

**Announcement of the Monetary Policy Committee****No. MPG. 2/2563****Re: The Monetary Policy Target for 2021****1. Rationale**

On the 22<sup>th</sup> of December 2020, the Cabinet approved the monetary policy target for the year 2021, which was mutually agreed by the Monetary Policy Committee (MPC) and the Minister of Finance, in accordance with Section 28/8 of the Bank of Thailand Act B.E. 2485 (1942) as amended by the Bank of Thailand Act (No.4), B.E. 2551 (2008)

**2. Statutory power**

By virtue of Section 28/8 of the Bank of Thailand Act B.E. 2485 (1942) as amended by the Bank of Thailand Act (No.4), B.E. 2551 (2008), the MPC issued this announcement to be published in the Government Gazette.

**3. Contents**

The Minister of Finance and the Governor of the Bank of Thailand as the Chairman of the MPC, had mutually agreed upon the following:

**3.1 Principles for conducting monetary policies under a flexible inflation targeting framework**

The changing global and Thai economic environment as a result of the COVID-19 outbreak causes Thai inflation in the period ahead to be highly uncertain due to both demand and supply factors, which are (1) the gradual recovery of the global and Thai economic outlooks due to subdued economic activities following the implementation of the COVID-19 containment measures; (2) external risks especially volatile global crude oil prices and the deglobalization trend, which would likely increase from trade conflicts, geopolitical risks, and the impacts of the COVID-19 pandemic on supply chain, resulting in higher cost of production; and (3) structural changes, such as greater expansion of e-commerce and adoption of automation in the production process which have been accelerated after the spread of COVID-19. These structural changes put persistently downward pressures on inflation.

Given severe and highly uncertain impacts of the ongoing COVID-19 pandemic on the global and Thai economy, the Ministry of Finance and Bank of Thailand would increase policy coordination in conducting fiscal and monetary policies, which would then lead to the economic recovery as well as stable and sustainable economic growth in the long term. In addition, conducting monetary policies under the flexible inflation targeting framework enables the MPC to formulate appropriate monetary policy decisions consistent with economic and financial conditions, which would face high uncertainties in the period ahead. The MPC currently continued to put emphasis on

supporting economic recovery, towards sustainable economic growth. At the same time, the MPC also aims to ensure the medium-term price stability and preserve financial stability, which mainly contributes long-term price stability and economic sustainability.

During each policy deliberation, the MPC will consider carefully all policy objectives, keeping in mind the short-term and long-term impacts of monetary policy implementation as well as the potential trade-offs of the available monetary policy choices to best address the circumstances at the time. Also, the MPC will stand ready to utilize various policy tools in an integrated manner to effectively achieve policy objectives.

### **3.2 The monetary policy target for the medium-term horizon and for 2021**

The Minister of Finance and the MPC mutually agreed to set the monetary policy target for price stability such that the headline inflation is to reside within the range of 1.0 – 3.0 percent for the medium-term horizon and for the year 2021. This range target, while being conducive to the full-potential economic growth, is deemed appropriate in addressing the changing inflation dynamics from technological advancements and the transition into an aging society. Moreover, the range inflation target enhances the flexibility in monetary policy formulation amid highly volatile and uncertain global economic circumstances after the COVID-19 outbreak, while allowing the MPC to fulfill economic growth and financial stability objectives more effectively. Nonetheless, the purpose of setting the medium-term target is to properly address the lag effects of monetary policy, which takes time to have a full impact on the economy.

### **3.3 Monitoring the monetary policy target**

The Ministry of Finance and the Bank of Thailand will hold joint discussions on regular basis or under necessary circumstances that are agreed by both organizations. This is to best achieve the objectives of monetary policy and to establish a smooth coordination between the execution of fiscal and monetary policies.

The MPC will prepare a half-year monetary policy assessment report which includes (1) recent monetary policy implementation (2) monetary policy guidance going forward and (3) economic outlook. In addition, the MPC will also publish the monetary policy report quarterly to enrich general public understanding regarding the monetary policy implementation, which then would enhance the transparency and effectiveness of conducting monetary policy in the future.

### **3.4 Movement of the headline inflation outside the target range**

The MPC assessed that headline inflation in the period ahead would be volatile due to uncertainties surrounding the oil and fresh food prices as well as external risks, specifically from the U.S. trade protectionism and the potential retaliatory measures

from its trading partners. In case that the average headline inflation in the past 12 months or its forecast for the next 12 months falls outside the target range, the MPC will issue an open letter to the Minister of Finance to elaborate on (1) reasons for the breach of the target range, (2) monetary policy implementation in the past and going forward to guide the headline inflation into the target range at an appropriate time (3) expected time horizon for the headline inflation to fall within the target range. In addition, the MPC will issue an open letter to the Minister of Finance every six months should the average headline inflation, according to the above criteria, remains outside the target range and will report the progress of policy actions taken as deemed appropriate.

### **3.5 Adjustment of the monetary policy target**

In case of necessary or appropriate circumstances, the Minister of Finance and the MPC may, by the mutual agreement, revise the monetary policy target before proposing the new target to the Cabinet for approval.

Announced on the 23<sup>th</sup> of December 2020

Signature

Mr. Sethaput Suthiwartnarueput

Governor

Bank of Thailand

Chairman of the Monetary Policy Committee