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Monetary Policy Report

In the light of the COVID-19 pandemic, the Bank of Thailand has enacted several monetary policies to alleviate and stabilize the impacts of the pandemic on the economy. According to the Monetary Policy Committee (MPC), in line with the easing of COVID-19 steps, the Thai economy was projected to recover steadily (BOT, 2020a). In fact, it would take at least two years for its restoration to return to the pre-pandemic stage and would be highly unpredictable. The Committee consequently updated Thailand 's trade partners' economic growth forecasts to a 4.5% contraction in 2020, accompanied by 4.4% expansion in 2021 (Ibid). However, the meta-analysis suggests that the baseline forecasts will collapse due to many reasons for Trading Partner economies but the probability that Trading Partners will re-impose stringent and nationwide containment policies is minimized (Ibid). The Thai economy was expected to decline by 7.8% in 2020 as the economy was seriously impacted by rigorous containment policies both domestically and internationally in the second quarter (Ibid). In 2021, the economy was expected to grow by 3.6%, with steady increase of goods exports. Meanwhile, exports of services could resume at a slower pace as only a small number of international visitors will be able to enter the country (Ibid).

In terms of risk of deflation assessment, if both global and Thai economies are faced with a more extreme recession or a much slower than anticipated recovery, the risk of deflation may increase (BOT, 2020b). The Committee would also closely monitor trends in the economy and inflation, including factors that could impact consumption and private investment (Ibid). This include income and employment, along with household and business confidence. Furthermore, following the escalation of COVID-19, trade tension and the geopolitical uncertainties in many areas of the world, the inflation forecast for the future will be somewhat unpredictable owing to systemic transition in the world economy (Ibid). This may contribute to deglobalization that could have a major effect on global supply chains and consumer prices (Ibid). The Committee therefore attributed priority to consistent and continuing public communication on inflation projections and the threat of deflation (Ibid).

In order to relieve impacts of COVID-19 on businesses and households, BOT has enacted four major policies to mitigate liquidity problems for borrowers. First, MPC has presented three policy rate cuts since February 2020, and lowered the contribution rate of the Financial Institutions Development Fund (FDIF) to 0.23 per percent of the deposit base for 2 years (BOT, 2020c). Furthermore, the BOT asked financial institutions to provide a 2-4% cut in interest rate caps, service costs, penalty costs, and fixed credit cards and personal loans (Ibid). In addition, the calculation of late payment fees was modified. Second, the BOT granted a 6-month loan payment holiday for all SMEs with usual refund status and a loan line not exceeding 100 million Baht per financial institution (Ibid). For retail borrower borrowers, including small companies who rely on personal loans, car loans and lending of working capital to fund corporate activities in partnership with financial institutions and non-bank financial services suppliers, the BOT decided to take minimum debt and debt relief steps to assist retail borrowers of any form for a period of three months. Third, to aid companies with liquidity conditions and those who need modifications to their business operations in order to brace for a new economic climate, the BOT will give financial institutions soft loans of 500 billion baht which would then loan the funding to SMEs (Ibid). The soft loan's maximum drawdown of 20 percent of the remaining loan at the end of 2019 must not exceed 2 percent. Fourth, the supervisory rules would be eased in order to facilitate debt restructuring for companies and household creditors not yet labelled as NPL (Ibid). Restructuring solutions may include extension of the debt repayment term, supplementary working capital allowance, interest reduction, or debt maturity prolongation at lower interest rate corresponding to a post-pandemic declining income profile (Ibid).

In addition, to stabilize the Thai financial markets, BOT, the Ministry of Finance, and the Securities and Exchange Commission (SEC) have jointly introduced additional measures to ease liquidity problems in the national level. First, the liquidity is compensated by the BOT by a repurchase or repo operation that costs a policy-based fee minus 0.5% for financial institutions offering cash market funds (MMFs) liquidity and regular fixed income funds (Regular FI) (BOT, 2020d). Second, Corporate Bond Liquidity Stabilization Fund (BSF) was perceived urgently. The fund seeks to provide bridge capital for the acquisition of high-quality bonds issued by companies maturing between 2020-2021 (Ibid). Third, The BOT is ready to begin its liquidity provision on a bond market by buying government bonds and to consider additional steps to allow the Thai financial markets to work efficiently (Ibid). This will ensure enough liquidity to provide the economic system with a financing mechanism and to sustain financial stability in the nation.

Last, to revive labor market, labor policies should adapt their positions from compensation to employment and boosting labor skills (BOT, 2020e). These initiatives include employment policy, career education development reform and wage subsidies for firms to encourage employment (Ibid). At the onset of the epidemic, the government has introduced measures to address workers both inside and outside the social security system. Labor policies will become more critical in the coming period in the effort to restore Thai economy (Ibid).

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