BANK OF THAILAND

Unofficial Translation

August 20, 2026

Excellency,

No. BOT. 4990/2569 Statement pertaining to headline inflation residing outside the monetary policy target range

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 1–3 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 August 5, 2026, the Ministry of Commerce released the July 2026 headline inflation outturn of 1.95 percent, resulting in headline inflation over the previous 12 months (August 2025–July 2026) to average at 0.4 percent. Pursuant to the aforementioned agreement, **this open letter issued by the MPC will address two issues: (1) the causes of headline inflation residing outside the target range and the outlook going forward; and (2) monetary policy actions taken to guide headline inflation to the target range in the medium term.**

(1) The causes of headline inflation residing outside the target range and the outlook going forward

Average headline inflation during August 2025–July 2026 remained below the target range, primarily due to supply-side factors. Fresh food prices declined by 0.8 percent from the same period a year earlier, when unusual drought had pushed up prices of fruit and meat as the yields dropped. Meanwhile, energy prices increased by 0.8 percent, well below the five-year historical average of 6.3 percent, reflecting subdued global oil prices prior to the outbreak of the conflict in the Middle East. **Core inflation averaged 0.8 percent, remaining close to its historical average.** Inflation, residing below the target range during this period, was in line with the assessment presented in the previous open letter published in March 2026. The MPC maintained the policy rate at 1 percent to help anchor medium-term inflation expectations and support a gradual return of headline inflation to the target range.

The inflation outlook remains highly uncertain, given volatility in energy prices affected by the conflict in the Middle East, as well as fresh food prices prone to the El Niño phenomenon. At the MPC meeting on June 24, 2026, **headline inflation was expected to temporarily rise above the target range from the third quarter of 2026 onward. However,**

this development is not expected to undermine price stability and therefore does not pose a concern, as it stems from higher oil prices and drought-related effects that are expected to dissipate over time. **Headline inflation is projected to return to the target range by mid-2027.** In addition, five-year-ahead inflation expectations derived from financial market data in June 2026 stood at 1.9 percent, reflecting continued confidence that medium-term inflation will remain within the target range. Nevertheless, **limited demand-side inflationary pressures**, driven by economic growth below potential, together with high base effects from earlier increases in oil and fresh food prices, **are expected to cause headline inflation to fall below the target range again before gradually returning to the target range in 2028.**

<u>**(2) Monetary policy actions taken to guide headline inflation to the target range in the medium term**</u>

Under the flexible inflation targeting framework, the MPC aims to maintain price stability, sustainable economic growth, and preserve financial stability. **During the period in which inflation remained below target, the MPC eased policy to the fullest extent consistent with its mandate to facilitate a return of inflation to the target range.** The MPC reduced the policy rate to 1 percent per annum, a level considered accommodative and supportive of a gradual return of inflation to the medium-term target, while also fostering economic recovery.

Amid the conflict in the Middle East, which has affected the Thai economy and pushed inflation higher, the MPC carefully weighed the balance of risks and assessed that the increase in inflation primarily reflects supply-driven factors that is expected to gradually dissipate. Furthermore, there are no signs of persistent broad-based price increases or of inflation expectations becoming unanchored. **A policy rate of 1 percent per annum is considered appropriate to support the economic recovery.** Nevertheless, the MPC will continue to closely monitor risks to the economy and inflation 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
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