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Monetary Policy Committee's Decision on 28-29 May 2013

Mr. Paiboon Kittisrikangwan, Secretary of the Monetary Policy Committee (MPC), announced the outcome of the meetings on 28 and 29 May 2013 as follows.

The global economic recovery was slower than expected. The US economy continued to recover gradually. The eurozone economy remained weak, but tail risks have declined. The Chinese and Asian economies expanded less than expected, which may cause a delay in Thai exports' recovery. Meanwhile, the Japanese economy began to benefit from economic stimulus policies, as reflected by improvement in exports and private consumption. Global financial market remained volatile, leading to persistent capital flows into the region and exchange rate volatility.

The Thai economy in the first quarter of this year grew less than expected from tepid domestic demand, which could weigh on overall economic momentum particularly if there was delay in government's infrastructure investment expected to start later this year. Exports are subject to downside risks from growth moderation in regional economies, especially China. Inflationary pressure eased further owing to lower production costs, while growth of private credit and household debts remained elevated.

The committee judges that the Thai economy should continue to expand on the back of sound economic fundamentals, although downside risks have increased from lower-than-expected growth in the first quarter of this year. As inflation remains well within the target, monetary policy has room to further cushion against downside risks to domestic demand. Against the backdrop of continued financial stability concerns, the MPC thus voted unanimously to reduce the policy rate by 0.25 percent from 2.75 to 2.50 percent per annum, with immediate effect. The MPC will closely monitor developments of the Thai economy, financial stability risks as well as capital flow situation, and stand ready to take appropriate action as warranted.

Bank of Thailand

29 May 2013

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