



March 20, 2026

Excellency,

No. BOT. 1881/2569 Statement pertaining to average headline inflation over the previous 12 months and the next 12 months residing below the lower bound of the monetary policy target

On December 26, 2025, the Minister of Finance and the Monetary Policy Committee (MPC) mutually agreed to set the monetary policy target range for headline inflation over the medium-term horizon at 1.0 – 3.0 percent. For 2026, the target is to accommodate headline inflation's gradual return to the medium-term target, as well as to prevent deflation, i.e., persistent negative inflation resulting from broad-based declines in prices of goods and services. The agreement also designated the MPC to write an open letter to the Minister of Finance should either average headline inflation over the previous 12 months or a forecast of average headline inflation over the next 12 months breach the target range.

On February 5, 2026, the Ministry of Commerce released the January 2026 headline inflation outturn of -0.7 percent, leading headline inflation over the previous 12 months (February 2025 – January 2026) to average at -0.3 percent. Furthermore, the Monetary Policy Report for the fourth quarter of 2025 assessed that average headline inflation for the next 12 months (February 2026 – January 2027) would remain below the inflation target range. Pursuant to the aforementioned agreement, **this open letter issued by the MPC will address three issues: (1) key drivers causing low inflation over the past 12 months; (2) the outlook for headline inflation and the expected timeframe for its return to the target range; and (3) monetary policy actions taken to guide headline inflation to the target range in the medium term.**

(1) Key drivers causing low inflation over the past 12 months

Average headline inflation over the previous 12 months remained below the lower bound of the monetary policy target range, primarily due to supply-side factors affecting energy and fresh food components. Meanwhile, core inflation remained positive, close to the historical average. Energy prices declined in line with movements in global oil prices, with the 12-month average falling from 80 USD per barrel to 68 USD per barrel (February 2025 – January 2026), due to concerns over the global economic outlook. In addition, the government's energy subsidy measures, particularly reductions in the price of electricity, contributed to an average energy price decline over the past 12 months of -5.3 percent. Meanwhile, fresh food prices over the past 12 months declined at -0.6 percent, in large part due to the decline in vegetable prices from favorable weather conditions, compounded by high base effects from last year's drought.

Core inflation remained stable at an average of 0.8 percent over the past 12 months. This was partly due to low-cost pressures and ongoing intensified competition from cheap imported goods. In addition, limited demand-pull inflationary pressure, as the economy expanded below potential, contributed to subdued inflation. **Therefore, low inflation reflects both temporary factors, which will gradually dissipate, and structural factors that continue to put downward inflationary pressure on prices in certain sectors.**

Inflation residing below the target range does not imply deflation, as evidenced by: (1) the absence of a persistent and broad-based decline in the prices of goods and services excluding energy and fresh food; (2) positive core inflation and underlying inflation indicators, excluding temporary factors, suggesting that prices will not continuously decline; and (3) medium-term inflation expectations remaining anchored within the target range.

(2) The outlook for headline inflation and the expected timeframe for its return to the target range

At the MPC meeting on February 25, 2026, headline inflation was expected to remain low but would gradually increase and return to the target range in the second half of 2027. However, the escalation of Middle East conflict since February 28, 2026 could lead to headline inflation returning to the target range sooner than expected, reflecting higher-than-expected oil prices as well as potential disruptions to production, transportation, and global supply chains. **The impact on inflation remains highly uncertain, depending on the severity and duration of the conflict, potential retaliatory actions, and policy responses of major economies, as well as the government measures to alleviate the cost of living.** The MPC will closely monitor inflation developments to ensure that, over the medium term, inflation does not become excessively high or low in a way that could undermine economic and financial stability.

(3) Monetary policy actions taken to guide headline inflation to the target range in the medium term.

Under the flexible inflation targeting framework, the MPC aims to maintain price stability, support economic growth in line with potential, and safeguard financial stability. **Since late 2024, the MPC has reduced the policy interest rate a total of six times to support the Thai economy, which continues to expand below its potential and faces downside inflation risks,** while taking a comprehensive assessment of risks to overall economic and financial stability. **The MPC has acted decisively to facilitate a return of inflation to the target range over the medium term, and has lowered the policy rate to anchor medium-term inflation expectations amid rising downside risks, as noted in the latest MPC meeting.**

As a result, the policy rate has declined to 1 percent per annum, which is much lower than other countries and close to the COVID-19 level. This level is considered accommodative enough to support a gradual return of inflation to the medium-term target as well as to support economic recovery. On the other hand, a policy rate of 1 percent is not excessively low, allowing policy space to weather other risks, particularly the risk of rising inflation amid **heightened uncertainty going forward**. The MPC will continue to closely monitor the development of economic and financial conditions and will conduct monetary policy appropriately in line with the evolving macro-financial stability context.

Yours sincerely,

(Mr. Vitai Ratanakorn)

Governor

Chairman of the Monetary Policy Committee

The Honorable Mr. Ekniti Nitithanprapas

Minister of Finance

Bangkok