



No. 46 / 2010

The assessment of the Bank of Thailand's monetary policy under the inflation targeting framework by independent evaluators

Mr. Paiboon Kittisrikangwan, Assistant Governor, Bank of Thailand, announced the outcome of an independent assessment of the Bank of Thailand's monetary policy under inflation targeting framework (2000-2010), as follows.

Objectives of the evaluation

The Bank of Thailand (BOT) adopted inflation targeting as its monetary policy framework as of May 2000. In light of structural changes in the global economy, the BOT commissioned an independent evaluation to assess whether such a monetary policy framework is still well suited for Thailand and what changes, if any, need to be made in order to meet the challenges in the period ahead. The evaluation focused on the following areas;

- The effectiveness of inflation targeting in achieving price stability and overall macroeconomic stability.
- Adequacy of the monetary policy instruments.
- Decision-making process of the Monetary Policy Committee.
- Data and economic models.
- External communication.
- The interface between monetary policy and other elements of the economic policy framework, such as supervision of financial institution and exchange rate management.

Independent evaluators

(1) **Dr. Stephen Grenville** is a distinguished expert on financial sector issues in Asia, Adjunct Professor at the Australian National University and a Visiting Fellow at the Lowy Institute for International Policy. He has served as Deputy Governor and Board member at the Reserve Bank of Australia.

(2) **Professor Takatoshi Ito** is a renowned professor at University of Tokyo. He has served as Deputy Vice Minister, Ministry of Finance, Japan, President of Japanese Economic Association and Senior Advisor at Research Department, International Monetary Fund.

Summary of an evaluation

1. On overall, the evaluators are of the view that the BOT has put in place an inflation-targeting framework that meets international standards best practice in terms of decision-making process, adequacy of instruments and data used in conducting monetary policy as well as external communication. The evaluators therefore strongly support its continuation in Thailand.

2. During the decade of inflation targeting (2000-2010), Thailand recorded excellent performance in price stability, a remarkable improvement on previous decades. Not only has core inflation been within the band for almost the whole period (90% of the time and the departures were on the low side of the band), but it also compares favorably with other countries in the region.

3. Price stability has not been achieved at the expense of economic growth, as output (GDP) averaged 4.2% throughout the inflation-targeting period, and would have been higher had it not been for the Global Financial Crisis and domestic political conflict.

4. The BOT's conduct of monetary policy in achieving price stability does not conflict with the BOT's other functions, such as supervision of financial institutions and exchange rate management. Indeed, the recent Global Financial Crisis shows the advantage of having bank supervision inside the central bank, enabling a crisis resolution to be accomplished in a swift manner.

Recommendations

The evaluators conclude that the current inflation targeting framework meets international standards of best practice, and there is little that should be changed. Nevertheless, they make various recommendations that would further improve an already well-functioning system. The recommendations include:

- Inflation target. Greater emphasis should be placed on the centre of the band and the lower bound should be raised in order to reduce deflation risk.
- External communication. The MPC should communicate to the public more regarding the direction of monetary policy and should consider the disclosure of voting records and minutes of meetings at the appropriate timing.
- Macroprudential measures. Macroprudential measures can be used together with inflation targeting to mitigate the risk of financial imbalances.
- Data. Data regarding price expectation could be improved.
- Forecasting. Certain assumptions used in forecast exercises could be improved.

The BOT is now in the process of studying the feasibility of implementing the report's recommendations.

The full report could be downloaded from the BOT's website www.bot.or.th

Bank of Thailand
14 October 2010

For further information, please contact:
Monetary Policy Strategy Team 1 Tel: +66 (0) 2283 5621, 283 6186
e-mail: MonetaryPolicyStrategyTeam@bot.or.th