Edited Minutes of the Monetary Policy Committee Meeting (No. 2/2020)
25 March 2020, Bank of Thailand
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Members Present[1]

Veerathai Santiprabhob (Chairman), Mathee Supapongse (Vice Chairman), Paiboon Kittisrikangwan, Sethaput Suthiwart-Narueput, Kanit Sangsubhan, Subhak Siwaraksa, and Somchai Jitsuchon

The Financial Markets

Since the special meeting of the Monetary Policy Committee, there were improvements in Thai financial market conditions, especially the bond markets, due to the policy rate cut and the announcement of measures to stabilize financial markets. These actions partly helped build up confidence and alleviate liquidity strain in the financial markets. Thai government bond yields declined immediately after the policy rate cut. Some investors slowed their sell-off of Thai government bonds after the Bank of Thailand and related agencies announced measures to stabilize the Thai financial markets.[2] Furthermore, Thai government bond yields fell in tandem with yields in global financial markets after the Federal Reserve (Fed) and the European Central Bank (ECB) announced additional measures. The baht weakened against the US dollar due to the policy rate cut and the intensified situation of coronavirus (COVID-19) outbreak in Thailand.

Domestic Economic Conditions and Financial Stability

The Committee viewed that the economic and inflation outlook remained consistent with the assessment at the special meeting. The Thai economy would markedly contract in 2020 due mainly to the COVID-19 outbreak and would affect a large number of related businesses and employment. Tourist figures were expected to substantially decline from the previous forecast. Merchandise exports were expected to shrink in tandem with a significant slowdown in trading partner economies and the impact of supply chain disruptions. As a result, domestic demand was projected to contract in all components except for public expenditure which would grow at a lower rate than expected owing to the delayed enactment of the Annual Budget Expenditure Act. **The Committee therefore projected that the Thai economy would contract by 5.3 percent in**

[1] Mr. Suthiwart-Narueput attended the meeting through video conference to consider the economic outlook, financial stability, and appropriate monetary policy formulation but did not vote.

[2] The Bank of Thailand, the Ministry of Finance, and the Securities and Exchange Commission announced measures to stabilize Thai financial markets on 22 March 2020 in order to prevent a deterioration in financial market liquidity. The measures consisted of (1) providing liquidity for mutual funds affected by liquidity shortage through the Mutual Fund Liquidity Facility (MFLF), (2) reducing rollover risks in the corporate bond market by establishing the Corporate Bond Liquidity Stabilization Fund (BSF), and (3) the Bank of Thailand standing ready to purchase government bonds and consider additional measures if necessary.

2020 but would recover in 2021 and expand 3.0 percent, provided that the virus spread in Thailand could be contained in accordance with the Ministry of Public Health estimate, and that the tourist figures would gradually recover. **The annual average of headline inflation in 2020 would be negative at -1.0 percent. In 2021, it would be at 0.3 percent, which would remain below the inflation target.** This would be owing to a rapid decline in crude oil prices, resulting in negative energy inflation. Moreover, core inflation was projected to be negative in line with a large decline in demand-pull inflationary pressures, despite a slight rise in fresh food prices due to the drought.

The Committee assessed that the economic and inflation forecasts were subject to very high uncertainties, with global and domestic economic and trade structures changing after the COVID-19 spread subsided. External and domestic uncertainties were as follows. First, the COVID-19 spread could become either more severe and prolonged than expected, or otherwise if vaccines and medicines could be discovered earlier than anticipated. Second, risks pertaining to global financial stability could impact the Thai economy in the medium term. Third, geopolitical risks could intensify, while trade protectionism and the outcomes of the trade deal between the United Kingdom and the European Union remained unclear. Fourth, additional government stimulus measures could be forthcoming, or the measures could have lower impacts than expected. Finally, a more-severe-than-expected drought could affect agricultural output and income, with the agricultural sector unable to absorb labor from other sectors.

The Committee viewed that risks in the overall financial system increased due to the severe economic downturn which affected household and business incomes, causing deterioration in debt servicing capability and credit quality. In addition, liquidity in the financial system, especially in the bond market, became tightened. The Committee would closely monitor various risks and vulnerabilities and encouraged the Bank of Thailand to prepare policy tools to be readily employed to maintain financial system stability given various situations. The Committee also supported close coordination between the Bank of Thailand and other related regulatory agencies to stand ready to prevent systemic risks in a pre-emptive manner.

Monetary Policy Decision

The Committee viewed that the policy rate cut at the previous special meeting as well as the implemented measures to promote stability in the Thai financial markets helped ease financial conditions. Commercial bank lending rates gradually declined and stability of domestic financial markets, especially the bond market, improved. Most members would wait to assess the adjustments in the financial markets as well as additional reduction in interest rates by financial institutions. Most members deemed it appropriate to preserve policy space to cushion against high uncertainties in the future. Meanwhile, all members viewed that the government's announced relief measures and loan repayment measures to assist borrowers affected by

COVID-19[3] were more targeted in addressing the problems. **The Committee thus voted 4 to 2 to maintain the policy rate at 0.75 percent. Two members voted to cut the policy rate by 0.25 percentage point from 0.75 to 0.50 percent** as the extra accommodative monetary policy would, in their view, be commensurate with the significant economic contraction.

The Committee viewed that the current challenges faced by the economy and financial system were different from those during the financial crisis in 1997. At present, Thailand had an ample level of international reserves. Moreover, financial institutions were sound with a high level of capital funds. Liquidity in the financial system remained adequate at the macro level. The key challenge was to urgently provide liquidity and credit supports to affected businesses and households. In particular, measures that allowed for debt moratorium, reduced interest payments, and extended debt repayment period would help alleviate the immediate impacts. For the next step, debt restructuring must be urgently and constantly implemented in parallel with distribution of liquidity, which was ample at the macro level, to businesses and households in need. Examples of such measures could include provision of soft loans for businesses and households with the potential to repay their loans as well as credit guarantees so that loans could be allocated to SMEs more efficiently. Such measures could help those affected to get through this period.

The Committee viewed that targeted measures designed to address liquidity strain of those who were affected would be crucial. The Committee also viewed that, under the situation where the adverse impacts could become intensified and widespread, the Bank of Thailand had been working closely with financial institutions and other financial service providers in a timely manner to urgently determine minimum measures to reduce interest burdens and provide additional liquidity to retail and corporate borrowers with the potential to repay their loans. The Committee also viewed that loan repayment measures to assist borrowers affected by COVID-19 and the government's relief measures were timely and more targeted than the policy rate cut in addressing the problems and effectively helped relieve the impacts of the COVID-19 spread. **Furthermore, the Committee viewed that close coordination between financial and fiscal policies was needed and encouraged collaboration among related public and private organizations to speed up implementation of various financial and fiscal measures to shore up and support economic recovery in the period ahead.**

Looking ahead, the Committee would be data-dependent by closely monitoring the economic growth, inflation, and financial stability, together with other associated risks, especially the impacts of the COVID-19 outbreak, in deliberating monetary policy going forward.

[3] The Bank of Thailand announced the measures on 25 March 2020. These measures were results of coordination between the Bank of Thailand and nine agencies including (1) the Thai Bankers' Association, (2) the Association of International Banks, (3) the Government Financial Institutions Association, (4) the Thailand Leasing Association, (5) the Thai Hire-Purchase Association, (6) the Vehicle Title Loan Trade Association, (7) the Thai Motorcycle Hire-Purchase Association, (8) the Credit Card Club–Thai Bankers' Association, and (9) the Personal Loan Club.

The Committee would stand ready to use additional policy tools in an appropriate and timely manner. Such tools included the policy rate and other monetary measures that would help enhance the policy rate transmission as well as loan extension by financial institutions to reach the target groups.

Monetary Policy Group
8 April 2020