Communications and Relations Office, Corporate Communications Department
Tel. +66 2283 5016-7 Fax. +66 2283 6969 www.bot.or.th

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Outcome of the Joint Meeting between the Monetary Policy Committee (MPC) and the Financial Institutions Policy Committee (FIPC) on 7 July 2020

The Bank of Thailand (BOT) announced the outcome of the joint meeting between the MPC and the FIPC on 7 July 2020, to assess risks to Thailand's financial stability. Key discussion points were as follows.

The committees concluded that **Thailand's financial stability remained sound overall, with commercial banks and insurance companies holding substantial capital buffers. Nevertheless, financial stability risks had risen due to the COVID-19 pandemic, which remained uncertain as to when the pandemic would end or how prolonged its economic and financial impact would be. Thus, buffers still needed to be maintained at high levels.** Pandemic containment measures in many countries, including Thailand, had weighed heavily on economic activities in the recent months. Incomes of households and corporates, especially SMEs, dropped severely and would take some time to recover. This, in turn, could lead to a broad-based deterioration in households and corporates' debt serviceability. Business models and people's ways of life were also affected, and this would play a key role in reshaping the economic structure going forward.

The committees conducted a comprehensive assessment of financial stability risks under multiple scenarios of the COVID-19 outbreak. The focus was on households and corporates, which could face significant liquidity and debt affordability risks going forward. The assessment also focused on corporate bond issuers, which could face credit rating downgrades as their business performance weakened in line with economic conditions. These issues could impact key sectors within the financial system, such as savings cooperatives, insurance companies, mutual funds, and banks through investment exposures and credit provision. The committees also evaluated the adequacy of capital buffers in the banking system, capital markets, and the insurance sector in the cases that the situations deteriorate.

Under highly uncertain conditions, the committees highlighted the importance of pre-emptive measures and three priority areas as follows.

1. Evaluation of the measures already implemented to provide liquidity support to households, corporates, and financial markets, to ensure that the measures address liquidity problems in a targeted and timely manner during remedy and recovery periods. This included the first and second phases of debt relief measures by the BOT and financial service providers, which aimed to reduce households' debt servicing burden and to ensure that, once these relief measures expired, borrowers' debt burden would not surge to the extent that they could no longer service debt. Other measures included soft loan programs and the portfolio guarantee scheme by the Thai Credit Guarantee Corporation, which helped provide additional liquidity to SMEs.

With regard to financial market liquidity and stability, the BOT and the Office of the Securities and Exchange Commission (SEC) had been collaborating in monitoring risks in the mutual fund sector and the corporate bond market. Two important mechanisms had been set up, namely the Mutual Fund Liquidity Facility (MFLF) and the Corporate Bond Stabilization Fund (BSF), which played an instrumental role in supporting investors' confidence and improving the functioning of financial markets. The two mechanisms would still be needed as backstops to ensure that the bond market continue to function smoothly amid the COVID-19 pandemic.

2. Speeding up the implementation of proactive debt restructuring to support economic and business restructuring in a new economic context. Debt restructuring measures should be tailored to different types of businesses and the nature of their problems. For example, some firms might face a temporary liquidity shortage but could manage to recover once the COVID-19 situations eased, while others might need to overhaul their business models to remain competitive. The measures must also take into consideration debtors' ability to service debt in the post COVID-19 periods. Furthermore, additional measures should be prepared for the possibility of a broad-based deterioration in loan quality in the coming periods. Examples included standardized procedures to support debt restructuring for retail borrowers and SMEs, as well as mechanisms for management of non-performing loans.

Additionally, the SEC was in the process of developing guidelines for the establishment of high-yield bond funds, which were designed to provide bridge financing for firms that faced liquidity shortage and might need to change their funding structures. The introduction of such funds would also enhance liquidity in the high-yield bond market and provide high-net-worth investors with an option to invest through professionally managed funds, rather than investing directly in these instruments.

3. Further measures to maintain resilience of the Thai financial system. Thanks to prudent supervision and risk management in the recent periods, the Thai financial system was strong enough to withstand economic and financial market shocks. However, all stakeholders should give a high priority to assessing the adequacy of buffers under stress conditions, so that they would be prepared should the situations worsen. The BOT had implemented measures to ensure that commercial banks maintain a high level of capital. For example, banks were asked to suspend interim dividend payments in 2020 and stock buybacks. The goal was to ensure that banks could withstand the deterioration in loan quality and could extend loans to support recovery going forward. Meanwhile, the SEC was in the process of revising regulations to provide asset management companies with more liquidity management tools. The Office of Insurance Commission (OIC) was also in the process of revising capital regulations to take care of insurance companies' risks, with an aim to encourage a better management of investment risks and a proper diversification between investment and insurance risks.

With high uncertainties going forward, the BOT, the SEC, and the OIC would continue to collaborate closely in assessing risks and the effectiveness of measures undertaken. The regulators would stand ready to impose additional measures to prevent a build-up of vulnerabilities that could undermine financial stability, as well as to support economic recovery once the COVID-19 pandemic abated and economic activities resumed. Further cooperation with government agencies would be essential to facilitate both macro-level economic restructuring and firm-level adjustments. Regulations should also be reviewed to ensure that they continue to be appropriate in the “new normal” context of the economic and financial system.

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For further information, please contact:
Financial Stability Department
Tel: +66 2283 5960, +66 2283 6512
E-mail: FSU@bot.or.th