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No 92/2021

Outcome of the Joint Meeting between the Monetary Policy Committee (MPC) and the Financial Institutions Policy Committee (FIPC) on 8 December 2021

The Bank of Thailand (BOT) announced the outcome of the joint meeting between the MPC and the FIPC on 8 December 2021, to assess risks to Thailand's financial stability. Key discussion points were as follows.

The committees concluded that **Thailand's financial stability remained resilient overall. Commercial banks held ample level of capital, loan loss provision and liquidity buffers, and would be capable of accommodating loan demand to support the economic recovery** going forward**. Financial positions of insurance companies remained robust,** with the effect of the COVID-19 pandemic limited to a few insurance firms offering COVID-19 insurance coverage and measures already been put in place to contain the adverse impact toward financial stability. **Financial markets remained sound and continued to function normally.**

In recent months, regulatory authorities had enacted several measures to safeguard financial stability and provide support to households and businesses affected by the COVID-19 pandemic continuously. Examples of the measures enacted by the BOT include measures to facilitate long-term sustainable debt restructuring, measures to support consolidation of mortgages and other retail debt held at different banks, measures to relax (i) maximum credit line restriction (ii) debt installment period and (iii) minimum debt payment rate, rehabilitation loan, and an asset warehousing program. Meanwhile, the Office of Insurance Commission (OIC) announced measures to mitigate the adverse impact on the COVID-19 insurance policyholders and ease capital and liquidity regulations to provide flexibility for insurance companies, with an aim to reduce regulatory burden stemming from the COVID-19 insurance claims and give firms more options to find other sources of funding and replenish liquidity. In addition, the Office of the Securities and Exchange Commission (SEC) released measures to provide pandemic-hit businesses with alternative funding channels, such as issuing regulations to facilitate setting up of high-yield bond funds, stressed bond funds, and REIT buy-back trust fund.

However, amidst the uncertainties over the new COVID-19 viral mutation and the potential impact on the economic recovery, the committees viewed that **there remained the need to ensure that these measures achieved their objectives together with the need to assess their adequacy against the backdrop of the economic recovery.** Looking ahead, key risk factors warranted monitoring would include the severity of the Omicron variant, the efficacy of vaccines and pandemic containment measures, and the possibility of re-introducing lockdown measures under severe scenarios. Under this environment, apart from supporting the continuity of economic recovery, the committees agreed that preparing measures and policy instruments to address risks potentially emerging in the medium term (2-3 years) would be essential. Such preparation would necessitate effective policy coordination among regulatory authorities. The committees highlighted the importance of limiting risks to financial stability in two priority areas as follows.

1. **Addressing the issue of elevated household debt level, which could affect credit quality of financial institutions and hinder economic recovery in the periods ahead. Assistance measures for highly indebted retail borrowers,** particularly measures aiming to incentivize financial institutions to accelerate debt restructuring for viable retail borrowers with high debt burden in a sustainable manner, **should be expedited.** In addition, **(i) preparation of measures aiming to slow down new debt creation** by ensuring that the same supervision standards across all types of financial service providers must be achieved and **(ii) addressing debt problem along with supporting household income and promoting borrowers' financial literacy must be warranted** in order to improve the situation of household debt and that household sector could escape the debt trap eventually.

2. **Containing spillover of risks across sectors in the financial system.** One such risk was the volatility in the corporate bond market which could affect investors, savings co-operatives, or mutual funds, and funding costs of corporates. **Synchronous collaboration between regulators and related government agencies to prepare policy instruments and enhance supervisory standards, in order to limit the potential transmission of risks and build up resilience of the financial system to withstand any changes and uncertainties that could arise in the future, would be essential.** This would include imposing measures to mitigate risks of large conglomerates, both in the banking sector and the capital markets through bond issuance activities, in tandem with introducing measures to reduce investment concentration of savings co-operatives and more stringent liquidity regulations of mutual funds.

The BOT, the SEC and the OIC would continue to collaborate closely in assessing risks, especially the impact of new viral variant outbreak which could interrupt the recovery of Thai economic activities, monitoring the adequacy and effectiveness of measures undertaken, and preparing measures and policy instruments, particularly those which required policy coordination between regulators and relevant government agencies, to deal with risks potentially materializing in the medium term.

Bank of Thailand
13 December 2021

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