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Members Present

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

The Global Economy

Trading partner economies were expected to gradually recover. Despite continuous improvement in recent economic indicators in several countries, overall economic activities remained significantly lower than the pre-pandemic level. **Advanced and Asian economies (excluding China)** were projected to contract this year, especially **Asian economies** which would contract more than previously assessed, due to the ongoing severe situation of the COVID-19 pandemic in several countries and new waves of outbreak in some countries that led governments to re-impose containment measures. However, governments would likely avoid strict containment measures to limit economic impacts. **China** would exhibit a modest growth on the back of continuous improvement in economic activities after the relaxation of containment measures. **Monetary policy in many countries continued to be accommodative to support economic recovery.** The Federal Reserve would maintain the policy rate at a low level for a longer period following the adoption of flexible average inflation targeting policy framework. Advanced economy central banks maintained policy rates at low levels and continued with asset purchase programs. Meanwhile, several regional central banks maintained policy rates at low levels.

There was a likelihood that trading partner economies would contract more than the baseline projection due to (1) an intensification of the COVID-19 outbreak that could cause several countries to re-impose strict containment measures, (2) vulnerabilities in the global financial system owing to increased risks with respect to corporate bond defaults or downgrades, (3) re-intensifying trade tensions between the US and China prior to the US presidential election.

According to the Committee's assessment the continuation of the recovery of trading partner economies would remain highly uncertain. Following severe economic contraction in the second quarter, recent economic activities increased somewhat thanks mainly to government measures to stimulate private consumption, pent-up demand, and expenses occurred in adapting to the pandemic environment such as working from home. Meanwhile, economic fundamentals that would sustain expansion of private consumption remained noticeably weak. In particular, trading partner economic recoveries could be hampered by unemployment in the period ahead.

The Committee thus deemed it necessary to closely monitor such factors as they would have important implications for the Thai economic recovery.

<u>The Financial Markets</u>

Volatilities in the global financial markets remained mostly unchanged since the previous meeting as investors awaited developments of key events including the Brexit deal and the US presidential election. Furthermore, investors remained cautious in selecting asset classes and destinations to re-invest, as reflected in the differences in debt and equity inflows to emerging markets**.** Prices of most assets stabilized since the previous meeting except for equities in the technology sector which experienced downward price corrections following sharp increases in the previous period and investors' concerns over the technology conflict between the US and China**.** Regarding financial market conditions in Thailand, commercial bank lending rates and government bond yields remained low, whereas corporate bond spreads started to decrease for bonds with high credit ratings. Commercial bank loans expanded on the back of large corporate and retail loans**.** Meanwhile, SME loans contracted, albeit at a lower rate thanks in part to government credit measures and loan repayment holiday measures. **The Committee viewed that the overall level of liquidity in the financial system remained ample and should be better distributed to affected businesses and households.**

On exchange rates, the baht depreciated against the US dollar and regional currencies since the previous meeting partly owing to domestic factors such as new COVID-19 cases in Thailand and political uncertainties especially the resignation of the finance minister and the political protests. Furthermore, global factors such as ongoing Brexit negotiations and re-intensifying tensions between the US and China also affected investor confidence. The nominal effective exchange rate (NEER) overall depreciated from the previous meeting. **The Committee viewed that if the baht were to appreciate rapidly the economic recovery could be affected. Therefore, the Committee would closely monitor developments in the financial markets and foreign exchange markets, together with assess the necessity of implementing additional appropriate measures** such as measures to encourage balanced capital flows by increasing flexibility and convenience in foreign currency transactions and by promoting further liberalization of outward portfolio investments.

<u>Domestic Economy and Financial Stability</u>

The Thai economy was projected to gradually recover in line with the relaxation of the domestic COVID-19 containment measures and the gradual improvement in global economic activities. Nevertheless, overall economic activities remained at a significantly lower level than the pre-pandemic period. **Merchandise exports** would gradually improve in several categories. The recovery so far remained modest and slower than those of the regional economies, as Thai exports consisted of a relatively larger share of slow recovery products such as automotive and auto parts. Regarding **exports of services**, the number of foreign tourists would recover at a slower rate than the previous assessment due to new waves of outbreak in some countries and the highly uncertain protocols in admitting foreign tourists to Thailand. **Private consumption** started to recover following the relaxation of containment measures. Nonetheless, it would remain vulnerable given a slow recovery of household income due to the weak labor market, low consumer confidence, and increased household debt. **Private investment** would contract significantly in line with considerable excess capacity and weak investor confidence. However, private investment going forward would be supported by planned relocation of production base to Thailand under the Eastern Economic Corridor (EEC) and investment in both large-scale infrastructure and infrastructure to support the digital economy that were likely to proceed continuously. **Public expenditure** would be a major economic driver on the back of disbursements 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. Nevertheless, government stimulus in 2020 would be lower than the previous assessment, as part of transfer payments under the remedy and restoration plans would be delayed to 2021.

The Thai economy was projected to contract this year by 7.8 percent, slightly better than previously forecasted, and would expand next year at 3.6 percent, lower than the previous forecast, mainly due to the slow recovery of foreign tourist figures. Nevertheless, the Thai economic recovery would still be subject to various risks, including the global economic recovery that could be slower than expected, the deteriorating debt servicing capability of businesses and households, and the recovery of foreign tourist figures that could be more modest than previously assessed if the government protocols for admitting foreign tourists could not be implemented.

The Committee extensively discussed the challenges for the Thai economy in the period ahead, especially the recovery that would greatly vary among economic sectors, regions, and firms in different segments. The Committee assessed that such differentiation would have implications for more targeted and timely government policies. Examples included (1) promotion of employment and labor skill development to accommodate those that could be affected in sectors with a slow recovery outlook and considerable excess capacity, (2) job creation in provincial areas to absorb return migration, and (3) supply-side policies, particularly economic restructuring, to support sectors with high recovery potential in adjusting their business models to the post-COVID environment.

Headline inflation was projected to be less negative this year than the previous assessment on the back of increasing energy prices as demand rose after the relaxation of COVID-19 containment measures. Core inflation would remain at a low level. However, given the economic recovery, headline inflation would gradually rise next year and stay close to the lower bound of the target range. Medium-term inflation expectations remained anchored within the target.

The financial system remained sound despite increasing vulnerabilities given the economic conditions affected by the COVID-19 situation. Commercial banks had robust capital fund and loan loss provision levels capable of absorbing the impacts of the pandemic. However, looking ahead, commercial banks needed to prepare for the uncertain COVID-19 situation and the deteriorating debt servicing capability of businesses and households. The Committee viewed that financial institutions should expedite debt restructuring for retail borrowers and businesses to a wide extent and accelerate lending under various measures to address liquidity problems in a targeted and timely manner consistent with business restructuring.

Monetary Policy Decision

The Committee assessed that the Thai economy would gradually recover in line with the relaxation of domestic COVID-19 containment measures and the gradual improvement in global economic activities. The Thai economy would contract in 2020 slightly less than the previous forecast but would expand in 2021 at a lower rate than previously forecasted mainly due to the slow recovery of foreign tourist figures. The Committee assessed that overall economic activities would take at least two years before returning to the pre-pandemic level. The Committee would continue to monitor risks of a second wave of the outbreak. Meanwhile, the Committee viewed that the low level of the policy rate, along with financial and credit measures of the Bank of Thailand as well as fiscal measures, helped alleviate adverse impacts and would support the economic recovery after the pandemic subsided, facilitate the return of inflation to the target, and reduce financial stability risks. **The Committee thus voted unanimously to maintain the policy rate at 0.50 percent.** The Committee viewed that the record-low policy rate would facilitate the economic recovery. Moreover, a further decrease in the policy rate would be less effective in the current context and could affect financial intermediation, increase vulnerabilities in the financial system through underpricing of risks, as well as affect savings. The Committee thus deemed it necessary to preserve the limited policy space for the appropriate and most effective timing.

The Committee noted that policy coordination among government agencies would be crucial to ensure coherent and consistent measures, namely, fiscal measures as the main driving force of the economy, together with continued accommodative monetary policy, as well as financial and credit measures to support liquidity. Financial and credit measures going forward needed to emphasize on (1) ensuring that liquidity be distributed to have broader impacts on affected business and households through acceleration of credit extension under various measures and standardization of credit terms to help provide liquidity for SMEs, (2) helping financial institutions to significantly accelerate debt restructuring for borrowers especially households and businesses, and (3) preparing additional measures to reduce solvency risks for businesses and establishing mechanisms to standardize and expedite debt restructuring. **Meanwhile, the Committee viewed that fiscal policy needed to play a greater role going forward to support economic recovery and economic restructuring,** as the recovery would take time and would vary among economic sectors, regions, and firms in different segments. As a result, government measures going forward needed to be continuously implemented in a targeted and timely manner. In addition, supply-side policies should be given a greater role in supporting economic restructuring, adjustments of business models by entrepreneurs, and labor skill development consistent with the post-COVID environment in order to ensure a sustained economic recovery.

The Committee expressed concerns about and extensively discussed labor market conditions, as both employment and income remained weak, which could affect the economic recovery in the period ahead. Although some businesses could resume their operations after the relaxation of the COVID-19 containment measures, employment and income remained significantly lower than their pre-pandemic levels. Additionally, a portion of labor switched to agricultural and freelance work which resulted in lower incomes. The recovery of the labor market going forward would be vulnerable to (1) a potentially prolonged COVID-19 pandemic which could further reduce labor incomes or create more layoffs, (2) the phase-out of the government measures to remedy and restore the economy, (3) the ending of the agricultural season in the first half of next year which would impair the agricultural sector's ability to absorb labor from other sectors, and (4) difficulties of certain groups of workers re-entering the market after the pandemic subsided, especially aging workers, new graduates, and workers whose skills would be mismatched with the post-COVID environment, which could affect the long-term potential growth of the economy. Therefore, labor policies going forward would be indispensable and would need to be more targeted and take into account differences within each economic sector, variations in recovery as well as obstacles to adjustments in each area.

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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