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Monetary Policy Committee's Decision on 12 January 2011

Mr. Paiboon Kittisrikangwan, Assistant Governor, Bank of Thailand, announces the outcome of the Monetary Policy Committee (MPC) meeting today, as follows.

Risks to global growth have declined compared to the previous MPC meeting. The US economy continued to recover and growth in 2011 is expected to exceed that of the previous year. Nevertheless, risks from unemployment and the slow recovery in the real estate sector remain. The European economy continued to expand on the back of robust exports and consumption in core member countries such as Germany. Nevertheless, risks from sovereign debt problem still remain. Meanwhile, Asian economies continue to grow robustly, supported by rising domestic demand and exports which is expected to grow in tandem with global and regional recovery. Key risks include inflationary pressure following the acceleration in commodity prices and domestic demand.

The Thai economy improved in the fourth quarter of 2010 due to domestic and external demands which improved from the previous quarter partly due to the acceleration in production and spending as the flood abated. In addition, exports and tourism posted better-than-expected growth. The economy is expected to grow robustly in 2011 due to strong growth in the fourth quarter of 2010 compared to the previous year and domestic consumption and investment which continue to be supported by rising income, employment, and high capacity utilization in certain sectors.

Pressure on headline and core inflation, going forward, is expected to rise as a result of demand pressure and the clear upward trend in oil and commodity prices. Increasing costs of production are expected to lead to increasing product prices, partly due to pent-up pressure from delayed price adjustments.

In light of rising inflation pressure and the return of economic growth to its long-term trend, the MPC therefore decided unanimously to raise the policy interest rate by 0.25 per cent per annum, from 2.00 to 2.25 per cent per annum, effective immediately.

Bank of Thailand
12 January 2011