Executive Summary

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The Bank of Thailand has been using the inflation targeting framework since 2000. With a decade of experience, the Bank of Thailand commissioned us to evaluate monetary policy under this framework.

The inflation targeting framework was adopted by the Bank of Thailand (BoT) in 2000, when there was a need to restore the credibility of the Bank after the Asian Crisis of 1997-98. The Bank of Thailand adopted what is known as Flexible Inflation Targeting (FIT). This framework implies not only a commitment to the specific numerical target range of inflation but also takes account of economic growth. This framework also embodies a set of institutional norms covering the decision-making process in the central bank, and its relationship and communication with the government and the public. Under these, the central bank has independence, with monetary policy decided by a Monetary Policy Committee including external members, focused on forecasts of the path of the economy over the next year or two. This independence is balanced by strong governance obligations covering the central bank's transparency, accountability and reporting both to the government and to the public at large. Over time this transparency has become greater among FIT central banks. This trend has also been seen in Thailand, with the comprehensive Inflation Targeting Report, speeches and press releases on monetary policy decisions. With this background of FIT around the world, our assessment is that the Bank of Thailand practices the generally-accepted Best Practices of flexible inflation targeting countries.

After ten years of inflation targeting, it is clear that this framework has proven to be appropriate to Thailand's needs. As well, it has been valuable in assisting good policy-making and enhancing the reputation of the Bank of Thailand.

During the decade of inflation targeting (2000-2010), Thailand has recorded an excellent performance in price stability. Not only has core inflation been within the band for almost the whole period, but it also compares favourably with other countries of the region.

Although this framework focuses on the primary objective of price stability, this does not seem to have prevented the BoT from meeting other policy objectives as well. Price stability has not been achieved at the expense of economic growth. BoT has maintained financial sector stability, and maintained a degree of stability in the exchange rate.

While this is working very well, we have some suggestions which might be seen as part of a process of continuous improvement, to be implemented as the opportunity presents itself:

- The lower bound could be raised from 0.5 to 1.0;
- Focus should be on the centre of the target band (say, 2.0), constantly aiming to achieve this objective one/two years in the future, which will contribute to anchoring inflation expectation;
- The assumption for projections should be the market-interest-rate rather than constant interest rate;
- MPC members should be more involved in forecasting exercise, i.e., more interaction with BoT staff;
- Transparency: MPC minutes should be made public, including voting
- Communication should be more explicit on the future policy path and there should be more communication with the Ministry of Finance;
- Some management of excessive capital inflows and the exchange rate may be appropriate;
- Macro-prudential policy should be used to avoid future asset bubbles;
- Data on price expectations should be collected and discussed in the Inflation Report

In sum, the inflation targeting is still as relevant as ever to achieving the full range of BoT's objectives, within a framework of strong governance, accountability and transparency. We strongly support its continuation.