**Edited Minutes of the Monetary Policy Committee Meeting (No. 3/2020)**
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## Members Present

Veerathai Santiprabhob (Chairman), Mathee Supapongse (Vice Chairman), Paiboon Kittisrikangwan, Sethaput Suthiwart-Narueput, Kanit Sangsubhan, Subhak Siwaraksa, and Somchai Jitsuchon

## The Global Economy

**Trading partner economies would contract more than previously assessed due to the COVID-19 outbreak and the containment measures worldwide**, affecting economic activities and employment. **Advanced and Asian economies (excluding China)** would enter recession, with manufacturing and exports contracting due to global demand. **China** would exhibit slower growth. Although some containment measures had been relaxed, social distancing measures remained in place. Economic activities in both manufacturing and services sectors exhibited some improvements, but were still below normal levels. **Countries worldwide continued to announce financial and fiscal measures to alleviate impacts from the COVID-19 outbreak.** Nevertheless, fiscal policy implementation in several advanced economies would be more constrained given the rising public debt-to-GDP ratios. Regarding monetary policy, advanced economy central banks maintained their policy rates at ultra-low levels, as well as expanded asset purchases programs and lending facilities. Meanwhile, several regional central banks further eased their monetary policy. For example, Bangko Sentral ng Pilipinas lowered the policy rate and the Monetary Authority of Singapore relaxed its exchange rate policy band. Most central banks would likely implement further accommodative monetary policy in the period ahead.

**The Committee assessed that there was a likelihood of trading partner economies contracting more than the baseline assessment and recovering only slowly** due to the intensifying COVID-19 outbreak in some countries or the second wave of the outbreak in countries that started to relax the containment measures. Moreover, there were other risks, including (1) re-intensifying trade tensions between the US and China, (2) financial system vulnerabilities in the financial and other sectors, e.g., solvency risks in the household and corporate sectors or potential multiple sell-offs resulting in sharp declines in asset prices and distressed assets that could in turn affect the economy, (3) volatilities in oil and commodity prices, and (4) geopolitical risks. The Committee would closely monitor the COVID-19 outbreak worldwide and the above-mentioned risks as they could weigh on the recovery of trading partner economies and cause volatile movements in global financial markets, which would have spillovers on the Thai economy.

## The Financial Markets

**Stability in the financial markets increased after the Bank of Thailand implemented stabilization measures.** The Bank of Thailand provided liquidity through government bond purchases as well as the establishment of the Mutual Fund Liquidity Facility (MFLF) and the Corporate Bond Stabilization Fund (BSF). These measures resulted in a decline of government bond yields after prior spikes due to tightened global financial conditions. Corporate bond yields in the secondary markets showed lower volatility. Bond market functioning increasingly returned to normal. Commercial bank loans expanded, especially large corporate loans which became an alternative to bond issuances. Demand for working capital also rose during the COVID-19 outbreak. The Committee viewed that the level of overall liquidity in the financial system remained ample. However, it was deemed important that liquidity be substantially distributed to businesses and households affected by COVID-19. Commercial bank lending rates declined following the previous policy rate cut and the reduction in the Financial Institutions Development Fund (FIDF) contribution from 0.46 percent of the deposit base to 0.23 percent for two years.

**On exchange rates, the baht appreciated against the US dollar and regional currencies**, as reflected by a rise in the nominal effective exchange rate (NEER). Risk-on sentiment among investors returned after the COVID-19 outbreak improved and many countries, including Thailand, started to relax the containment measures. Moreover, monetary policy stances of advanced economy central banks over the recent periods were more accommodative. Foreign investors thus returned to invest in long-term Thai government bonds. However, there were net foreign selling in the Thai stock markets. In addition, the baht experienced some pressures from a rise in gold exports following increases in gold prices. Looking ahead, global financial markets would remain volatile due to risks and uncertainties pertaining to the COVID-19 outbreak and the global economic outlook. **The Committee expressed concerns over the baht that could strengthen and affect the economic recovery.** Therefore, the Committee would closely monitor developments in the financial markets and the foreign exchange markets, as well as the results of the implemented measures to relax regulations on capital outflows. Furthermore, the Committee would examine measures to lessen pressures from gold exports on the baht.

## Domestic Economy and Financial Stability

**The Thai economy would contract more than the previous assessment. Export of services** would contract more than expected due to a sharp decline in tourist figures caused by potentially extended travel restrictions. **Merchandise exports** would contract more than assessed in line with the trading partners' economic outlook. The contraction in oil prices would also affect the export prices of petroleum-related products. The fall in external and domestic demand resulted in widespread declines in business and household incomes. **Private consumption** would contract from higher unemployment and the containment measures. Nevertheless, relief measures from the government and related agencies would partially shore up household purchasing power.

Furthermore, the drought impact on agricultural households became more pronounced, while non-agricultural households were affected by reduced working hours and wages as well as layoffs. **Private investment** would contract due to shrinking demand and lower confidence. Moreover, businesses scaled down investment to preserve liquidity. However, there were still investment prospects in telecommunications and healthcare to cope with COVID-19, while some electronics manufacturers would relocate the production bases to Thailand. **Public expenditure** would expand more than assessed. The government increased the budget for Phases I and II of relief measures to alleviate the impacts of COVID-19. The government also announced Phase III measures and additional measures. Some of these would be financed by (1) the Emergency Decree Authorizing the Ministry of Finance to Raise Loans to Solve Problems, to Remedy and Restore the Economy and Society, with the budget limit of 1 trillion baht, and (2) the revision of the 2020 budget according to the Budget Expenditure Transfer Bill. The government and related agencies would focus on providing relief to the affected groups and supporting public health expenditure, as well as restoring the economy and society after the containment of COVID-19.

**The Committee discussed extensively about economic recovery in the period ahead amid high uncertainties and examined different scenarios arising from key factors** including (1) trading partners' economic outlook, the pandemic, and successful developments of vaccines or medicines, (2) the relaxation of containment measures and the likelihood of the second wave of outbreak in Thailand, and (3) the effectiveness of fiscal, financial, and credit measures, which needed to be implemented in a targeted and timely manner to support employment and SMEs. **The Committee expressed concerns regarding the job outlook, which would deteriorate sharply and could take a long time to return to normal**, for employees and the self-employed. Some workers may be temporarily unemployed during the containment period. Others, however, could be permanently unemployed due to business insolvencies resulting in shutdowns, layoffs from weak demand, or greater use of automation. Therefore, it would be more difficult for new graduates to find jobs. **These would delay the economic recovery and reduce the long-term potential growth, causing lasting economic scars after the crisis.** The Committee would therefore closely monitor developments in the labor market. Moreover, the Committee viewed that there was a risk of private investment remaining subdued due to balance sheet vulnerabilities in the private sector, rising unemployment, and the weak economic outlook. Therefore, fiscal measures and public investment must be key drivers to support the economy and reduce the risks that the economy would aggravate to the level detrimental to macroeconomic and financial stability.

**Headline inflation would be below target.** It would be more negative than previously assessed mainly due to energy prices in line with a sharp fall in oil prices and government measures to lower electricity bills, as well as due to lower fresh food prices in line with demand during the outbreak containment. Nonetheless, prices of goods in the other categories still expanded. Core inflation would remain subdued at low levels because of weakened domestic demand as well as government measures to reduce costs of living. Headline and core inflation would remain subject to downside risks in line with risks to the economic outlook and crude oil prices. **According to the Committee's assessment, headline inflation would only temporarily fall into the negative territory due mainly to energy prices, while medium-term inflation expectations remained anchored within the target, suggesting the absence of deflation risks.**

**The prospects of an economic downturn this year led to increased financial system vulnerabilities.** The number of households and businesses facing debt servicing capability risks was expected to rise, especially after the phase-outs of liquidity support measures. Furthermore, hotels, restaurants, and airlines would be impinged significantly by COVID-19. The petroleum industry would be affected by lower oil prices. The real estate sector would experience a decline in both domestic and external demand. The condominium price index started to stabilize after its prior increase. Developers postponed new project launches and introduced greater promotions to reduce excess supply. The Committee saw that most developers raised funds through both commercial bank loans and corporate bonds. In addition, the real estate sector was highly interconnected with other economic sectors such as construction. Therefore, real estate conditions warranted continued monitoring. In addition, **the Committee saw the need to closely monitor liquidity and solvency risks of households and businesses.** In case of widespread defaults, there would be material impacts on lenders, including commercial banks, non-banks, mutual funds, and saving cooperatives, which could in turn deteriorate economic activities.

**Nevertheless, the overall financial institution system remained sound. Commercial banks had robust capital fund and loan loss provision levels**, capable of withstanding economic volatilities from the impacts of COVID-19. Moreover, the Bank of Thailand implemented measures to encourage debt restructuring and relaxed liquid asset criteria, including the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), to be temporarily below 100 percent. In the period ahead, there remained a need to monitor the risks that may pose vulnerabilities to the stability of the commercial banking system, particularly defaults by households and businesses.

**The Committee assessed that financial institutions needed to accelerate debt restructuring for borrowers proactively and expedite credit extension under various measures previously announced. The Committee also deemed it necessary for the Bank of Thailand and other related regulatory agencies to prepare measures for coping with the increasing risks if debt servicing capability of borrowers were to deteriorate more than expected.** Some examples included the establishment of mechanisms to standardize and expedite multi-creditor debt restructuring, as well as the expanded roles of asset management companies (AMCs) in absorbing non-performing loans. The Committee saw the need to monitor saving cooperatives which could be affected by their corporate bond investment. In addition, the Committee deemed it important to ensure the liquidity and stability of the financial institution system, with liquidity being distributed to affected businesses and households.

**Monetary Policy Decision**

**The Committee voted 4 to 3 to cut the policy rate by 0.25 percentage point from 0.75 to 0.50 percent. Three members voted to maintain the policy rate at 0.75 percent**. The Committee assessed that the Thai economy would contract this year more than the previous assessment due to the global economic outlook and impacts of the containment measures worldwide. The economic downturn would further deteriorate employment and pose vulnerabilities to financial stability, with adverse impacts more widespread than expected. Several entrepreneurs would neither be able to adjust their businesses to survive nor adapt to future changes in business models. These would delay the economic recovery and lower long-term potential growth. Meanwhile, headline inflation would be more negative than previously assessed. **Most members thus viewed that more accommodative monetary policy would help alleviate the negative impacts.** Given that the economic recovery would be restrained in the period ahead, monetary policy should be further eased at this meeting to benefit the economy in a timely manner as well as to reinforce the previously announced fiscal, financial, and credit measures. **Nevertheless, three members voted to maintain the policy rate at this meeting, focusing on expediting the effectiveness of the announced financial and credit measures.** Some members would wait to assess the effectiveness of the previously implemented policies, along with economic activities and the outbreak development after the relaxation of the containment measures, before deciding on additional monetary policy action in the period ahead.

**The Committee as a whole agreed that financial institutions should work to ensure that debt restructuring, particularly for household and SME borrowers**, be carried out on a wider scale while debt moratoriums were still effective. **Furthermore, lending under the previously announced measures should also be accelerated to address liquidity problems in a targeted and timely manner.** These credit measures included provision of soft loans by the Bank of Thailand and the Government Savings Bank, credit guarantee facilities by the Thai Credit Guarantee Corporation (TCG), and lending facilities to retail borrowers by specialized financial institutions. These measures would help alleviate liquidity problems of households and businesses as well as support the economic recovery.

**The Committee viewed that targeted and timely fiscal measures would be vital to support employment and SMEs** and facilitate the economic recovery and preserve potential growth going forward. Regarding public debt in Thailand, with the pre-COVID debt-to-GDP at a low level, the average time to maturity at approximately 10 years, and debt mostly denominated in baht, **fiscal policy would thus still have some room to restore and restructure the economy in the medium term. While this would result in a rise in the public debt-to-GDP ratio in the period ahead, the increase in public debt would be manageable**, provided that investment outlays were made in economic restructuring and future productivity enhancement. Moreover, financing costs of public debt were low in line with the government bond yields.

**The Committee viewed that fiscal, financial, and credit measures needed to be closely coordinated for timely and continuous implementation.** During the economic recovery phase, the measures should be focused on promoting employment and income. Furthermore, the measures should support financial institutions in expediting debt restructuring and accelerating credit extension under various schemes, prior to the phase-outs of financial and fiscal relief measures. This could prevent widespread defaults that could affect financial stability and long-term potential growth. In addition, government measures would also need to support economic restructuring and entrepreneurial adjustments with new business models after the outbreak subsided.

**Looking ahead, the Committee would monitor developments of economic growth, inflation, and financial stability, together with associated risks**, including external risks, the impacts of the COVID-19 outbreak, and the adequacy of fiscal, financial, and credit measures in deliberating monetary policy going forward. The Committee would stand ready to use additional appropriate policy tools if necessary.

**Monetary Policy Group**
**4 June 2020**