Edited Minutes of the Monetary Policy Committee Meeting (No. 7/2020)
18 November 2020, Bank of Thailand
Publication Date: 2 December 2020

Members Present

Sethaput Suthiwartnarueput (Chairman), Mathee Supapongse (Vice Chairman), Paiboon Kittisrikangwan, Kanit Sangsubhan, Rapee Sucharitakul, Somchai Jitsuchon, and Subhak Siwaraksa

The Global Economy and Financial Markets

The global economic recovery was better than expected in the third quarter but significant risks remained regarding new waves of COVID-19 infections going forward. Over the recent period, **advanced economies** recovered on the back of private consumption while **Asian economies (excluding China)** recovered from better-than-expected exports. **China** was expected to display moderate growth, following a broad-based improvement of economic activities. However, the new waves of the pandemic in many countries – the US and Europe in particular – led governments to re-impose lockdowns in some areas. The economic impacts were, nonetheless, expected to be less severe than the first lockdown since economic activities in several sectors, especially those related to manufacturing, continued to operate. Many countries continued to use **accommodative monetary policy in order to support economic recoveries.** For example, the Reserve Bank of Australia and the Bank of England cut the policy rates or expanded asset purchases programs. Meanwhile, **fiscal policy remained the key policy tool and would play a more prominent role** in supporting economic recoveries. Governments in many countries announced additional fiscal measures, either to cope with the new waves of the outbreak or to restore economic activities.

Emerging markets (EMs) experienced greater capital flows into debt and equity markets, following the risk-on sentiment in the global financial markets due to several factors, including (1) a more certain outcome of the US presidential election as well as investors' positive expectations toward the president-elect's economic policies, which would benefit recovery in global trade, and (2) the progress of COVID-19 vaccine development, which positively improved investor sentiment. Capital inflows induced higher asset prices in EMs, especially in Asia, including Thailand, which managed to contain the COVID-19 outbreak while receiving benefits from the China's economic recovery. With regard to the Thai bond market, capital inflows were mainly for short-term bond investment. On **exchange rates,** the baht appreciated rapidly against the US dollar over the recent period on the back of improved investor confidence regarding the global economy and greater capital inflows reinvesting in the debt and equity markets.

Looking ahead, the global economy would continue to recover despite negative shocks from the COVID-19 outbreak. Meanwhile, the risk-on sentiment in the global financial markets would continue and cause capital flows to be volatile, with funds likely investing in assets in EMs, including Thailand.

Domestic Economy and Financial Stability

The Thai economy in the third quarter of 2020 improved more than expected in almost all components. However, the recovery would remain slow and vary significantly among economic sectors. Major improvement was seen in **private consumption** which improved due to various factors, namely, relaxation of lockdown measures, better-than-expected improvement in the labor market, and the government's measures that partially helped shore up household purchasing power. Nonetheless, private consumption still faced several downside risks including fragile and highly uncertain household incomes as well as elevated household debt. **Merchandise exports** edged up more than expected in line with the outlook of trading partner economies. **Public expenditure** improved due to accelerated disbursement of capital expenditure budget. However, going forward, overall public spending was projected to expand at a slower rate for several reasons. These included a reduction in state-owned enterprise investment, a reduction in fiscal year 2021 annual budget and the carryover budget, as well as a potential delay in disbursement of public health programs under the Emergency Decree Authorizing the Ministry of Finance to Raise Loans to Solve Problems, to Remedy and Restore the Economy and Society as Affected by the Coronavirus Disease Pandemic.

Looking ahead, risks to the Thai economy remained and could arise from (1) domestic political uncertainties which could affect consumer and investor confidences, (2) the progress of protocols in admitting foreign tourists in Thailand, which would likely be gradual depending on situations of the COVID-19 pandemic in foreign countries, along with the progress of COVID-19 vaccine development, and (3) heightened vulnerabilities in financial positions of households and businesses, following the phase-out of the supporting measures.

Headline inflation in 2020 would be less negative than the previous assessment in line with increasing energy prices, as demand rose after the relaxation of containment measures. **Core inflation would remain at a low level.** However, given the economic recovery, headline inflation would gradually rise and stay close to the lower bound of the target range in 2021. Medium-term inflation expectations remained anchored within the target.

The gradual and uneven economic recovery could affect financial stability in the period ahead. Financial positions of **business** were more fragile, particularly for tourism-related businesses as their economic activities remained much lower than the pre-pandemic level. Meanwhile, SMEs had limited access to credits due to higher credit risks. **Households** remained vulnerable given high household debt and the slow recovery in income, which deteriorated their debt servicing capability. Nevertheless, credit assistance measures partially relieved liquidity constraints of businesses and households affected by the COVID-19 pandemic.

Discussions by the Committee

The Committee placed emphasis on the continuity of the economic recovery, which remained highly uncertain, and discussed various risks that could affect the recovery. Risks included development and distribution of COVID-19 vaccines, rapid appreciation of the baht, household debt problems, the slow recovery of income, as well as policy coordination among public agencies.

- **Development and widespread distribution of the vaccines were vital for the Thai economic recovery next year.** Progress in development and distribution would affect investor confidence, global economic recovery, readiness and demand for international travels, and protocols for admitting foreign tourists in Thailand. The Committee would thus closely monitor the progress of vaccine development and distribution.

- **Rapid appreciation of the baht would affect the fragile economic recovery** through eroding profitability of exporters that would in turn affect investment and employment. The baht faced short-term challenges from capital inflows to EMs, including Thailand, due to continued monetary policy easing in many countries as well as risk-on sentiment in the global financial markets. The Committee assessed that, although the potential benefits of positive news on the COVID-19 vaccine and economic policies of the US president-elect had yet to be realized, capital inflows resulted in the baht appreciation that could weigh on the economic recovery in the period ahead. In addition, long-term structural challenges of low investment which caused high and persistent current account surplus, together with the home bias behavior of Thai investors would continuously add pressures for the baht to appreciate. The Committee thus deemed appropriate to consider the necessity of implementing additional appropriate measures for both the short and long terms.

- **The rising household debt-to-GDP ratio and the slow recovery in income would delay deleveraging process** which would have adverse impacts on consumption and economic growth in the medium term. Debt restructuring and economic restructuring should thus be accelerated to support the recovery in incomes in the post-COVID environment. Furthermore, uneven recovery in income among sectors would result in worsening inequality problems and would limit sustainable economic growth in the long term.

- **Policy coordination among public agencies would have an important role in distributing liquidity to those in need in a targeted manner** such as the coordination of credit and financial measures implemented by the government and the Bank of Thailand. The Committee viewed that commercial banks, specialized financial institutions, and Thai

Credit Guarantee Corporation, all played crucial roles in curbing credit risks. This would help facilitate a broader distribution of ample liquidity in the system and support business adjustment to the post-COVID environment.

Monetary Policy Decision

The Committee voted unanimously to maintain the policy rate at 0.50 percent to support economic recovery while placing emphasis on the use of more targeted measures.

The Committee assessed that despite the recent better-than-expected outturn, the Thai economy would recover slowly and need support from the continued low policy rate. Nonetheless, the policy rate was currently at a historical low level while the economic recovery remained fragile and highly uncertain. **The Committee thus voted to maintain the policy rate at this meeting to preserve the limited policy space in order to act at the appropriate and most effective timing.**

The Committee expressed concerns over the rapid appreciation of the baht as this affected the fragile economic recovery. Therefore, the Committee would closely monitor developments in foreign exchange markets and capital flows as well as consider the necessity of implementing additional appropriate measures to ensure that the exchange rate movements would not be an obstacle to economic recovery. By reducing pressures on the baht and addressing structural problems in the Thai foreign exchange market, capital flows would become more balanced. Such measures included, for instance, relaxation of regulation for investment in foreign securities both in terms of investment limits and the scope of products as well as allowing Thais to freely open foreign currency deposit (FCD).

The Committee viewed that policy coordination among government agencies would be critical to support the economic recovery going forward. Monetary policy must remain accommodative. Financial and credit measures should expedite liquidity distribution to the affected groups in a targeted and timely manner. Financial institutions should expedite debt restructuring to have a broader impact. A fiscal measures continued to play a major role in shoring up the economy, the government should thus accelerate budget disbursement and assist vulnerable target groups. Several members mentioned challenges for the Thai economic recovery in the period ahead as the post-COVID environment would result in changing business structures in many industries. Implementation of supply-side policies should therefore be accelerated to support business restructuring and upskilling of labor, and regulatory reform should be rapidly pursued to eliminate any hindrance to adjustments of businesses to the post-COVID environment. These would help support sustainable economic recovery in the long term.

Under the monetary policy framework with the objectives of maintaining price stability, supporting sustainable and full-potential economic growth, and preserving financial stability, **the Committee continued to put emphasis on supporting economic recovery.** The Committee would monitor the adequacy of the government measures and various risks, including domestic political uncertainties, the progress of protocols for admitting foreign tourists, and financial positions of businesses and households, in deliberating monetary policy going forward. The Committee would stand ready to use additional appropriate monetary policy tools if necessary.

Monetary Policy Group
2 December 2020