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Summary Conclusion of the Joint Meeting of the Monetary Policy Committee (MPC) and the Financial Institutions Policy Committee (FIPC) on 9 December 2016

The Bank of Thailand announced the summary conclusion of the joint meeting of the MPC and the FIPC on 9 December 2016 to assess the risks to Thailand's financial stability as follows.

Thailand's overall financial stability remains sound. This was reflected in (1) high capital buffers maintained by financial institutions and insurance companies; (2) the resilience of the Thai capital market amid recent major events; (3) large corporates' strong balance sheets; as well as (4) the strong external financial position with continued current account surplus and high level of international reserves. These positive factors had enabled Thailand's financial system to weather through volatilities from domestic and global macro-financial conditions quite well. Nonetheless, the loan quality continued to deteriorate, especially for highly indebted households and some segments of small and medium-sized enterprises (SMEs). In addition, the demand for housing subsided in line with the overall economic conditions, while there was oversupply in certain areas.

The search-for-yield behavior continues to gain traction. Deposit-like mutual funds and unrated bond issuances continued to grow; at the same time, institutional investors also invested in riskier assets to generate higher returns expected by customers. These developments, altogether, could potentially lead to the underpricing of risks by some investors. In this regard, the Office of the Securities and Exchange Commission has taken steps to enhance some related regulations, including those on financial product offering and information disclosure to investors. Moreover, savings cooperatives became another venue for the search-for-yield behavior, as indicated by an upward trend in deposits and shares mobilized from cooperatives' members. This calls for enhancements in the legislative and supervisory framework to ensure prudent risk management and to align with the underlying philosophy of cooperatives.

In the periods ahead, Thailand's financial system still faces several risks. The uncertainty surrounding the global growth trajectory remains, while the ongoing domestic recovery is still gradual and uneven across sectors. These could weigh on some households and corporates' ability to service debts, which could add to vulnerabilities going forward. Meanwhile, global financial markets and capital flows are expected to become more volatile. The key risk to monitor is the potential impact of a bond yield increase, which could be faster than expected (yield snapback), on businesses' funding costs and rollover risks, especially for businesses that finance through short-term loans and corporate bonds.

All the related regulators, including the Bank of Thailand, the Office of the Securities and Exchange Commission, and the Office of Insurance Commission have jointly assessed and monitored the risks regularly and continued to enhance and enforce regulations to cope with the emerging risks appropriately. These efforts are aimed at preventing the build-up of vulnerabilities that could potentially affect the overall financial stability. Furthermore, the three regulators have also agreed on common stress scenarios, which will be used to assess the strength of financial institutions under each regulator's supervision. This is to ensure that stress tests are conducted in a more consistent and integrated manner at the system-wide level.

Bank of Thailand
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