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## Joint Statement on the Measures to Stabilize the Financial Markets

22 March 2020



The recent development of the COVID-19 situation has led to turbulences in financial markets and sales of assets across the world. This has affected liquidity and functioning of the financial market, and regulators in many countries have issued several measures to stabilize the financial markets.

Even though the Thai financial system remains strong, with commercial banks holding healthy levels of capital and liquidity reserves, the liquidity stress and the resulting irregularity in the global financial market have begun to affect the Thai financial market. The Bank of Thailand (BOT) has alleviated the situation through government bond purchase program amounting more than 100 billion baht during 13–20 March 2020, and the reduction and cancelation of BOT bond issuance, while the Monetary Policy Committee has reduced the policy rate to the record-low level of 0.75 percent per year on 20 March 2020. BOT stands ready to make additional purchases of government bond to lower the volatility of the government bond yield and ensure the normal functioning of the government bond market.

Nonetheless, the highly volatile environment has led some investors to redeem their investment units from bond mutual funds. This has forced some bond mutual funds to liquidate their bond holdings—most of which are high-quality—at lower than fair value prices, impacting the funds' value. This rapid decrease in the funds' value might lead to further sell of other mutual funds and result in the disruption of the bond markets, mutual

funds, and eventually the overall financial markets and economy at large.

The Ministry of Finance, the Securities and Exchange Commission, and the Bank of Thailand have been closely monitoring the situation in the financial market, and deem it necessary to take the following measures to stabilize the financial market and stop the liquidity problem from spreading further:

1. **Bond mutual funds**: BOT has set up a special facility to provide liquidity for mutual funds through commercial banks. Commercial banks who purchase investment units of high-quality money market funds or daily fixed income funds that have been impacted by the decreased market liquidity will be able to use the underlying unit trust as collateral for liquidity support from this special facility. The facility will remain open until the market condition returns to normal. BOT's preliminary estimate of eligible bond mutual funds is approximately one trillion baht.

2. **Corporate bonds**: The Thai Bankers' Association, the Government Savings Bank, Thai insurance providers, and the Government Pension Fund have together set up a 70-100 billion baht Corporate Bond Stabilization Fund to invest in high-quality, newly issued bonds by corporates that cannot fully rollover maturing corporate bonds.

3. **Government bonds**: BOT will continue to provide liquidity to the government bond market through bond purchasing to ensure that the government bond market continues to function normally.

These measures are expected to provide liquidity and help the normal functioning of the financial market and help build investors' confidence. Relevant public and private institutions will continue to work together, monitor the situation, and provide additional measures to ensure the normal and efficient functioning of the financial market.

As the current stress period is the result of the temporary liquidity shortage while bond mutual funds still hold low-risk, good-quality assets, the public is asked not to rush to redeem during this period of market abnormality. Doing so might result in prices that are significantly below fair value.

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