



# **BANK OF THAILAND NEWS**

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**No. 19/2011**

## **Monetary Policy Committee's Decision on 1 June 2011**

Mr. Paiboon Kittisrikangwan, Assistant Governor, Bank of Thailand, announces the outcome of the Monetary Policy Committee (MPC) meeting today, as follows.

The global economy moderated somewhat in the first quarter of 2011 while still maintaining its overall growth momentum. The US economy showed signs that rising inflationary pressure had begun to weigh on consumption. The euro area was expected to maintain its expansion but sovereign debt problems remained a key risk to the economy. The Japanese economy slowed more than expected following the earthquake. However, the recovery would occur faster than expected in the previous meeting. Meanwhile, the Asian economy expanded well on account of both internal and domestic demand. However, risks to global inflation were expected to remain going forward.

The Thai economy grew well in the first quarter supported by agricultural production and exports. Latest data in April confirmed continued economic expansion in line with strong employment conditions, robust farm income, and sizeable fiscal spending. However, production in the manufacturing sector slowed, particularly in the automobile sector due to the supply shortage stemming from the Japan crisis. Nevertheless, latest data showed that production would recover quickly. The MPC assessed that fundamentals remained strong and would support continued economic expansion in 2011.

Inflationary pressure increased more than expected following hikes in the prices of prepared foods on the back of rising costs. Inflation expectations continued to edge up. In addition, elevated oil and commodity prices amid robust domestic demand would lead to greater pass-through of high production costs to overall prices. As a result, there is a risk that inflation may continue to accelerate, resulting in core inflation breaching the upper end of the target band.

In light of the aforementioned outlook, the MPC deemed it necessary to take action to anchor inflation expectations. The MPC therefore decided unanimously to raise the policy interest rate by 0.25 per cent, from 2.75 to 3.00 per cent, effective immediately. The MPC will closely monitor inflationary pressure going forward and stands ready to take necessary action.

Bank of Thailand

1 June 2011

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