

Measures to stabilize the Thai financial markets

In March 2020, the situation on the COVID-19 spread intensified and raised concerns among global financial markets. Asset prices were highly volatile. Investors in many countries thus continuously sold off their assets, resulting in tightening global liquidity. This led to irregular functioning of global financial markets and subsequently affected the Thai financial markets, especially liquidity in the bond market. This was driven by sell-off by foreign investors and some mutual funds following a fast redemption of investment units of some investors. This resulted in liquidity shortages of those mutual funds, forcing them to liquidate their bonds before maturities at lower than fair value prices. Most of these bonds were high-quality bond including government and investment-grade corporate bonds. In this situation, investment unit holders in other mutual funds thus received lower returns than they should. This could result in accelerated redemption of investment units in other mutual funds, consequently disrupting the functioning of mutual funds and the Thai bond markets.

The Bank of Thailand (BOT) addressed the liquidity situation to support the well-functioning of the bond market. The BOT purchased government bonds amounting more than 100 billion baht during March 13-20, 2020, and reduced and cancelled parts of the BOT bond issuances in order to increase liquidity in the government bond market. In addition, **the BOT, the Ministry of Finance, and the Securities and Exchange Commission (SEC) have been closely monitoring the situation and deemed it necessary to implement additional measures to stabilize the Thai financial markets on March 22, 2020.** These measures would stop the liquidity problem in the financial markets from spreading further. The three measures are summarized as follows.^{18/}

1. Mutual Fund Liquidity Facility (MFLF) The BOT will provide liquidity through the repurchase agreement or repo transactions charging a special rate based on the policy rate minus 0.5 percent for financial institutions providing liquidity support for money market funds (MMFs) and daily fixed income funds (Daily FI). On March 24, 2020, the BOT extended the scope of this liquidity facility to cover all MMFs and Daily FI funds. Later on March 30, 2020, the BOT further extended the scope of the facility in order to increase flexibility and efficiency by allowing more types of assets to be used as collateral in repo transactions with the BOT for the liquidity support.

2. Corporate Bond Liquidity Stabilization Fund (BSF) was under consideration for this Fund to be urgently established. The Fund's objective is to provide bridge financing to purchase bonds issued by high-quality firms maturing during 2020-2021. Nevertheless, firms requesting for liquidity support from the BSF will be charged a higher interest rate than market rates. These firms should have raised the majority of their funding needs through other means, such as commercial bank loans or capital increase, have a clear long-term financing plan, and meet other conditions as set out by the BSF's investment committee. In addition, if the issuers simultaneously offer secured bonds to the general public, the bonds that the BSF will invest in must also be secured with collaterals no inferior than those pledged on the bonds sold to the general public.

^{18/} Joint Statement on the Measures to Stabilize the Financial Markets (March 22, 2020)

3. The BOT stands ready to continue its liquidity provision in the bond market through government bond purchases and consider additional measures in order to enable an efficient functioning of the Thai financial markets. This would ensure sufficient liquidity to provide a funding channel for the economic system and preserve financial stability of the country as a whole.

Measures to stabilize the Thai financial markets abovementioned will help enhance liquidity in the financial markets, ensure the normal functioning of the bond markets amid turbulences in the global financial markets, and restore confidence of both Thai and foreign investors in the bond market. All related agencies, both in the public and private sectors, will be closely monitoring developments in the financial markets and stand ready to coordinate in implementing additional measures. This would ensure that the Thai financial markets will continue to function normally and efficiently.