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Summary Conclusion of the Joint Meeting of the Monetary Policy Committee (MPC) and the Financial Institutions Policy Committee (FIPC) on 18 December 2017

The Bank of Thailand announced the summary conclusion of the joint meeting of the MPC and the FIPC on 18 December 2017 to assess the risks to Thailand's financial stability as follows.

The committees concluded that Thailand's overall financial stability remained sound, based on risk assessments in two key areas. **First, on recent developments in Thailand's economic recovery and their implications on financial stability,** the committees assessed that financial stability risks have moderated from the previous assessment, as economic growth gained traction and helped improve businesses' overall financial health. Nonetheless, debt serviceability of small and medium-sized enterprises (SMEs) and households, as well as excess supply of real estate in certain areas, need to be monitored going forward. **Second, the search-for-yield behavior** was assessed to continue in the prolonged low interest rate environment. This could lead to underpricing of risks, as reflected in high volume of investment in foreign investment funds (FIFs), which exhibited a substantial degree of concentration in some countries. The search for yield was also reflected in saving cooperatives' assets that continued to grow at a high rate, though decelerating mildly from the previous assessment.

Thailand's financial stability remained sound overall. Continued global and domestic recovery helped strengthen businesses' overall financial health, particularly for large corporates; at the same time, commercial banks and insurance companies maintained high capital buffers. Thailand's external financial stability remained solid, supported by high level of international reserves, low external debts, and continued current account surplus. These positive factors could provide cushion for uncertainties from macro-financial conditions abroad, which could heighten in the periods ahead. Despite clearer signs of domestic recovery, debt serviceability continued to deteriorate for certain business sectors and SMEs. This, in part, reflected these businesses' competitiveness issues due to both structural challenges and changes in business models. For the real estate sector, excess supply of condominiums remained in some areas, while office and retail space supply could pick up in the periods ahead due to new mixed-use development projects.

In the recent periods, households remained fragile due to debt burden that was elevated compared to households' income and financial assets, despite some deceleration in debt accumulation. In light of this, the Bank of Thailand enhanced regulations on credit card and personal loan under supervision, and also initiated the setup of the Debt Clinic, in an attempt to ensure that household debts would no longer be impinging on financial stability going forward.

The search-for-yield behavior remained, which could potentially lead to underpricing of risks. Investment in risky assets continued to increase, with high volume of investment in FIFs. While most FIFs invested primarily in countries with investment-grade sovereign credit ratings, their investment was concentrated in some countries. On the other hand, recent corporate debt defaults by certain issuers resulted in a slowdown in new issuances of debt securities, particularly unrated bonds. This partly reflected investors' heightened risk awareness and caution. The Office of the Securities and Exchange Commission continues to monitor the situation closely and is currently in the process of enhancing related regulations. These improvements include revising regulations on the issuances and sales of debt securities and strengthening the operational standards of arrangers, with an aim to ensure that investors are well protected and their investment decisions are suitable with their risk appetite.

Saving cooperatives continued to be a venue for the search-for-yield behavior. Growth in deposits remained elevated, despite some deceleration in the recent periods. Moreover, during the periods when deposits grew faster than loans, some cooperatives invested more of their surplus liquidity in risky assets. Although some progress has been made on the implementation of the cooperatives' prudential measures, further enhancements of the supervisory framework would be needed to ensure proper risk management, corporate governance, as well as alignment with the underlying philosophy of cooperatives.

In the periods ahead, Thailand's financial system could still face several risk factors. Chief among them are uncertainties in G3 countries' macro-financial policies, risks to China's financial and macroeconomic stability, geopolitical risks as well as uneven domestic economic recovery. Close monitoring is warranted for debt serviceability of SMEs as well as low income households, and excess supply of real estate in certain areas. Furthermore, the committees will continue to monitor search-for-yield behavior, which could potentially lead to widespread underpricing of risks. This could also include underpricing of risks associated with large business conglomerates' funding and investment activities.

The relevant regulators, including the Bank of Thailand, the Office of the Securities and Exchange Commission, and the Office of Insurance Commission have together been assessing and monitoring financial stability risks on a regular basis. The three regulators have also been enhancing and enforcing regulations to cope with and mitigate emerging risks appropriately. These efforts are aimed at preventing the build-up of vulnerabilities that could potentially affect Thailand's overall financial stability.

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