



September 29, 2025

Excellency,

No. BOT. 6355/2568 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 16, 2024, the Minister of Finance and the Monetary Policy Committee (MPC) mutually reached the agreement to set the monetary policy target for price stability such that headline inflation is to reside within the range of 1 – 3 percent for both the medium-term horizon and for the year 2025. 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 6, 2025, the Ministry of Commerce released the July 2025 headline inflation outturn of -0.7 percent, leading headline inflation over the previous 12 months (August 2024 – July 2025) to average at 0.5 percent. Furthermore, the Monetary Policy Report for the second quarter of 2025 assessed that average headline inflation for the next 12 months (August 2025 – July 2026) would remain below the inflation target range. Pursuant to the aforementioned agreement, **this open letter issued by the MPC will address three issues: (1) low inflation and its implications for the macroeconomy and price stability; (2) the role of monetary policy in maintaining macro-financial stability; and (3) the outlook for headline inflation and the expected time frame for headline inflation to return to target range.**

(1) Low inflation and its implications for the macroeconomy and price stability

The inflation target range of 1 – 3 percent aims to foster price stability, which serves as a key foundation for sustainable economic growth. Given that this target range functions as a medium term objective for monetary policy, inflation may temporarily deviate from the target range in the short term, provided that such deviations do not threaten price stability or impede upon economic growth. At present, the MPC assesses that low inflation in Thailand does not pose such risks, mainly due to the following reasons:

1.1) Inflation remains below the target range due to supply-side factors and does not pose as an obstacle to economic growth

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. Energy prices declined in line with movements in global oil prices, with the 12-month average falling from 85 USD per barrel to 73 USD per barrel

(August 2024 - July 2025) due to concerns over the global economic outlook. In addition, the government's continued energy subsidy measures, particularly reductions in the price of electricity, contributed to an average energy price decline over the past 12 months of -1.7 percent. Meanwhile, fresh food prices over the past 12 months rose only modestly 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. Consequently, **average headline inflation over the past 12 months stood at 0.5 percent, with a combined negative contribution of -0.1 percent from energy and fresh food prices – which is much lower than the five-year historical average of 1.0 percent.**

Table 1: Contribution to headline inflation

Sector	Weight (%)	Contribution to headline inflation (%YoY)	
		5-year historical average (2020 - 2024)	12-month historical average (August 2024 - July 2025)
Headline inflation	100.00	1.6	0.5
Core inflation	69.68	0.6	0.6
Energy	12.89	0.6	-0.2
Fresh food	17.43	0.4	0.1

Source: Ministry of Commerce, calculated by the Bank of Thailand.

Core inflation remained stable at an average of 0.9 percent over the past 12 months. This reflects limited cost pass-through from producers, as energy prices – a key production input – declined during the period. Moreover, the lack of upward pressure on core inflation also reflects Thailand's slow economic growth, in part driven by structural weaknesses in the manufacturing sector as domestic producers face increasing competition from low-priced imports. Meanwhile, constraints in labor quality and technological capability continue to weigh on overall competitiveness, which makes it difficult for firms to raise prices. As such, **low inflation is viewed as a symptom of structural challenges in the Thai economy rather than the cause of subdued economic growth.** This assessment is consistent with a business survey of 571 firms conducted in July 2025, where firms cite that the main obstacles to investment were slow growth, heightened uncertainty, and intense competition, but not the environment of low inflation.

1.2) Low inflation is not a sign of deflation and has helped alleviate the high cost of living for households

The MPC continues to closely monitor inflation developments to ensure that the current low inflation environment does not evolve into deflation, or persistently negative inflation that could pose risks to the economy by prompting consumers to delay spending in anticipation of further broad-based price declines. **At present, there are no signs of**

deflationary risk. Although overall private consumption has moderated, it continues to grow by 2.5 and 2.1 percent in the first and second quarters of 2025 respectively. Moreover, around 60 percent of the items in the inflation basket have prices that have either increased or remained unchanged, while items that have seen frequent price declines over the past 12 months are mostly concentrated in energy and fresh food categories, reflecting the influence of supply-side factors. **Medium-term inflation expectations remain well-anchored within the target range.** According to the Survey of Professional Forecasters by Asia Pacific Consensus Economics in April 2025 and financial market data in June 2025, five-year-ahead inflation expectations stood at 1.6 percent. There is also no evidence that low inflation has led to downward wage adjustments as labor wages expanded by **4.6 percent in the first half of 2025.**

Although inflation is low, the cost of living for households remain high as prices that have increased since the high inflation period in 2022 have not declined significantly. Many goods – including meat, vegetable oil, and fuel – have prices that remain roughly 20 percent higher than their pre-COVID levels. Meanwhile, prices of many everyday household items, including prepared foods and non-alcoholic beverages, continue to rise. Therefore, in the current economic environment that is marked by sluggish growth, high household debt burdens and elevated business costs – **low inflation can help ease the high cost of living burdens that are faced by households as well as help support price competitiveness for businesses.**

(2) The role of monetary policy in maintaining macro-financial stability

2.1) Monetary policy implementation must take into account risks to macro-financial stability

Under the Flexible Inflation Targeting (FIT) framework, the MPC aims to **maintain price stability, support economic growth in line with potential, and safeguard financial stability.** Price stability entails keeping medium-term inflation low and stable **within the target range of 1–3 percent, which serves as an anchor for inflation expectations among households and businesses.** When the public has confidence that medium-term inflation will remain within the target range, the MPC can use the policy interest rate to more effectively pursue its objectives for sustainable economic growth and financial stability. This flexibility allows the MPC to refrain from adjusting the policy rate to keep inflation within target range at all times, thereby avoiding potential risks or unintended consequences to the broader economy and the financial system.

The MPC carefully weighted both short- and long-term risks to macro-financial stability, and decided to reduce the policy interest rate three times by a total of 0.75 percentage points in 2025, bringing the policy rate down to 1.50 percent. The main factor behind the decision includes the slowdown in real economic activity and heightened downside

risks. This stems from the impact of global trade policies on the Thai economy and tighter financial conditions from continued credit contraction amid elevated credit risks, particularly among SMEs and low-income households. **Meanwhile, low inflation that remains below the target range does not pose a risk to price stability**, as the current low inflation does not reflect deflationary pressures nor is it the cause of the economic slowdown. **Overall financial stability risks have also moderated**, supported by ongoing debt deleveraging consistent with the downward phase of the credit cycle. **Accordingly, the MPC lowered the policy rate to ensure that financial conditions remain accommodative in line with the economic outlook and associated risks, while also helping to ease interest burdens for businesses and households.**

Relative to the economic outlook, the recent rate cuts were not viewed as insufficient nor behind the curve. The MPC had already incorporated a slower growth trajectory into its policy deliberations, and the latest economic indicators also turned out to be broadly in line with earlier assessments. Amid this period of heightened uncertainty, **the MPC will continue to pursue outlook-dependent monetary policy and stands ready to adjust its policy stance** as necessary should economic growth weaken more than anticipated.

2.2) The policy interest rate has limited effectiveness in addressing supply-side driven inflation

Further easing of monetary policy beyond the current level would not accelerate the return of headline inflation to the target range, as low inflation is largely driven by supply-side factors that monetary policy cannot directly influence. Moreover, in the current context where the economic slowdown stems from structural issues, a policy rate reduction would have limited impact on stimulating economic growth. The policy interest rate at 1.50 percent is already low relative to Thailand's historical levels and the policy rates in other countries. Prolonged periods of low interest rates could lead to long-term risk accumulation, such as excessive debt, reduced incentives for saving, and unproductive investments that do not meaningfully contribute to economic growth. Furthermore, given elevated levels of uncertainty ahead, maintaining adequate policy space via a policy buffer remains essential to ensure that monetary policy can respond promptly and effectively to changing economic circumstances.

Amid current economic challenges, an integrated policy approach where the policy rate is used with other complementary policy instruments can help improve the overall effectiveness of monetary policy while mitigating unintended side effects. The MPC assesses that key economic challenges for Thailand stem primarily from structural constraints such as weakened competitiveness which have led to slower potential growth, coupled with tighter financial conditions due to heightened credit risk. While a lower policy rate can help ease financial burdens and provide support for business adjustment, monetary policy should also be complemented by structural measures. This can help improve credit access – particularly for

SMEs – through initiatives such as credit guarantee schemes and targeted support measures that help businesses adapt and enhance their competitiveness. This integrated policy approach would enable Thailand’s economy to achieve more stable and sustainable economic growth.

(3) The outlook for headline inflation and the expected time frame for headline inflation to return to target range

Looking ahead, the MPC projects that headline inflation will remain low, under the assumption that global crude oil prices continue to stay subdued for some time due to the increase in global oil supply. **However, headline inflation is expected to gradually increase and return to the target range by the first quarter of 2027, as oil prices stabilize in line with demand and supply conditions in the global oil market.** Meanwhile, core inflation is expected to remain stable at around 1 percent throughout 2025 to 2027.

The MPC will continue to closely monitor inflation development to ensure that medium-term inflation remains neither too high nor too low, which could undermine economic growth and a conducive environment for competition and investment. Key risks to the inflation outlook includes: (1) a broad-based decline in prices of goods and services that could keep medium-term inflation below the target range; (2) volatility in global energy prices arising from geopolitical tensions; and (3) adjustments in global supply chains and intensified competition under the evolving global trade landscape, which may affect goods prices.

According to the latest Memorandum of Understanding between the MPC and the Minister of Finance, the MPC will write an open letter to the Minister of Finance again six months from now, should either average headline inflation over the past 12 months or a forecast of average headline inflation in the next 12 months at that time breach the monetary policy target. In addition, to enhance the transparency and clarity of communication to the general public, the MPC wishes to publish this letter on the Bank of Thailand’s website.

Yours sincerely,

(Mr. Sethaput Suthiwartnarueput)

Governor

Chairman of the Monetary Policy Committee

The Honorable Mr. Ekniti Nitithanprapas
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