Edited Minutes of the Monetary Policy Committee Meeting (No. 8/2020)
23 December 2020, Bank of Thailand
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Members Present

Sethaput Suthiwartnarueput (Chairman), Paiboon Kittisrikangwan, Kanit Sangsubhan, Rapee Sucharitakul, Somchai Jitsuchon, and Subhak Siwaraksa

Member Absent

Mathee Supapongse (Vice Chairman)

The Global Economy and Financial Markets

The global economic recovery was better than expected in the third quarter of 2020 but uncertainties pertaining to the new waves of COVID-19 infections remained. However, the Committee assessed that the less strict containment measures would adversely affect the global economy less severely than before. Meanwhile, governments in various countries worldwide continued to conduct fiscal and monetary policies to support economic recoveries.

The global financial market sentiment remained risk-on. Prices of risky assets, especially oil and emerging market assets, rose worldwide. Emerging markets continued to experience capital inflows to equity and bond markets, particularly equity markets in Asia. However, investor confidence subsequently declined following the new waves of infections and news regarding the new COVID-19 mutation. Regarding **Thai financial markets**, capital flows recorded net inflows, seen particularly in the equity market, causing Thailand's stock market index to outperform others in the region. This recent outperformance was due partly to the smaller prior increases relative to regional peers. Government bond yields declined across all tenors driven by demand from domestic investors. Moreover, short-term government bond yields were pressured by limited supply. On **exchange rates**, the baht appreciated against the US dollar in line with regional and emerging market currencies mainly due to the weakening of the US dollar. The nominal effective exchange rate (NEER) was stable from the previous meeting.

Looking ahead, global risk-on sentiment was expected to continue and would cause more volatile and larger capital flows into emerging markets, including Thailand, than previously. The US dollar was expected to depreciate on the back of the new US president's trade policies which would likely be more compromising, as well as the progress in the distribution of COVID-19 vaccines in several countries. Nevertheless, the baht depreciation over the recent period owing to the new wave of coronavirus cases in Thailand could result in exchange rate volatility in the period ahead.

Domestic Economy

The Thai economy was projected to continue to recover but uncertainties remained high in the period ahead. The Committee estimated that the Thai economy would contract 6.6 percent in 2020, which was better than previously assessed, and would expand at 3.2 percent in 2021 and 4.8 percent in 2022[1/]. The Committee assessed that overall economic activities would return to the pre-pandemic level in the second half of 2022. **Key positive factors underlying the revision of the baseline forecast** included, first, better-than-expected economic outturns in the third quarter and the first two months of the fourth quarter of 2020, as seen especially in private consumption and merchandise exports. The second factor underpinning the economic recovery was the continued improvement in the labor market, as reflected in indicators such as the declining numbers of unemployed and underemployed workers[2/]. The number of underemployed workers was 2.2 million in November 2020, down from the peak of 5.4 million in the second quarter of 2020. Such improvement would help support private consumption going forward. Third, the continued economic recovery of trading partners would benefit Thai exports. Meanwhile, **key negative factors underlying the revision of the baseline forecast were as follows.** First, the number of foreign tourist projection was revised down following the new outbreak of COVID-19 cases as well as uncertainties pertaining to vaccine efficacy and vaccination coverage which would affect the ability to re-open the country for foreign tourists and the recovery of the tourism sector. Second, the public expenditure projection was revised down driven mainly by the lower-than-expected fiscal year 2021 annual budget, the carryover budget as recently announced, as well as a reduction and postponement of state-owned enterprise investment.

Looking ahead, adverse risks to the baseline projection were as follows. First, there remained uncertainties surrounding the COVID-19 situation in the near term as well as uncertainties regarding vaccine efficacy and vaccination coverage in Thailand which could be limited, consequently affecting the progress in the admission of foreign tourists in the period ahead. Second, fiscal stimulus could be lower than assumed in the baseline projection owing to a delay in the disbursement under the post-COVID economic recovery plan, the phase-out of government measures to stimulate private consumption in the first half of 2021, and the earmarking of funds available under the Emergency Decree[3/] approaching the deadline in the second half of 2021. Third, the fragile balance sheets of businesses, especially SMEs, could be at risk. If financial assistance failed to reach liquidity-constrained businesses sufficiently and timely, there could be adverse spillover effects on the labor market as well as the overall economy.

[1/] The projection released on 23 December 2020 already took into account the impacts of the stringent containment measures implemented in Samut Sakhon province and measures that restricted some economic activities in other areas. Such measures would partially affect the services sector while the manufacturing sector would not be significantly affected. However, the released projection had yet to include the impacts of a wider spread of the new wave of infections in many other provinces as well as the announcement of more stringent measures that went effective on 4 January 2021.

[2/] Underemployed workers are defined as those working fewer than 20 hours per week in the agricultural sector and fewer than 24 hours per week in non-agricultural sectors.

[3/] 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

Headline inflation was projected to be negative in 2020. Headline inflation would return to the target in the middle of 2021 and would stay close to the lower bound of the target range throughout the forecast period. Although the projection of crude oil prices was revised upward following the progress of COVID-19 vaccine development, the base effect of higher-than-expected headline inflation in 2020 and lower fuel adjustment (Ft) charges in 2021 would cause the headline inflation projection to be largely unchanged from the previous forecast. **Core inflation would remain at a low level close to the previous forecast.** Medium-term inflation expectations remained anchored within the target.

Discussions by the Committee

The Committee discussed the economic recovery which remained highly uncertain due to various factors as well as appropriate measures in the period ahead. Details of the discussions were as follows.

- **The situation regarding the latest wave of coronavirus infections remained highly uncertain. Thailand's economic projection would be substantially affected in the case of a surge in new infections.** The Committee thus saw a need to closely monitor development and assess the adequacy of government measures. The Committee viewed that proactive spending on public health including testing, monitoring, and screening, together with sufficient investment in COVID-19 vaccines, would be most worthwhile and essential to support the economic recovery. Such investment would reduce the likelihood and severity of recurring outbreaks and allow for a faster re-opening of the country.

- **Uneven recovery occurred across economic sectors and areas. Additional economic indicators, such as incomes of self-employed workers in non-agricultural sectors, should thus be monitored for better insights.** The uneven recovery resulted in limited credit access for some businesses due to a rise in credit risks. The Committee viewed that financial institutions should expedite debt restructuring for both retail borrowers and businesses to have a broader impact. Financial institutions should also accelerate credit extension under various measures such as credit guarantee schemes by the Thai Credit Guarantee Corporation to address liquidity constraints in a targeted and timely manner. **Although such financial assistance could increase fiscal burden in the short term, they would support employment, enhance liquidity for SMEs, and reduce scarring effects which would help reduce long-term costs to the economy.**

- **The baht would encounter some challenges going forward.** The Committee assessed that in the short term global financial market sentiment would remain risk-on and the US dollar was thus expected to weaken. These would lead to rapid appreciation of the baht which could affect the fragile economic recovery. Businesses should thus hedge against currency volatilities and promptly adjust their business models to enhance value-added competitiveness and rely less on price competitiveness. **The Committee viewed that the new foreign exchange ecosystem should be expedited to address structural problems in the foreign exchange market and encourage more balanced capital flows.** In addition, this new ecosystem would allow Thai investors to invest abroad more easily and in a larger amount, increase flexibility in foreign exchange risk management for entrepreneurs, and promote more competitions among foreign exchange service providers.

- **While fiscal measures played a crucial role in supporting the economic recovery amid high uncertainties, rising public debt in the medium term would not pose a significant fiscal risk in Thailand.** This was due to (1) the low level of pre-pandemic public debt, (2) the long maturity of debt as reflected in the remaining average time to maturity of approximately 10 years, (3) debt mostly denominated in local currency, and (4) nominal GDP growth expected to be higher than interest rates at which the government pays its debt. In addition, Thailand was rated BBB+ with a stable outlook. **The Committee viewed that if public debt accumulation was intended to support the economic recovery and finance key infrastructure projects, this would help sustain economic growth and public debt.** When the economy gets back on track, the government should strengthen fiscal capacity through revenue and expenditure reforms to promote long-term fiscal sustainability.

Monetary Policy Decision

The Committee voted unanimously to maintain the policy rate at 0.50 percent to support the economic recovery while placing emphasis on the use of more targeted measures.

The Committee assessed that, despite the recent better-than-expected outturns, the Thai economy would recover slowly and need support from the continued low policy rate. Nonetheless, as the policy rate was already at a historical low level and going forward the economic recovery would be fragile and highly uncertain, **the Committee voted to maintain the policy rate at this meeting to preserve the limited policy space in order to act at the appropriate and most effective timing.**

The Committee expressed concerns over the outlook of the rapid appreciation of the baht as this affected the fragile economic recovery. The Committee would closely monitor developments in foreign exchange markets and capital flows. The Committee would also consider the necessity of implementing additional appropriate measures to ensure that the exchange rate movements would not hinder the economic recovery. By reducing pressures on the baht and addressing structural problems in the Thai foreign exchange market through expediting the new foreign exchange ecosystem, capital flows would become more balanced.

The Committee viewed that the continuity of government measures and policy coordination among government agencies would be critical in supporting the economic recovery going forward. Monetary policy must remain accommodative. Financial and credit measures should expedite liquidity distribution to the affected groups in a targeted and timely manner, for example, through credit guarantee schemes to reduce credit risks. Financial institutions should expedite debt restructuring to have broader impacts. Fiscal measures should continue to support the economy. The government should thus accelerate budget disbursement and target assistance to those vulnerable groups. The government should also proactively implement public health measures and procure sufficient COVID-19 vaccines to limit adverse economic impacts of the new outbreaks. Furthermore, the Committee saw the need of supply-side policies to restructure the Thai economy in the post-COVID environment that could change business structures in many industries. In particular, labor upskilling, infrastructure investment to support the digital economy, as well as regulatory reform to eliminate any obstacle to business adjustments should be promptly pursued to help support sustainable economic recovery in the long term.

Under the monetary policy framework with the 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.** The Committee would monitor the adequacy of the government measures, fragility in the labor market, and various risks, including the new wave of the domestic outbreak, the progress of protocols for admitting foreign tourists, and financial positions of businesses and households, in deliberating monetary policy going forward. The Committee would stand ready to use additional appropriate monetary policy tools if necessary.

Monetary Policy Group
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