

Edited Minutes of the Monetary Policy Committee Meeting (No. 5/2020)

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Members Present

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

The Global Economy

After the severe contraction in the second quarter this year **trading partner economies would gradually recover** in line with the relaxation of COVID-19 containment measures. However, economic activities in many countries remained significantly lower than the pre-pandemic level. **Advanced and Asian economies (excluding China)** would contract this year due to the severe situation of the COVID-19 pandemic in several countries and the second wave of the outbreak in some countries. **China** would exhibit a modest growth on the back of continuous improvement in economic activities after the relaxation of containment measures. **Monetary and fiscal policies in many countries continued to be accommodative to support economic recovery.** Regarding monetary policy, advanced economy central banks maintained their policy rates at low levels and continued with asset purchases programs. Meanwhile, several regional central banks such as the Bangko Sentral ng Pilipinas, Bank Negara Malaysia, and Bank Indonesia further cut their policy rates. Regarding fiscal policy, governments in several countries extended the duration of some relief measures previously announced such as wage subsidy schemes for businesses in Malaysia and Singapore. Meanwhile, several governments implemented additional economic recovery measures, particularly the European Recovery Fund which was a major progress for assisting European Union member countries to cope with the economic crisis more effectively.

There was a likelihood that trading partner economies would contract more than the baseline due to (1) the intensifying COVID-19 outbreak that could cause several countries to re-impose strict containment measures, (2) vulnerabilities in the global financial system owing to increased risks with respect to corporate bond defaults or government bond downgrades, (3) re-intensifying trade tensions between the US and China which could affect global trade volume, and (4) geopolitical risks, including intensifying tensions between the US and China prior to the US presidential election as seen in the revocation of Hong Kong's privilege trade status and the sanctions against Chinese officials in retaliation for China's imposition of the new national security law for Hong Kong.

According to the Committee, the recovery outlook of trading partner economies remained highly uncertain despite some improvements in recent economic indicators. Such uncertainties included

in particular the continuation of the recovery given weak economic fundamentals, the effectiveness of public measures, as well as the changing economic structures and international trade due to the COVID-19 pandemic that could hold back Thai exports from reaping the full benefits from the global economic recovery. Going forward, the Committee deemed it necessary to closely monitor such factors as they were significant to the Thai economic recovery.

The Financial Markets

Global financial conditions gradually improved thanks to renewed investor confidence supported by better-than-expected recent economic indicators in several countries, together with ample liquidity in the global financial markets following continuously accommodative monetary policies of advanced economy central banks. As a result, prices of risky assets and gold continuously rose. Meanwhile, the second wave of the outbreak in some countries temporarily amplified volatilities in the global financial markets. However, investors remained cautious in selecting asset classes and destinations to re-invest, as reflected in the differences in debt and equity inflows to emerging markets. Regarding financial market conditions in Thailand, commercial bank lending rates and government bond yields remained low, whereas corporate bond spreads were still high. With regard to liquidity, commercial bank loans expanded on the back of large corporates' borrowing to substitute bond financing. Meanwhile, SME and consumer loans decelerated due to tightened credit standards despite some reliefs from the loan repayment holiday measure. **With the level of overall liquidity in the financial system remaining ample, the Committee deemed it important that liquidity be better distributed to affected businesses and households.**

On exchange rates, volatilities of the baht increased due to both domestic and global factors. Shortly after the previous meeting, the baht depreciated due to domestic factors such as concerns over the likelihood of the second wave of the outbreak and domestic political uncertainties. Later, the baht appreciated due to the weakening of the US dollar pressured by several factors such as the growing number of COVID-19 cases and the unprecedented economic contraction in the second quarter. The nominal effective exchange rate (NEER) overall depreciated from the previous meeting despite having strengthened somewhat recently. **The Committee viewed that if the baht were to appreciate rapidly, the economic recovery could be affected. Therefore, the Committee would closely monitor developments in the financial markets and foreign exchange markets, together with assess the necessity of implementing additional appropriate measures** such as measures to encourage balanced capital flows by increasing flexibility and convenience in foreign currency transactions and by promoting further liberalization of outward portfolio investments.

Domestic Economy and Financial Stability

The Thai economy would gradually recover in line with the relaxation of the COVID-19 containment measures in Thailand and the gradual improvement in global economic activities.

Nevertheless, the overall economic activities remained at a significantly lower level than the pre-pandemic period. Regarding **exports of services**, the public concerns over the course of Thailand's reopening would result in a slower-than-expected progress in admitting foreign tourists. However, the number of domestic tourists picked up owing partly to domestic tourism stimulus measures. **Merchandise exports** contracted markedly in the second quarter this year, although the June exports data indicated improvements in some categories. Nonetheless, exports of goods remained modest and would take time before returning to the pre-pandemic level. **Although private consumption** started to recover following the relaxation of containment measures, it would remain in contraction throughout the year due to deteriorated household incomes, rising unemployment, and low consumer confidence. Uncertainties in the period ahead and elevated household debt would lead to more cautious spending and increased savings by households. **Private investment** would contract significantly in line with weak investor confidence. However, private investment going forward would be supported by planned relocation of production base to Thailand under the Eastern Economic Corridor (EEC) and investment in both large-scale infrastructure and infrastructure to support the digital economy that were likely to proceed continuously. **Public expenditure** would be a major economic driver on the back of disbursements 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. Nevertheless, part of transfer payments under remedy and restoration plans would be delayed as some were pending approval. Meanwhile, the enactment of the Annual Budget Expenditure Bill for fiscal year 2021 was expected to proceed as scheduled.

The Committee extensively discussed the challenges for the Thai economy in the period ahead, especially the economic recovery in the latter half of this year that could be restrained by several factors. These included (1) the number of foreign tourists that could increase less than previously assessed due to risks that the second wave of the outbreak in many countries could result in changes in attitude and behavior regarding international travel, and (2) private consumption that could be dampened by deteriorated household incomes, elevated household debt, and low confidence. The Committee viewed that the Bank of Thailand needed to cooperate with other agencies to explore additional measures to restore the economy, particularly the appropriate travel protocols for foreign tourists. Such protocols would need thorough assessment of the trade-off between economic and public health considerations, and should be implemented with the public's confidence in the safety of such procedures. Other measures included those targeting at households, especially measures to create new jobs and support affected workforce as well as measures to reduce debt burden and increase liquidity for households in order to support private consumption.

Furthermore, the Committee discussed policies to support important economic sectors affected by the COVID-19 outbreak such as the hotel industry as well as the automotive and auto parts industry. The Committee noted that recovery would vary among industries and policy

implications would be different. Sectors with a slow recovery outlook would entail significant excess capacity and affect employment. Meanwhile, sectors with high recovery potential would need to adjust their business models in preparation for the post-COVID environment. The government would thus need to accelerate the implementation of supply-side policies to support economic restructuring.

Headline inflation slightly edged up in line with crude oil prices but would remain negative in 2020. Core inflation would remain at a low level. Headline inflation would rise toward target in 2021 mainly due to gradually rising crude oil prices and the economic recovery. Medium-term inflation expectations remained anchored within the target.

The financial system remained sound despite increasing vulnerabilities given the economic conditions affected by the COVID-19 situation. Commercial banks had robust capital fund and loan loss provision levels capable of absorbing the impacts of the pandemic. However, looking ahead, commercial banks needed to prepare for the uncertain COVID-19 situation and a deteriorated debt servicing capability of businesses and households. Financial institutions should expedite debt restructuring for retail borrowers and businesses to be in line with the income stream and debt servicing capability in the post-COVID environment. Furthermore, financial institutions should accelerate and broadly extend credits to the affected businesses and households under various measures such as soft loans, credit guarantees by the Thai Credit Guarantee Corporation, and loans provided by specialized financial institutions.

Monetary Policy Decision

The Committee assessed that the Thai economy would gradually recover in line with the relaxation of COVID-19 containment measures in Thailand and the gradual improvement in global economic activities. However, overall economic activities would take at least two years before returning to the pre-pandemic level and the Committee would remain cautious about risks of the second wave of the outbreak. Meanwhile, the Committee viewed that the low level of the policy rate, along with financial and credit measures of the Bank of Thailand as well as fiscal measures, helped alleviate adverse impacts and would support the economic recovery after the pandemic subsided, facilitate the return of inflation to the target, and reduce financial stability risks. **The Committee thus voted unanimously to maintain the policy rate at 0.50 percent.** The Committee viewed that the record-low policy rate would support the economic recovery. Moreover, a further decrease in the policy rate would be less effective in the current context, where it could affect financial intermediation, increase vulnerabilities in the financial system through underpricing of risks, as well as affect savings. The Committee thus deemed it necessary to preserve the limited policy space in order to act at the appropriate and most effective timing.

The Committee viewed that accelerating credit extension and debt restructuring would be necessary to support the economic recovery. Financial and credit measures going forward needed to emphasize on (1) ensuring that liquidity be distributed to have broader impacts on affected business and households through the acceleration of credit extension under various measures, (2) helping financial institutions to significantly accelerate debt restructuring for borrowers especially households and businesses, and (3) preparing additional measures to reduce solvency risks for businesses and establishing mechanisms to standardize and expedite debt restructuring. **Moreover, the Committee viewed that fiscal policy needed to play a greater role going forward to support economic recovery and economic restructuring,** as the recovery would take time and vary among sectors. As a result, government measures going forward needed to be continuously implemented in a targeted and timely manner. In addition, supply-side policies should be given a greater role in supporting economic restructuring, facilitating changes in business models, as well as reskilling and upskilling the workforce to be ready for the post-pandemic environment. The government should establish platforms to facilitate access to labor market data in local areas as well as establish mechanisms in place for labor skill development especially for those who did not possess the skills required for a job.

The Committee additionally discussed the role of monetary policy to help support fiscal policy going forward. The Committee viewed that as fiscal policy would play a greater role in the period ahead, public debt would increase. However, the significant decrease in financing costs, ample liquidity in the financial system, and the currently low public debt level would allow for the fiscal policy space to restore and restructure the economy in the post-COVID environment.

Looking ahead, the Committee would monitor developments of economic growth, inflation, and financial stability, together with associated risks, including external risks, the impacts of the COVID-19 outbreak, and the effectiveness of fiscal, financial, and credit measures in deliberating monetary policy going forward. The Committee would stand ready to use additional appropriate policy tools if necessary.

Monetary Policy Group

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