



## Notification of the Monetary Policy Committee

No. MPG. 1/2565

Re: The Monetary Policy Target for 2023

### 1. Rationale

On December 27, 2022, the Cabinet approved the monetary policy target for the year 2023, which was mutually agreed upon 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 Drivers of recent inflation dynamics and inflation outlook

Although concerns over the COVID-19 pandemic had already eased, global and Thai economies had been affected significantly by the sharp decline in energy and commodity supply as well as disruptions in global supply chain networks. As a result, **recent headline inflation in Thailand increased mainly from these cost-push shocks.** Specifically, the main drivers contributing to recent Thai inflation dynamics were (1) domestic retail energy and commodity price increases following sharp rises in global market prices and (2) higher input cost pass-through by producers to final prices of goods and services. Moreover, **although Thai headline inflation was expected to decline to meet its target range within the year 2023** as supply-side pressures dissipated, **headline inflation in the medium-term still remained highly uncertain.** **This could be attributed to structural shifts** that could alter inflation dynamics going forward, particularly from the ongoing changes in the energy and geopolitical landscape, deglobalization trends, and the sooner-than-anticipated transition to a green economy.

### 3.2 Mutual agreement on setting the monetary policy target for the medium-term horizon and for the year 2023 at 1-3 percent

The Minister of Finance and the MPC mutually agreed to set the monetary policy target for price stability such that headline inflation would reside within the 1.0 – 3.0 percent target range for the medium-term horizon and for the year 2023. **This target range was deemed appropriate** because: (1) adhering to the inflation target reflected the commitment to the price stability mandate which helped instill public confidence and anchor medium-term inflation expectations, (2) during the period of high volatility and uncertainty surrounding inflation, changes made to the inflation target could create confusion amongst the public regarding the future monetary policy stance, and (3) the two-percent target range was deemed sufficiently flexible to accommodate fluctuations in inflation that might occur in the medium-term while enabling monetary policy to achieve its key mandates of medium-term price stability, sustainable economic growth and financial stability.

**Given the circumstances under which inflation remained elevated and factors affecting inflation dynamics remained highly uncertain, the Ministry of Finance and the Bank of Thailand would continue to work together to ensure that fiscal and monetary policies would be well-coordinated and complementary to one another** to effectively mitigate the impact and safeguard a robust and sustainable economic recovery. Such economic betterment would help enhance productivity and promote income growth. The MPC would continue to commit to the mandate of maintaining price stability and keeping medium-term inflation within its target range—an important precondition for sustainable economic growth.

### 3.3 Mutual agreement on monitoring and reporting of the policy outcome as well as joint discussions on achieving the monetary policy target

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

The MPC would prepare a half-yearly monetary policy assessment report which included (1) recent monetary policy implementations, (2) monetary policy guidance going forward, and (3) economic outlook. In addition, the MPC would also publish the

quarterly monetary policy report to help communicate and enrich the understanding regarding monetary policy implementation to the general public, which would help enhance the transparency and effectiveness in conducting monetary policy going forward.

### **3.4 Mutual agreement regarding the issuance of an open letter by the MPC to the Minister of Finance should headline inflation move outside the target range**

The MPC assessed that headline inflation already peaked in the third quarter of 2022 and would return to the target range within 2023. However, risks to inflation dynamics going forward remained, especially from high uncertainty and volatility in global factors, higher-than-expected degree of cost pass-through, and structural changes in the energy and geopolitical landscape. Therefore, the MPC would closely monitor inflation developments and assess the impact of structural changes on inflation dynamics going forward. Under the case where 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** with details on (1) reasons for the breach of the target range, (2) monetary policy actions undertaken in the past and going forward to guide headline inflation back to its target range within an appropriate time period, and (3) expected time horizon for 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 average headline inflation, according to the above criteria, remain outside the target range and would report the progress on any policy actions undertaken as deemed appropriate.

### **3.5 Mutual agreement on the revision 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 30<sup>th</sup> of December 2022

Signature

Mr. Sethaput Suthiwartnarueput

Governor

Bank of Thailand

Chairman of the Monetary Policy Committee