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 8 December 2020

The Bank of Thailand (BOT) announced the outcome of the joint meeting between the MPC and the FIPC on 8 December 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. Commercial banks and insurance companies had substantial capital buffers, while financial markets continued to function properly.** Yet despite the better-than-expected economic outturns, the Thai economic recovery would likely be gradual and uncertain. Risk factors going forward would include the possibility of the second outbreak of COVID-19, the scale of the re-opening of the country for foreign tourists in 2021, and the continuity of government's economic stimulus measures. Under this environment, risks to financial stability in certain pockets could rise in contrast with improving economic conditions. One key area would be the deterioration in debt serviceability of households and businesses, especially SMEs, which could exert spillover to other sectors, for example, via financial institutions' credit quality and corporate bonds' rollover risks. These risks shall be managed by targeted and timely measures, so that economic momentum would not be affected going forward. The committees conducted a comprehensive assessment of financial stability risks and highlighted two priority areas as follows.

1. Supporting businesses and households in a targeted and timely manner to contain financial stability risks. Businesses had started re-opening but showed different paces of recovery across business segments (uneven recovery). As a result, support measures—including structural, demand-sided, and financial policies—should be tailored to address the problems and the viability of each business segment as follows: (1) For viable firms facing temporary liquidity shortage, liquidity support via new loans and proactive debt restructuring would be appropriate. (2) For already-burdened-by-high-debt firms facing liquidity shortage, funding support for business restructuring, through credit or debt to equity swap mechanism, and proactive debt restructuring should be prioritized. In this light, the Office of the Securities and Exchange Commission (SEC) was in consultation with government and private agencies to evaluate the possibility of establishing funds to help firms affected by COVID-19. (3) For firms that had been facing competitiveness issues for some time, attention should be given to structural measures aiming to reduce excess capacity and support adaptation of business models to meet changing consumer demand.

With regard to households, the implemented measures aiming to reduce debt-servicing burden, notably debt payment holidays and installment reductions, had reached a large number of retail borrowers so far. However, some borrowers still needed additional help through debt restructuring. The BOT urged financial institutions to help borrowers in a manner tailored to borrowers' problems and needs by letting the borrowers "opt-in" into support programs, instead of applying broad-based measures. In addition, debt restructuring for retail borrowers was pushed to be more comprehensive and suitable to borrowers' debt serviceability in the long term. Alongside these debt measures, measures to support income and reduce expenses should also be implemented. These included government's measures on employment support and expenditure reduction for low-income households, as well as measures by the Office of Insurance Commission (OIC) to help policyholders, such as the reduction of insurance premiums and the extension of premium payments.

2. Safeguarding stability of the financial sector and containing spillover from financial markets. Measures undertaken to stabilize domestic financial markets, namely the Corporate Bond Stabilization Fund (BSF) and the Mutual Fund Liquidity Facility (MFLF), had been instrumental in restoring investor confidence and market functioning. However, the credit spreads of corporate bonds rated BBB or below and unrated bonds, which had picked up sharply in the first half of 2020, were yet to recede to normal levels, reflecting investors' concerns on these segments. Also, there continued to be rollover risks in high-yield bonds (i.e. non-investment grade and unrated), which were issued mainly by real estate developers. Although these risks were still present, assessments indicated that they would not lead to systemic risks. While overall situations had improved, the economic outlook remained highly uncertain and capital markets would likely remain volatile, so both the BSF and the MFLF still needed to be maintained to prepare for future shocks that could affect investor sentiment. Moreover, there remained a need to prepare additional measures for risks from market segments not covered by the BSF, such as supporting the establishment of high-yield bond funds, which could provide additional liquidity and help stabilize the corporate bond market. With regard to the savings cooperatives system, the search-for-yield behavior continued to be present, as reflected by the growing proportion of excess liquidity invested in equity and corporate debt securities. Thus, there continued to be a need to strengthen and effectively implement related regulations, such as investment limits on financial securities.

Furthermore, financial regulators had implemented several measures to ensure that the financial sector possess adequate buffers to withstand potential risks and support economic recovery going forward. For examples: (1) The BOT set the limit on banks' dividend payments, prohibited the buybacks of stocks and debentures that could be counted as regulatory capital before maturity, and relaxed the eligibility criteria for regulatory capital to be on par with the international standard. The objective was to ensure that financial institutions have enough capital cushion to withstand unanticipated events and play a key role in supporting economic recovery. (2) The SEC was in the process of revising regulations to provide asset management companies with more liquidity management tools, as approved by the Capital Market Supervisory Board. (3) The OIC was in the process of issuing guidelines on subordinated debt issuances by life and non-life insurance companies to be counted toward regulatory capital, aiming to strengthen capital and liquidity positions of insurance companies. Also, the OIC issued the guidelines for insurance companies on IT security and cyber risks, which emerged as new risks for the insurance industry.

Given economic and financial uncertainties going forward, the BOT, the SEC, and the OIC would continue to collaborate closely in assessing risks as well as the adequacy and effectiveness of measures undertaken. The regulators would stand ready to impose additional measures to contain financial stability risks and support economic recovery. Further cooperation with government agencies would be essential going forward, while financial regulations should be coordinated and reviewed to ensure that they continue to be appropriate in the changing economic and financial context.

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