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Monetary Policy Committee's Decision on 30 November 2011

Mr. Paiboon Kittisrikangwan, Secretary of the Monetary Policy Committee (MPC), announces the outcome of the meeting today, as follows.

The MPC assessed that the global economic outlook had deteriorated after the impact of euro zone's sovereign debt problem on financial markets of the major economies became more pronounced, increasing the possibility of a recession in the euro zone. While the US economy improved slightly, its recovery remained fragile from the conjunction of low consumer confidence and anemic labor market conditions. Economic growth in Asia moderated in the third quarter on the back of softening global demand, though domestic demand continued to expand.

Relative to the previous meeting, it has become apparent that the impact of flooding on the Thai economy has been more widespread and severe. The floods directly brought about partial halt in some production sectors and affected other economic activities indirectly through supply chain disruptions. This reinforced the negative impact on exports from the global economic slowdown, further undermining private sector confidence. The MPC expected economic growth in the last quarter and the whole of 2011 to be much lower than previously projected. With the worst of the flood crisis over, the economy has moved onto the restoration and reconstruction phase which, if delayed could undermine confidence and domestic demand recovery.

Inflationary pressure persists due to government stimulus measures and an anticipated pickup in private sector demand from restoration spending. Nevertheless, the weakening of the global economy would curtail price pressure to some extent. At the same time, price increases driven by flood-related shortages, which have only affected a limited number of goods in certain areas, was expected to be temporary. The risk of inflation accelerating to the extent that would threaten economic stability thus remains contained.

The MPC assessed that the risk of a global economic slowdown has increased while consumer and business confidence remained weak. With upside inflation risks expected to be limited, the current accommodative monetary policy can provide further support to economic restoration and investment. The MPC therefore voted 5 to 2 to reduce the policy rate by 0.25 percent, from 3.50 percent to 3.25 percent per annum, with 2 votes in favour of a 0.50 percent reduction. The MPC would remain vigilant in monitoring developments in the global economy as well as progress on domestic restoration efforts and stands ready to take appropriate policy actions.

Bank of Thailand
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