



BANK OF THAILAND NEWS

Communications and Relations Office, Management Assistance Group
Tel 0-2283-5016-7 Fax 0-2281-5648 www.bot.or.th

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Monetary Policy Committee's Decision on 20 October 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. On the basis of recent economic and monetary information, the MPC was of the view that current economic conditions have been affected by high oil prices, with more consolidation in some economic activities, notably the slowdown in consumption expenditure. Nevertheless, the economy still has considerable momentum going forward with support from expansion of exports, private investment and government investment. However, external uncertainty has increased, especially regarding oil prices and the global economic outlook, which could pose greater risks to the Thai economy.

2. Economic stability remained satisfactory, with continued current account surpluses and higher international reserves. Nonetheless, rising oil prices exerted more pressure on the trade balance and domestic inflation. The latest data showed that headline inflation accelerated to 3.6 per cent in September, while core inflation rose to 0.6 per cent. Core inflation excluding housing rent—a factor that kept core inflation low during the previous periods—was at 0.9 per cent.

3. Going forward, inflationary risks would be greater, as a result of continued economic expansion, increasing capacity utilization, a tightening labour market, credit expansion, and plausible upward adjustments in the consumer prices due to higher production costs. These factors would increase inflationary pressures next year, both on headline and core inflation. Consequently, risks to inflation going forward would be higher than previously estimated.

4. Since domestic inflation is projected to accelerate while the economy's growth outlook remains satisfactory, the MPC thus deemed that there is less need to maintain the interest rates at low levels. Domestic interest rates should begin to adjust to the levels that are most consistent with maintaining economic stability. The adjustment should be gradually paced in order to maintain continued growth momentum with economic stability.

The MPC thus decided to raise the 14-day repurchase rate by 25 basis points, from 1.50 to 1.75 per cent per annum, effective from today, and would closely monitor the effects on economic stability and growth going forward, in order to determine the monetary policy stance consistent with economic conditions.

Bank of Thailand
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