



BANK OF THAILAND

BOT Press Release

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Summary Conclusion of the Joint Meeting of the Monetary Policy Committee (MPC)
and the Financial Institutions Policy Committee (FIPC) on 29 June 2018

The Bank of Thailand announced the summary conclusion of the joint meeting of the MPC and the FIPC on 29 June 2018 to assess the risks to Thailand's financial stability as follows.

The committees concluded that Thailand's financial stability remained sound. Economic growth continued to gain traction, which enhanced businesses' financial strength especially for large corporates. Banks and insurance companies maintained high capital buffers. Meanwhile, Thailand's external stability remained solid given low external debts, continued current account surplus, and high international reserves. These factors helped cushion the spillover from external risks and volatility in global financial markets, notably due to G3 countries' economic and monetary policies and intensified concerns over trade protectionism. **Nonetheless, there remained some pockets of risks that could have notable implications on financial stability going forward, two of which were highlighted by the committees. First, the build-up of risks in the real estate sector** was noted. The proportion of new housing loans with high loan-to-value (LTV) ratio had been on the rise, while mortgagors' debt burden also rose relative to their income. In addition, oversupply continued to warrant monitoring. **Second, the search-for-yield behavior**, which could lead to underpricing of risks, continued to persist especially in savings cooperatives.

Fragilities continued to build up in the housing loan market. This was reflected in an increase in the share of new housing loans with loan-to-value (LTV) ratio exceeding 90 percent, as well as an increase in the loan-to-income (LTI) ratio. Moreover, the quality of housing loan still deteriorated, as indicated by higher non-performing loan (NPL) ratio. Despite their strong financial positions, banks should exercise caution in granting such loans, which could add to households' debt burden and impair households' financial cushion going forward. **On the other hand, there continued to be a need to monitor oversupply in the real estate market.** Latest data showed that the amount of time required for developers to unload stocks of condominiums in certain locations and price ranges had become longer. And looking ahead, the fact that developers' financing via bank loans and bond issuances had been growing steadily suggested that new supply could accelerate in the future. Hence, the committees viewed that further assessments should be conducted on competition in the housing loan market and oversupply of condominium in certain areas. Special attention should also be given to office and retail space supply, which could accelerate due to new mixed-use projects.

The search-for-yield behavior continued to persist, especially that related to savings cooperatives, whose deposits and investments in securities continued to grow robustly. On top of

this, some large savings cooperatives had become increasingly reliant on short-term borrowings. Tightening financial conditions and higher interest rates in the future could thus affect these cooperatives' financing activity, funding costs, and mark-to-market values of investments, as well as overall liquidity in the cooperatives system. In the committees' view, it is urgent to further enhance the regulatory and legislative framework for supervising savings cooperatives, especially the large ones. This is to ensure that savings cooperatives are well-prepared for tightening financial conditions and operate in line with the underlying philosophy of cooperatives without posing risks to the financial system.

The search-for-yield behavior in other areas did not show signs of concern. Investment in mutual funds continued to grow mainly from growth in fixed income funds, whereas foreign investment funds (FIFs) slowed down due to heightened volatility and risks from the external front. Meanwhile, new issuances of low-rated corporate bonds had been on a downward trend following last year's default incidents. In this regard, the Office of the Securities and Exchange Commission has revised the regulations on the issuances and sales of debt securities to enhance investor protection and strengthen arrangers' operating standards to a more appropriate level.

In the periods ahead, Thailand's financial system could still face several risk factors. Chief among them are uncertainties in G3 countries' economic and monetary policies, uncertainties surrounding trade protectionism, geopolitical risks, as well as domestic economic growth that is still not fully broad-based. Close monitoring is warranted for some pockets of risks that might add vulnerabilities to the Thai financial system. These include: (1) the impact of tightening financial conditions on rollover risks and funding costs of corporates, especially those that rely heavily on bond issuances; (2) debt serviceability of SMEs and households; (3) oversupply in condominiums and a boost in office and retail space supply from new mixed-use projects; and (4) the search-for-yield behavior that could lead to underpricing of risks, especially the search-for-yield behavior via savings cooperatives.

The Bank of Thailand, the Office of the Securities and Exchange Commission, and the Office of Insurance Commission will continue to collaborate closely in assessing and monitoring risks to financial stability. The three regulators will also improve and enforce regulations to cope with emerging risks appropriately. These efforts are aimed at preventing the build-up of vulnerabilities that could potentially affect Thailand's overall financial stability.

Bank of Thailand
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Annex: key points from the joint meeting between the MPC and the FIPC on 29 June 2018

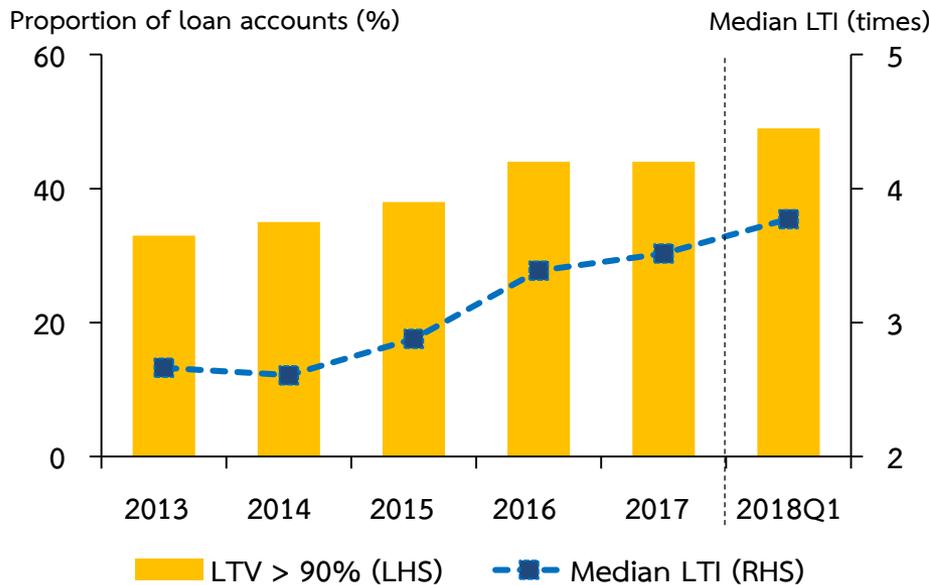
- **Thailand's financial stability remained sound overall.** Economic growth continued to gain traction, which enhanced businesses' financial strength especially for large corporates. Meanwhile, financial institutions and external stability remained solid. These factors helped cushion the spillover from external risks and volatility in global financial markets, notably from G3 countries' economic and monetary policies and intensified concerns over trade protectionism.
- **There remained some pockets of risks that could have notable implications on financial stability going forward,** two of which were highlighted by the committees:
 - **There was a build-up of risks in the real estate sector.** The proportion of new housing loans with high loan-to-value (LTV) ratio increased steadily, while mortgagors' debt burden also rose relative to their income. In addition, oversupply conditions still needed to be monitored going forward.
 - **The search-for-yield behavior through saving cooperatives,** which could lead to underpricing of risks, continued to persist.

1. The proportion of new housing loans with high loan-to-value (LTV) ratio increased, while mortgagors' debt burden also rose relative to their income. In addition, oversupply conditions still needed to be monitored.

The share of new housing loans with high loan-to-value (LTV) ratio increased. Meanwhile, the overall loan-to-income (LTI) ratio also rose, reflecting higher debt burden relative to income.

Developers continued to raise more funds through bank loans and bonds, which could suggest a pick-up in new supply going forward.

Proportion of new housing loan accounts with LTV above 90% and median LTI of new housing loans



Note: LTV refers to loan-to-value ratio. LTI refers to loan-to-income ratio.
Source: Bank of Thailand

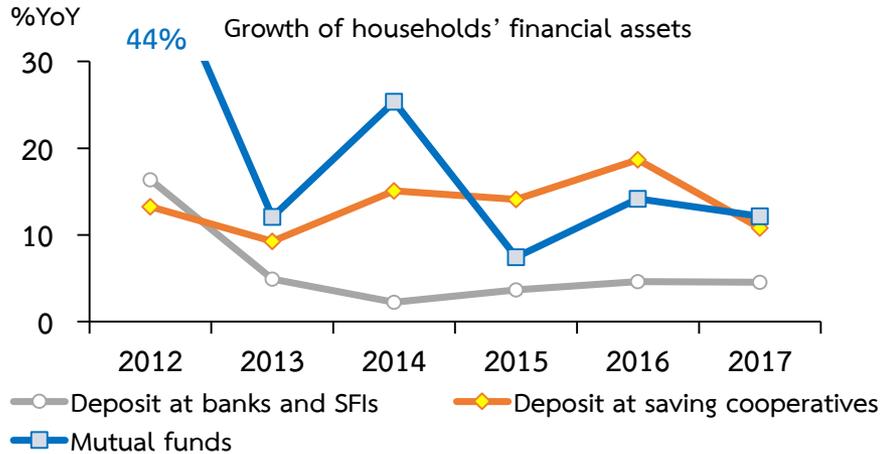
Outstanding of bank loans and bonds of real estate developers



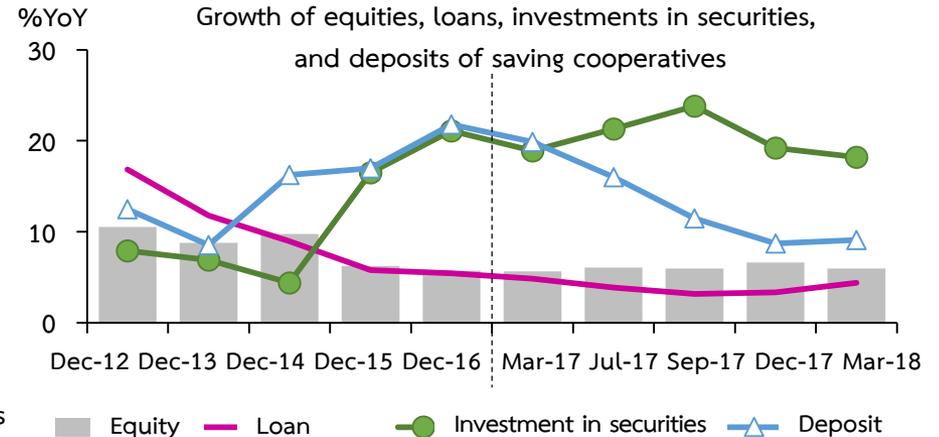
Source: Bank of Thailand

2. The search-for-yield behavior continued to persist, especially that related to savings cooperatives.

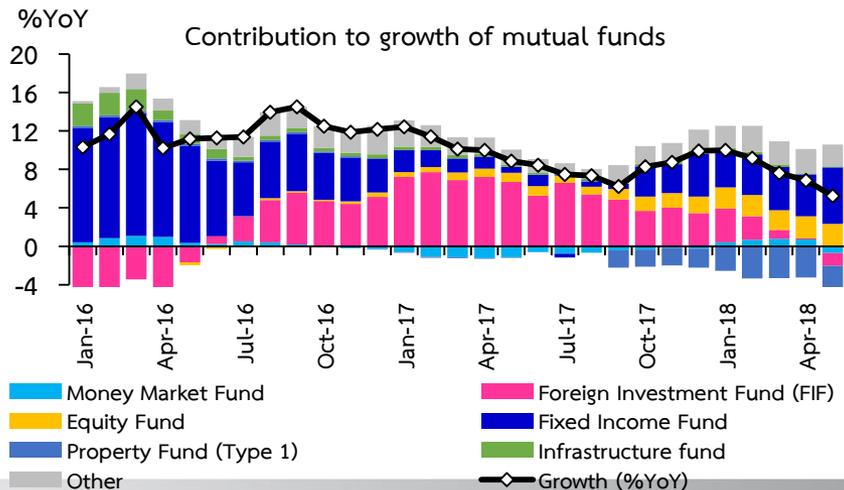
Households increased their deposits with savings cooperatives and investments in mutual funds at a pace faster than that of bank deposits.



Saving cooperatives' deposits and investments in securities continued to grow robustly.



Investment in mutual funds continued to grow. Fixed income funds expanded while FIFs decelerated.



New issuances of low-rated corporate bonds slowed down.

