

**Notification of the Monetary Policy Committee****No. MPG.2/2564****Re: The Monetary Policy Target for 2022****1. Rationale**

On December 14, 2021, the Cabinet approved the monetary policy target for the year 2022, 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 was to issue this notification 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 Inflation dynamics amid the COVID-19 pandemic

The persistent COVID-19 outbreak had greatly affected both the global and the Thai economies not only in the short-run but also in the long-run. As a result, Thai inflation this past year had resided close to the lower bound of the monetary policy target and would remain so going forward. This was due to a few key drivers, notably: (1) subdued economic activities following the implementation of the COVID-19 containment measures and uncertainty surrounding the pandemic that would contribute to a gradual economic recovery going forward, (2) low income and purchasing power of agents in the economy due to a more fragile labor market, following a rising level of short-term and long-term unemployment as well as a persistently high household debt level, and (3) declining price levels due to a change in behavior of producers and consumers induced by the pandemic, leading to the market becoming more competitive through the use of e-commerce platforms and the production cost becoming lower from substituting labor with robotic automation. However, Thai inflation could be more volatile going forward due to some upside risk factors such as fluctuating energy and fresh food prices, the outbreak-incited supply chain disruption, and the deglobalization trend.

3.2 The monetary policy target for the medium-term horizon as well as for the year 2022 and the monetary policy actions going forward

The Minister of Finance and the MPC mutually agreed to set the monetary policy target for price stability such that the headline inflation was to reside within the range of 1.0 – 3.0 percent for the medium-term horizon and for the year 2022. **This range target was deemed appropriate for the evolving economic environment as a result of the COVID-19 outbreak** because: (1) Thai inflation going forward and in the medium-term was expected to reside close to the lower bound of the target with a significant drop in inflation being highly unlikely. This was due to the gradual economic recovery and some potential upside risk factors from higher energy prices, supply chain disruption, and geopolitical conflicts, (2) this range target had successfully anchored inflation expectations as could be seen from inflation expectations still residing within the target, and (3) the two-percent target width provided adequate flexibility to address the volatility surrounding inflation going forward while supporting efficient monetary policy formulation under highly uncertain circumstances in order to attain price stability, promote sustainable economic growth, and ensure financial stability.

Due to the highly uncertain COVID-19 development and its potentially large impact on the Thai economy, the Ministry of Finance and the Bank of Thailand would continue to coordinate the fiscal and monetary policies that would be harmonized and complement each other in order to mitigate the impact in a targeted and timely fashion so as to promote the speedy, stable and sustainable economic recovery that, in turn, would support the short, medium and long-run economic development. Consequently, policies implemented should focus on stimulating higher productivity and enhancing the income of people. At present, the MPC continued to put emphasis on supporting the economic recovery and would stand ready to employ policy tools in an integrated way in order to efficiently achieve monetary policy objectives.

3.3 Monitoring the monetary policy target

The Ministry of Finance and the Bank of Thailand would hold joint discussions on regular basis or under necessary circumstances that were agreed by both organizations. This was to best achieve the objectives of monetary policy and to support the harmonized implementation of fiscal and monetary policies.

The MPC would prepare a half-year monetary policy assessment report which included (1) recent monetary policy implementation, (2) monetary policy guidance going forward, and (3) economic outlook. In addition, the MPC would 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 would remain close to the lower bound of the target range for some period ahead and could face some volatility and change in inflation dynamics after the COVID-19 pandemic came to an end. Therefore, the MPC would closely monitor inflation development and assess the impact of structural changes on inflation dynamics going forward. In case that the average headline inflation in the past 12 months or its forecast for the next 12 months fell outside the target range, the MPC would 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, and (3) expected time horizon for the headline inflation to fall within the target range. In addition, the MPC would issue an open letter to the Minister of Finance every six months should the average headline inflation, according to the above criteria, remain outside the target range and would report the progress on policy actions taken as deemed appropriate.

3.5 Adjustment of the monetary policy target

In case of necessary or fitting 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 16th of December 2021

Signature

Mr. Sethaput Suthiwartnarueput

Governor

Bank of Thailand

Chairman of the Monetary Policy Committee