



BANK OF THAILAND



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 4 July 2022

The Bank of Thailand (BOT) announced the outcome of the joint meeting between the MPC and the FIPC on 4 July 2022, to assess risks to Thailand's financial stability. Key discussion points were as follows.

The committees conclude that **Thailand's financial system is resilient. Domestic financial markets continue to function normally despite higher volatility stemming from the global financial markets. Commercial banks hold ample levels of capital and loan loss provisions, and are capable of extending liquidity to support continued economic recovery. Securities companies and insurance companies as a whole are financially robust.** Although some non-life insurance firms were impacted by claims of COVID-19 insurance coverage, the situation has improved as most COVID-19 insurance policies have expired and stringent supervisory measures have been put in place. In addition, macro stress tests indicate that the Thai financial system possesses sufficient liquidity and strong financial position to withstand shocks under stress scenarios, both in the event of economic contraction as a result of a new wave of virus outbreak and energy crisis, as well as in the event of sluggish economic recovery.

To complement the macro stress tests, the BOT, the Office of the Securities and Exchange Commission (SEC), and the Office of Insurance Commission (OIC) have also carried out reverse stress tests to assess potential scenarios that could significantly impair the soundness of financial institutions and capital markets, and stability of the financial system, as well as to identify key risk drivers and thresholds as an additional tool for risk monitoring and preventive policy consideration. The results show that **the current levels of key risk drivers remain distant from those that would trigger serious problems for banks, mutual funds, securities companies and insurance companies.** Moreover, the likelihood of events that would seriously affect the performance of these financial intermediaries is quite low.

In the period ahead, the Thai economy is expected to continue to recover as COVID-19 containment measures and international travel restrictions have been lifted. However, the progress of recovery faces a number of challenges including the prospect of a global economic slowdown, rising costs of living and raw materials as a result of geopolitical conflicts, and financial market volatility arising from uncertainty over the pace of monetary policy tightening in advanced economies and economic concerns in emerging markets. Given this outlook, the committees have comprehensively assessed risks to different sectors within the financial system, **with emphasis on (1) liquidity and debt serviceability problems of households and businesses due to rising cost**

of living and input costs, as well as implications of the expected rises in the policy interest rate to anchor inflation expectations on households, corporates, banks, securities businesses, and insurance companies and (2) risk build-up as a result of search-for-yield behavior in the context of persistently negative real policy interest rate. These risks could potentially undermine financial stability going forward and, therefore, should be closely monitored.

In view of the above, regulatory authorities have been proactively preparing policy instruments and enhancing supervisory standards to better address risks in various dimensions. For instance, authorities have implemented targeted measures to address debt serviceability risk of vulnerable borrowers, improved regulations to increase the effectiveness of liquidity management tools for mutual funds, and initiatives to comprehensively strengthen the corporate bond market ecosystem and regulatory supervision of insurance firms.

Looking ahead, the BOT, the SEC, and the OIC will continue to collaborate closely in monitoring and assessing risks. The regulators will stand ready to coordinate policies and to impose additional targeted measures, if necessary, to ensure continuous recovery of the real economy and mitigate risks to the Thai financial system going forward.

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For further information, please contact:

Financial Stability Department

Tel: +66 2356 6525, +66 2283 6122

E-mail: FSU@bot.or.th