

Edited Minutes of the Monetary Policy Committee Meeting (No.2/2021)

24 March 2021, Bank of Thailand

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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 economy would continue to recover; however, uncertainties surrounding the COVID-19 situation in many countries could become more severe and prolonged. The global economic recovery would be supported by the COVID-19 vaccination progress, additional large-scale economic stimulus measures in the US, and improving exports in accordance with the global economic recovery. Nevertheless, the prospects of the global economic recovery would remain uncertain going forward due to virus mutations and the efficacy of the COVID-19 vaccines.

Volatilities in the global financial markets increased. Long-term US Treasury yields rose rapidly as market participants expected the Federal Reserve to withdraw monetary policy accommodation sooner than previously assessed due to (1) a rise in US inflation expectations (2) the prospects of the US economic recovery supported by the economic stimulus measures, and (3) an increasing supply of US government bonds. Consequently, the US dollar appreciated. The prices of commodities and equities rose, while safe asset prices fell. The long-term government bond yields of most countries, including Thailand, rose in accordance with the long-term US Treasury yields. On exchange rates, the baht depreciated against the US dollar, while the nominal effective exchange rate (NEER) decreased from the previous meeting.

Looking ahead, volatility in the global financial markets would remain high. Asset prices could experience a sharp correction if further developments would not align with market expectations, posing knock-on effects on the Thai financial markets. These developments included (1) the US recovery prospects, (2) monetary policy and fiscal measures in advanced economies, such as the US infrastructure stimulus package, and (3) a faster-than-expected normalization of the US monetary policy. Thus, scenario analyses are needed to evaluate these risks and impacts on the Thai economic recovery.

Domestic Economy

The Thai economy continued to recover despite facing the new wave of the COVID-19 outbreak, but uncertainties remained high. The Committee assessed that impacts of the recent outbreak were less severe than last year due to the less strict containment measures and quick implementation of additional fiscal measures. However, the Committee assessed that the Thai economy would expand by 3.0 and 4.7 percent in 2021 and 2022 respectively, lower than the previous projection. **Negative factors affecting the economy were as follows.** First, foreign tourist figures were revised downward due to Thailand's slower-than-expected reopening plan and the international travel restriction policy in source countries, particularly China. Second, government spending in 2022 was significantly revised downward due to (1) a reduction in

fiscal year 2022 expenditure budget in accordance with the lower revenue projection and (2) the spending reallocation to economic relief from economic restoration 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, B.E. 2563(2020). Nonetheless, **some positive factors supporting the economy** included (1) merchandise export recovery which was in line with the trading partners' economic outlook and (2) the additional fiscal stimulus measures in the first half of 2021 to alleviate impacts of the new wave of the COVID-19 outbreak. Meanwhile, the current account balance was projected to register only a small surplus in 2021, declining significantly to 1.2 billion US dollars, due to (1) reduction in the number of foreign tourists, (2) increasing import prices in line with global crude oil prices, (3) increase in net gold imports given declining gold prices, and (4) higher transportation costs in the services balance caused by shipping container shortage. However, the current account surplus would increase to 25 billion US dollars in 2022 owing to tourism recovery.

Looking ahead, there were possibilities that the Thai economy would underperform the baseline projection due to various factors. First, Thailand's border re-opening to foreign tourists could be delayed because of, for example, insufficient vaccine supply in a timely manner, public concerns over safety of the vaccines, and virus mutations. Second, the impact of government stimulus could be lower than estimated if there is a delay in the approvals of the remaining projects under the Emergency Decree, since the Decree would remain in effect until the third quarter of 2021. Third, financial positions of businesses could deteriorate, possibly triggering permanent shutdowns and higher unemployment. This could leave scarring effects on businesses and labor recovery. Fourth, the default rates of businesses and households could rise substantially after the phase-out of the credit relief measures.

Headline inflation in 2021 was projected to be higher than the previous assessment and would return to the target in the middle of 2021, remaining close to the lower bound of the target range throughout the forecast period. The Committee assessed that headline inflation in 2021 would increase to 1.2 percent mainly on account of the increase in crude oil prices, and would temporarily spike in the second quarter of 2021 due to the low base effect last year. **Core inflation was projected to remain largely unchanged at low levels.** Medium-term inflation expectations remained anchored within the target.

Discussions by the Committee

The Committee discussed potential risks to the Thai economy, the appropriate measures that should be implemented going forward, and the combination of policy tools that would be suitable to the Thai context to achieve the monetary policy objectives. The details were as follows.

- **The Committee assessed that the spike in long-term Thai government bond yields in tandem with the US Treasury long-term yields thus far had limited impact on the Thai economy.** This was because most corporate bond issuers raised funds in the short maturity and could still do so as usual. Corporate credit spreads continued to decline. Although yields on long-term Thai government bonds stabilized recently and were less correlated with the US Treasury counterparts, the Committee would closely monitor financial market developments and implications on the Thai economic recovery in the period ahead.

- **The Committee assessed that the Thai economy would recover slowly in the short term and become more uneven among sectors. Targeted and sufficient government measures should be expedited to reduce economic scars**, especially those in the private sector experiencing increasingly fragile financial positions, elevated household debt, and a weakened labor market, all of which would hamper the economic recovery going forward. **Fiscal measures** should therefore be helpful in expediting the disbursements of relief and government support to keep the momentum of fiscal stimulus, thereby supporting job creation and generating household incomes. **Financial and credit measures** should encourage financial institutions to expedite debt restructuring for both retail borrowers and businesses, as well as support the distribution of liquidity in a targeted manner to reduce the debt burden of the affected groups, particularly through the new financial rehabilitation measures consisting of soft loans and asset warehousing. The new measures would (1) create incentives for financial institutions to provide liquidity to the businesses in a targeted manner, in line with their needs and prospects and (2) temporarily reduce debt payments of principal and interest for businesses that would take time to recover, especially tourism-related services. **Under the worst case scenario, the government should prepare additional packages of financial and fiscal measures to cushion against uncertainties**, especially if the number of inbound foreign tourists in 2021 were lower than expected.
- **The Committee emphasized the necessity of structural reforms to raise the long-term potential of the Thai economy.** Potential growth was forecasted to steadily decline, while the COVID-19 outbreak could exacerbate the existing structural challenges, namely aging population and income inequality. The Committee therefore highlighted the necessity of structural reforms to boost economic potential, particularly business model adjustments together with labor upskilling and reskilling to suit the post-COVID environment. The reforms would support a sustainable economic recovery and increase income that would help speed up the process of business and household debt deleveraging.
- **The Committee discussed an appropriate combination of policy tools to support the near-term economic recovery and the long-run sustainable economic expansion.** The views of the Committee were as follows. **First, monetary policy accommodation together with targeted fiscal and financial measures** would facilitate the economic recovery and foster the return of headline inflation to target. **Second, macroprudential and microprudential measures** would be crucial in the context of low-for-long interest rates to sustain the economic recovery. **Third, the public sector should accelerate structural policies** to raise the country's competitiveness and long-term economic potential.

Monetary Policy Decision

The Committee voted unanimously to maintain the policy rate at 0.50 percent to support the economic recovery which remained highly uncertain.

The Committee assessed that the Thai economy would continue to expand, albeit somewhat slower than the previous assessment. Nonetheless, fragile financial positions of some segments of the private sector, particularly SMEs and households, would hinder the economic recovery going forward. Therefore, it is necessary to emphasize the measures that assist the target groups directly and consistent with their needs. At the present, the key challenge of the

Thai economy was not the level of interest rates since commercial bank lending rates and government bond yields still remained low. Instead, there was an issue of distributing the ample liquidity within the banking system to those affected businesses and households. Implementation of financial and credit measures in a targeted manner would then be suitable. In addition, the Thai economic recovery in the period ahead would remain highly uncertain. **The Committee therefore voted to maintain the policy rate at this meeting to preserve the limited policy space to act at the appropriate and most effective timing to maximize its effectiveness.**

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 exchange rate movements would not hinder the economic recovery. Although pressures on the baht would abate in tandem with the substantial reduction in the current account surplus for 2021, the Committee would continue to expedite the new foreign exchange ecosystem to restructure the Thai foreign exchange markets, which directly addresses the root cause of the pressures on the baht. The Committee viewed that by encouraging Thai institutional investors to increase their portfolio investments abroad, it would facilitate capital outflows and improve the balance between capital inflows and outflows.

The Committee viewed that the continuity of government measures and policy coordination among government agencies would be critical in supporting the economic recovery going forward. The Committee encouraged the expedition of the new financial rehabilitation measures to restore businesses affected by COVID-19. This would ensure the distribution of liquidity to the affected groups in a targeted manner, reduce debt burden, and support the economic transformation in the period ahead. Meanwhile, monetary policy must remain accommodative. Financial institutions should expedite debt restructuring to have broader impacts. Fiscal measures must continue to sustain the economy, especially expediting the approvals and disbursements under the remaining restoration budget. Furthermore, the government should help accelerate structural reforms to enable business model adjustments and to upskill labor towards the post-COVID environment. These would support a sustainable economic recovery and uplift the long-term economic potential.

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 the economic recovery.** The Committee would monitor the situation of the COVID-19 outbreak, the efficacy and distribution of the vaccines, the admission of foreign tourists, fragilities in the labor markets, as well as the adequacy and continuity of the government measures, in deliberating monetary policy going forward. The Committee would stand ready to use additional appropriate monetary policy tools if necessary.

Monetary Policy Group

7 April 2021



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Key Issues of the MPC Meeting No.2/2021

24 March 2021



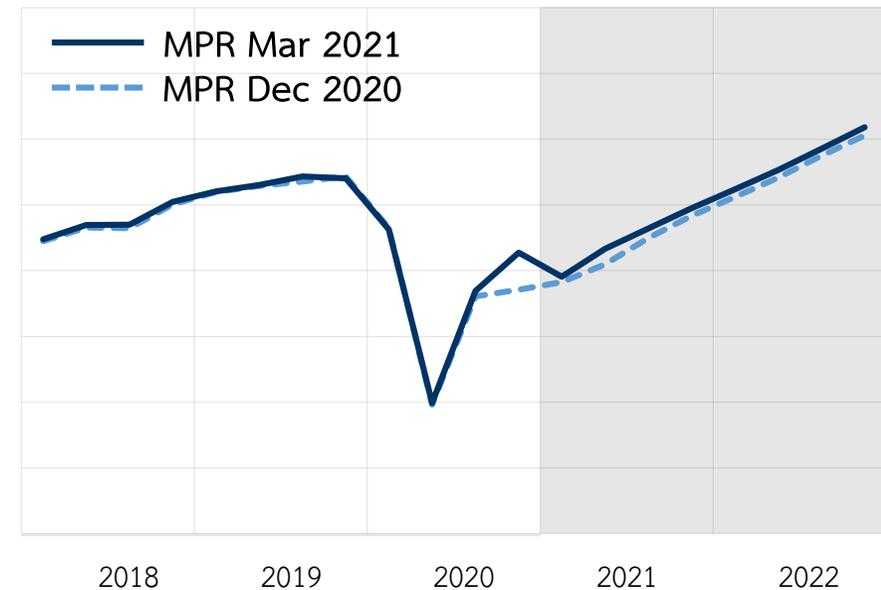
Outlook of the Thai Economy

The Thai economy would expand lower than the previous forecast due to the new wave of the COVID-19 outbreak and the reopening plan that was less relaxed than expected.

The recovery in the period ahead would remain highly uncertain, depending on (1) the continuity of fiscal support and (2) the recovery in tourist figures in line with COVID-19 vaccine efficacy and coverage.

Percent	2020	2021 ^E	2022 ^E
GDP Growth	-6.1	3.0	4.7
		(3.2)	(4.8)
Headline Inflation	-0.8	1.2	1.0
		(1.0)	(1.0)
Core Inflation	0.3	0.3	0.4
		(0.3)	(0.4)

Real GDP



* Outturn, ^E Estimation

() *Monetary Policy Report*, December 2020

Source: *Monetary Policy Report*, March 2021



Details of the economic forecasts

	2020	2021 ^E		2022 ^E	
		Dec 20	Mar 21	Dec 20	Mar 21
GDP Growth (percent)	-6.1	3.2	3.0	4.8	4.7
- Private Consumption	-1.0	2.8	3.0	3.0	2.7
- Private Investment	-8.4	4.9	6.0	5.0	5.5
- Government Consumption	0.8	5.1	5.2	1.0	-3.1
- Public Investment	5.7	7.9	11.6	0.2	0.8
- Exports of Goods and Services	-19.4	3.6	5.2	12.3	13.9
- Imports of Goods and Services	-13.3	5.0	9.2	7.5	7.5
Current Account* (Billion USD)	16.3	11.6	1.2	29.1	25.0
- Value of Merchandise Exports	-6.6	5.7	10.0	5.0	6.3
- Value of Merchandise Imports	-13.5	7.7	15.2	6.7	6.8
Headline Inflation (percent)	-0.8	1.0	1.2	1.0	1.0
Core Inflation (percent)	0.3	0.3	0.3	0.4	0.4
Assumptions					
- Number of Tourists (Million)	6.7	5.5	3.0	23.0	21.5
- Dubai Oil Price (USD/Barrel)	42.1	47.3	60.0	51.5	62.5

Note: ^E Estimation

Source: Monetary Policy Report, March 2021

❑ The Thai economy would expand at a slower pace due to the new wave of the COVID-19 outbreak in the beginning of 2021 and the reopening plan that was less relaxed than expected. However, the timely and targeted government measures, as well as the outbreak containment measures which were not as stringent as in the previous year, facilitated economic recovery.

❑ A sustained recovery in the international trade supported the recovery in domestic demand, both private investment and private consumption.

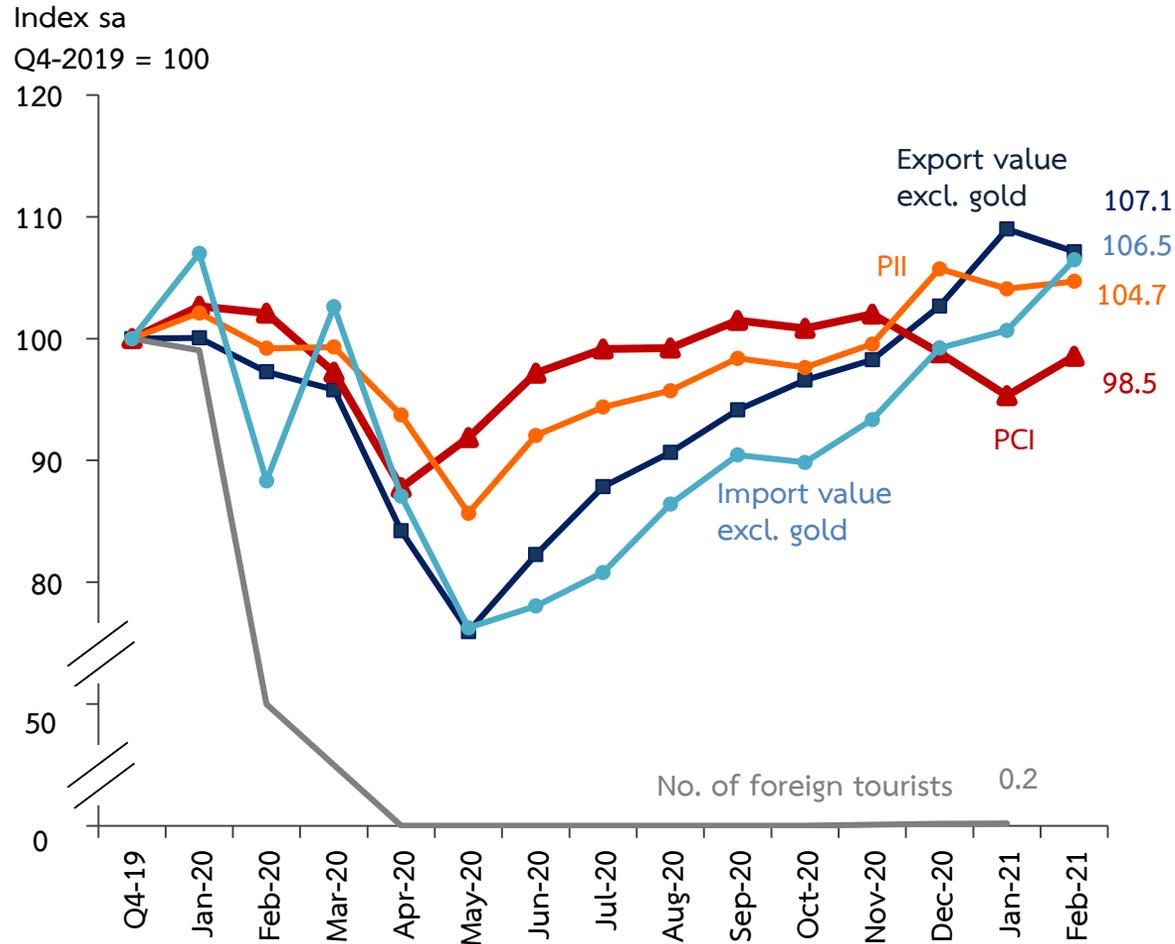
❑ However, the recovery remained uneven. Tourism receipts would still be weighed down by the gradual reopening plans of Thailand and source countries. Meanwhile, economic activities in other sectors would continue to expand, especially export-related businesses.

❑ The continuity of government measures and policy coordination among government agencies would be critical to support the economic recovery. Fiscal measures must continue to sustain the economy, especially disbursements under the restoration plan.

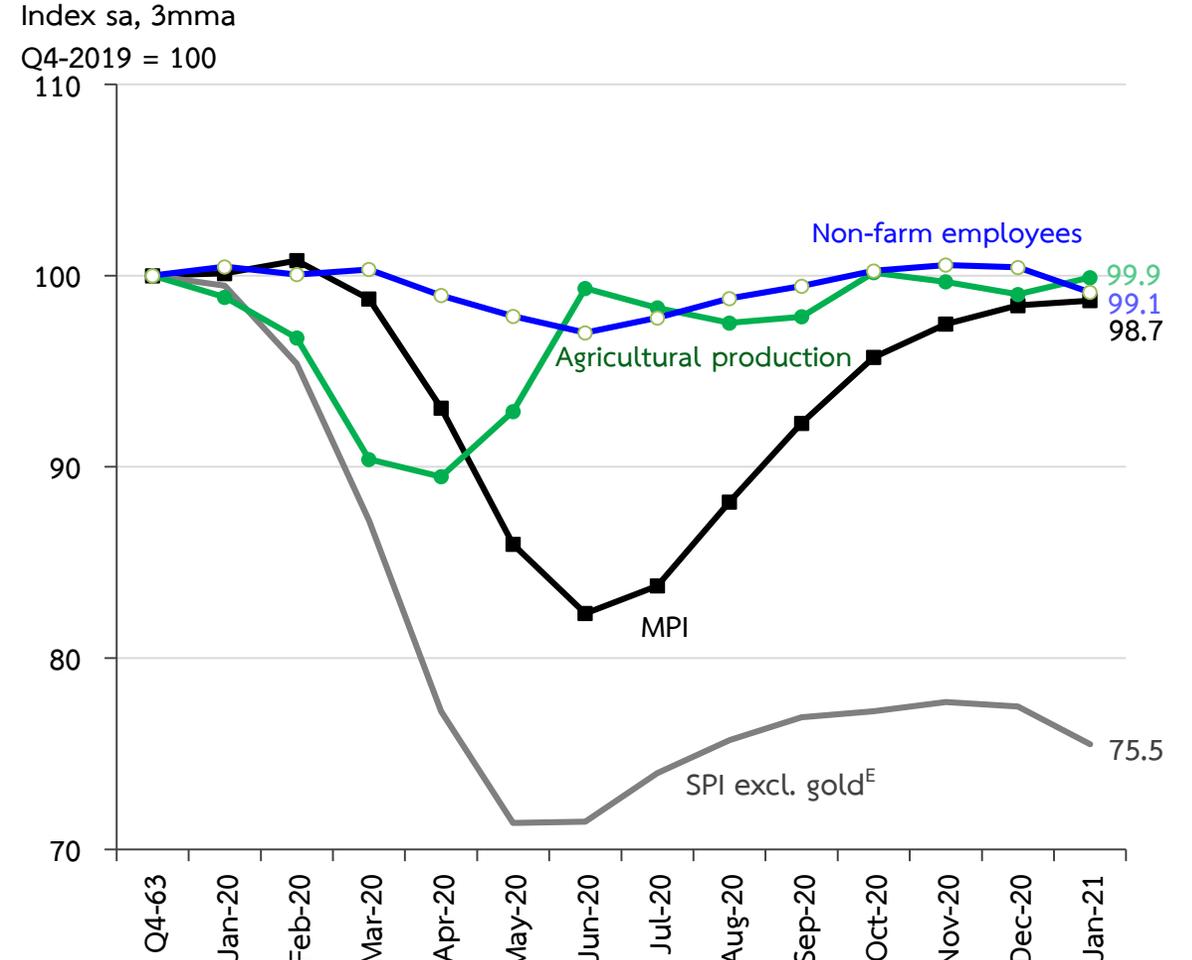


The economic impacts of the new wave of the COVID-19 outbreak became more pronounced during January to February 2021, but were less severe than the first wave.

Demand-side indicators



Supply-side indicators



Note: 1. PCI = Private Consumption Indicators PII = Private Investment Indicators MPI = Manufacturing Production Index SPI = Service Production Index (Excludes public administration and services, and gold activities) E = Estimated data

2. The data for MPC meeting No.2/2021 shown on this page are as of 24 March 2021. The latest data are available at <https://www.bot.or.th/Thai/MonetaryPolicy/EconomicConditions/PressRelease/Pages/default.aspx>



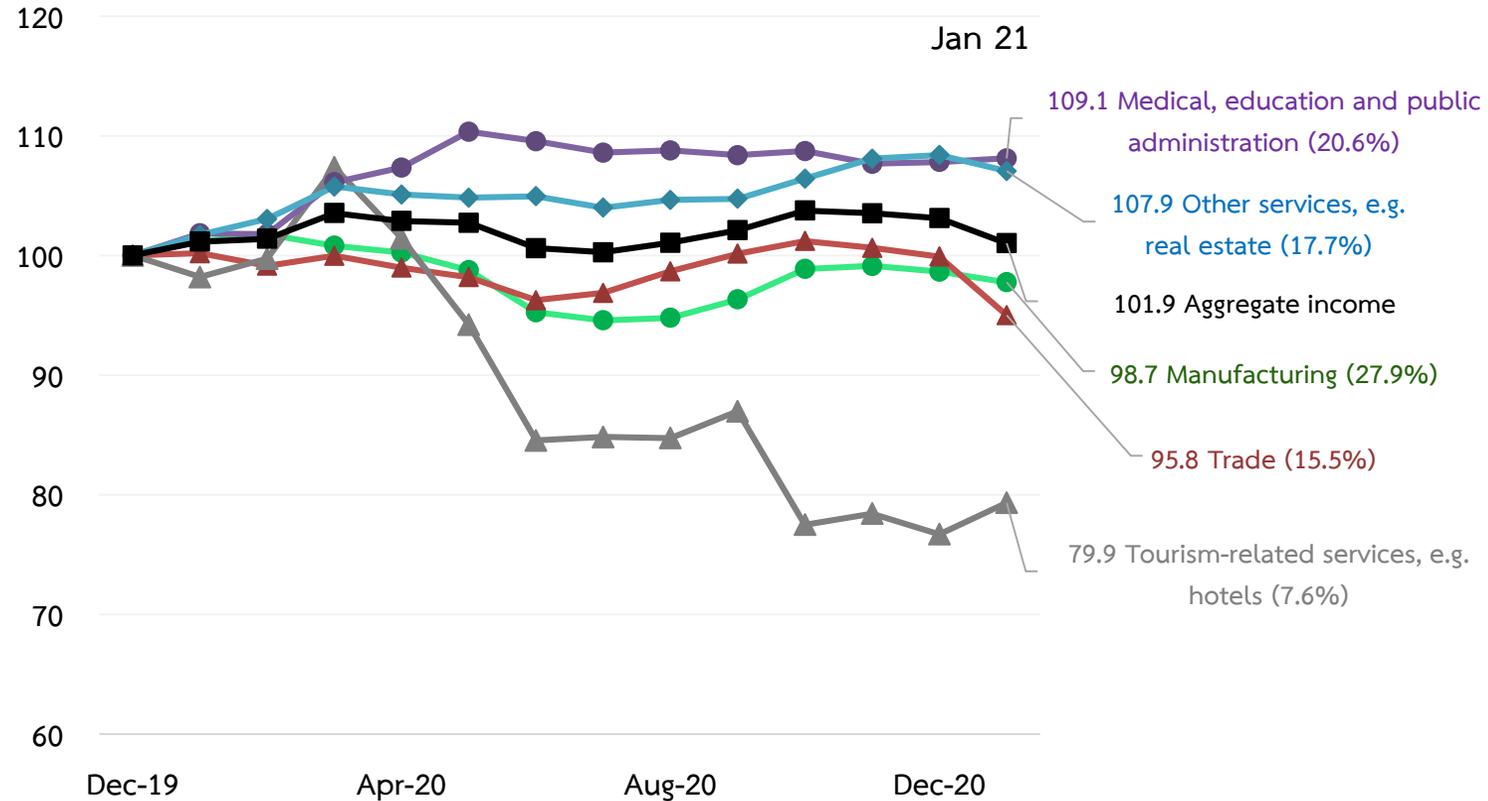
The new wave of the outbreak impinged on aggregate labor income.

Non-farm labor income fell in many sectors.

Meanwhile, labor income in the tourism-related service sector remained sluggish.

Aggregate income of non-farm workers

Index (3mma, sa)
(Dec-2019 = 100)



Note: () represents the proportion of non-farm workers in 2020

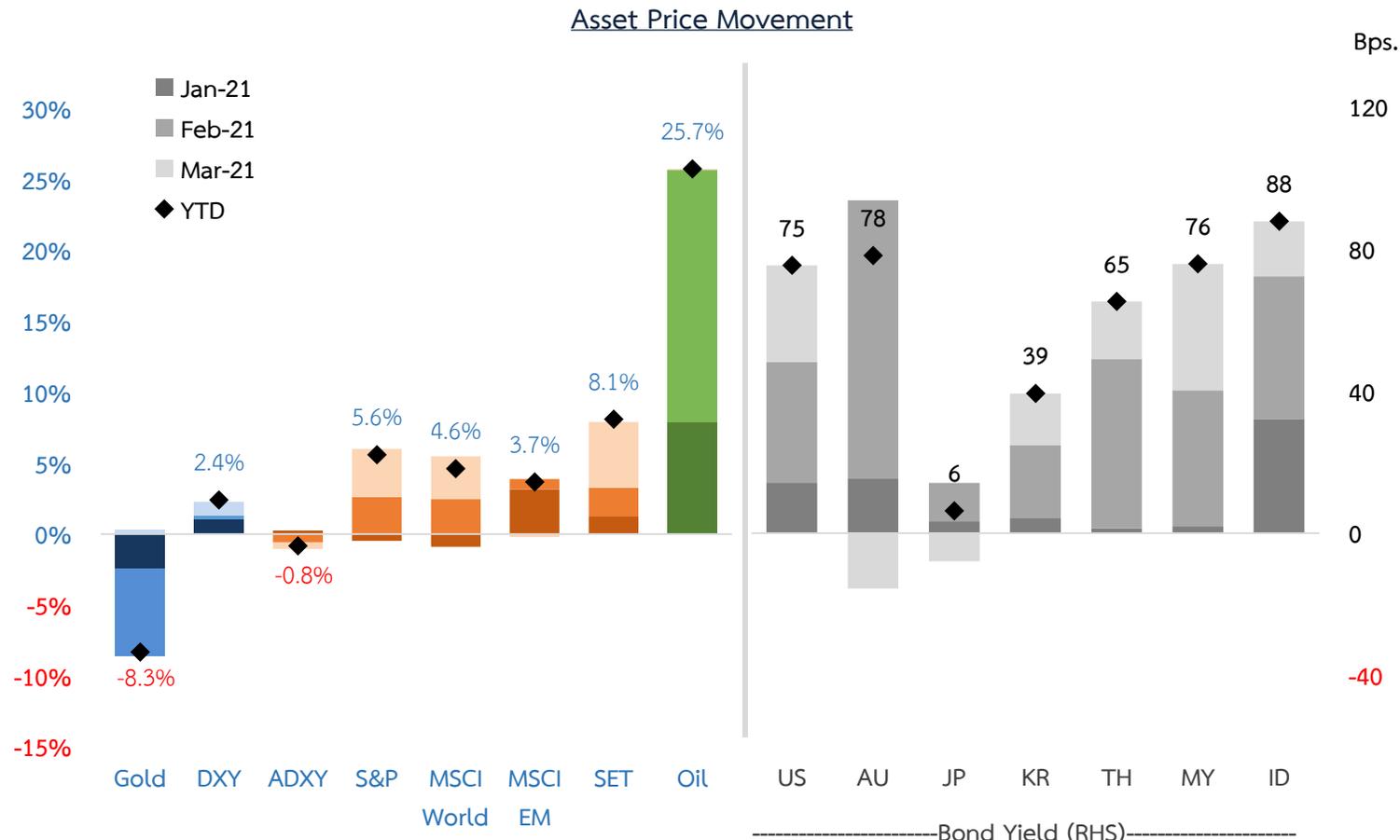
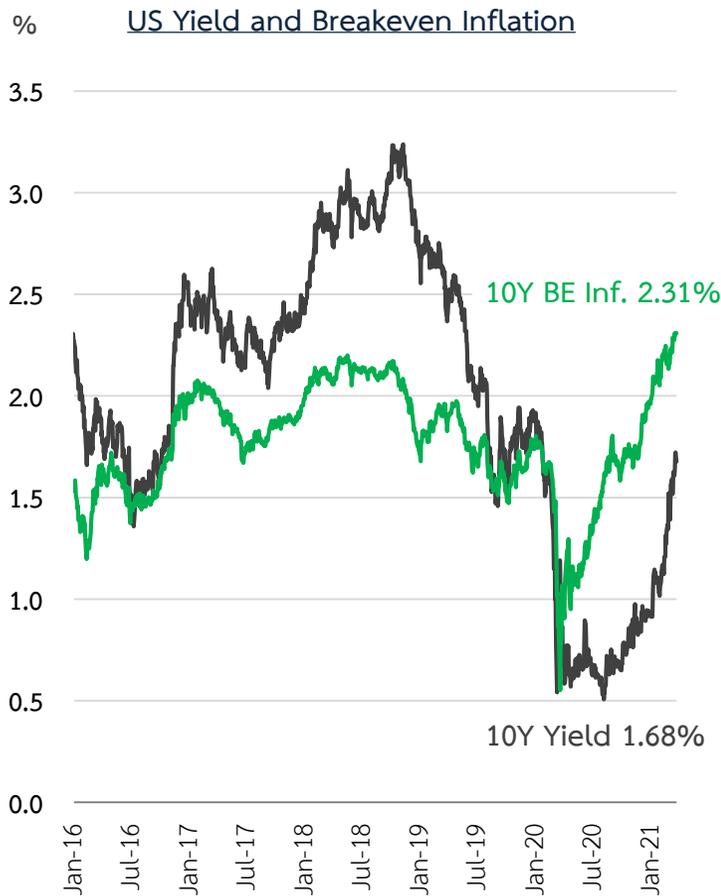
Source: The Household Socio-economic Survey and the Labor Force Survey by National Statistical Office, calculated by Bank of Thailand



Volatilities in the global financial markets increased as market participants expected reflation in tandem with the US economic recovery prospects.

US Treasury yields rose fast in line with US inflation expectations and growth prospects

The prices of commodities and equities rose, while safe asset prices fell
Most government bond yields in many countries increased in tandem with US Treasury yields



Source: Bloomberg (data as of 22 Mar 21)

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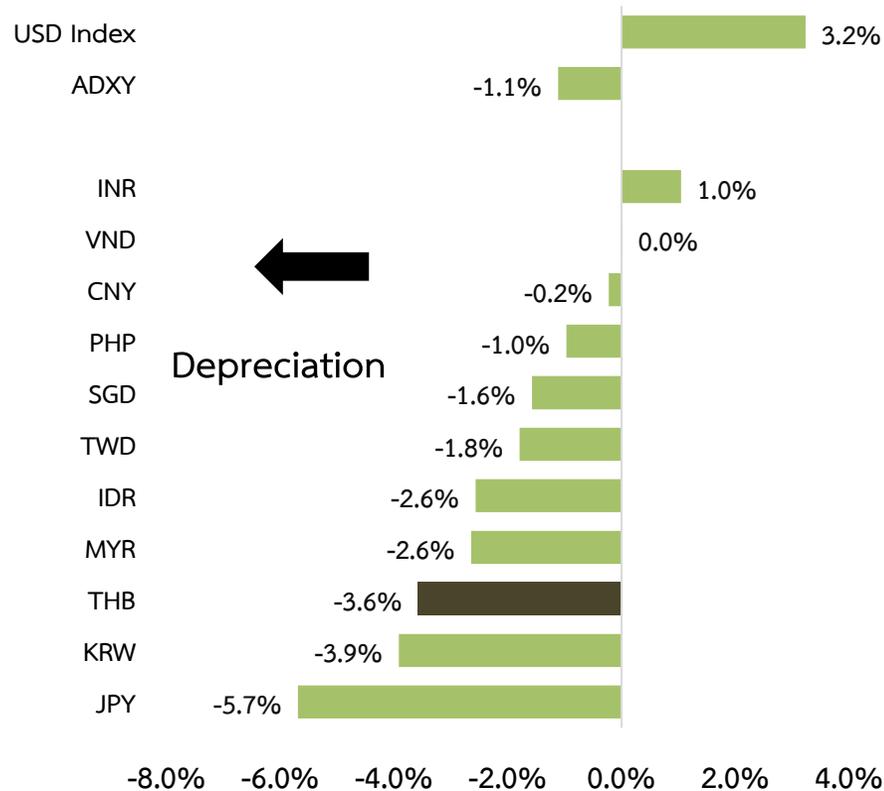


Overall financial conditions in Thailand remained accommodative due to baht depreciation since the beginning of 2021 and narrowing corporate credit spreads.

Thai baht depreciated by 3.6% since the beginning of 2021

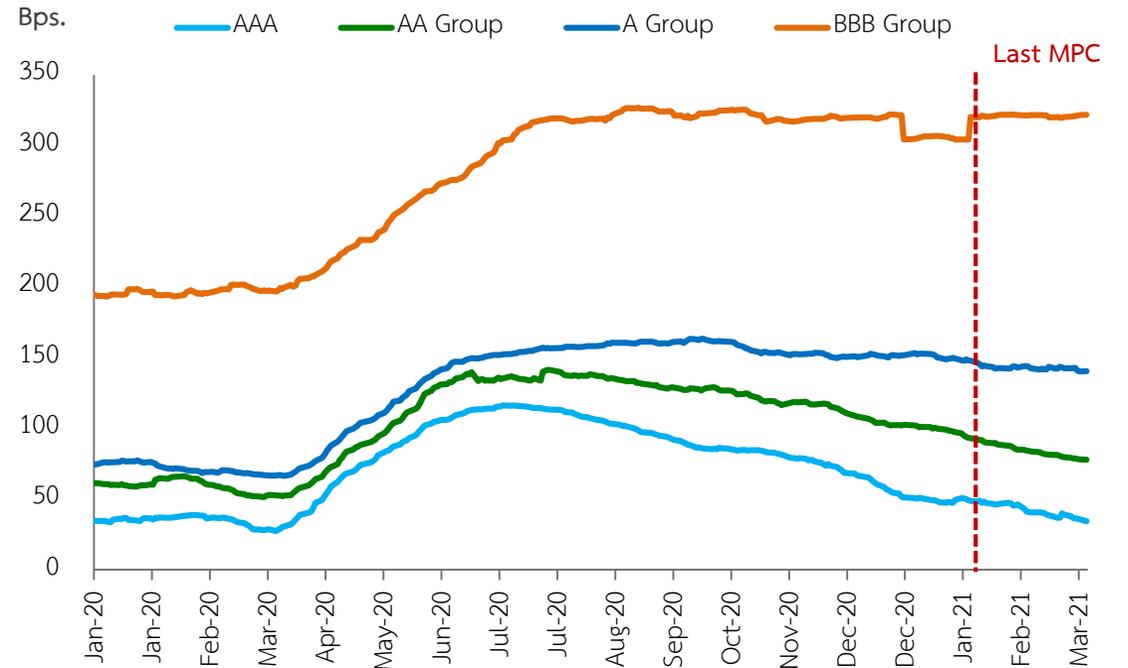
Corporate credit spreads narrowed slightly, except for the BBB group which remained high due to credit concerns

Change relative to USD in 2021 (YTD)



Depreciation

Weighted average corporate credit spreads by rating group (<=5Y)

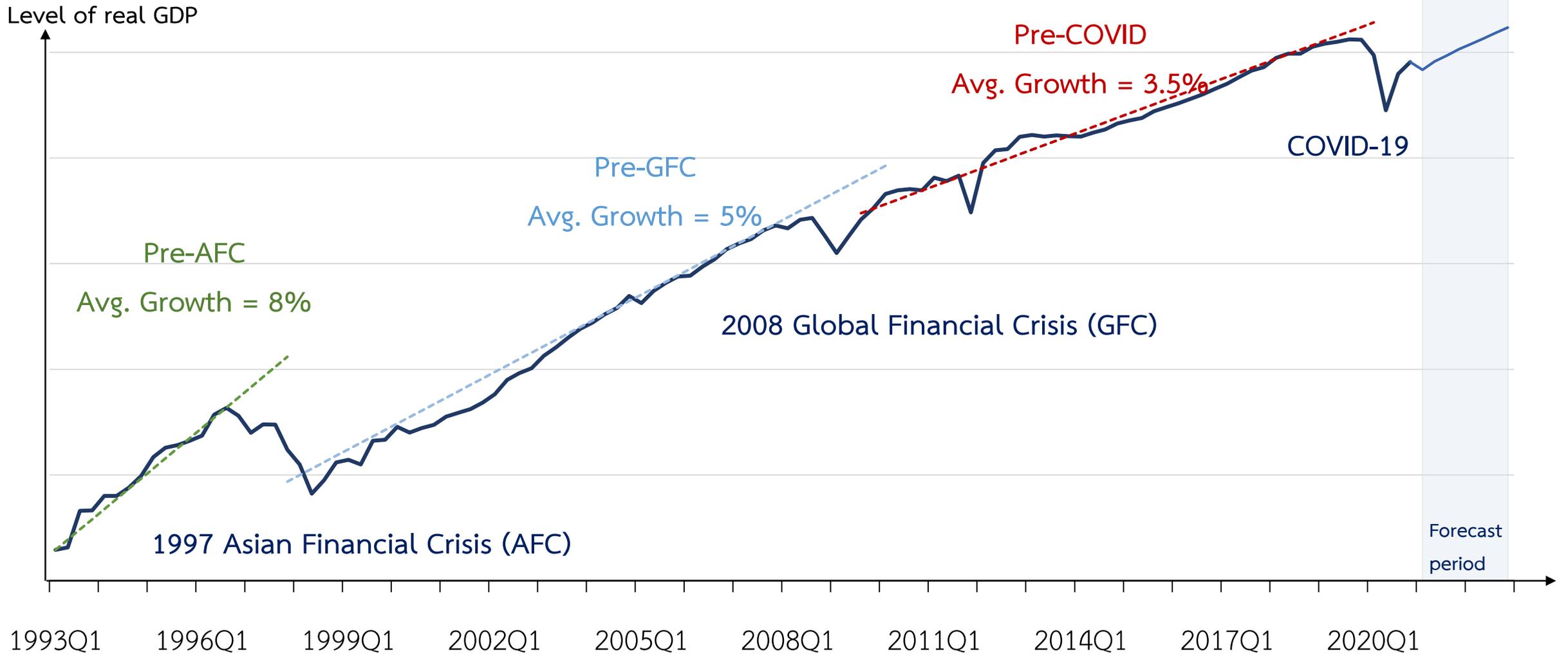


Note: 1M rolling data. The values for AA Group and A Group from 15 Jun 2020 onwards were calculated using the average of ratings with plus, minus, and no signs.

Source: ThaiBMA as of 22 Mar 21



The growth potential of the Thai economy would be uncertain.
Policy actions to reduce economic scars and restructure the economy are needed.





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The Committee encouraged the expedition of financial rehabilitation measures and would monitor outcomes in distributing liquidity in a targeted manner, reducing debt burden, and supporting economic transformation going forward.



Stakeholder engagement



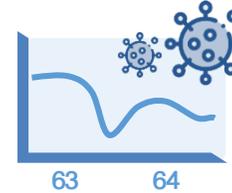
สภาอุตสาหกรรมแห่งประเทศไทย
The Federation of Thai Industries



e.g. not enough credit line / limited access to capital / terms and conditions on loans not sufficiently reflecting risks

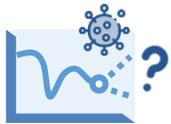


New wave of COVID-19 outbreak



Not as severe as the previous wave but exacerbated financial positions of some businesses and households

New assistance measures



Flexible in dealing with uncertainties



Comprehensive solutions

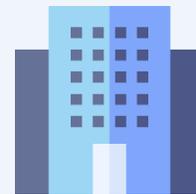


Inclusive for different needs of affected borrowers in the near and long term



1 Soft loan facility for businesses

(Budget: THB 250 bn)



2 Asset warehousing program

(Budget: THB 100 bn)