

Ten Years of Inflation Targeting in Thailand

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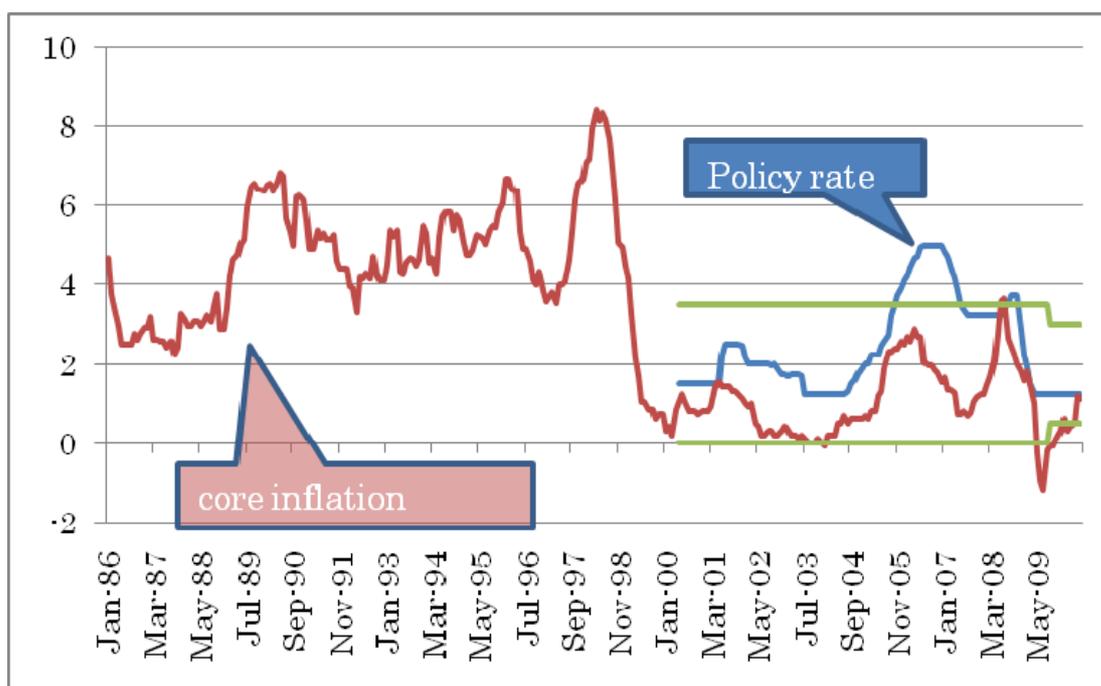
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Very Successful in its primary objective

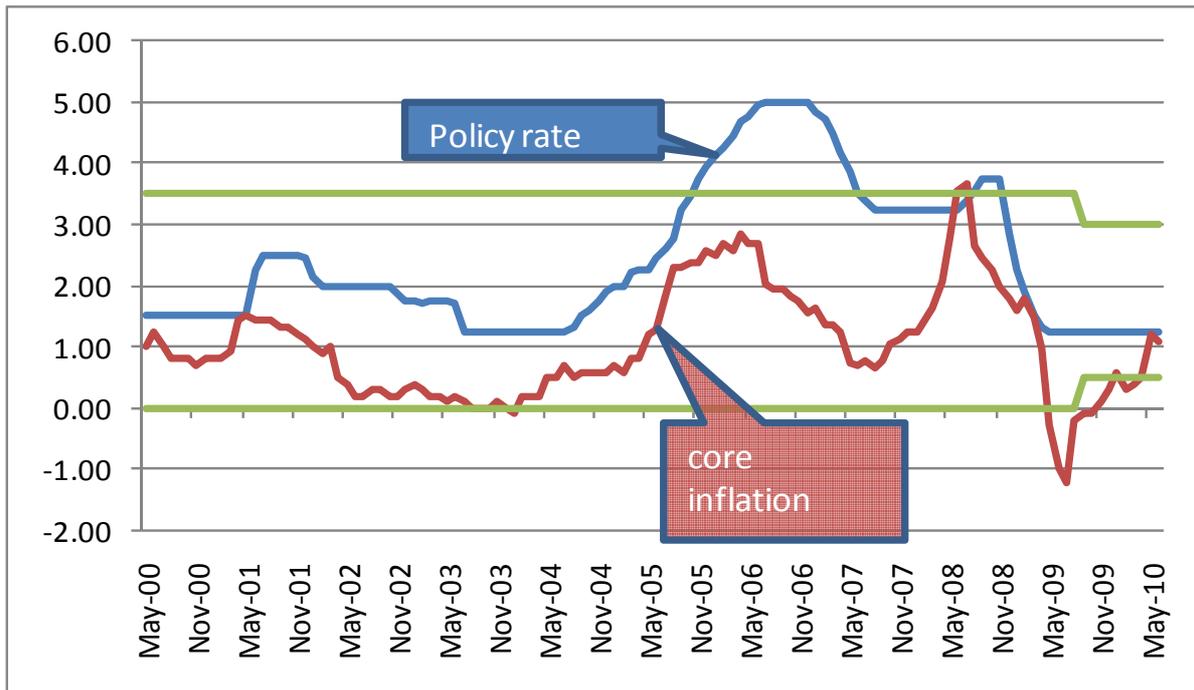


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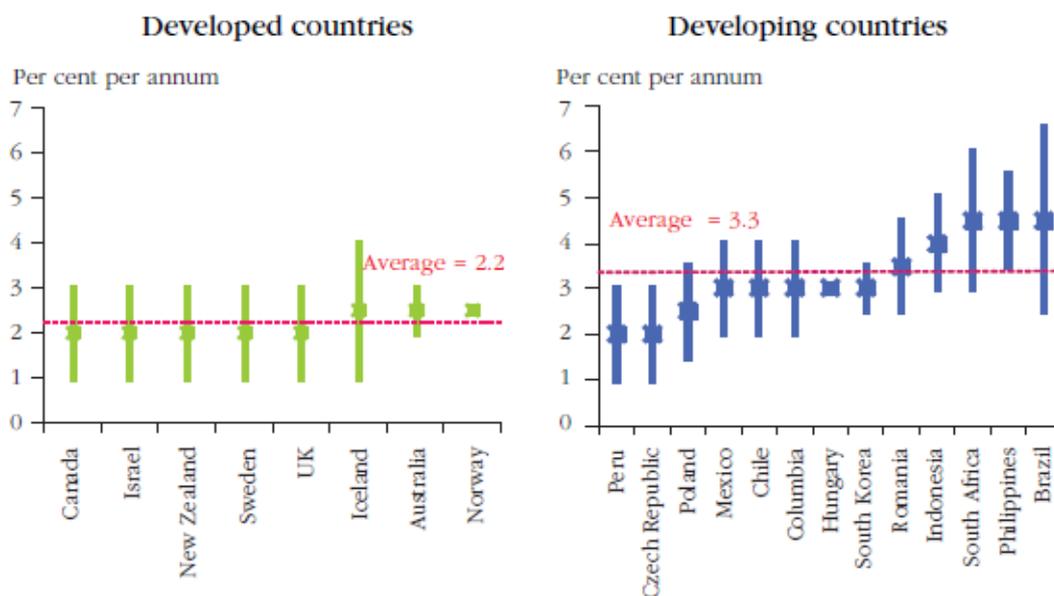
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Core Inflation Rate, 90% in the Range

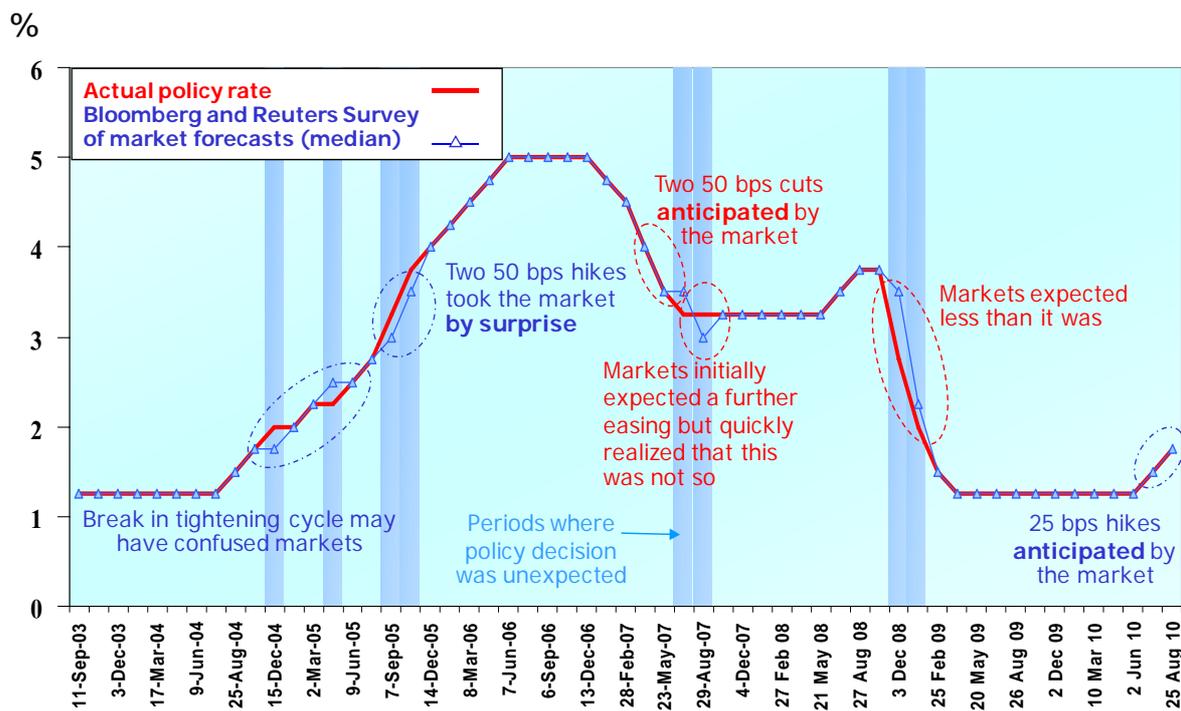


The Range is about right

Chart 1 Inflation target adopted by of other inflation targeting countries for 2010 other than Thailand



Policy Changes are mostly anticipated



Source: Bloomberg and Reuters (since Feb 2008) surveys

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But not just about inflation:

- Output (GDP growth) was good
- Financial stability was maintained and asset prices contained
- The exchange rate fluctuated generally in a range consistent with macroeconomic fundamentals

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Thailand benefited from putting in place the framework which comes with Flexible Inflation Targeting:

- Independent central bank
- Delegation to BoT which gave clear objective but discretion in how to achieve it
- Strong governance
- Comprehensive accountability and transparency

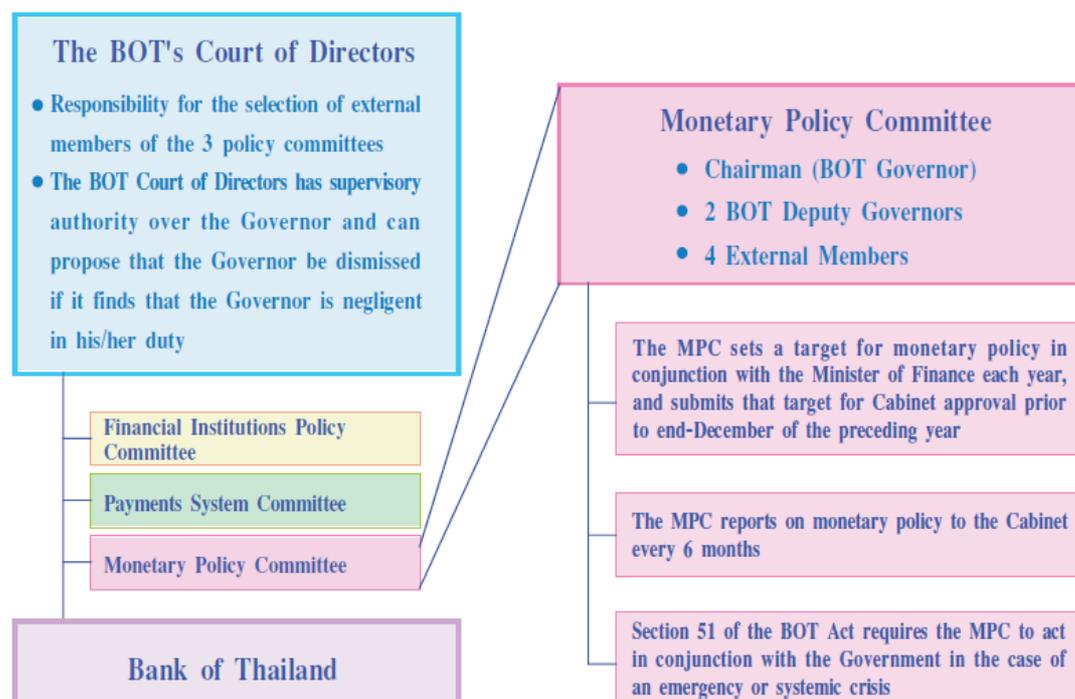
Why a FIT framework is beneficial

- Strong tendency to try to squeeze more growth out of the economy, at the expense of price stability
- Long and variable lags on monetary policy, so public may not understand reasons for policy settings
- Stable price expectations are the key to price stability: for this the public needs to be confident that the monetary authorities will always act to achieve price stability

Governance

- Rules and procedures to support central bank independence, consistent with democratic framework. These are incorporated in Bank of Thailand Act 2008
- MPC has a key role

The Monetary Policy Committee



Accountability, transparency and reporting

- Inflation Report
- Press release and press conference
- Speeches
- Reporting to Cabinet

All this is “best practice” of Inflation Targeting in Thailand

- However, several improvements are possible

Our recommendations (1)

- The lower bound could be raised from 0.5 to 1.0
- Focus on the centre of the target band (say, 2.0), constantly aiming to achieve this one/two years in the future
- The assumption for projection 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

Our Recommendations (2)

- Communication: Board minutes disclosure; more explicit on future policy path; more communication with Ministry of Finance
- Managing excessive capital inflows and the exchange rate
- Macro-prudential policy to avoid future bubble
- Data: price expectations should be collected

Conclusion

- 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 in Thailand.