



BANK OF THAILAND

**BOT Press Release**

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Outcome of the Joint Meeting between the Monetary Policy Committee (MPC)  
and the Financial Institutions Policy Committee (FIPC) on 21 December 2018

The Bank of Thailand announced the outcome of the joint meeting between the MPC and the FIPC on 21 December 2018 to assess risks to Thailand's financial stability as follows.

The committees concluded that Thailand's financial stability remained sound. Economic growth continued to gain traction, while banks and insurance companies maintained high capital buffers. Thailand's external stability remained solid given high international reserves, continued current account surplus, and low external debts. These factors helped cushion the spillover from recent bouts of volatility in global financial markets. **However, 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, risks in the real estate sector** were noted. Despite some signs of improvement in the housing loan market, there continued to be a need to monitor banks' lending standards, households' debt serviceability, a possible slowdown in foreign demand notably from China, and a surge in supply due to new mixed-use projects. **Second, the search-for-yield behavior**, which could lead to underpricing of risks, continued to persist especially in savings cooperatives and large conglomerates.

**Fragilities remained in the housing loan market.** Risks arising from intense competition in the housing loan market, which had led to lenient lending practices, were addressed to some degree by the new macroprudential measure on housing loans. But going forward, stakeholders' compliance to the new macroprudential measure and households' debt serviceability continued to warrant monitoring. Indeed, latest data still showed that the loan-to-income (LTI) ratio continued on an upward trend, while the debt service ratio (DSR) of low-income mortgagors stayed elevated. **On the other hand, there continued to be a need to monitor oversupply in the real estate market.** Foreign demand, notably from China, had been gaining significance in the condominium market over the past few years. This exposed the Thai real estate market to a possible drag from foreign demand due to China's economic slowdown. For the supply side, office and retail space supply could pick up sharply due to new mixed-use projects especially from 2020 onwards. Based on these assessments, the committees would remain vigilant in monitoring competition in the housing loan market and oversupply conditions in the periods ahead.

**The search-for-yield behavior continued to persist, which could lead to underpricing of risks.** Fixed income funds' investment abroad remained highly concentrated in a small number of destination countries and institutions. Although these countries and institutions possessed high credit ratings and foreign exchange risk was properly hedged, such concentration could make these

fixed income funds sensitive to country and counterparty risks. **The search-for-yield behavior via savings cooperatives continued to be present**, as reflected in high growth of deposits and investments in securities. In addition, some large savings cooperatives raised additional funds via short-term borrowings to invest in securities, which could translate into additional liquidity and market risks. The committees viewed that the draft of the Cooperatives Act, which had been approved by the National Legislative Assembly, would serve as a good starting point in enhancing the supervision of cooperatives. But the committees saw that further improvements were urgently needed in the areas of risk management and governance. Such improvements would help strengthen the savings cooperatives system as a whole, and also ensure that savings cooperatives could operate in line with their underlying philosophy without posing risks to the financial system.

**Large conglomerates had been raising funds actively during the period of low interest rates, and some of them appeared to channel more investment to non-core businesses and abroad.** Such developments could make it difficult to assess risks related to large conglomerates, which could lead to underpricing of risks. Moreover, some conglomerates expanded their issuances of perpetual bonds to raise funds. The Office of the Securities and Exchange Commission has been monitoring this trend closely and emphasizing that complete information on associated risks must be provided to investors. In the committees' view, risks related to large conglomerates must be monitored regularly, given their interconnections with the financial system at large due to their complex structure and growing funding activity via loans and debt securities.

In the periods ahead, Thailand's financial system could still face several risk factors. Chief among them are heightened volatility in global financial markets, uncertainties in G3 countries' economic and monetary policies, trade protectionism measures, as well as geopolitical risks. Close monitoring is warranted for some pockets of risks that might add vulnerabilities to the Thai financial system. These include: (1) the impact on the real estate sector due to foreign demand slowdown and the surge in supply due to new mixed-use projects; (2) the debt serviceability of households and SMEs in certain industries; and (3) the search-for-yield behavior that could lead to underpricing of risks, especially in savings cooperatives and large conglomerates.

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 21 December 2018

- **Thailand's financial stability remained sound overall.** Economic growth continued to gain traction, banks and insurance companies maintained high capital buffers, while external stability remained solid. These factors helped cushion the spillover from volatility in global financial markets.
- **There remained some pockets of risks that could have notable implications on financial stability going forward**, two of which were highlighted by the committees:
  - **Risks in the real estate sector** were noted. Despite some signs of improvement in the housing loan market, there continued to be a need to monitor banks' lending standards, households' debt serviceability, a possible slowdown in foreign demand notably from China, and a surge in supply due to new mixed-use projects.
  - **The search-for-yield behavior**, which could lead to underpricing of risks, continued to persist especially in savings cooperatives and large conglomerates.



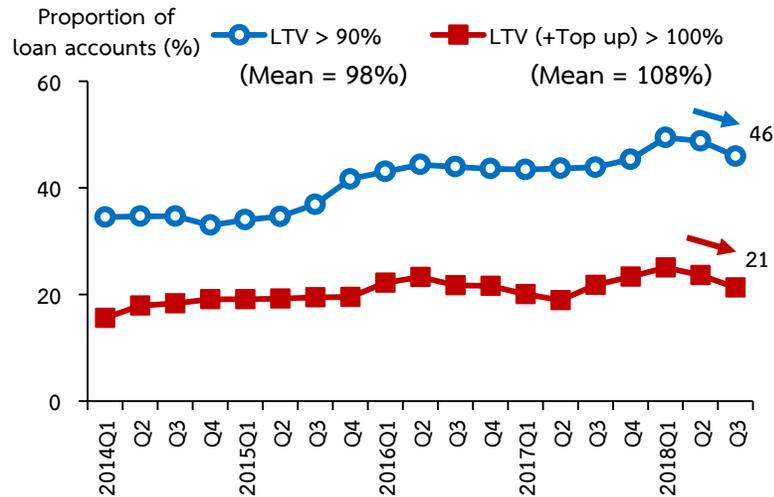
1. The proportion of new housing loans with high loan-to-value (LTV) ratio edged lower, but mortgagors' debt burden stayed elevated. Meanwhile, there continued to be a need to monitor a possible slowdown in foreign demand notably from China, as well as a surge in supply from mixed-use projects.

The proportion of new housing loans with high LTV ratio in Q3 declined from the previous quarter.

The proportion of households with high mortgage debt service ratio (M-DSR) continued to edge higher, despite the extension of loan maturity.

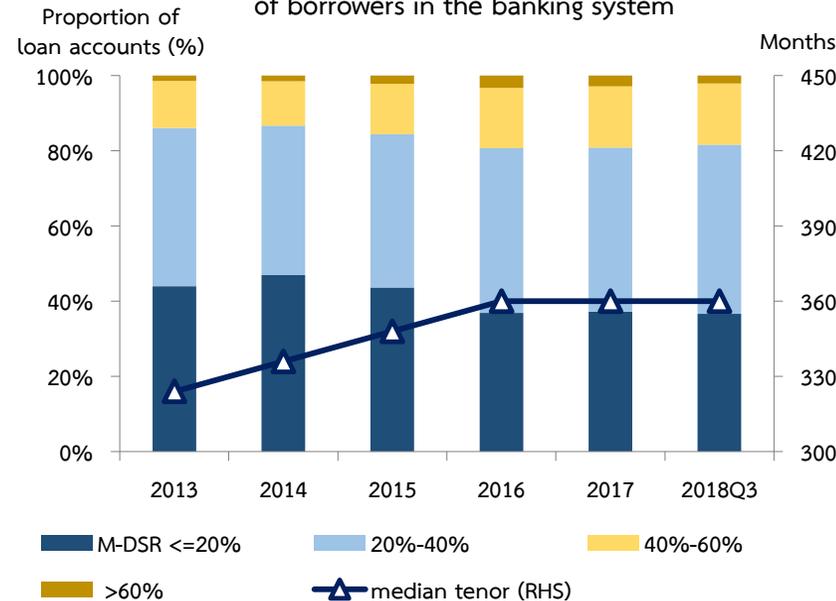
Foreign demand surged quickly and played an increasingly important role in the condominium market.

Proportion of new housing loan accounts



Source: Bank of Thailand

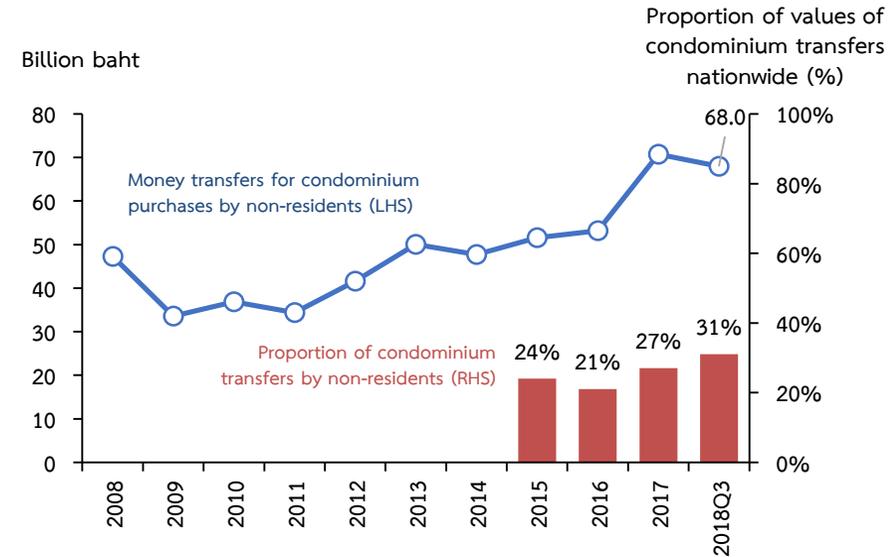
Proportion of loan accounts by M-DSR and tenor of borrowers in the banking system



Note: M-DSR is computed from the service of housing loans, excluding top-ups and others.

Source: Bank of Thailand

Condominium purchases by non-residents



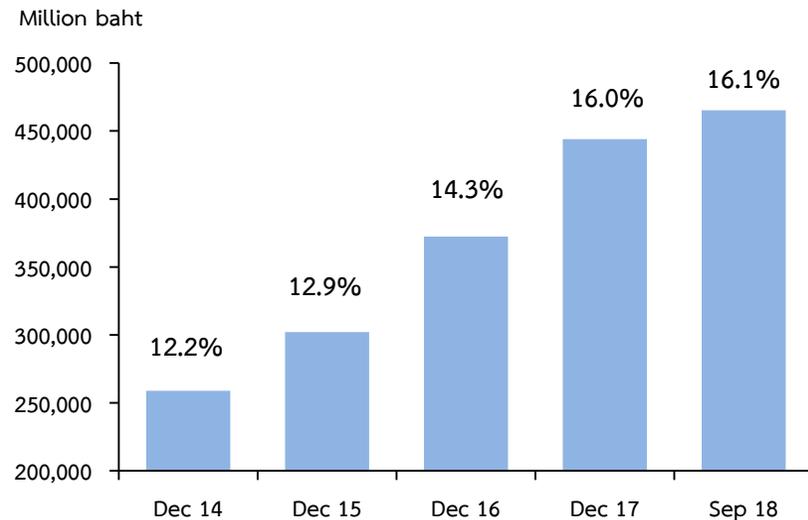
Source: Bank of Thailand and Real Estate Information Center



## 2. The search-for-yield behavior, which could lead to underpricing of risks, continued to persist especially in savings cooperatives and large conglomerates.

The search-for-yield behavior in savings cooperatives continued, as reflected in growth of investments in securities.

Savings cooperatives' investments in securities



Note: Percentage values indicate the proportion of investments in securities to total assets.

Source: Cooperative Auditing Department

Large conglomerates were tightly interconnected with the financial system, notably due to bond and public equity issuances.

Large conglomerates' sources of funds

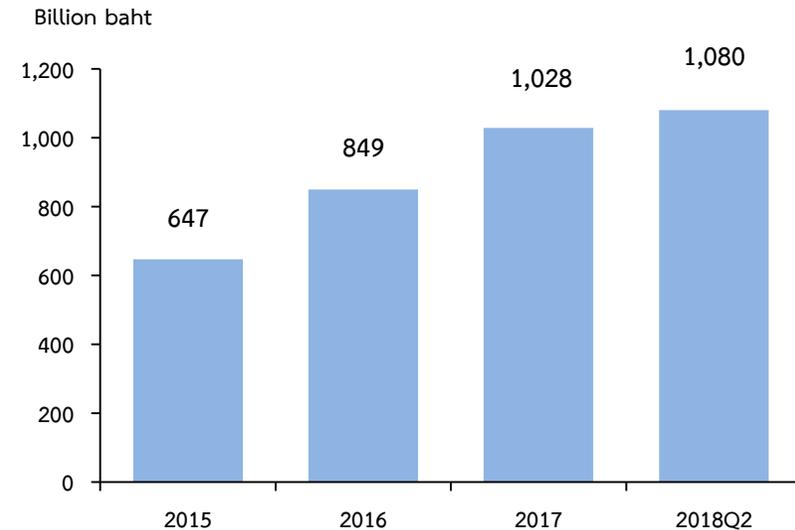
Sources of funds	Proportion of the total size of each funding source
Loans (excluding interbank)	12%
Bond issuances	55%
Public equity issuances	53%
External borrowings	38%

Note: Large conglomerates include the top 20 business conglomerates with highest total values of loans, bonds, and external borrowings (as of June 2018). The list of members in each conglomerate is based on information disclosed to the Stock Exchange of Thailand, public news, and views of bank examiners.

Source: Bank of Thailand, Thailand Securities Depository, custodians, and securities brokerage firms

Large conglomerates' direct investments abroad continued to increase.

Large conglomerates' direct investments abroad



Source: Bank of Thailand