



ธนาคารแห่งประเทศไทย  
BANK OF THAILAND

# Financial Stability: Global View and the Thai Context

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Disclaimer: The views and opinions expressed in this presentation are those of the speaker and do not necessarily reflect the official policy or position of the Bank of Thailand



1. Background on Financial Stability
2. Financial Stability: Global View
3. Financial Stability: the Thai Context



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# 1. Background on Financial Stability

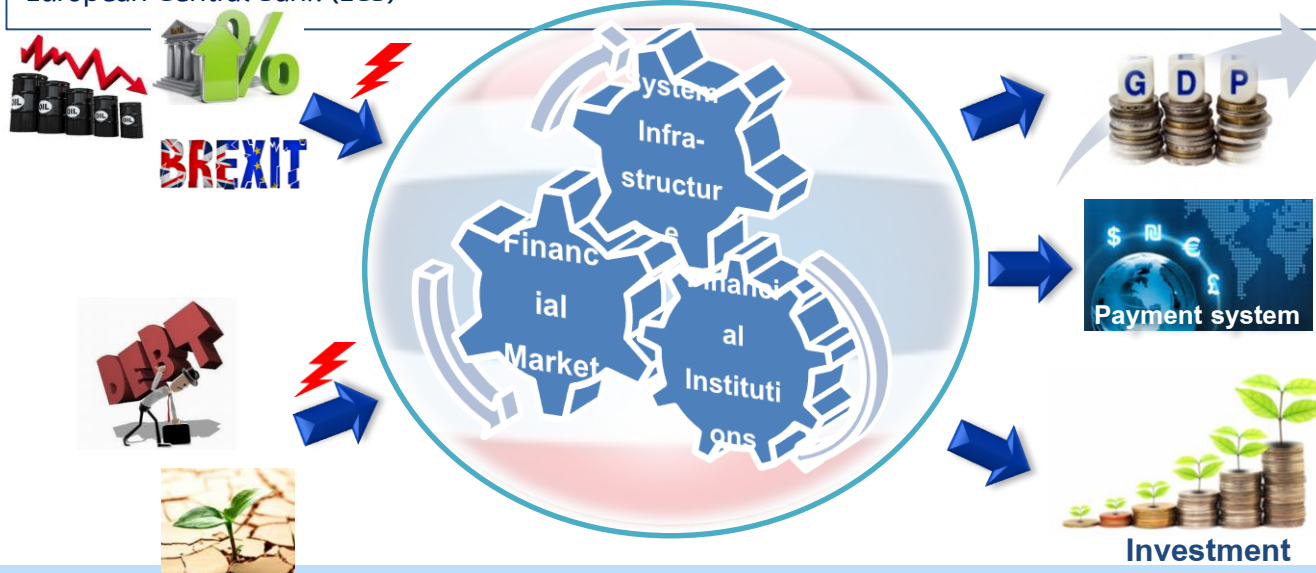




# FINANCIAL STABILITY DEFINITION

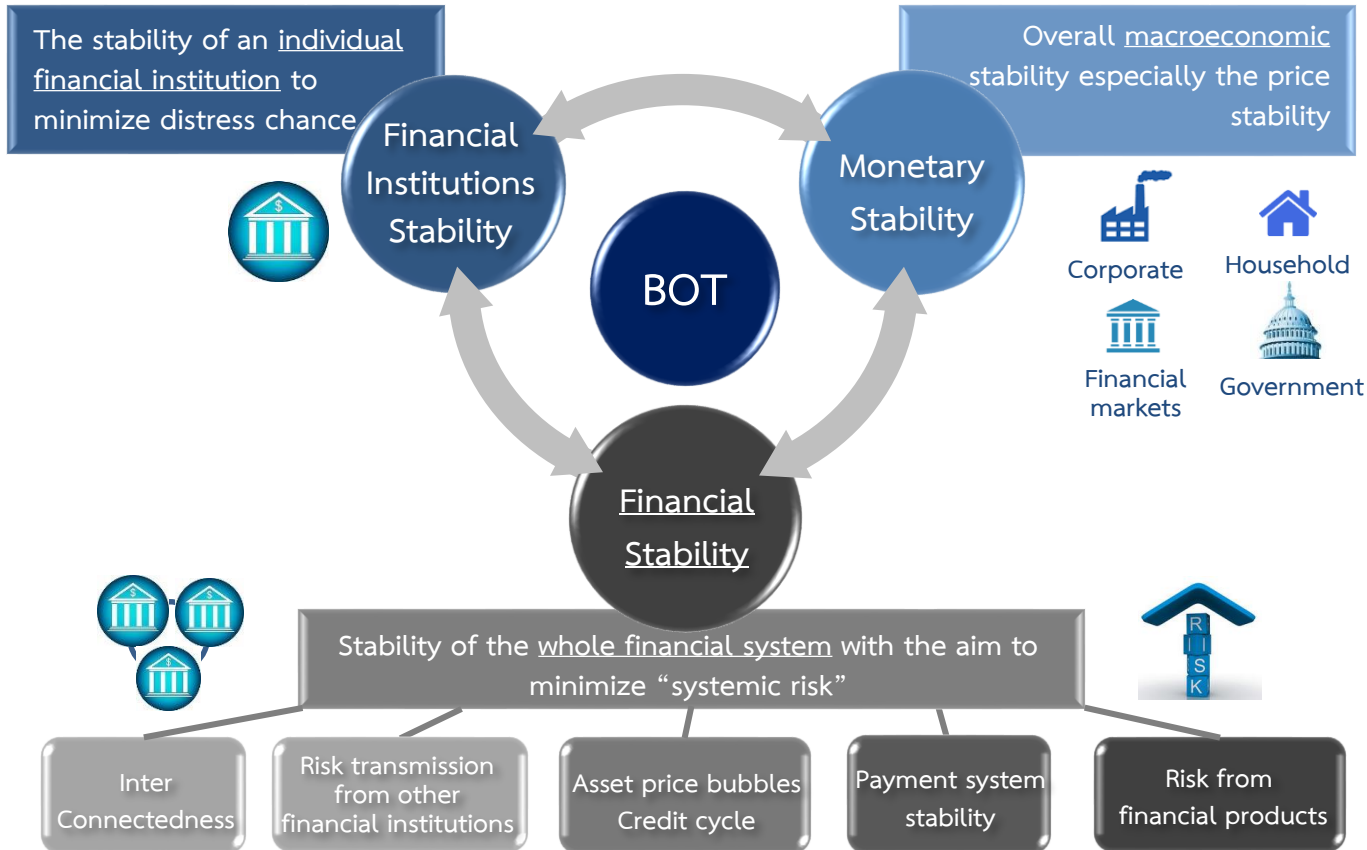
A condition in which the financial system – intermediaries, markets and market infrastructures – **can withstand shocks without major disruption** in financial intermediation and in the general supply of financial services.

European Central Bank (ECB)





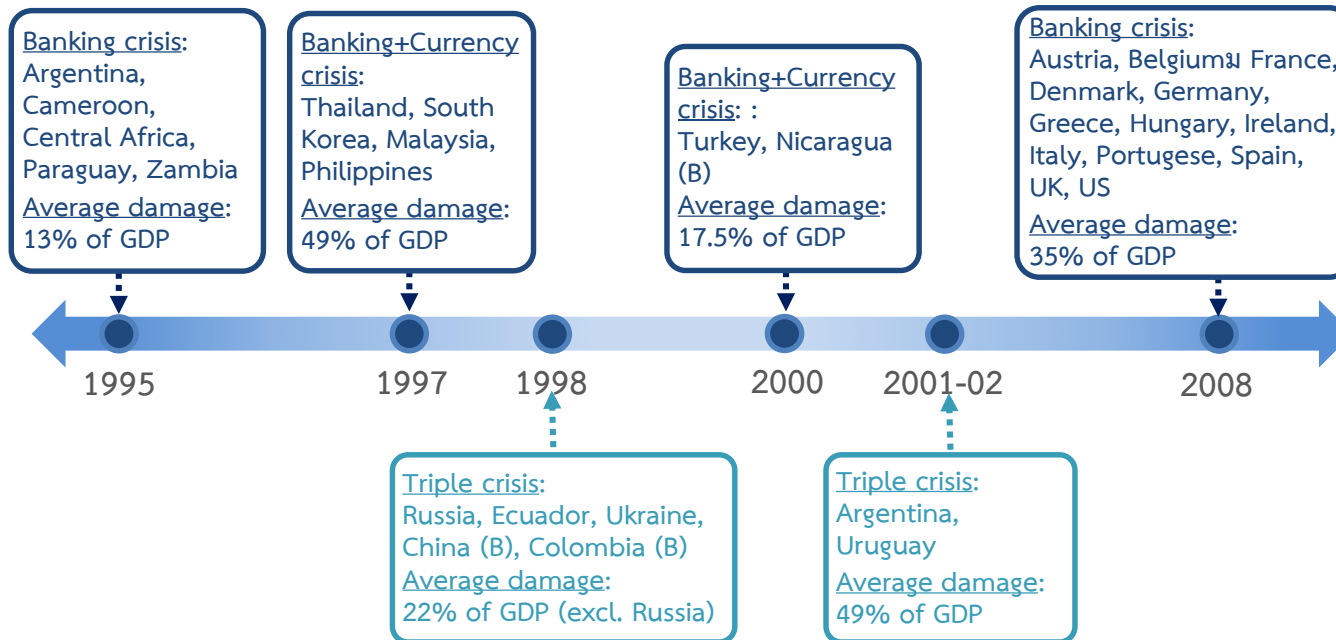
# DIFFERENCES FROM OTHER POLICIES





# WHY IS FINANCIAL STABILITY IMPORTANT?

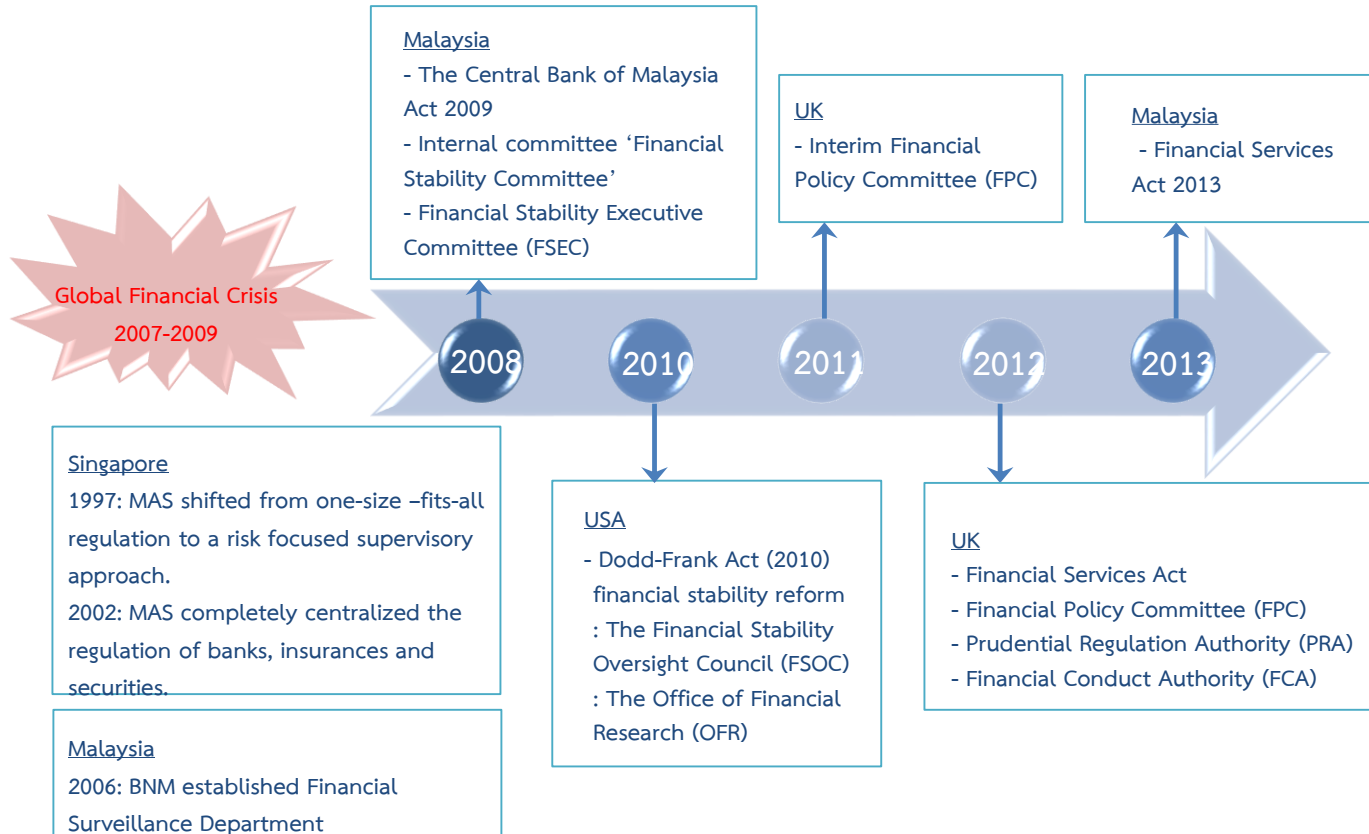
The consequence in the past for not paying adequate attention to financial stability



Source: IMF Crises Database (B)=Banking crisis only Triple crisis=Banking+Currency+Sovereign debt crisis



# REFORMING FINANCIAL STABILITY OVERSIGHT





# ANALYTICAL FRAMEWORK: SYSTEMIC RISK

*“Systemic risk” is a risk of disruption to financial services that is caused by an impairment of all or parts of the financial system and has the potential to have serious negative consequences for the real economy. There are two dimensions of systemic risk: ‘time dimension’ and ‘cross-sectional dimension’.*

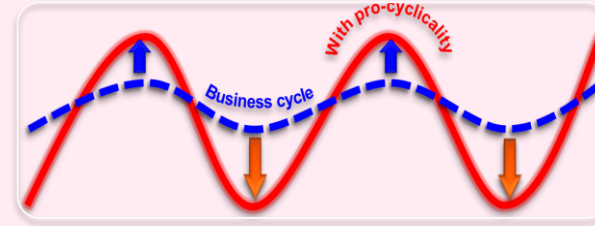
## Cross-sectional Dimension

- Financial system malfunction due to failure of FIs or the seizing up of financial markets
- Policy concerned with the interconnectedness, size, common exposures, increase the likelihood and severity of systemic events



## Time Dimension : Procyclicality

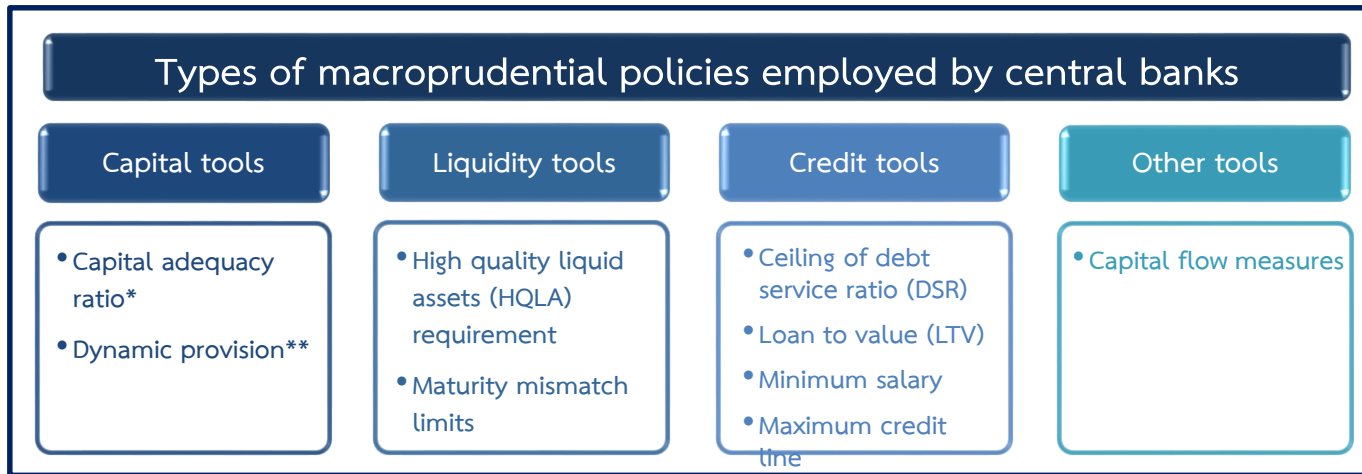
- The degree to which financial system can amplify business fluctuations
- Policy concerned with the degree of dynamic interactions between financial and real sectors





# USING MACROPRUDENTIAL POLICIES

Macroprudential policies aim at **mitigating the systemic risk** and can be used to cope with such risk on both the system-wide and sectoral basis

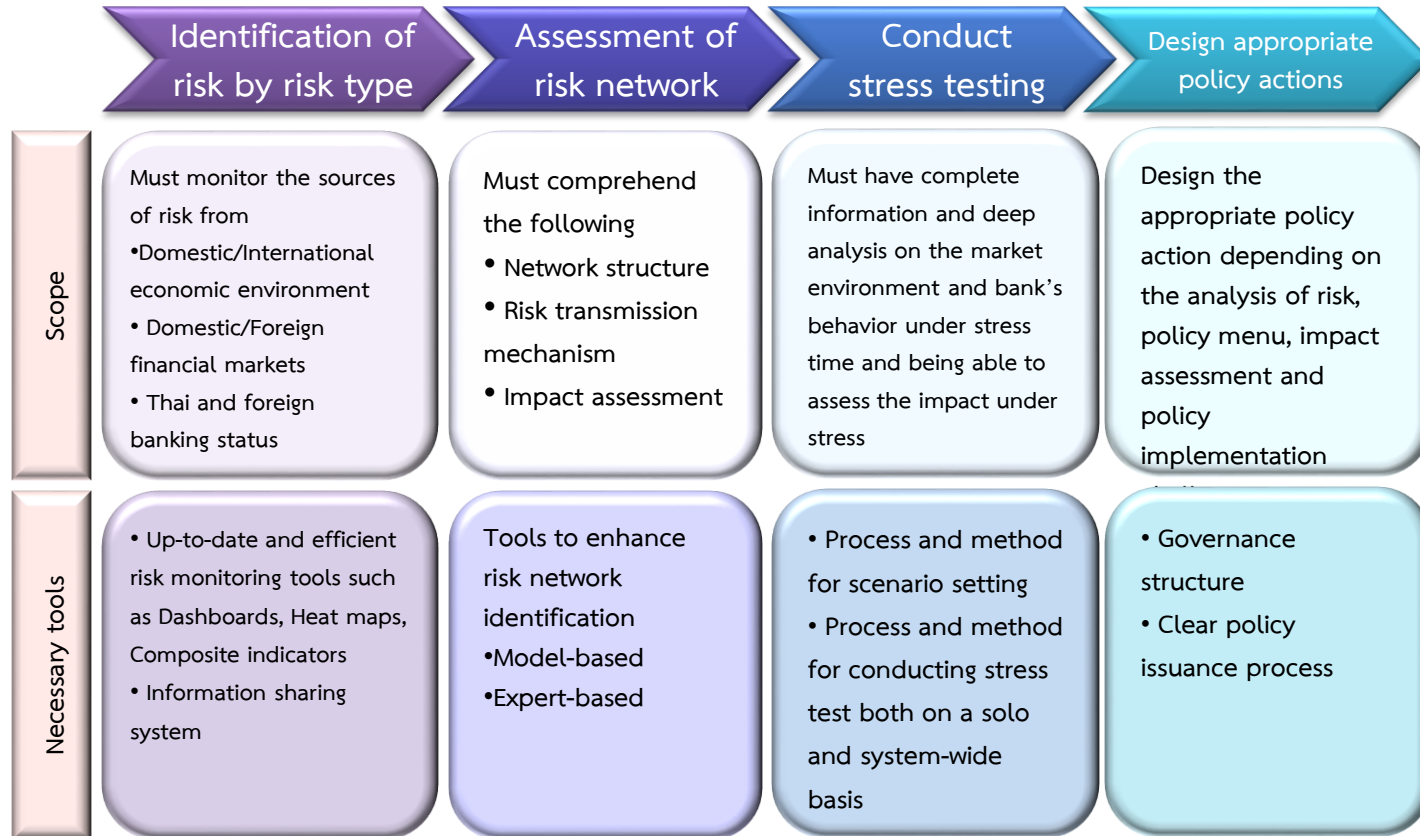


\* Which are Counter-cyclical buffer and capital charge for systemically important financial institutions

\*\* Provision is calculated based on the expected loss concept which is more forward looking



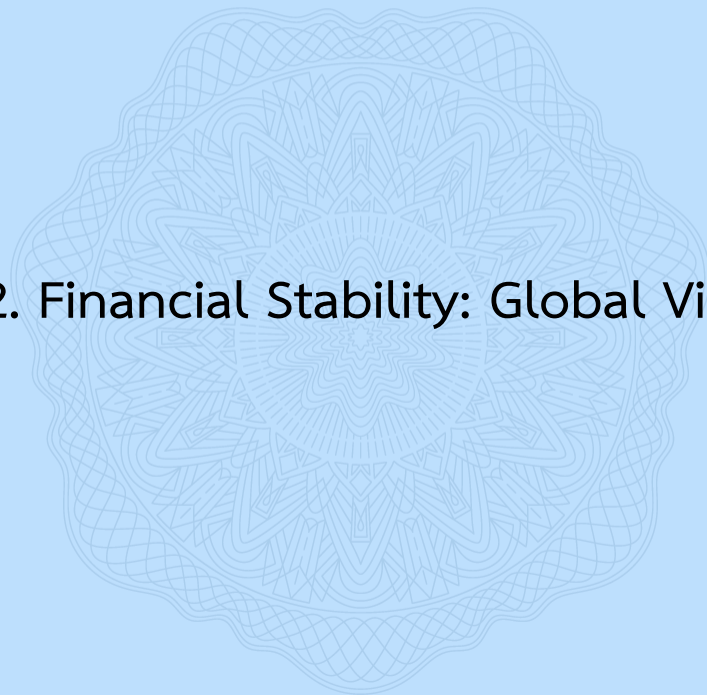
# FS-RELATED POLICY ISSUANCE PROCESS





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## 2. Financial Stability: Global View

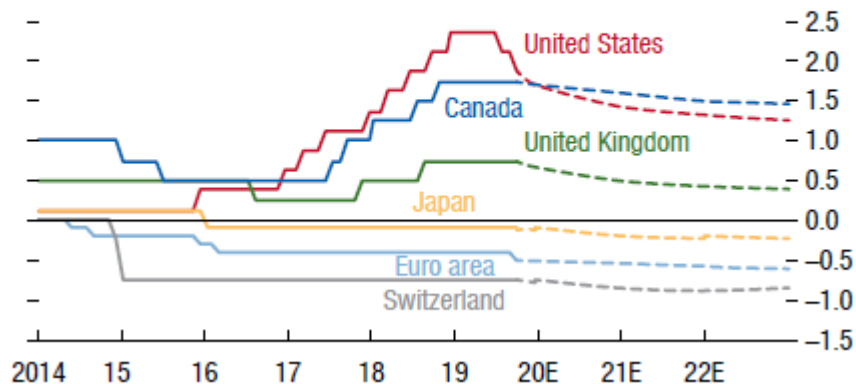




# Global Financial Stability Report (IMF): Lower for Longer

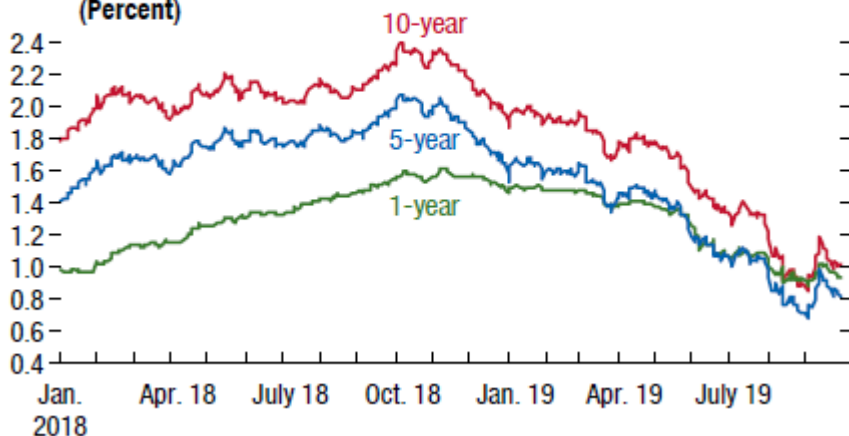
Market pricing suggests that monetary policy will be eased further.

4. Actual and Expected Policy Rates  
(Percent)



Bond yields have fallen significantly in advanced economies ...

5. Advanced Economy Government Bond Yields  
(Percent)



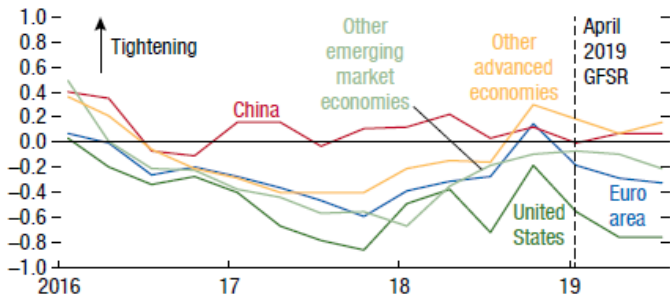
Source: Global Financial Stability Report (IMF) October 2019



# With low interest rates in advanced economies, the global financial conditions have eased

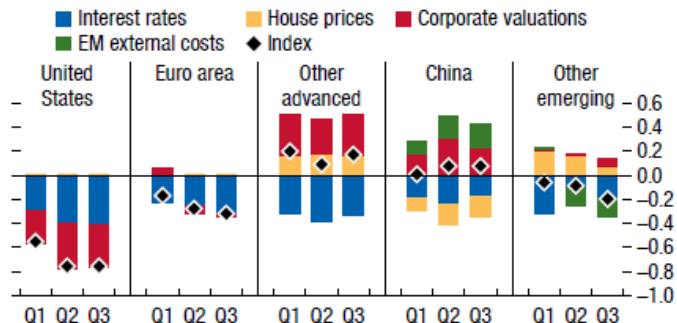
Financial conditions have eased in advanced economies ...

## 1. Global Financial Conditions (Standard deviations from mean)



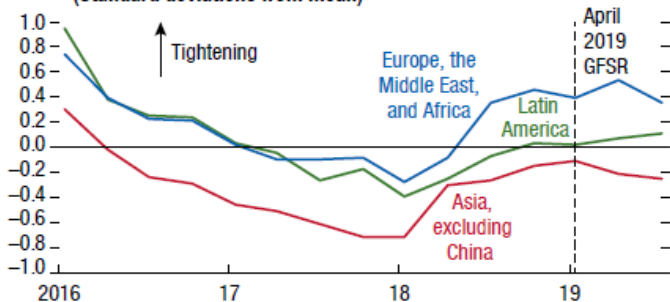
... as interest rates have fallen across the globe.

## 2. Key Drivers of Financial Conditions, 2019 (Standard deviations from mean)



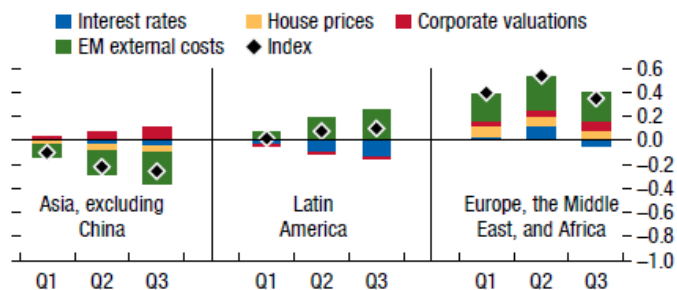
Financial conditions have eased slightly in emerging markets ...

## 3. Emerging Market Regional Financial Conditions (Standard deviations from mean)



... but have varied across regions.

## 4. Key Drivers of Emerging Market Regional Financial Conditions, 2019 (Standard deviations from mean)

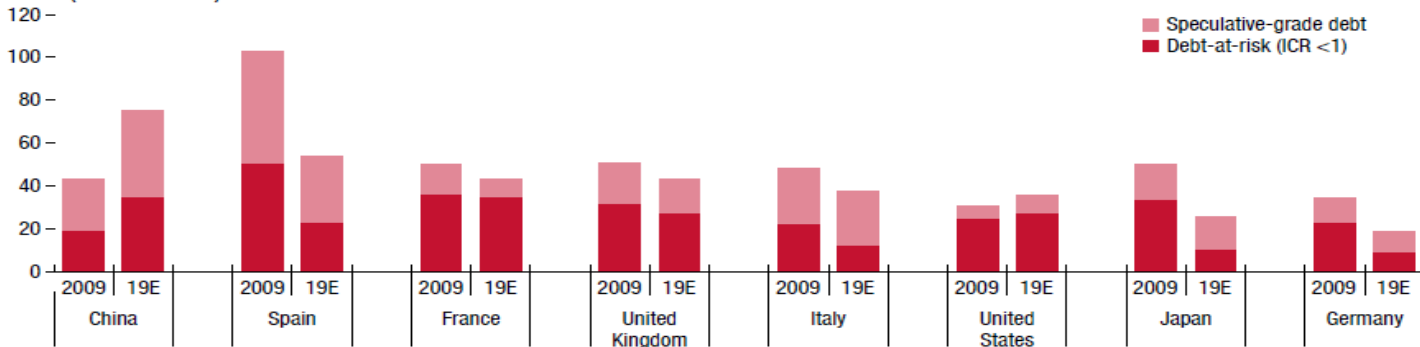




# This has encouraged borrowings – increasing debt burden both in the public and private sectors across the world

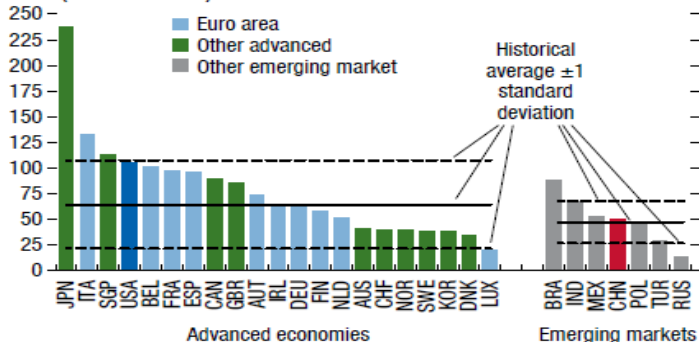
Debt at nonfinancial firms with weak fundamentals is sizable in some economies.

## 1. Corporate Sector Debt Vulnerabilities (Percent of GDP)



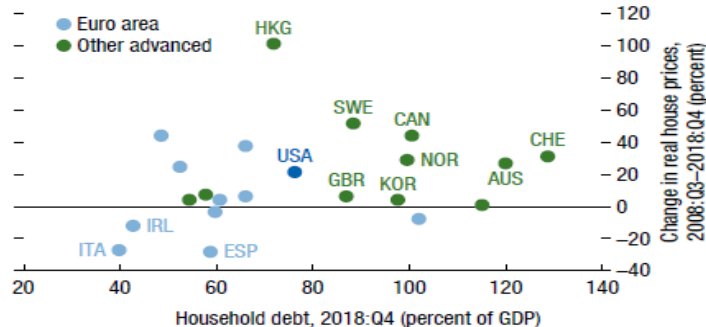
Government debt remains elevated in a few economies ...

## 2. Government Debt, 2018:Q4 (Percent of GDP)



... and household debt is high where house prices have boomed.

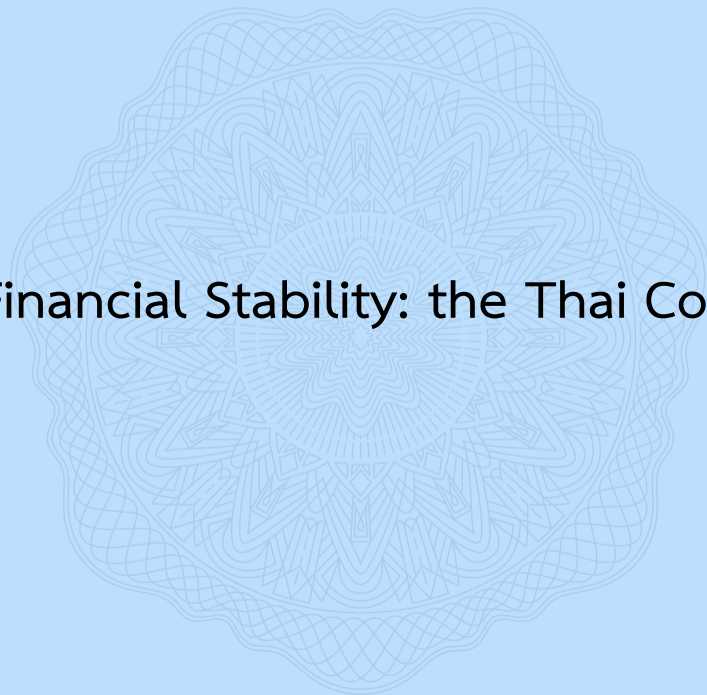
## 3. Household Debt and House Price Growth





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### 3. Financial Stability: the Thai Context

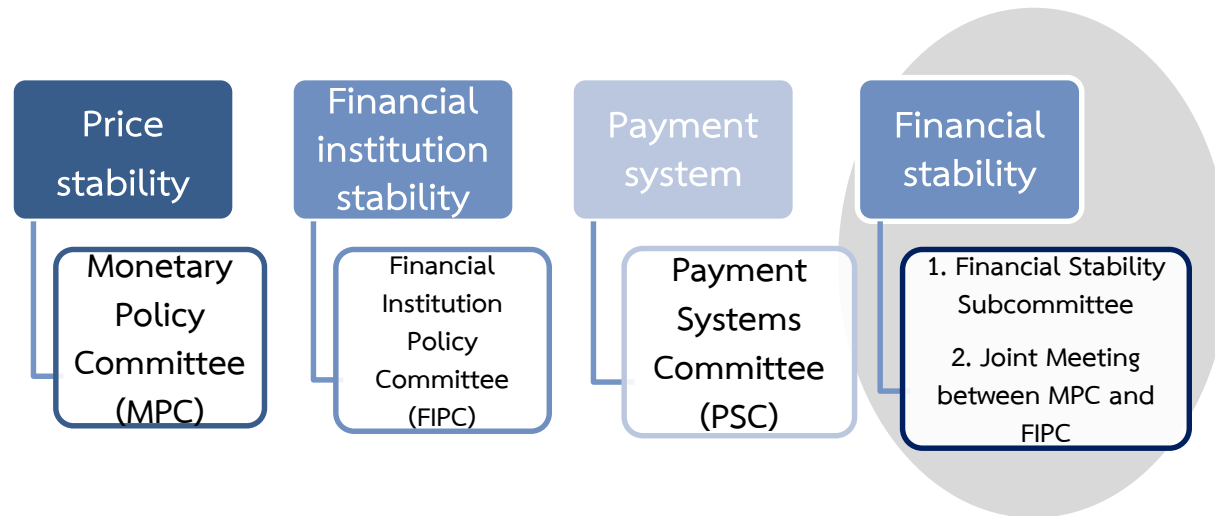




# BOT'S FINANCIAL STABILITY MANDATE

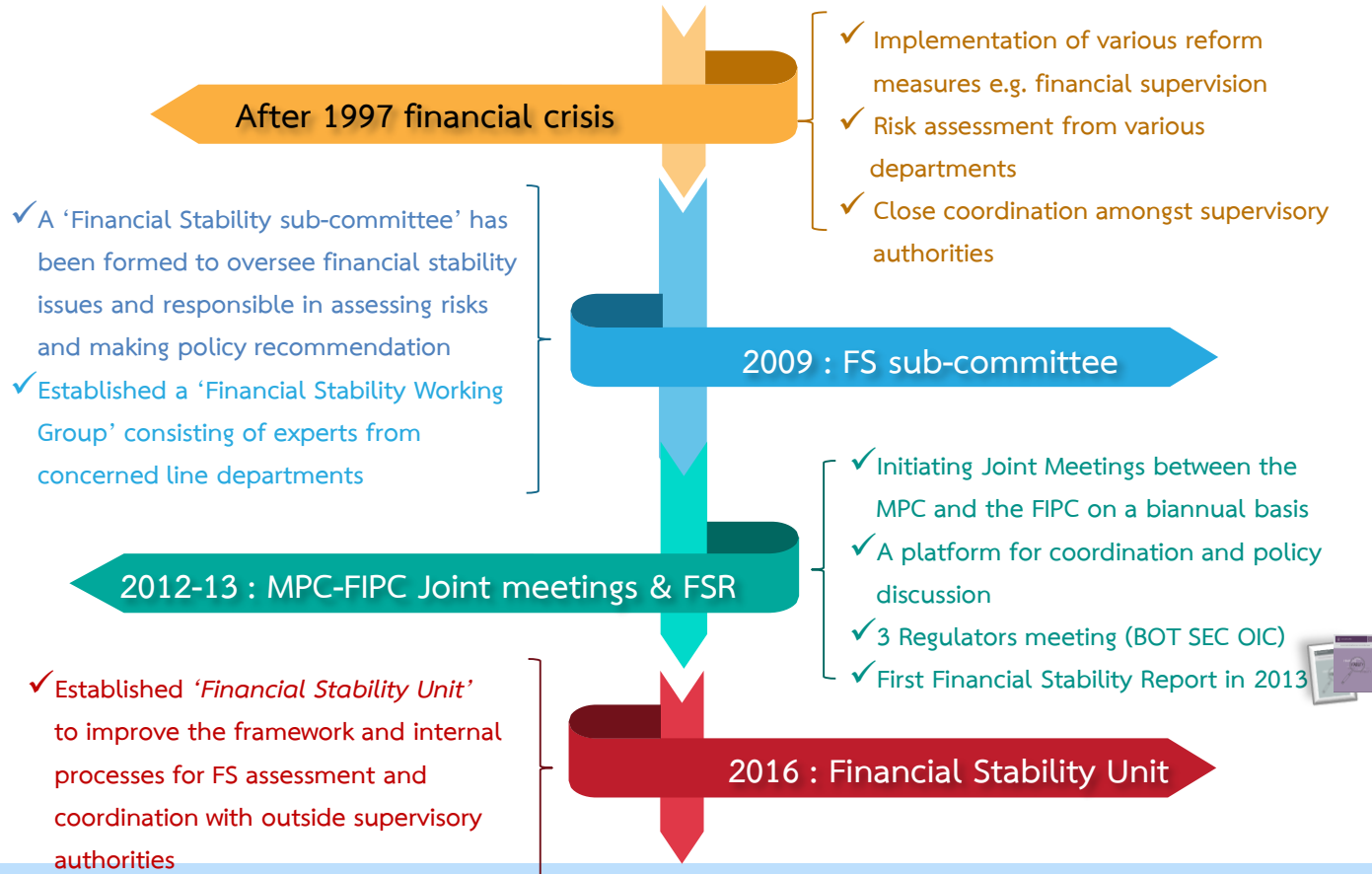
To monitor the build-up of risks to financial stability,  
the BOT has initiated joint meetings between MPC and FIPC on a biannual basis since 2012.

## Operating Structure on Stability Mission of Bank of Thailand



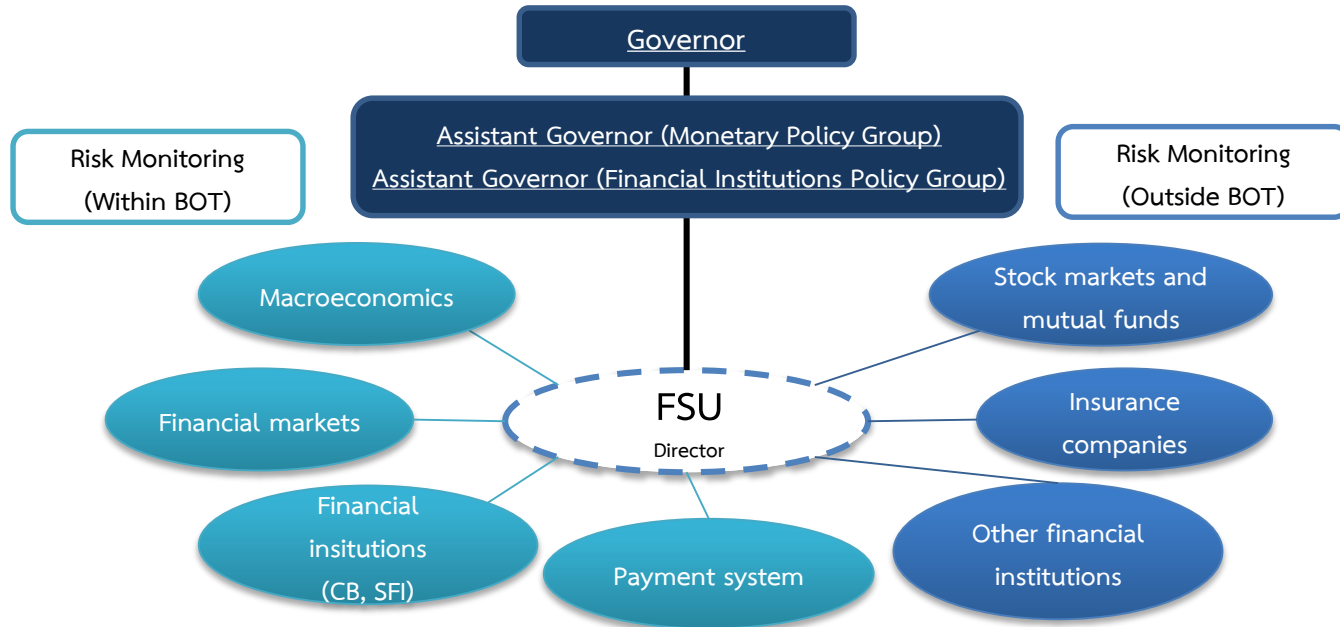


# DEVELOPMENT OF FINANCIAL STABILITY SURVEILLANCE IN THAILAND





# STRUCTURE AND RESPONSIBILITY OF FSU (now Financial Stability Department)



## Role and Responsibility of FSU

- Center for FS issue analysis
- Develop models/tools on FS
- Undertake general FS task of BOT

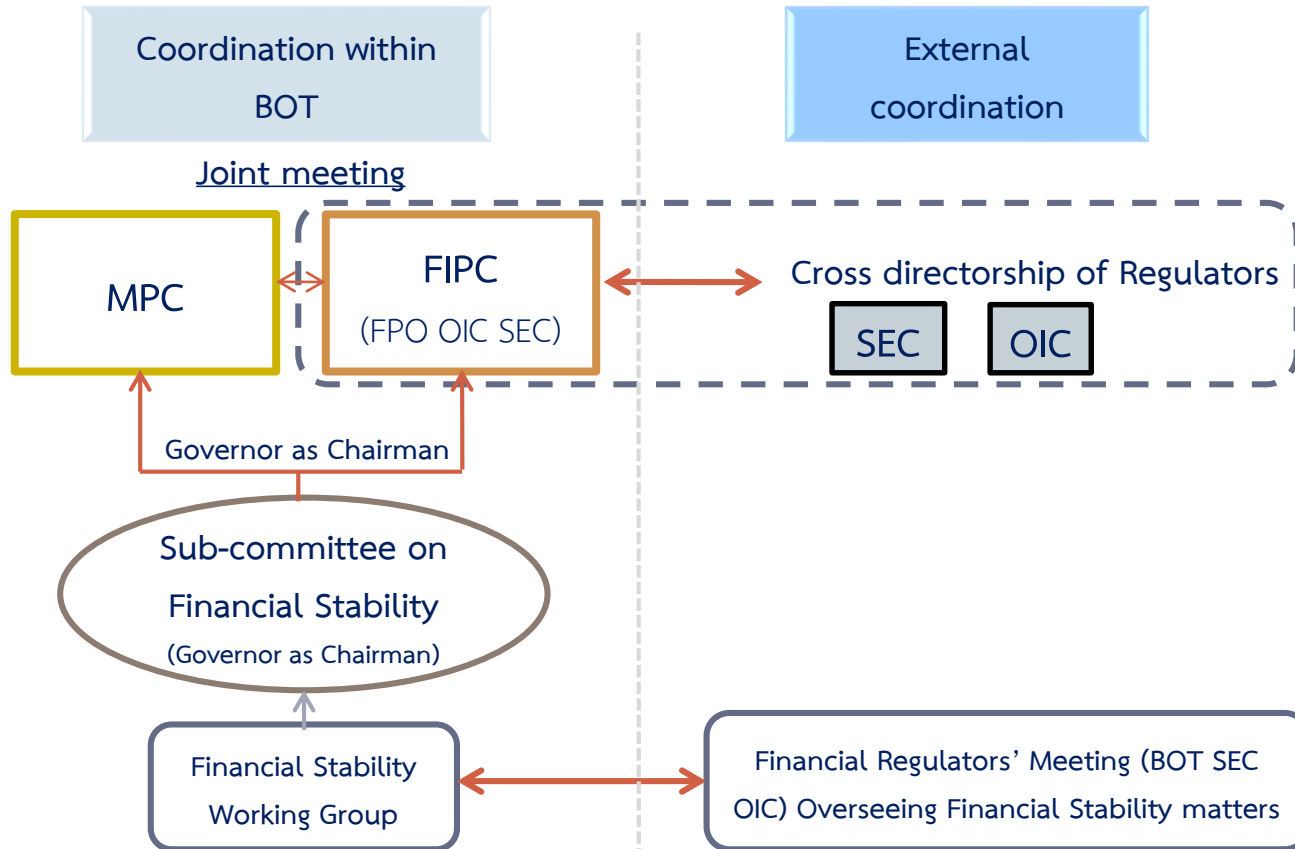
- Make policy recommendation to limit systemic risk
- Design the macroprudential policy issuance process

- Editor of annual Financial Stability Report (FSR)
- Secretariat to the Subcommittee and Joint committee meetings

- Coordinate with other regulatory agencies on financial stability policy issues and data



# INTRA-INTER AGENCY WORK PROCESS





- *Macprudential surveillance aim to establish an early warning system for potential threats to financial stability.*
- *Seven key sectors have been monitored and assessed regularly as “**factors contributing to financial imbalances**” beside real economy indicators which already being considered.*

Sectors	Common indicators to monitor financial stability
External	International reserves, Reserve over short-term debt, External debt to GDP
Financial markets	Volatility, Market liquidity, Change in equity indices, Corporate bond spreads
Financial institutions	Credit growth, Leverage ratio, NPL, Capital adequacy, Liquidity ratio
Real estate	Sales booking rate for RE, Mortgage loan approval rate, House price index
Corporate	D/E ratio, Interest rate coverage ratio, Net FX exposure, Debt at risk, Corporate debt to GDP
Household	Household asset/liability, Household debt to GDP, Household income, DSR
Fiscal	Government budget balance, Public debt to GDP



Financial stability remained sound overall, but a build-up of vulnerabilities continued amid economic slowdown and a low-for-long interest rate

## There remains pocket of risks that could pose vulnerabilities to the Thai financial system



Household and  
SME debt

- Debt situations of household and SME remain vulnerable as (1) household debt to GDP elevates and is expected to rise amid economic slowdown and (2) credit quality of SMEs continues to deteriorate.



Property

- Speculations and imbalances in the real estate market showed signs of abating in line with the LTV measure's intended objectives. However, oversupply of condominium and adjustments of developers must be monitored.



Large  
conglomerates

- A low-for-long interest rate led to further build-up of vulnerabilities, both through corporate funding activities and search-for-yield behavior i.e. an increase in corporate issuances of high-yield bonds.



Saving coops

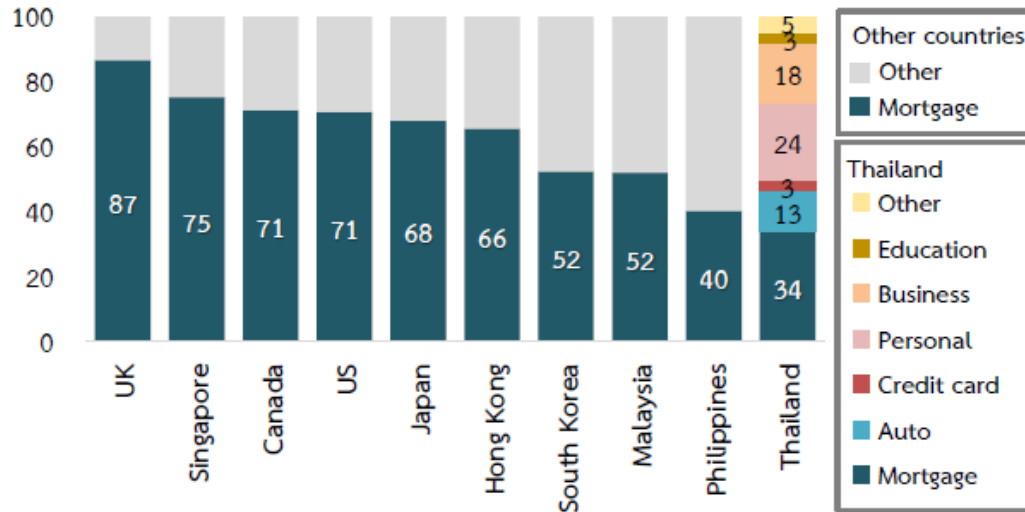
- Interconnectedness among saving cooperatives system increased as they engaged in deposit-taking and borrowing activities, while search-for-yield behavior continued.



# Thai households have high monthly debt burden, mostly for personal consumption, with short repayment period but high interest rate

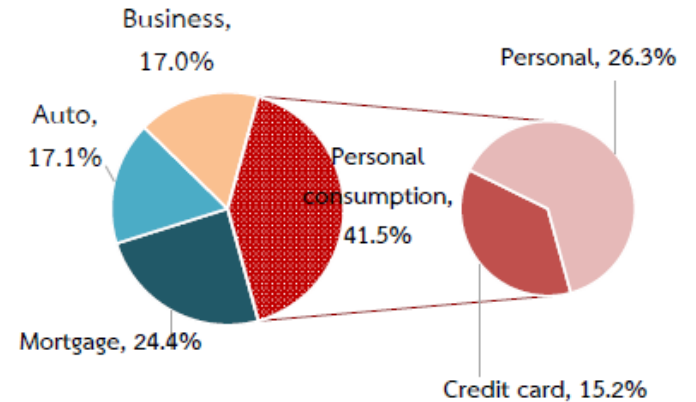
Household debt composition  
classified by purpose

Share of total household debt (%)



Note: Data as of Q2/2019 for all countries except Malaysia whose data is as of 2017  
Other loans, in the case of Thailand, comprises of loans for purchasing securities and for other purposes.  
Source: CEIC, Bank of Thailand, Hong Kong Monetary Authority, Monetary Authority of Singapore, Bank Negara Malaysia, Bank of Korea, Bank of England, Bangko Sentral ng Pilipinas, calculations by Bank of Thailand

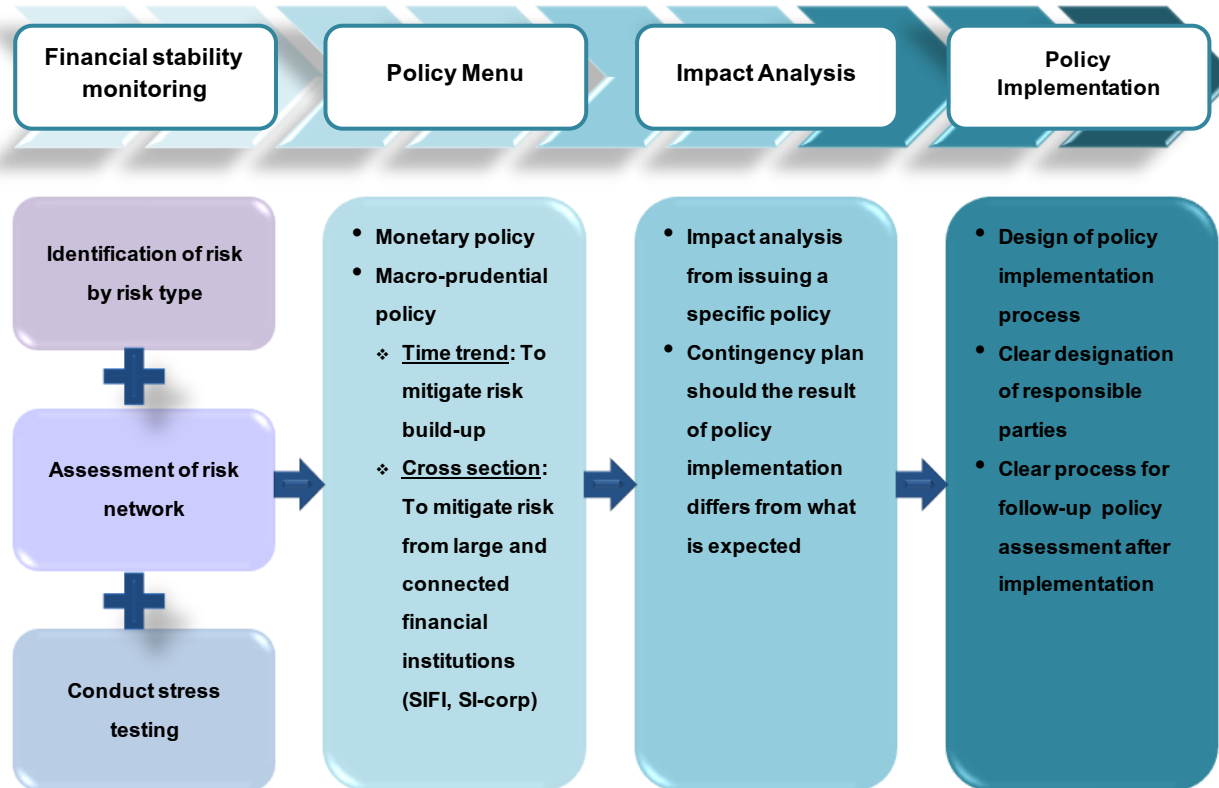
Ratio of household debt burden  
(principle and interest expense) classified by purpose



Note: Data as of Q2/2019, calculations exclude loans for purchasing securities  
Source: Bank of Thailand and National Credit Bureau, calculations by Bank of Thailand



# FS-RELATED POLICY ISSUANCE PROCESS





# Chronology: Macroprudential Policies Imposed on Retail Lending

Mortgage loans

LTV limit\*  
Residential property value  
≥ 10 mil THB

Removed LTV limit  
Residential property value  
≥ 10 million THB

Risk Weight by LTV\*\*  
varied by type/value of residential  
property and level of LTV

LTV limit  
varied by number of  
outstanding mortgage contracts  
and residential property value

Revised LTV limit  
eased counting rule on the  
number of outstanding mortgage  
contracts, applying to co-  
borrowers that do not have legal  
ownership right to the properties  
being purchased

Revised LTV limit  
eased LTV limit to promote  
homeownership, especially for  
borrowers applying for 1<sup>st</sup>  
mortgage contract

1994-2002

2005

2009

2017

2018

2019

2020

Credit card loans

Set Criteria on:

- Minimum income/age of borrower
- Minimum monthly repayment
- Maximum credit limit (times of monthly income)
- Maximum interest rate charged

(Note: these criteria were revised periodically)

Revised as follows:

- Varied credit limit by income, prescribing a more stringent limit on low income borrowers
- Lowered maximum interest rate charged

Personal loans  
under regulation

Set Criteria on:

- Maximum credit limit (times of monthly income)
- Maximum interest rate charged

Revised as follows:

- Varied credit limit by income, prescribing a more stringent limit on low income borrowers
- Imposed a limit on the number of creditors for low-income borrowers

Titled loans

Titled loans were brought under  
BOT regulation

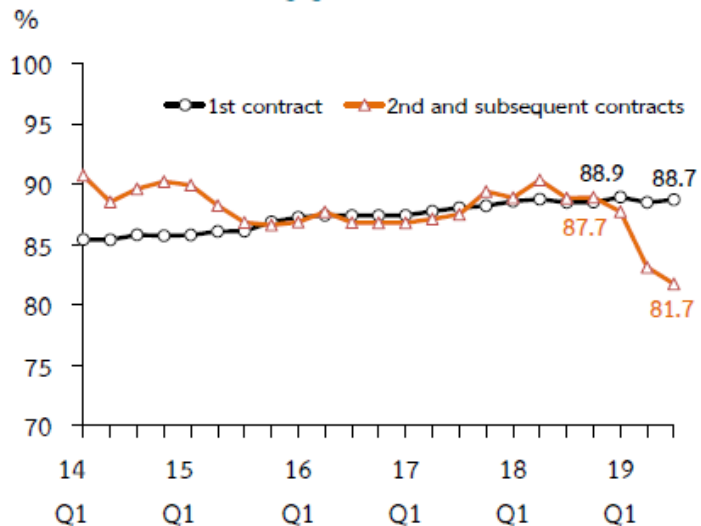
\* Loan to Value (LTV) limit: Maximum LTV limit is set and applies to mortgages granted by financial institutions. The measure aims to raise awareness on housing affordability and to enhance mortgage underwriting standard.

\*\* Risk Weight (RW) by LTV: Financial institutions are subject to hold additional capital requirement when granting mortgages with higher LTV values.



## Average loan-to-value (LTV) ratio in the banking system

Average LTV ratio of second and subsequent mortgage contracts declined due to more tightened credit underwriting standards, while first mortgage contract was unaffected.



Source: Bank of Thailand

## New mortgage loans

Speculations in the real estate market were subdued, especially for condominium, as reflected in a contraction in second and subsequent mortgage contracts for condominium.

New mortgage loans (%YOY)	Low-rise	Condominium	Total
Banking system and SFIs Jan – Nov 19	11.8	-7.4	6.3
Only banking system*			
1 <sup>st</sup> contract	5.0	-1.9	3.1
2 <sup>nd</sup> and subsequent contract	-10.4	-25.3	-17.4

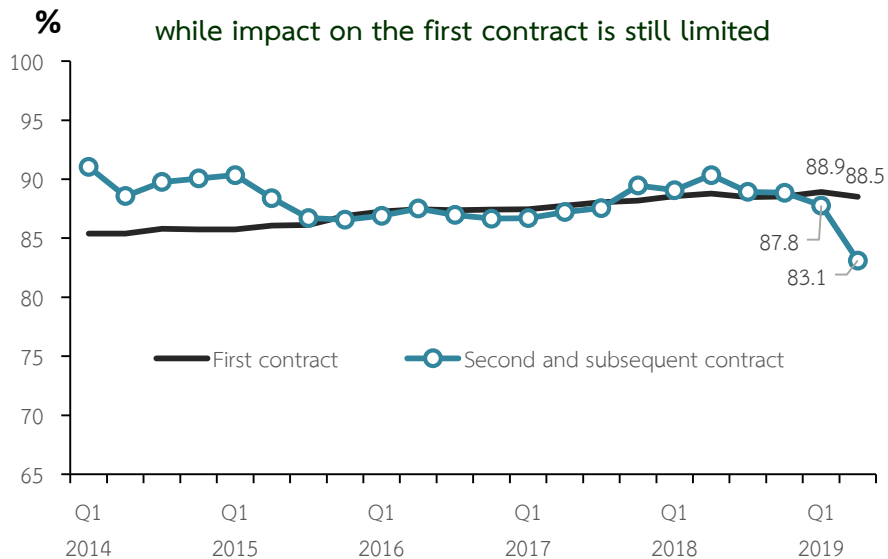
Note : \*Calculated based on data on new mortgage loans in the banking system, where data on 1<sup>st</sup> and 2<sup>nd</sup> and subsequent contracts can be separated.



# After the LTV measure took effect, risks in the real estate sector reduced but there remains a need to monitor risks from oversupply

## Loan-to-Value (LTV) ratio in the banking system

Mortgage loan underwriting standards among FIs became tighter, particularly for the second and subsequent contract, while impact on the first contract is still limited



Note: \*Calculated from the database on loans that use new housing as collateral

Source: Bank of Thailand

## New mortgage loans

Speculation in the real estate market reduced

	Growth (%YoY)
Jan – Jun 19	14.2
1 <sup>st</sup> contract*	14.0
- low-rise*	17.9
- high-rise*	5.8
2 <sup>nd</sup> and subsequent contract*	-13.0
- low-rise*	3.7
- high-rise*	-25.0
Jan – Mar 19 (Q1/2019)	27.9
Apr – Jun 19 (Q2/2019)	2.4
1 <sup>st</sup> contract*	-2.9
2 <sup>nd</sup> and subsequent contract*	-39.0



The MPC expressed concerns over elevated household debt that is expected to increase, which should be addressed through targeted approaches and in cooperation with all relevant agencies



The policy rate, microprudential and macroprudential measures, as well as structural measures should be appropriately combined and well-targeted, with consideration of an appropriate timing.

- Debt restructuring such as debt clinic and refinancing
- Promoting financial discipline and saving behavior among households
- Promoting appropriate application of responsible lending practices



Addressing household debt requires understanding of different groups of households such as households with high debt and vulnerability, and households without financial discipline



The MPC will monitor debt-service-ratio (DSR) data in accordance with the standardized calculation methodology where financial institutions started to report DSR data since the end of 2019



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## References:

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Bank of Thailand: Analyst Meeting Presentation (January 2020)

International Monetary Fund (IMF): Global Financial Stability Report (October 2019)