



ธนาคารแห่งประเทศไทย
BANK OF THAILAND

Incorporating Macro-prudential Instruments into Monetary Policy: Thailand's experience

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Issues for discussion

1. Lessons Learned from the Recent Global Financial Crisis

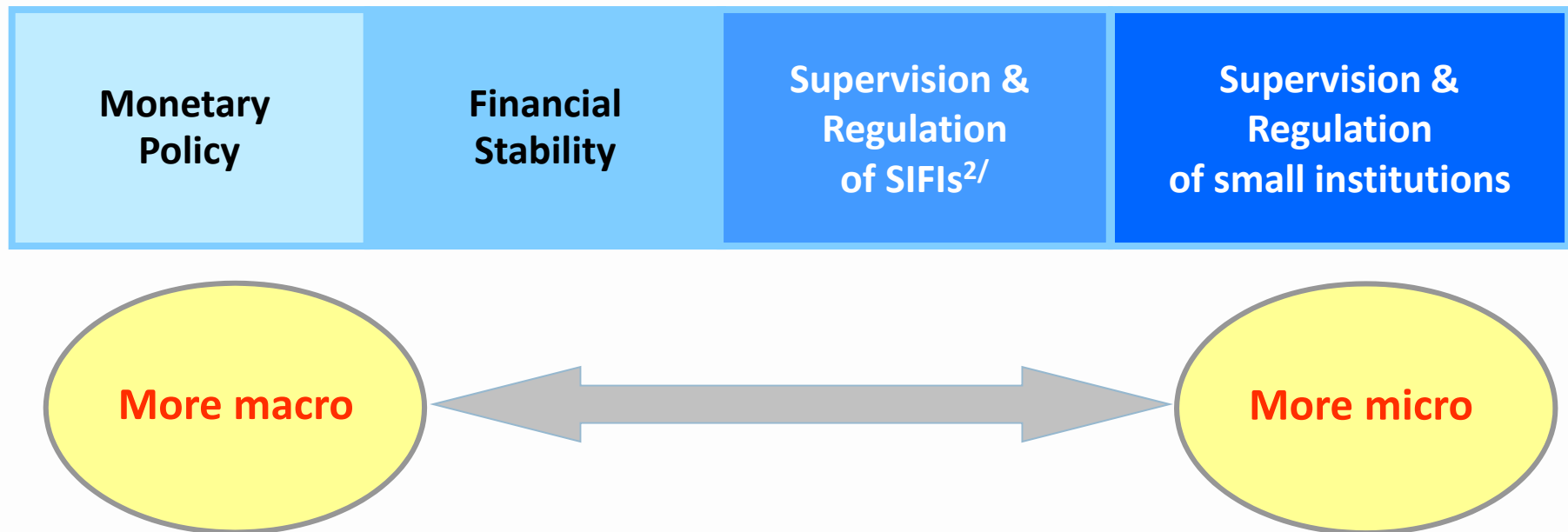
2. Macroprudential Policy Formulation Process at the Bank of Thailand

3. Illustration of Thailand's Macroprudential Policy



Monetary Policy and Financial Stability

Role of Central Banks^{1/} ?



Note: ^{1/} Source: Alan S. Blinder, “How Central Should Central Bank Be?” 2010

^{2/} SIFIs = Systematically important financial institutions



Pre-crisis Consensus

Price stability sufficient

- ❑ MP should focus on **'clean'** rather than **'lean'** against potential instabilities
- ❑ Market knows best what 'right' price is
- ❑ Targeting asset prices may lead to policy instability
- ❑ Only respond to asset price through their impact on forecast of output and inflation

Financial sector supervision

- ❑ Focus on soundness of individual institutions
- ❑ Macroeconomic/systemic risk viewed as exogenous



Post-crisis Key Questions

How should MP incorporate FS concerns?

- ❑ To what extent did loose MP contribute to the crisis?
- ❑ Should price stability remain primary objective?
- ❑ How should MP respond to systemic crises?

What additional instruments can be used to complement MP in maintaining FS?

- ❑ Which institution should be responsible for exercising such instruments?



Lessons So Far: Conduct of Monetary Policy

Price stability should remain primary objective of MP but it is not sufficient for financial stability

- Financial fragility can build up in the absence of inflation
- More emphasis on financial developments, especially that of credit
- Low interest rates encourages risk-taking because the opportunity cost is low
- Credible inflation targeting frameworks give added flexibility in responding to crisis by anchoring medium-term inflation expectations



Key tasks for policymakers

Monitor and identify the build-up of risks

- **Macro surveillance framework**
- **Business intelligence unit** (market info)

Quantify the impact

- **Stress testing models**
- **Macroeconomic models**
- **Expert judgments**

Implement the policy

- **Macroprudential measures**
- **Decision making committees**



Monitor and identify the build-up of risks

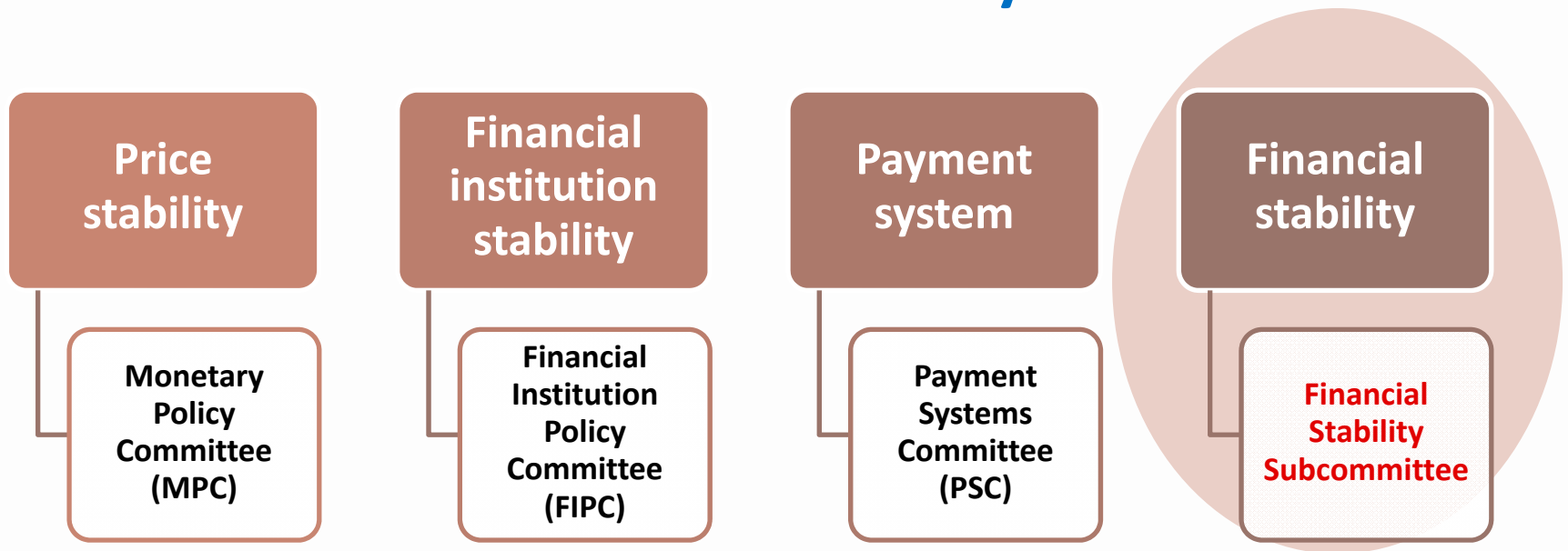
Macro surveillance framework at the BOT

- Corporate sector
- Household sector
- Financial institution sector
- Government sector
- External sector
- Real estate and asset prices
- Financial market (Equity, bond and FX)



Implementing the policy: Macroprudential measures

Governance of financial stability mandates

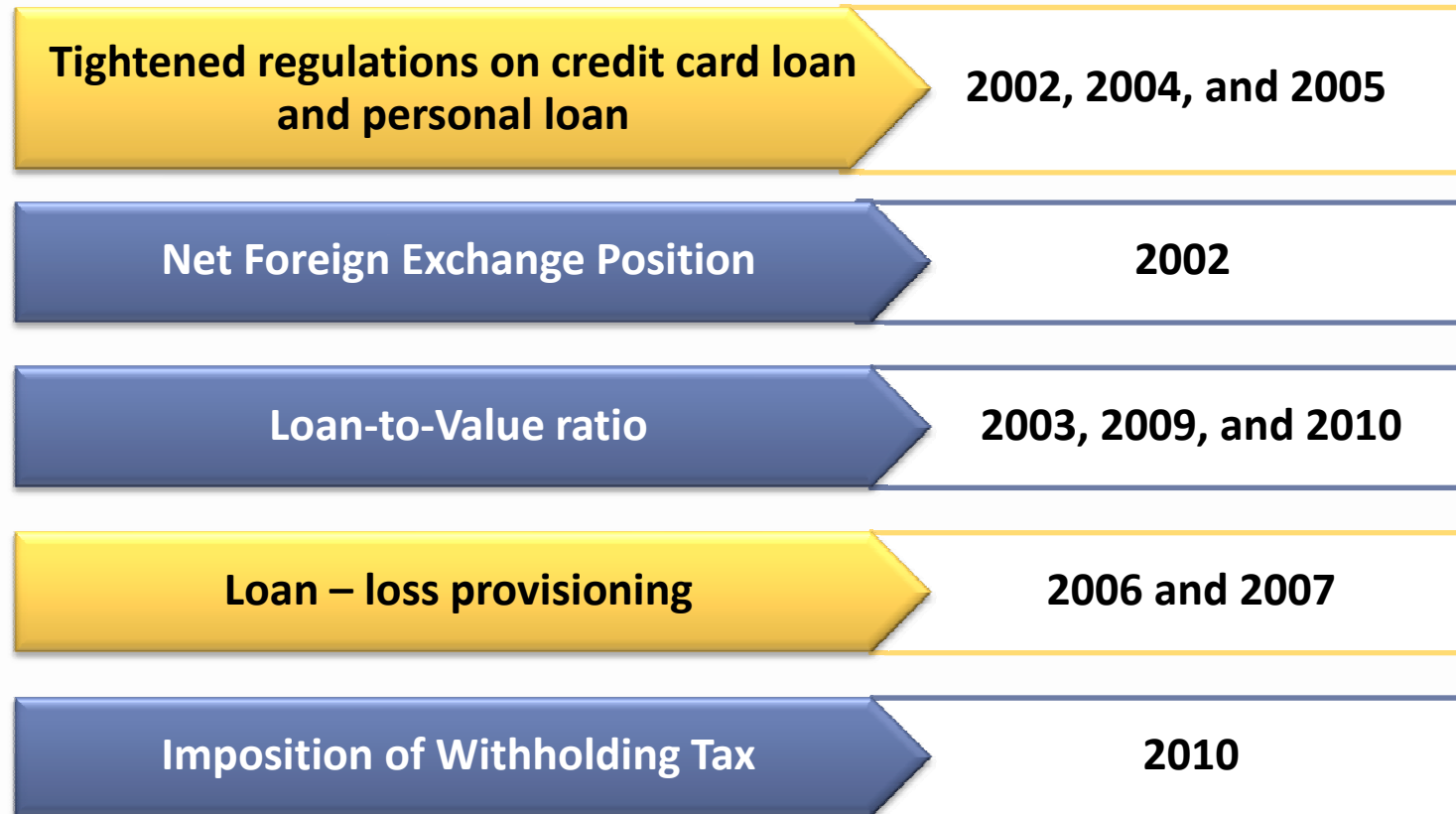


- To facilitate balancing price stability and financial stability objectives, the **Financial Stability Subcommittee** was set up at the BOT to internally monitor the build-up of vulnerabilities and justify the decision-making on macroprudential policies



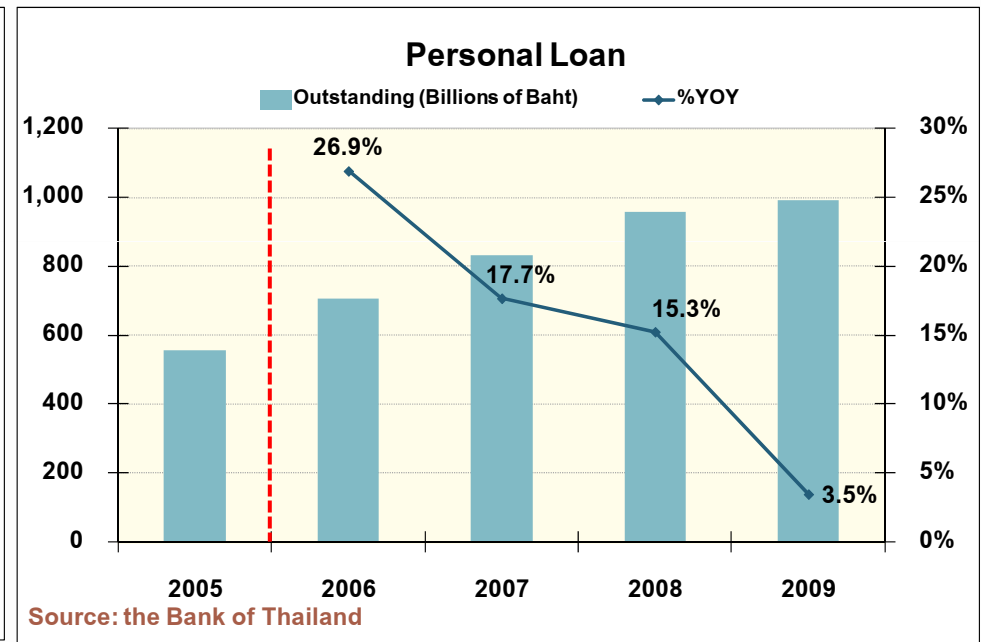
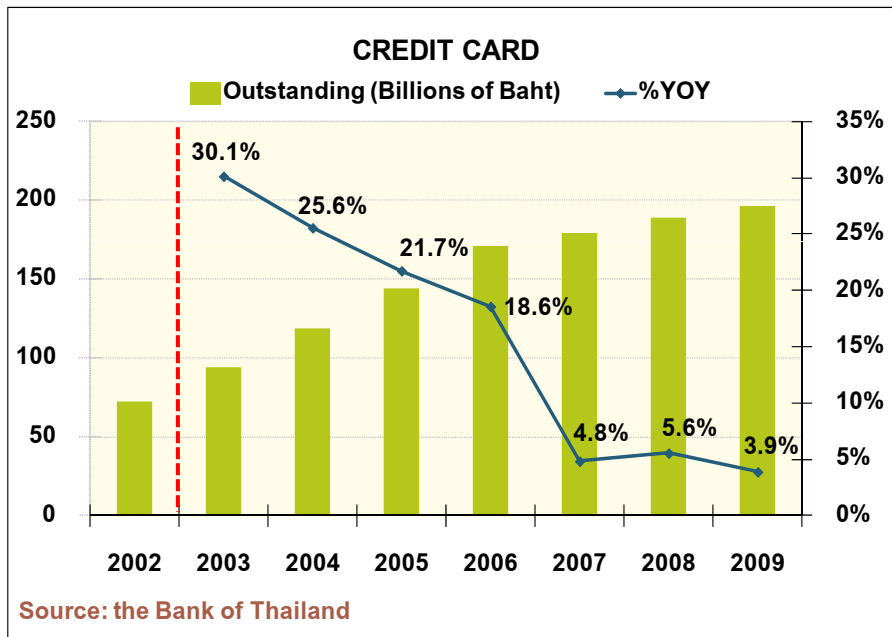
Illustration of Thailand's Macroprudential Policy

Macroprudential policy has long been used as one of financial stability policy toolkits.



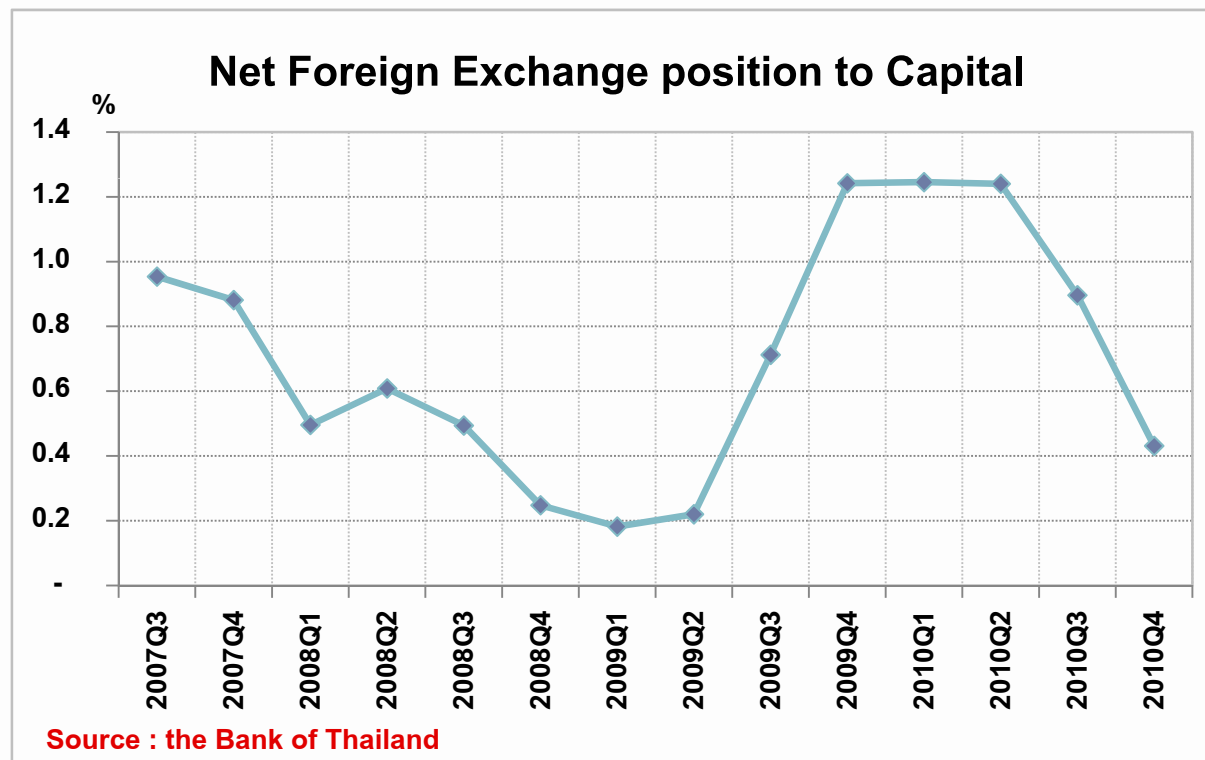


Sectoral imbalance in credit card and personal loans subsided in response to macroprudential policy





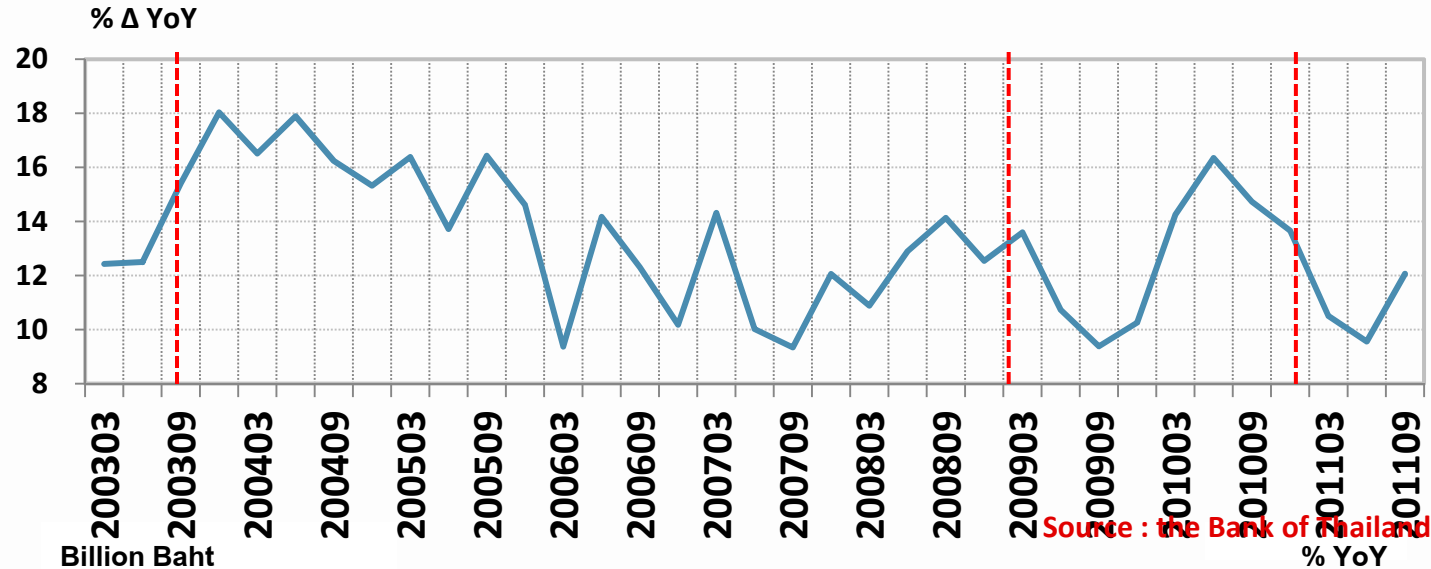
Foreign exchange risk in the banking sector contained





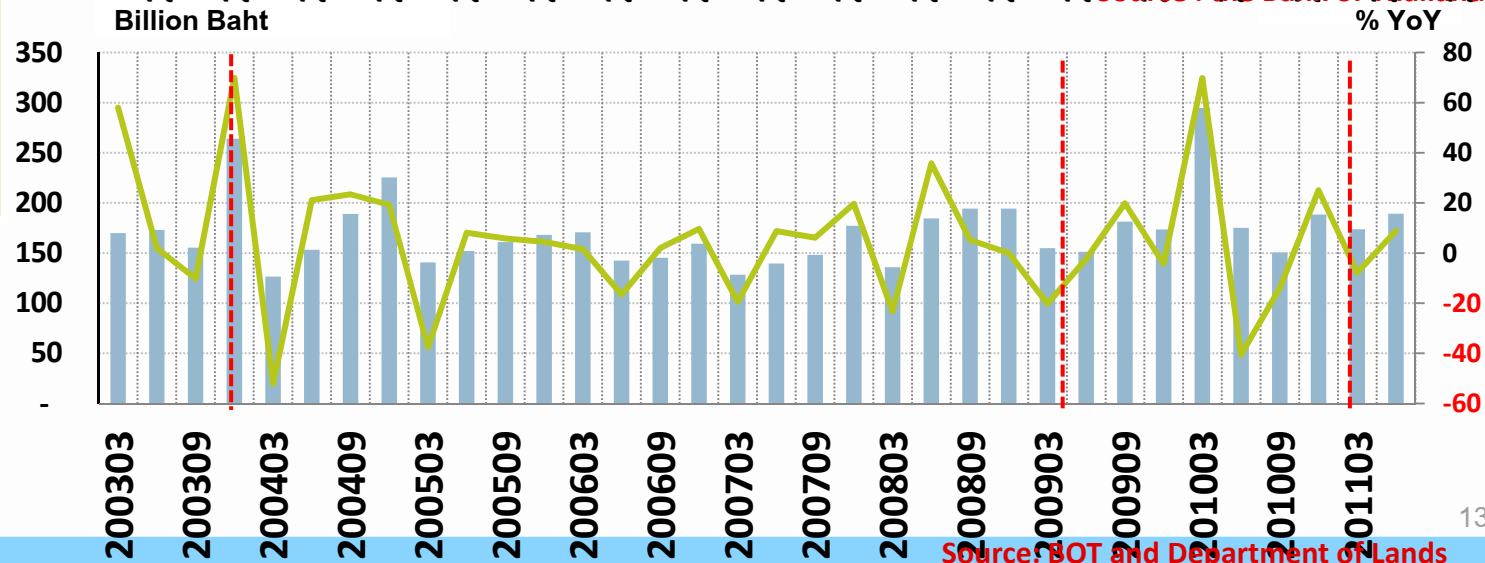
Adjustment of LTV ratio: flexible implementation in response to changing economic circumstances

Growth rate of Mortgage Loan Outstanding



Source: the Bank of Thailand

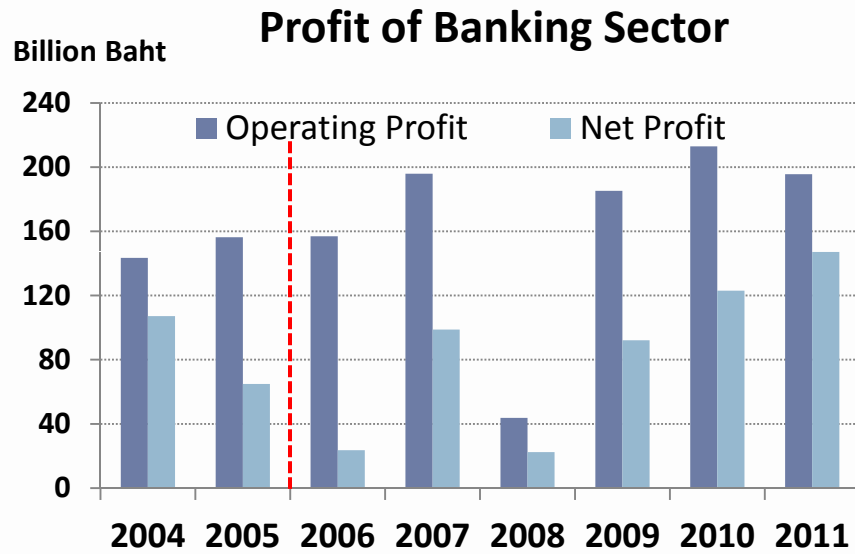
Land and building Transactions Nationwide



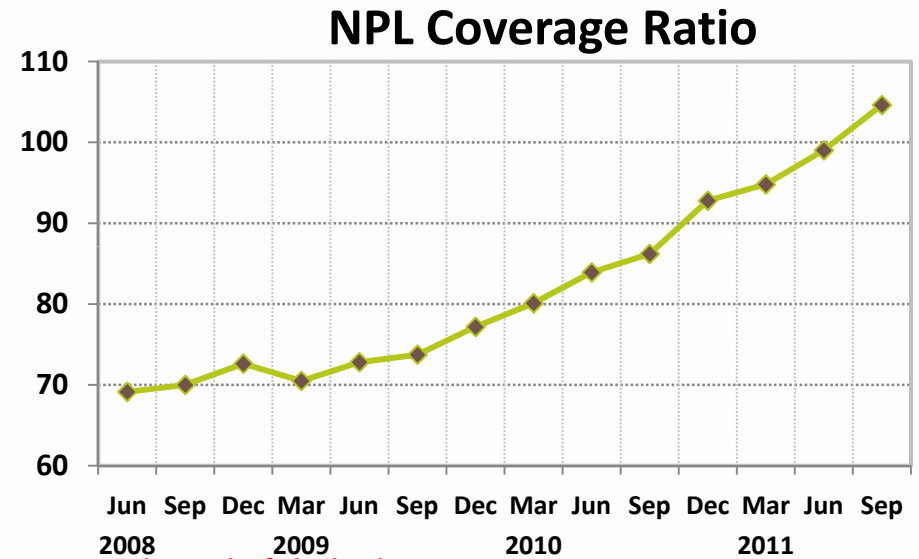
Source: SOT and Department of Lands



Loan loss provisioning was built up as a buffer during good time



Source : the Bank of Thailand

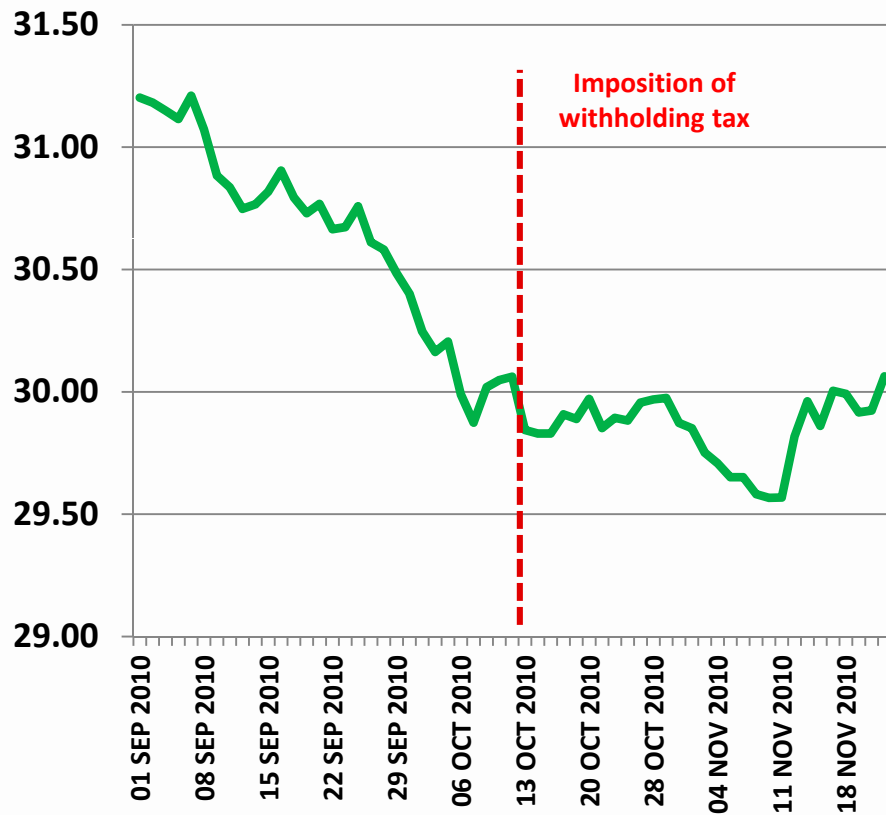


Source : the Bank of Thailand



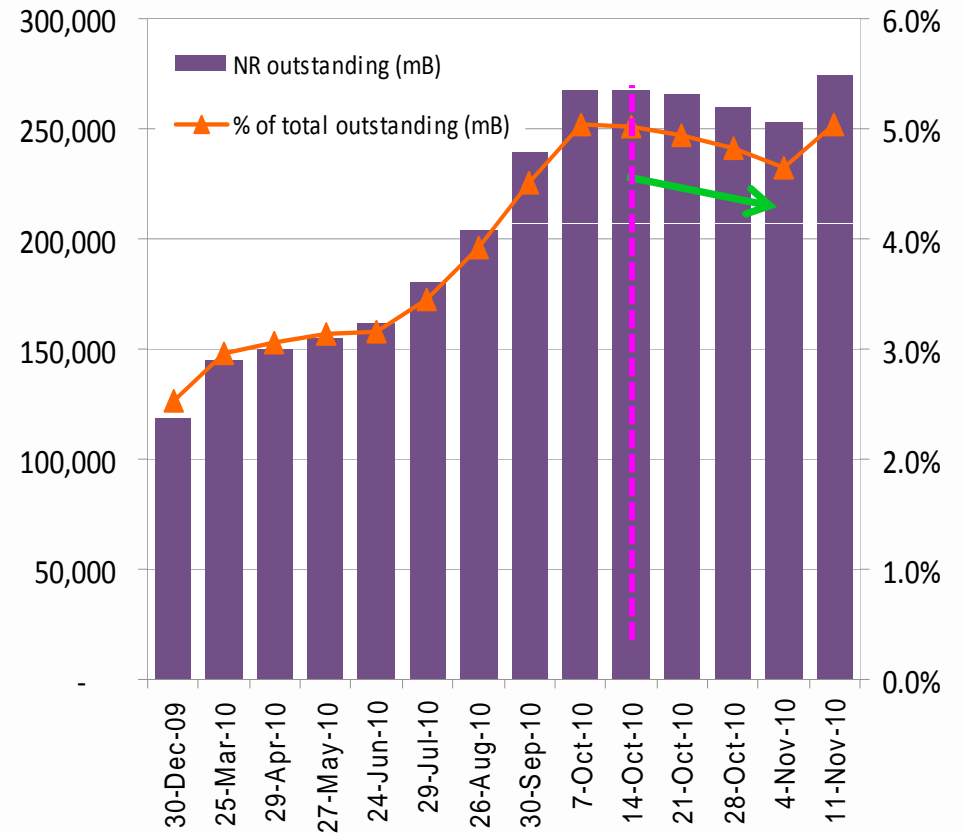
Imposition of withholding tax on foreign investment in bonds

REFERENCE RATE : US DOLLAR/THB



NR Bond Holding Outstanding

Million.Baht





Practical Challenges: Coordination and appropriate policy mix

- **Combination of monetary policy and prudential policies, micro and macro, will effectively help safeguard financial stability**
- **Policy will be better coordinated if regulatory power remains with central bank (synergies to be gained)**
- **Important not to exaggerate what macro-prudential policy can achieve.**
- **Macro-prudential measures can be employed to “complement” monetary policy but are not a “substitute” for it**



To sum up.....

- Preservation of the financial system is ultimately a *“shared responsibility”*
- Performance of financial stability tasks should be *“consistent”* with and *“supportive”* of the preservation of price stability
- *“Central bank independence”* , becomes more important in order to ensure the ability of central banks to implement unpopular policies in a timely, independent and transparent manner.