BANK OF THAILAND

BOT Press Release

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

No. 50/2021

Outcome of the Joint Meeting between the Monetary Policy Committee (MPC) and the Financial Institutions Policy Committee (FIPC) on 7 July 2021

The Bank of Thailand (BOT) announced the outcome of the joint meeting between the MPC and the FIPC on 7 July 2021, to assess risks to Thailand's financial stability. Key discussion points were as follows.

The committees concluded that **Thailand's financial stability remained robust overall. Commercial banks, securities companies, mutual funds and insurance companies held substantial capital buffers, while financial markets continued to function properly.** Results of macro stress tests conducted by financial regulators showed that commercial banks, securities companies, mutual funds, and insurance companies had sufficient liquidity and strong financial position to withstand shocks in a stress scenario. Nevertheless, the latest wave of the COVID-19 outbreak, which became more severe due to viral mutations, made businesses and households significantly more vulnerable by slowing down the pace and worsening the unevenness of economic recovery. Moreover, given previously high levels of household debt, low-income households would be especially fragile. While measures continued to be introduced to support and relieve financial burdens for households (such as phases 1-3 of the debt relief measures for retail borrowers), they were inadequate in a severe situation. Additional measures would be required to address such risks in a targeted and timely manner, in tandem with highly accommodative monetary policy to support economic recovery and prevent economic scarring, which could hinder the economy's growth prospects over the long-term and transmit risks to the financial system. The committees comprehensively assessed risks to financial stability and highlighted two priority areas.

1. Addressing the issue of household debt, which had risen to 90.5 percent of gross domestic product (GDP). While a significant number of households were having problems servicing their debts as a result of the COVID-19 pandemic, looking ahead, debt serviceability could deteriorate further when interest rates increase or economic volatility rises. Although the BOT and relevant agencies had already introduced measures and made efforts to address the issue, the situation had worsened due to the new wave of outbreak. Hence, immediate measures aimed to provide incentives and mechanisms to encourage financial institutions to restructure debts for highly indebted retail borrowers, with close monitoring of the progress and effectiveness of assistance. However, based on an initial assessment, the size of support required by households would be beyond financial institutions' absorbing capacity alone. The role of the government and the capital market shall therefore be considered. In addition, the committees reckoned that solving the issue could be complicated as the risk of moral hazard must be taken into account. Moreover, of the household debt number published by the BOT, roughly one quarter was lent by financial institutions outside the BOT's purview and the number also excluded certain types of borrowing such as informal debt. Therefore, a holistic approach and a sustained recovery of household incomes would be required to tackle the issue of household debt in a sustainable and comprehensive manner.

As for longer term solutions, the landscape of the Thai financial sector should be enhanced as follows: (1) development of a credit information infrastructure that includes all types of debt held by households; (2) promotion of responsible lending practices by creditors; (3) promotion of borrowers' financial literacy and discipline; and (4) introduction of more alternative financial service providers to help reduce informal debt.

2. Preparing for macro-prudential measures to address potential build-up of risks under a prolonged low interest rate environment, which could eventually affect the stability of the Thai financial system. One such risk was the search for yield behavior by certain groups of investors, whose investments could be affected when interest rates rise. Hence, a framework and mechanisms for the implementation of macro-prudential measures should be considered in advance and ready to be applied if required when the economy recovers fully. Implementation would necessitate effective coordination between the BOT and relevant government agencies to reduce risk build-ups and prevent the transmission of risks from a particular sector to other parts of the financial system.

With high economic and financial uncertainties ahead, the BOT, the Office of the Securities and Exchange Commission (SEC), and the Office of Insurance Commission (OIC) would continue to collaborate closely in assessing risks, monitoring the adequacy and effectiveness of measures undertaken, and striving to achieve policy targets. The regulators would stand ready to impose additional measures to contain financial stability risks and support economic recovery. Further cooperation with other government agencies would be essential going forward, while financial regulations should be coordinated and reviewed to ensure that they remain relevant in a changing economic and financial context.

Bank of Thailand
12 July 2021

For further information, please contact : Financial Stability Department
Tel : +66 2283 6522, +66 2283 6122
E-mail: FSU@bot.or.th