



BANK OF THAILAND NEWS

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No. 30/2004

Monetary Policy Committee's Decision on 25 August 2004

Ms. Atchana Waiquamdee, 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. Given the latest economic data, the MPC viewed that the Thai economy continued to expand, driven by exports and private investment. However, rising world oil prices is an important factor that should be closely monitored as they could affect future economic expansion and inflation.

2. In July, headline inflation clearly showed signs of acceleration, notwithstanding measures to stabilize domestic retail oil prices. Headline inflation rose 3.1 per cent year-on-year, or on a seasonally adjusted basis by 0.5 per cent month-on-month. Core inflation also accelerated, rising 0.7 per cent year-on-year, or 0.4 per cent when seasonally adjusted compared to June. The MPC viewed that domestic inflationary pressure would be higher going forward due to continuously increasing capacity utilization, rising domestic oil prices, and a tightening labour market. Consequently, the inflation trend should be monitored closely, especially as the pressure could be higher than that reflected in the price indices because of administered prices of certain commodities.

3. External stability remained satisfactory, with continued current account surpluses, declining external debt, and higher international reserves. The MPC viewed that continued domestic spending and rising oil prices would increasingly exert pressure on the current account.

4. With regard to financial imbalances, the MPC observed that although currently there were no clear signs of overheating in household debt and the real estate sectors, these two sectors should be closely monitored.

5. The MPC assessed the impact of the rising oil prices to the economy and viewed that escalating oil prices would exert more pressure on economic stability than on economic expansion. Moreover, robust economic fundamentals and the strong fiscal position should allow the economy to adjust to the rising oil prices without interrupting the momentum of growth.

6. Although the economy continued to expand, the risks to economic stability has increased. The MPC thus deemed that the need to maintain the interest rate at the presently low level has become less necessary. Consequently, the monetary policy stance should be adjusted to address the issue of economic stability, with the adjustments being gradually paced.

The MPC thus decided to raise the 14-day repurchase rate by 25 basis points, from 1.25 to 1.50 per cent per annum, effective from today, and would closely monitor risk factors that could affect economic expansion and inflationary pressure, especially oil prices going forward.

Bank of Thailand

25 August 2004

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