



BANK OF THAILAND NEWS

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Monetary Policy Committee's Decision on 7 September 2005

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. The main issues discussed were as follows:

1. Against a backdrop of adverse shocks, in particular surging oil prices, the economy grew by 4.4 per cent in the second quarter of 2005, higher than expected and accelerating from 3.3 per cent in the first quarter. This reflected good economic fundamentals and the economy's ability to weather negative shocks. In this light, the MPC viewed that the growth momentum should continue going forward, especially when supported by a positive outlook on exports and investments, both public and private.
2. The current account balance registered a large deficit during the first half of the year. In the latter half of this year, however, better export performance and a slowdown in imports should contribute towards a surplus in the current account. Nevertheless, the MPC assessed that the current account balance for the entire year would be in deficit and remain so in 2006.
3. Both core and headline inflation clearly accelerated owing to persistent increases in oil prices. Going forward, there remained a possibility that inflation would stay high or rise further if oil prices continue to increase.
4. The MPC viewed that, while the growth momentum was strong, inflationary pressure was likely to increase and the probability of core inflation exceeding the target range remained. Moreover, the current account was poised to be in deficit this year and the next. As a result, the policy rate should continue on an upward trend to keep core inflation within the target range and move real domestic interest rates towards a level consistent with economic stability and sustainable growth in the long term.

The MPC therefore decided to raise the 14-day repurchase rate by 50 basis points from 2.75 to 3.25 per cent per annum effective immediately.

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