



BANK OF THAILAND NEWS

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Monetary Policy Committee's Decision on 2 June 2003

Mr. Bandid Nijathaworn, Assistant Governor of the Monetary Policy Group, Bank of Thailand announced 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 going forward. The main issues discussed were as follows:

1. The MPC reviewed the latest data on economic conditions in Thailand and deemed that economic growth in the first 4 months of 2003 was satisfactory. Industrial production expanded significantly, income from major crops increased strongly—reflecting both higher prices and volume, export grew robustly, while domestic demand continued to improve. However, tourism and hotel activity was severely impacted by the spread of Severe Acute Respiratory Syndrome (SARS). In addition, private consumption showed signs of moderating, private investment growth remained modest, and government expenditures expanded more slowly than expected.

2. External stability remained strong with international reserves at a high level and further declines in foreign debt. The current account remained in surplus, but at a smaller level as sharp reductions in tourism revenue lowered the services account, while the income and current transfers balances also declined. The baht appreciated as the US dollar weakened but remained in line with other regional currencies.

3. The economic recovery thus far had not generated perceptible upward pressure on prices with headline inflation edging up to 1.9 per cent in May 2003 compared to 1.6 per cent in April. Core inflation remained subdued at 0.1 per cent compared to 0.2 per cent in the previous month. The MPC expected core inflation to remain in the lower half of the target range over the next 8 quarters and recognized the risk that core inflation may fall below target in the future.

4. The MPC assessed that the main risks to the Thai economy in the near term emanated from external uncertainties, in particular with respect to the fragility of economic recovery in the main industrialized countries, the negative impact from Severe Acute Respiratory Syndrome (SARS) on regional economies and Thailand's tourism industry, and the possibility of further declines in the US dollar. The MPC stressed the need to closely monitor these developments and take stock of their impact on the economy, while maintaining an accommodative stance of monetary policy supportive of economic growth going forward.

The MPC decided to maintain the 14-day repurchase rate at 1.75 per cent per annum.

Bank of Thailand

2 June 2003

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