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Monetary Policy Committee's Decision on 16 July 2008

Ms. Duangmanee Vongpradhip, Assistant Governor of the Monetary Policy Group, Bank of Thailand, announces that the Monetary Policy Committee (MPC) met today to assess the latest economic developments and trends in order to determine the appropriate monetary policy stance. The main issues discussed were as follows.

During the first two months of 2008 Q2, the Thai economy continued to expand from both domestic spending and exports, resulting in high capacity utilization and a low unemployment rate. However, there were indications that the rise in the cost of production and the acceleration in inflation have begun to affect business confidence, private consumption and investment spending, as well as price competitiveness of the export sector. Meanwhile, increasing uncertainty in global economic conditions would require close monitoring by the MPC.

Risks to inflation increased markedly in the previous quarter as a result of the continued rise in oil and raw food prices, as well as the rapid acceleration in pass-through from producer prices to the prices of other goods, which was facilitated by continued economic expansion. In addition, indicators of inflation expectations have risen, making it likely that inflation would remain elevated for a while.

The MPC deemed that the risks to inflation have risen markedly, which would affect private sector confidence, make it increasingly difficult to ensure economic stability going forward, and impact potential growth as well as the competitiveness of the Thai economy in the long run. The MPC therefore decided to raise the policy interest rate by 0.25 per cent, from 3.25 per cent to 3.50 per cent per annum, effective immediately.

The MPC would closely monitor the outlook for inflation and economic growth going forward and stands ready to adjust the monetary policy stance should inflationary risks continue to remain elevated.

Bank of Thailand
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For further information, please contact:
Mr. Akkharaphol Chabchittrachaidol Tel: +66 (0) 2283 5621
e-mail: akkharac@bot.or.th