BANK OF THAILAND

BOT Press Release

Communications and Relations Office, Corporate Communications Department
Tel. +66 2283 5016-7 Fax. +66 2283 6969 www.bot.or.th

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Outcome of the Joint Meeting between the Monetary Policy Committee and the Financial Institutions Policy Committee on 6 December 2022

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 6 December 2022, to monitor and assess risks to Thailand's financial stability. Key discussion points were as follows.

The global financial system faces rising risk to financial stability going forward stemming from (1) global economic slowdown, (2) tightening global financial conditions from rapid, decisive, and synchronized monetary policy normalization to curb inflation, (3) elevated financial vulnerability from high public and private debt, (4) rising volatility of risky assets, and (5) increasingly complex financial structure from greater role of non-bank financial intermediation (NBFI). As a result, there is a possibility of abrupt changes in the global financial market with potentially widespread impact, warranting closed and ongoing monitor of the situation.

As for Thailand, the Thai economy is expected to continue on the steady recover path. The BOT's strategy of gradual and measured monetary policy tightening has been consistent with our economic environment. Financial leverage of public and private sectors from both domestic and foreign funding are relatively low. International reserves remain high compared to other countries. The committees assess that Thailand's financial system is resilient. Commercial banks hold ample levels of capital and loan loss provisions and are capable of accommodating loan demand to support the economic recovery in the period ahead. The insurance sector is financially robust, as the impact from claims on COVID-19 insurance unraveled. Domestic financial markets continue to function normally despite higher volatility in tandem with the global financial markets.

Given such rising risk to global financial stability, an abrupt change in the global financial market could significantly affect Thailand's financial stability. Therefore, the committees have comprehensively assessed potential impact to various sectors within the financial system should stress scenarios occur and **highlight the importance of monitoring risks to Thailand's financial stability in two areas as follows.**

(1) Deterioration in debt serviceability of households and SMEs should the global economy heads into recession and subsequently deters Thai economic recovery. Thai households are still vulnerable because of elevated household debt and rising cost of living from high inflation. Meanwhile, SMEs in certain sectors are still at risk, especially those in tourism and service sectors as their income have yet to be fully recovered and those in logistics, trade, and construction sectors given sensitivity to rising input cost and economic slowdown. More importantly, the BOT has continually implemented several measures, including long-term debt restructuring program, debt clinic scheme, and debt mediation fair, which have helped lessen the debt burden of vulnerable borrowers. However, **the committees agree that targeted debt resolution measures, aiming to increase coverage and accessibility of vulnerable borrowers, should be expedited,** especially those of specialized financial institutions (SFIs) and non-banks.

(2) The higher volatility of risky asset and funding cost of the corporate sector arising from uncertain global economy, tightening global financial conditions, and decreasing global liquidity, could affect the performance of financial institutions, mutual funds, securities companies, insurance companies, and hence overall financial stability. At present, the Office of the Securities and Exchange Commission (SEC) has in place supervisory standards to address risks in mutual funds and corporate bond market, such as standards on effective liquidity management tools for asset management companies and rule on proper investor segmentation ensuring that characteristics and type of investors are in line with the risk of investing bonds while the Office of Insurance Commission (OIC) has in place capital regulation to prevent surrender risk under a rising interest rate environment. In addition, **the committees agree that regulatory authorities must collaborate closely to monitor situations and prepare measures to ensure continued functioning of financial market in times of stress.**

In addition, highly uncertain global economic outlook also requires the private sector to emphasize on properly managing risks arising from concentrated short-term funding, asset price volatility, foreign exchange risk, and liquidity risk from an external funding. The BOT, the SEC, and the OIC will continue to collaborate closely in monitoring and assessing risks to Thailand's financial system and promptly take measures to maintain its stability.

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For further information, please contact:
Financial Stability Department
Tel: +66 2283 5875, +66 2283 6519
E-mail: FSU@bot.or.th