

**Announcement of the Monetary Policy Committee****No. MPG. 3/2562****Re: The Monetary Policy Target for 2020****1. Rationale**

On the 24th of December 2019, the Cabinet approved the monetary policy target for the year 2020, which was mutually agreed by the Monetary Policy Committee (MPC) and the Minister of Finance, in accordance with Section 28/8 of the Bank of Thailand Act B.E. 2485 (1942) as amended by the Bank of Thailand Act (No.4), B.E. 2551 (2008)

2. Statutory power

By virtue of Section 28/8 of the Bank of Thailand Act B.E. 2485 (1942) as amended by the Bank of Thailand Act (No.4), B.E. 2551 (2008), the MPC issued this announcement to be published in the Government Gazette.

3. Contents

The Minister of Finance and the Governor of the Bank of Thailand as the Chairman of the MPC, had mutually agreed upon the following:

3.1 Principles for conducting monetary policies under a flexible inflation targeting framework

Recently, Global and Thai economic and financial systems have encountered several key structural changes, especially regarding the technological advancements and the transition into an aging society which, in turn, causing the inflation dynamics to be lower than in the past. Moreover, given relatively large share of food and energy components in Thailand's inflation basket, the impact of the downward trend in domestic food prices and global energy prices on inflation has become more pronounced on the level of inflation. Furthermore, as the global economic and financial systems have become more complex and interconnected, external factors such as trade protectionism and geopolitical risks can possibly affect the Thai economy and financial system more abruptly and severely going forward.

Conducting monetary policies under the current flexible inflation targeting framework enables the MPC to formulate appropriate monetary policy decisions consistent with the changing economic and financial conditions. The MPC primarily aims to ensure the medium-term price stability objective. At the same time, the MPC also aims to promote sustainable economic growth at its full potential and to preserve financial stability, which yields a major contribution to long-term price stability and economic sustainability.

During each policy deliberation, the MPC will consider carefully all policy objectives, keeping in mind the short-term and long-term impacts of monetary policy

implementation as well as the potential trade-offs of the available monetary policy choices to best address the circumstances at the time. Also, the MPC will stand ready to utilize various policy tools in an integrated manner to effectively achieve policy objectives.

3.2 The monetary policy target for the medium-term horizon and for 2020

The Minister of Finance and the MPC mutually agreed to set the monetary policy target for price stability such that the headline inflation is to reside within the range of 1.0 – 3.0 percent for the medium-term horizon and for the year 2020. This range target, while being conducive to the full-potential economic growth, is deemed appropriate in addressing the changing inflation dynamics from technological advancements and the transition into an aging society. Moreover, the adoption of the range inflation target enhances the flexibility in monetary policy formulation amid highly volatile and uncertain global economic circumstances, while allowing the MPC to fulfill economic growth and financial stability objectives more effectively. Nonetheless, the purpose of setting the medium-term target is to properly address the lag effects of monetary policy, which takes time to have a full impact on the economy.

3.3 Monitoring the monetary policy target

The Ministry of Finance and the Bank of Thailand will hold joint discussions on regular basis or under necessary circumstances that are agreed by both organizations. This is to best achieve the objectives of monetary policy and to establish a smooth coordination between the execution of fiscal and monetary policies.

The MPC will prepare a half-year monetary policy assessment report which includes (1) recent monetary policy implementation (2) monetary policy guidance going forward and (3) economic outlook. In addition, the MPC will also publish the monetary policy report quarterly to enrich general public understanding regarding the monetary policy implementation, which then would enhance the transparency and effectiveness of conducting monetary policy in the future.

3.4 Movement of the headline inflation outside the target range

The MPC assessed that headline inflation in the period ahead would be volatile due to uncertainties surrounding the oil and fresh food prices as well as external risks, specifically from the U.S. trade protectionism and the potential retaliatory measures from its trading partners. In case that the average headline inflation in the past 12 months or its forecast for the next 12 months falls outside the target range, the MPC will issue an open letter to the Minister of Finance to elaborate on (1) reasons for the breach of the target range, (2) monetary policy implementation in the past and going forward to guide the headline inflation into the target range at an appropriate time (3) expected time horizon for the headline inflation to fall within the target range.

In addition, the MPC will issue an open letter to the Minister of Finance every six months should the average headline inflation, according to the above criteria, remains outside the target range and will report the progress of policy actions taken as deemed appropriate.

3.5 Adjustment of the monetary policy target

In case of necessary or appropriate circumstances, the Minister of Finance and the MPC may, by the mutual agreement, revise the monetary policy target before proposing the new target to the Cabinet for approval.

Announced on the 25th of December 2019

Signature

Mr.Veerathai Santiprabhob

Governor

Bank of Thailand

Chairman of the Monetary Policy Committee