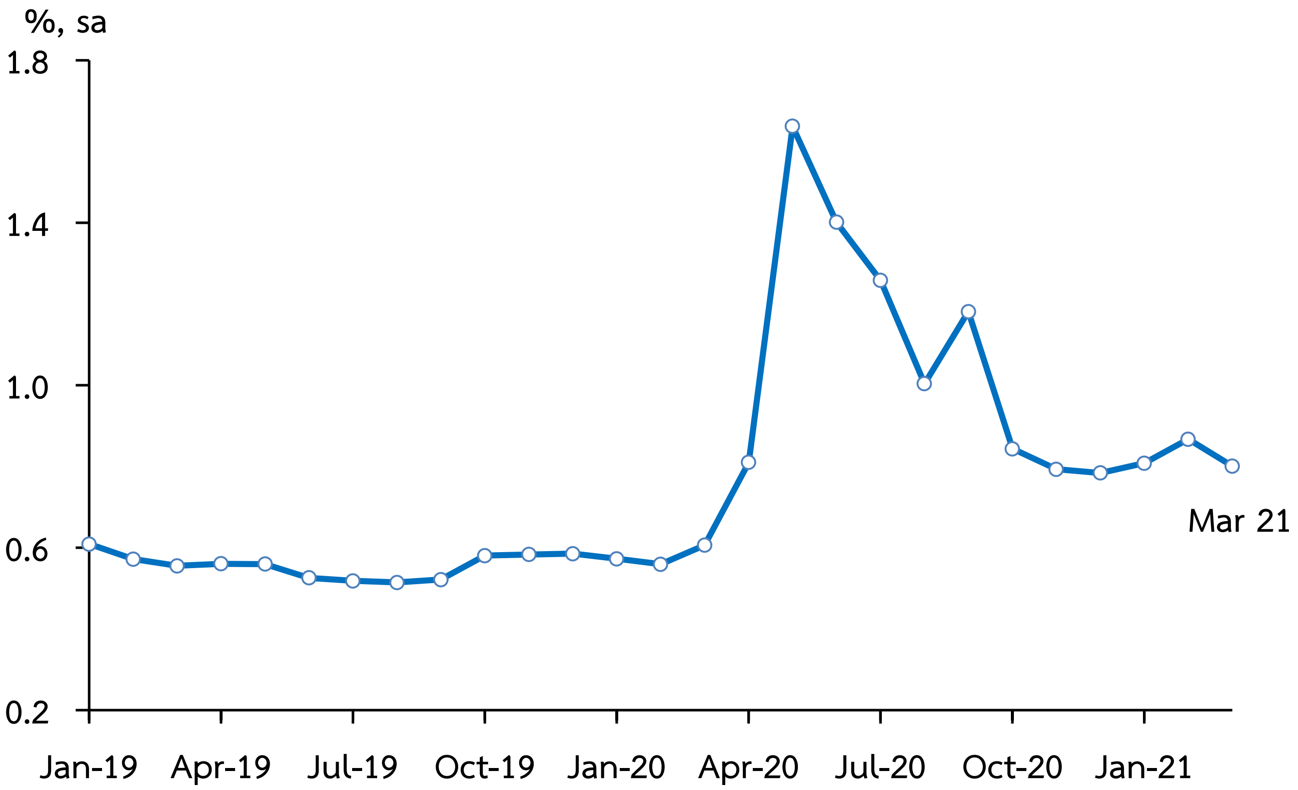
The labor market remained fragile. Some workers became unemployed for longer, potentially leading to more scarring effects.

Ratio of initial jobless claims to total number of insured persons



Source: Social Security Office, calculations by the BOT

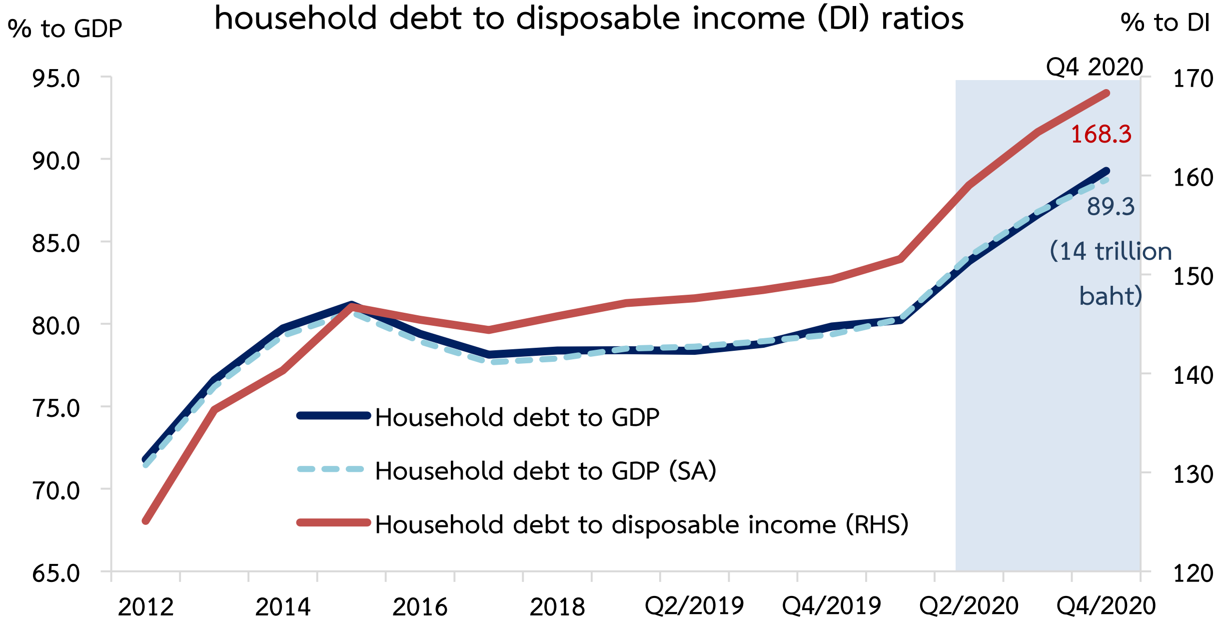
- The labor market remained fragile and would be exacerbated by the new outbreak
    - Some workers may experience longer periods of unemployment
    - Some workers may leave the labor force due to failure to find jobs
- These workers may thus lose skills, leading to economic scars that weigh on long-term growth

Lower income from the COVID-19 outbreak exacerbated household vulnerabilities posed by household debt burden.

Thailand's household debt as a share of GDP rose during the COVID-19 outbreak mainly due to falling income. Moreover, the ratio of household debt to disposable income remained elevated and was relatively high compared with other regional countries.

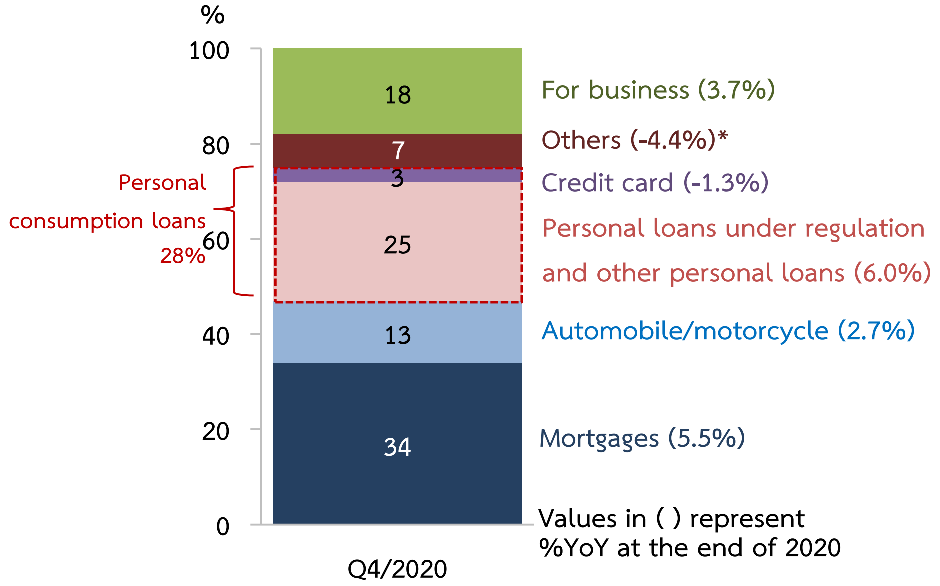
Household debt in Thailand was mainly comprised of personal consumption loans and mortgage loans. Personal consumption loans carried high interest rates, which resulted in high monthly debt service burden.

Thailand's household debt to GDP and household debt to disposable income (DI) ratios



Source: BOT and NESDC, calculations by the BOT

Structure of Thai household debt classified by purpose



* Included unclassified, educational, and investment loans

Source: BOT