

Edited Minutes of the Monetary Policy Committee Meeting (No.6/2021)

29 September 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 recovery of major advanced economies (AEs) and Asian economies became more divergent. Economic activities in major AEs were expected to continue to recover despite the increasing number of cases owing to the Delta variant. This was partly due to high vaccination rates which allowed for more relaxation of containment measures. Meanwhile, Asian economies were hit harder from the Delta variant relative to AEs and thus needed to re-impose strict containment measures. As a result, private consumption slowed down despite a sharp rebound prior to the spread of virus mutations. Merchandise exports were expected to continue to recover despite increasing impacts from global supply disruption, such as shortages of containers and semiconductors, which was expected to be severe and prolonged until mid-2022.

Volatilities in the global financial markets increased due to gradual normalization of monetary policy in AEs. The Federal Reserve signaled plans to start tapering bond purchases and increases in federal funds rate as economic recovery and COVID-19 situation further improved. This resulted in appreciation of the US dollar and a rise in US government bond yields. Meanwhile, emerging market (EM) currencies and asset prices were volatile owing to concerns over the COVID-19 pandemic, monetary policy in AEs, regulatory scrutiny from the Chinese government targeting specific industries in China, and default risks of the Evergrande Group.¹ However, direct impacts of potential defaults on the Thai financial markets would be limited as only a small portion of investments by Thai mutual funds had exposure to the Evergrande Group's bonds. On exchange rates, **the baht exhibited more volatile movements** owing to monetary policy in AEs and uncertainties surrounding the Thai economic outlook. The baht against the US dollar exhibited two-way movements in tandem with volatile global financial markets. The nominal effective exchange rate (NEER) slightly depreciated since the previous meeting. **Looking ahead, the global financial markets would remain highly volatile** given the gradual normalization of monetary policy in AEs and the recovery divergence between AEs and EMs, as well as among EMs.

¹ The Evergrande Group is the second largest real estate developer in China. In 2021, the company faced severe liquidity problems with a high probability of default. This was due to (1) persistent and high debt accumulation and (2) the Chinese government policy to promote financial stability in the property sector and to reduce risks in the financial system. At present, the Evergrande Group's debt was approximately 350 billion US dollars (2 percent of Chinese GDP).

Domestic Economy

The Thai economy was projected to expand 0.7 and 3.9 percent in 2021 and 2022, respectively, largely unchanged from the August projection. Although the economy in the third quarter of 2021 was affected by containment measures and a slowdown in exports, significant progress on vaccination and earlier-than-expected relaxation of containment measures would help restore private sector confidence and boost private consumption for the rest of 2021. The economy would gradually recover in 2022 as improving confidence would help support domestic spending. Foreign tourist figures were expected to recover slowly, while merchandise exports would continue to be affected by global supply disruption. Higher shipping costs mainly contributed to the temporary current account deficit of 15.3 billion US dollars in 2021. More than half of this larger deficit compared with the June projection was attributable to a sharp rise in freight costs. The current account balance was projected to turn a slight surplus of 1 billion US dollars in 2022, as the shortages of containers and semiconductors would begin to subside in the middle of 2022. Meanwhile, the labor market would remain fragile, although labor income in the services sector and the self-employed improved somewhat in line with economic activities.

Headline inflation was projected to decline in 2021 relative to the previous projection and stay close to the lower bound of the target range. The downward revision was mainly attributable to lower raw food prices and an extension of the government's electricity bill subsidy measure to help reduce costs of living. Crude oil prices were expected to rise temporarily mainly due to the effects of Hurricane Ida in the US. In 2022, headline inflation was projected to increase in tandem with higher raw food prices as the agricultural oversupply problem was expected to be resolved following the resumption of exports. Core inflation would remain subdued owing to weak domestic demand. Medium-term inflation expectations remained anchored within the target range.

The Thai economy would remain subject to significant uncertainties going forward. These uncertainties included (1) severity of domestic COVID-19 outbreak, virus mutation, relaxation of the containment measures, as well as the country's reopening plan, (2) recovery in private sector confidence following the relaxation of the containment measures and the effects on consumption and investment, (3) continuity of government stimulus to support the economic recovery in the period ahead, and (4) global supply disruption and the increase in shipping costs that could affect manufacturing and merchandise exports.

Discussions by the Committee

- **The Committee assessed that the Thai economy had bottomed out in the third quarter of 2021 and would continue to recover, but uncertainties surrounding the economic outlook remained high.** Pent-up demand was expected to support the economic recovery throughout the rest of 2021, following the progress on vaccination and earlier-than-expected relaxation of containment measures. Consequently, the projection remained close to the previous figures despite exports slowdown. **However, the government plan to import and distribute vaccines, together with the recovery in economic activities, needed to be monitored.** The latter included (1) a recovery in private sector confidence and private consumption that could be delayed

in the case of recurring outbreaks, (2) the global supply disruption that would continue to affect exports sector, and (3) foreign tourist arrivals that would gradually recover in line with the re-opening of Thailand and other countries especially China. **The Committee viewed that recovery across sectors would be increasingly uneven**, and that could lead to a more fragile labor market. Unemployment and underemployment was estimated to reach approximately 3.4 million persons by the end of 2021, mainly from workers in the services sector and self-employed persons. This was reflected in an increase in the number of employees in the social security system who applied for unemployment benefits. In addition, more workers migrated back to their home provinces. Thus, the government should address vulnerabilities in the labor market in an adequate and continuous manner to reduce long-term economic scars after the outbreak subsided.

- **The Committee viewed that the most important issue for the Thai economy at present was the implementation of public health measures that would help facilitate economic and income recovery. The measures should strike a balance between containing the outbreak and facilitating economic activities**, which would help boost confidence and the recovery of households and businesses. Going forward, the Committee expected that higher vaccination rates would reduce the number of severe cases to be within the capacity of the public health system. Strict containment measures would thus be less needed, and the government could expedite measures to facilitate economic activities back to normal.
- **The Committee viewed fiscal policy as the main driver** to provide relief and to support economic recovery. Going forward, fiscal policy could focus on measures to restore income as well as measures to rehabilitate and raise long-term potential growth of the Thai economy. In addition, **the Committee viewed that raising the public debt ceiling to 70 percent of GDP would allow the government to continue expediting additional policies to support economic recovery**. The public debt-to-GDP ratio would eventually decline thanks to economic expansion and the government's ability to collect more revenues. **Government spending should emphasize on productive projects** such as co-payment schemes with high fiscal multipliers. In addition, government spending should be **transparent and verifiable**. In the period ahead, the government should prepare a clear guideline to reduce public debt-to-GDP ratio to preserve fiscal discipline and build up fiscal space to accommodate potential risks by, for instance, (1) generating additional government revenues by expanding tax bases and (2) scaling up capital expenditure relative to current expenditures, which would contribute to long-term economic growth.
- **The Committee assessed that monetary policy must contribute to accommodative financial conditions**. Despite ample liquidity in the banking system, there was an issue of distributing liquidity to the affected businesses and households. Nonetheless, the first phase of special loan facility starting from April to September of 2021 had helped SMEs to gain access to credit worth more than 100 billion baht, reaching the target of the first six months. **Financial and credit measures have made significant progress**, especially the special loan facility that was well-distributed in terms of borrowers and their credit risk profiles. **However, some additional policies should be expedited to distribute liquidity to those affected in a targeted and continuous manner**. These included (1) the second

phase of the special loan facility of which conditions and credit guarantee criteria were revised to help enhance credit access for borrowers with high credit risks, as well as expanding credit lines for borrowers with low credit lines or those who had never been issued credit, (2) the asset warehousing scheme, (3) other measures under specialized financial institutions (SFIs) such as loans for affected SMEs and retail borrowers, and (4) debt restructuring through financial institutions should be expedited to have broader impacts and be consistent with borrowers' long-term debt serviceability. For example, a further relaxation in asset classification and provisioning criteria would reduce the costs for financial institutions and allow them to assist borrowers more sustainably than repayment extension. Furthermore, the reduction in the FIDF fee to 0.23 percent was extended until the end of 2022, which would allow financial institutions to continuously transfer the lower costs to aid businesses and households.

Monetary Policy Decision

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 in 2021 and 2022 would expand close to the projection from the previous meeting, but uncertainties surrounding the economic outlook remained high. Nonetheless, the progress on vaccination and the earlier-than-expected relaxation of the containment measures would help support the economy in the period ahead. The most important issue for the Thai economy at present was the implementation of public health measures that would help facilitate the economic and income recovery. The Committee viewed that government measures should be expedited to support the economic recovery. Despite some progress on financial measures, liquidity distribution and debt restructuring should be expedited further for those who were affected. **The Committee viewed that financial measures would be more effective than a further reduction in the policy rate, which was already low, and thus voted to maintain the policy rate.**

The Committee assessed that the baht exhibited more volatile movements due to domestic and external factors. The baht against the US dollar exhibited two-way movements, appreciating after the relaxation of containment measures but depreciated quickly as central banks in AEs signaled gradual normalization. Investor concerns over the global economic recovery and the default risks of the Evergrande Group, which could escalate into a systematic risk, also contributed to volatile exchange rates. The Committee would thus closely monitor developments in both global and domestic financial markets to maintain exchange rate stability and ensure that exchange rate movements would not hinder business adjustments. The Committee would also continuously expedite the new foreign exchange ecosystem to adjust the Thai foreign exchange markets structure to be more balanced and flexible.

The Committee viewed that the government measures and policy coordination among government agencies would be critical to support the economic recovery. Public health measures should strike a balance between containing the outbreak and supporting the recovery of economic activities and income. Fiscal measures should help facilitate the economic recovery by emphasizing on generating income and preparing measures to raise potential growth. Monetary policy must contribute to continued accommodative financial

conditions overall. Financial and credit measures should be expedited to distribute liquidity to affected groups in a targeted manner and help reduce debt burden. These measure included the second phase of the special loan facility, the asset warehousing scheme, and other measures by SFIs. In addition, financial institutions should accelerate debt restructuring to have broader impacts and be consistent with borrowers' long-term debt serviceability.

Under the monetary policy framework with 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.** In addition, the Committee would monitor key factors affecting the economic outlook, namely implementation and relaxation of the domestic containment measures as well as the adequacy of fiscal, financial, and credit measures. The Committee would stand ready to use additional appropriate monetary policy tools if necessary.

Monetary Policy Group

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