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Members Present

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The Global Economy

Trading partner economies would severely contract this year and could take longer time to recover than previously assessed, as the COVID-19 pandemic and the containment measures had larger-than-expected impacts on economic activities, although some economies began to exhibit signs of improvement following the relaxation of containment measures. **Advanced and Asian economies (excluding China)** would contract deeply this year and enter recession mainly due to significant weakening manufacturing activities, employment, and consumption. Some countries were still facing a growing number of COVID-19 cases or the second wave of the outbreak after relaxing the containment measures. **China** would exhibit a modest growth on the back of gradual improvement in economic activities following the containment measures relaxation. **Over the recent period, countries worldwide promptly implemented additional accommodative financial and fiscal measures to shore up economic activities in the short term.** Regarding monetary policy, advanced economy central banks continued to maintain their policy rates at ultra-low levels. Many central banks, for example, the Federal Reserve (Fed), the Bank of Japan (BOJ), the European Central Bank (ECB), and the Bank of England (BOE) expanded asset purchases programs. Meanwhile, several regional central banks, such as the Bank of Korea and Bank Indonesia, further cut their policy rates. Regarding fiscal policy, governments worldwide announced additional relief measures for the affected businesses and households. **Many countries would continue to implement accommodative monetary policy and announce additional fiscal measures to support the economic recovery.** Nonetheless, fiscal policy implementation in several advanced economies could be constrained by smaller fiscal policy space as reflected in a historically high public debt-to-GDP ratio. Meanwhile, Asian countries still had fiscal policy space to further stimulate economies.

The Committee assessed that there was a likelihood of trading partner economies expanding less than the baseline assessment due to (1) the COVID-19 outbreak that could be intensifying or re-emerging in some countries, leading to the re-imposing of the containment measures in several countries, (2) vulnerabilities in the global financial system owing to increased default or downgrade risks among private sector and governments in some countries, (3) re-intensifying trade tensions between the US and China, and (4) geopolitical risks, for example tensions between

Mainland China and Hong Kong. The Committee assessed that trading partner economies would contract most significantly in the second quarter of 2020 and would gradually recover afterward. However, the recovery outlook remained highly uncertain and depended on several factors, such as the likelihood and severity of the second wave of the outbreak, the progress of developing successful and widely-available vaccines, as well as the effectiveness of public measures in facilitating the recovery and stimulating the economy going forward. The Committee thus deemed it necessary to closely monitor such factors as they were significant to the Thai economic recovery.

The Financial Markets

Increasingly accommodative monetary and fiscal policies worldwide, ample liquidity in the global financial markets, and signs of improvement in economic activities contributed to the risk-on sentiment among foreign investors as reflected in rising prices of risky assets. Nonetheless, there remained concerns that risk assessment in the financial markets might be inconsistent with the economic slowdown and the sharp falls in business earnings, which could result in market correction in the period ahead. Emerging markets started experiencing inflows in the debt and equity markets, especially Asian countries—including Thailand—that effectively contained the COVID-19 outbreak and exhibited less economic vulnerabilities relative to other regions. Meanwhile, short-term government bond yields declined following the previous policy rate cut, while commercial bank lending and deposit rates also decreased. The long-term government bond yields moved in line with the US counterparts and in tandem with the economic data, outbreak situation, and the progress of vaccine development. The Committee would closely monitor volatilities in global financial markets in light of the second wave of the outbreak in many countries. Corporate bond markets became more stabilized but corporate bond spreads remained high, reflecting credit risks and financing costs. The Committee would closely monitor the risks arising from corporate bonds especially those issued by businesses severely affected by the COVID-19, which could be downgraded to non-investment grade. Regarding corporate financing through financial institutions, commercial bank loans expanded due to large corporates borrowing as a liquidity buffer for economic uncertainties as well as to substitute for debt financing where costs increased. Meanwhile, SME and consumer loans decelerated. **The Committee viewed that the level of overall liquidity in the financial system remained ample. However, it was deemed important that liquidity be better distributed to affected businesses and households.**

On exchange rates, the US dollar depreciated against major currencies in line with the risk-on sentiment and partially due to selling pressures on the US dollar earned from the exports of gold whose prices increased due to the COVID-19 situation. Consequently, the baht appreciated against the US dollar and regional currencies, and the nominal effective exchange rate (NEER) appreciated. Looking ahead, global financial markets would remain volatile due to the COVID-19 pandemic and the global economic outlook that would be subject to risks and uncertainties. **The Committee expressed concerns over the baht that strengthened and could**

affect the economic recovery. Therefore, the Committee would closely monitor developments in foreign exchange markets, the progress of capital outflows relaxation measures, as well as assess the necessity of implementing additional appropriate measures.

Domestic Economy and Financial Stability

The Thai economy would contract this year more than the previous assessment due to the more-severe-than-expected COVID-19 pandemic which prompted governments in many countries including Thailand to implement containment measures. Consequently, global economic activities were sharply disrupted, affecting business operations and the way of life that could alter economic structure going forward. **Merchandise exports** would markedly contract in the second quarter of 2020 in line with the outlook of trading partner economies and global trade volume. Businesses were also impacted by disruptions of supply chain and shipping routes. Nonetheless, merchandise exports would gradually improve from the third quarter of 2020 onward on the back of external demand after the gradual relaxation of containment measures in many countries. **Exports of services** would significantly contract in tandem with a sharp decline in foreign tourist figures throughout the forecast horizon. Nonetheless, recovery in foreign tourist figures would depend on confidence in Thailand's ability to manage the outbreak situations and the process of re-opening the country under the travel bubble scheme. **Private consumption** would contract more than previously assessed, and the recovery would be limited. This was due to weakening employment, rising unemployment, deceleration in labor income following the business adjustment to the outbreak, as well as high household debt which caused households to become cautious in their spending. These factors weighed on private consumption, although the government's relief and liquidity support measures, together with gradual relaxation of the containment measures, could somewhat help shore up household consumption. Regarding **private investment**, investor confidence declined. Excess capacity remained high in several business sectors. Most entrepreneurs postponed or delayed their investment to preserve liquidity for business operations. However, some investment projects would likely continue in the period ahead, particularly large-scale infrastructure investment and infrastructure investment to support the digital economy. **Public expenditure** would be a major economic driver. It would expand further due to (1) 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 and (2) the increase in the proportion of current expenditure in the government's budget that could result in faster disbursement thanks to the Budget Expenditure Transfer Bill and the revision of the fiscal year 2021 budget structure.

The Committee assessed that the Thai economy would contract by 8.1 percent in 2020 but would expand at 5.0 percent in 2021 in tandem with a gradual improvement in both domestic and external demand. Nonetheless, economic growth remained subject to several risks, such as the global economy that could contract more or recover more slowly than expected, debt servicing capability of businesses and households that would significantly deteriorate, as well as the likelihood and severity of the second wave of the COVID-19 outbreak should the country re-open under the travel bubble scheme.

The Committee discussed extensively about the economic recovery in the period ahead. Despite signs of improvement in economic activities following the relaxation of containment measures, the Committee's concerns were as follows. First, industries were severely affected with persistently high levels of excess capacity. Those industries had to adjust business operations patterns to the post-COVID environment. Second, the labor market was more severely and extensively affected than expected. Labors in each economic sector would be affected differently. Newly graduated workers, aging workers, or unskilled workers would, in particular, likely to be highly affected and find it difficult to return to the labor market. This would be more pronounced at the time when businesses employ more digital technology or automation to replace workers in production process. These factors would weigh on non-farm income and employment to recover slowly, while the employment might not return to the pre-pandemic level. Thus, the Committee viewed that the government needed to accelerate the implementation of (1) additional supply-side policies to support the changing economic structure and patterns of business operations in the post-COVID environment, as well as (2) labor policies to enhance employment and labor skills simultaneously to maintain long-term potential growth.

Headline inflation would be more negative in 2020 than previously assessed mainly due to sharply declined energy prices in line with decreasing demand following dampened global economic activities and excess capacity. In addition, a fall in headline inflation was partly due to government measures to reduce electricity and water bills. **Core inflation would remain low** in line with demand-pull inflationary pressures. **The Committee projected headline inflation to be negative at -1.7 percent in 2020 and core inflation to be stable around zero percent. Nonetheless, headline inflation would rise toward target in 2021** mainly due to gradually rising crude oil prices and the economic recovery.

The Committee viewed that the projection of negative headline inflation did not imply that Thailand was facing deflation risk at present. First, overall prices of goods and services would not persistently contract. Headline inflation was projected to rise toward target in 2021. **Second, prices of goods and services contracted only in some categories.** Prices of around 70 percent of goods and services in the inflation basket increased or remained stable. This was in contrast to the case of deflation where prices of most goods and services contracted. **Third, the public medium-term headline inflation expectations remained anchored within target.** According to the most recent survey of professional forecasters in April 2020, five-year-ahead headline inflation expectation was at 1.8 percent. **Nonetheless, the Committee saw a need to monitor and assess whether demand and employment would not become persistently subdued** after the relaxation of the containment measures. The Committee would monitor factors hinged on private consumption and investment including incomes, employment, as well as household and business confidence. The Committee would also continue to communicate with the public regarding the outlook of inflation and deflation risk.

The Thai financial system became more vulnerable due to the more-than-expected contraction of the economic outlook in light of the COVID-19 situation, which could lead to (1) sharp correction of asset prices in global financial markets, (2) defaults by businesses and households in many countries including Thailand, and (3) corporate bonds being downgraded to non-investment grade. Additionally, **the Committee deemed it important to prepare financial measures to continuously alleviate impacts on household and business borrowers especially after the phase-outs of the batch of financial and credit measures. The design of additional measures should take into account the differences among various groups of households and businesses**, since they possessed varying degrees of recovery potential. This would facilitate effective adjustments in the economy.

The Committee assessed that the overall financial institution system remained sound. Commercial banks had robust capital fund and loan loss provision levels, capable of absorbing the impacts of COVID-19. Meanwhile, the Bank of Thailand had implemented the second phase of relief measures to assist retail borrowers affected by COVID-19 and expedited commercial banks' proactive debt restructuring for households and businesses, to the extent that the results are substantial, and 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 increasing risks if debt servicing capability of borrowers were to deteriorate significantly more than expected.** Some examples included the establishment of mechanisms to standardize and expedite multi-creditor debt restructuring, as well as expanding roles of asset management companies (AMCs) in warehousing non-performing loans to be appropriately managed.

Monetary Policy Decision

The Committee viewed that the impacts of the COVID-19 outbreak and the containment measures on the Thai economy turned out more severe than expected and would also create uncertainties on the way of life, business operations, and the economic structure in the period ahead. **The Committee assessed that the monetary policy stance had been eased in a timely manner since the outbreak took place, with three policy rate cuts to a record low.** Moreover, the temporary reduction in the Financial Institutions Development Fund (FIDF) contribution along with the Bank of Thailand's financial and credit measures, as well as government fiscal measures, helped alleviate adverse impacts and would support the economic recovery after the pandemic subsided. These measures would also facilitate the return of inflation to the target and help reduce financial stability risks. **The Committee thus voted unanimously to maintain the policy rate at 0.50 percent** and would monitor and assess the effectiveness of the previously implemented measures before implementing additional measures. Some members deemed it important to examine the possible impacts of an ultra-low policy rate on the functioning of financial intermediaries, and on savings and investment behavior, both of which could affect longer-term financial stability. Given the uncertainties of the COVID-19 pandemic situation, some members thus deemed it necessary to preserve the limited policy space in order to act at the appropriate and most effective timing.

The Committee viewed that targeted and timely fiscal measures, accommodative monetary policy, as well as credit measures and acceleration of debt restructuring remained vital to support economic recovery. Financial measures going forward needed to place importance on (1) ensuring that liquidity be better distributed to affected businesses and households through the acceleration of credit extension under various measures, (2) committing to accelerating debt restructuring for borrowers, and (3) preparing additional measures to lessen solvency risks for businesses, promoting the warehousing of non-performing loans to be appropriately managed, and establishing processes to standardize and expedite multi-creditor debt restructuring.

Meanwhile, the Committee viewed that fiscal policy would still have capacity to restore and restructure the economy and that the government need to focus on supply-side policies to support economic restructuring after the COVID-19 pandemic subsides, since businesses in each sector would face varying manners of recovery and challenges for the adjustments. The government would need to (1) establish mechanisms to manage excess capacity in industries such as facilitating mergers and acquisitions between businesses with substantial excess capacity or adjustments of business models to the post-COVID environment, (2) design policies to support and enhance the competitiveness of high-potential target industries with fast recovery potential, (3) expedite infrastructure investment especially public-private partnership projects and infrastructure for the digital economy, (4) facilitate reskilling and upskilling of labor to support employment in target industries and adjustments to the post-COVID environment, and (5) accelerate reform of government regulations that are outdated or obstructive to the adjustments of businesses to the new economic landscape.

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 effectiveness 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
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