Assignment : Inflation Targeting

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Inflation Targeting

This essay is going to talk about an inflation targeting rate. It will start with the definition, background of the inflation targeting both in general and in Thailand, the reason why we should have the inflation targeting, the process of the inflation targeting, and recently inflation targeting in Thailand.

Inflation Targeting is when the central bank determined the inflation targeting rate ahead and then it will increase or decrease the money quantity in economy to be more proper with the inflation targeting. This process makes the monetary policy to be more believable and increase central bank's responsibility.

Once, Riksbank said that the goal of monetary policy and movement in a floating exchange rate is the price stability. The floating exchange rate is very important because it tells about an increase in the consumer price index, or CPI in short, which has a tolerance level between +/-1 percentage point. After Riksbank tried to set the limit and manage the deviations of a tolerance level, the inflation targeting was appeared in 1995. The starting point of the inflation targeting in Thailand was in 2002 with a short-term decision which is to balance and preserve the price level to make planning in consumption, saving, investment, and long-term production be more easier.

Because the price of goods and services in country can be showed by using the inflation rate. If there is too high inflation rate, living expenses can be very high too or if the inflation rate is fluctuated, business planning in that country will be very hard and complicated. From these facts, the central bank is concentrate on balancing price stability, in other words, balancing the inflation rate to be low and stable. The central bank will determine the inflation rate clearly and obviously so people can predict the inflation rate in the future more wisely and precisely.

Training consumers to have the higher expected price is the process of inflation targeting systems. When consumers think that the price of goods and services will be higher in the future, they will buy more at this price level and also the investors will invest more because they think that they will get the higher return. Eventually, the demand for goods and services will increase which can lead to the increase in price level too.

Recently, Thai monetary policy committee and Thai minister of finance made an agreement to change the inflation targeting rate. The new one is around 1-3% for 2020 which is increase from 2.5+-1.5% from 2019. The reason why we have to change the inflation targeting rate is because the inflation rate in Thailand was too low for a long time because of development in technology, increasing in e-commerce, and having more elderly in society. The development in technology makes the company to have an ability to produce more product at lower cost. The increasing in e-commerce stimulates more competitive in goods market so an entrepreneur cannot increase the price whenever they want. The coming of society with elderly decreases the expense for goods and services in country because they do not want go out and spent money.

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