



No 32/2023

Outcome of the Joint Meeting between the Monetary Policy Committee  
and the Financial Institutions Policy Committee on 7 July 2023

The Bank of Thailand (BOT) announced the outcome of the joint meeting between the Monetary Policy Committee (MPC) and the Financial Institutions Policy Committee (FIPC) on 7 July 2023, to monitor and assess risks to Thailand's financial stability. Key discussion points were as follows.

Thailand's financial system is resilient but may face higher risks in the periods ahead due to (1) the debt serviceability of households and small and medium-sized enterprises (SMEs), particularly low-income households and SMEs in manufacturing and trade sectors who may be affected by the global economic slowdown and (2) the ability to raise fund through the bond market by the corporate sector due to a potential increase in credit risk of certain companies.

The Thai economy should continue to expand, driven mainly by tourism and private consumption, translating to an improvement in income and financial positions of both household and corporate sectors. Nevertheless, a particular pocket of households remains vulnerable due to their slower-than-expected income recovery and rising cost of living. Moreover, the financial positions of SMEs who have yet to fully recover from the COVID-19 pandemic as well as those affected by the export slowdown in tandem with the global economy should also be monitored. The committees acknowledge that the vulnerabilities of households and SMEs may result in deteriorating asset quality of financial institutions. However, financial institutions should be able to manage their asset quality and assist borrowers through debt restructuring procedures, hereby limiting the likelihood of having a sharp rise in non-performing loans (NPL cliff).

The corporate bond market faces higher risk from an increase in both the amount of corporate bond defaults compared to the previous year and the number of companies receiving negative rating actions on credit rating and credit outlook as a result of their own idiosyncratic factors. Meanwhile, the capital market becomes more volatile due to domestic political uncertainty and corporate governance issues of listed companies, leading to investors exercising more caution on their investment. According to the committees, even though the risks to financial stability at present are limited and the corporate bond market overall remains resilient, the development of financial markets and credit risks of corporate bond issuers should still be monitored going forward. Furthermore, the committees also emphasize the importance of exercising a joint



**effort among regulators regarding the risk assessment, preparations, and coordinated resolutions** in order to cope, in a prompt and timely manner, with circumstances under which financial institutions, financial markets, insurance companies and the financial system are all impacted simultaneously; for example, from the situation where there are challenges to the operation of large companies. **Moreover, the committees also discuss on enhancing the supervision and governance measures of relevant parties**, such as listed and/or non-listed companies issuing securities in the capital market, auditors, and credit rating agencies to promote confidence among investors.

The committees agree that, even though **financial institutions, financial markets and insurance companies possess adequate liquidity and strong financial positions under the scenario of a more-sluggish-than-expected economic recovery for the 2023 macro stress test**, jointly conducted by the BOT, the Office of the Securities and Exchange Commission (SEC) and the Office of Insurance Commission (OIC), regulators should be prepared for unprecedented risk events going forward. These include liquidity stress stemming from sudden and severe deposit outflows at a level unseen in the past as well as other factors that can critically affect the financial system even when the probability of such events occurring in Thailand is low.

Thus, the MPC and the FIPC together will continue to closely monitor and assess risks, and will be prepared to implement appropriate measures in a prompt and timely manner to maintain stability in the Thai financial system so that it can help foster sustainable economic growth.

Bank of Thailand

24 July 2023

For further information, please contact: Financial Stability Department

Tel: +66 2283 6522, +66 2283 6517

E-mail: FSU@bot.or.th