

Inflation target for 2011

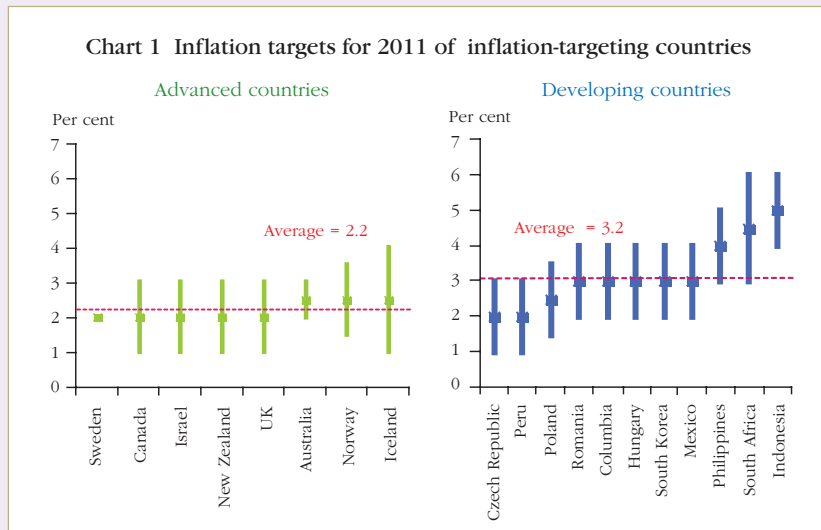
On 21 December 2010, the Cabinet approved the following year's target for core inflation of 0.5-3.0 per cent, measured on a year-on-year basis and quarterly averaged. This target has continued to be in use since 2009.

The Bank of Thailand Act B.E. 2485, as amended by the Bank of Thailand Act (4th) B.E. 2551, mandates the MPC, in agreement with the Minister of Finance, to formulate the monetary policy target for the following year and submit it to the cabinet for approval by December of the preceding year. The rationale for this year's inflation target is as follows.

1) Given that the objective of inflation targeting is to anchor inflation expectations in the medium- to long-term, an inflation target that is not subject to frequent changes will help support a central bank in achieving its primary goal of maintaining price stability within the economic system as well as help ensure continuity in the conduct of monetary policy.

For this reason many inflation targeting countries do not change their targets frequently, except those with high inflation during the initial phase of inflation targeting. For such countries, the target's level or range is gradually lowered each year until it is in line with economic fundamentals.

2) The choice of core inflation as the target will help reflect demand-pulled pressure that is responsive to monetary policy. Core inflation is also less volatile than headline inflation. Moreover, core inflation is a measure that is already familiar to the public, making it easier for communication. As a result, the effectiveness in anchoring inflation expectations can be ensured.



Source: Central banks

3) A low inflation target not only helps create an environment that is conducive for consumption and investment decisions of the private sector – a factor that supports sustainable economic growth in the long-term – but also helps increase price competitiveness of exports. In this regard, the current inflation target range is in line with:

- Inflation targets of advanced and developing economies, which average at 2.2 and 3.2 per cent, respectively (chart 1);

- Medium-term inflation forecasts by the International Monetary Fund for the next four years (2012–2015): 1.7 per cent for advanced countries and 4.0 per cent for developing countries.

In summary, the quarterly average of core inflation, measured on a year-on-year basis, between 0.5–3.0 per cent as the inflation target for 2011 is appropriate in supporting Thailand’s economic stability and sustainable growth.