



# ธนาคารแห่งประเทศไทย

สำนักผู้ว่าการ ธนาคารแห่งประเทศไทย โทร. ๒๕๒๖๖๔๘

No. 33/1997

## Economic Outlook for 1997 and Monetary Policy Stance

### Economic Outlook for 1997

During the first quarter of 1997, economic adjustments in Thailand proceeded satisfactorily on two fronts:

1. On the stability front, internal and external stability improved continuously from the second half of 1996 towards the official targeted level in response to continued cautious monetary policy adopted since 1995. Inflation slowed down from the peak of 7.3 percent during the first quarter of 1996, to 4.4 percent during the first quarter of 1997. During this same period, current account deficit declined from B 86.4 billion to B 53.2 billion in the first quarter of 1997.

2. On the fiscal front, the Government has cut expenditure by B 59.0 billion for fiscal year 1997. Consequently, the cash deficit in the first quarter of fiscal year 1997 (Oct.-Dec. 1996) which amounted to B42.8 billion, improved to a deficit of B 1.6 billion in the second quarter of fiscal year 1997 (Jan-Mar 1997), and began to show a surplus of B7.6 billion in April 1997.

From the above two factors, and with major changes in economic indicators in the first quarter of 1997 from that envisaged at the end of last year, the Bank of Thailand has revised the economic forecasts for 1997 as follows:

The economy is expected to grow at 5.9 percent in 1997, in line with the slowdown in domestic expenditure, in particular private investment. This was, in part, the result of excess capacity in the industrial sectors and excess supply in the property market. Nevertheless, ongoing government and state enterprises investment is set to expand continuously, largely involving projects which are part of the long-term economic development plan.



On the stability front, price level for 1997 is expected to remain at 4.5 percent, a slowdown from 5.9 percent last year. Major contributing factors include the moderation in food prices and subsiding pressures on the demand side and costs. The current account deficit for the year is expected to be 6 percent of GDP, a marked decline from 7.9 percent last year because of the slowing import demand following the slowdown in domestic expenditure and the maintenance of strict fiscal discipline, while export prospects look set for a recovery as shown in the first quarter of this year.

For the year, export is expected to grow by 7.2 percent, underpinned by global economic growth and world trade. Excess capacity in the Thai economy will also contribute to supporting the export recovery, while government measures to expedite export growth begins to bear fruit.

The 1997 fiscal position is expected to record a small deficit, notwithstanding the slowdown in revenue collection linked to the general economic conditions, and the reduction in import tariff on raw material implemented at the beginning of the year. This is attributable to the strict fiscal discipline on expenditure which should help post a cash surplus for the second half of this fiscal year thereby improving the government fiscal position.

### **Monetary Policy Stance for 1997**

Progressive improvement has been observed on the stability front, both as regard inflation and the current account balance which are expected to continue. Moreover, the Government has announced clear-cut measures to maintain fiscal discipline such as expenditure cutting from the 1997 budget and cautious budgeting for the 1998 budget, as well as measures to increase revenue to ensure a balanced budget for 1998. Consequently, to achieve an appropriate policy mix between fiscal and monetary policy under present economic circumstances, the Bank of Thailand wishes to confirm that the Bank will closely monitor the situation and ensure sufficient liquidity in the system to finance normal economic and investment activities.

As regard the recent volatility in the foreign exchange market during the past two weeks, the Bank of Thailand has undertaken immediate steps to rectify the situation to prevent it from posing an obstacle to the gradual reduction in domestic interest rates and the continued foreign exchange capital flows arising from normal trade and investment activities.

As of today, the Bank of Thailand has announced a change in the method of computing commercial bank lending rates by replacing the formula for calculating the Minimum Retail Rate (MRR) previously linked to deposit costs, to be linked to the Minimum Lending Rate (MLR). In this respect, the maximum rate charged to general customers will be MLR plus a margin of no more than 4 percent. This method of calculating lending rates will enable the MLR to move in line with market conditions.

Bank of Thailand

26 May 1997



# Thailand's Key Economic Indicators

1996 - 1997

	1996 <sup>P</sup>	1997	
		1 <sup>st</sup> Quarter <sup>P</sup>	Year <sup>E</sup>
<b>1. GDP at 1988 price ( % change)</b>	<b>6.4</b>		<b>5.9</b>
1.1 Agriculture	3.0		3.0
1.2 Non - agriculture	6.8		6.3
- Manufacturing	7.3		6.6
- Construction	7.7		7.2
- Trade	6.7		6.5
- Others	6.3		5.7
1.3 Consumption	6.2		5.4
- Private	6.1		5.3
1.4 Investment	6.7		5.1
- Private	4.8		2.0
- Public	13.5		15.7
<b>2. CPI ( % change)</b>	<b>5.9</b>	<b>4.4</b>	<b>4.5</b>
2.1 Food	5.6	5.6	5.6
2.2 Non-food	3.4	3.4	3.7
<b>3. External Sector (billion baht)</b>			
3.1 Exports	1378.9	351.4	1478.0
(% change)	-(0.2)	(1.5)	(7.2)
3.2 Imports	1796.5	434.4	1840.0
(% change)	(2.3)	-(5.7)	(2.4)
3.3 Trade balance	-417.6	-83.0	-362.0
3.4 Current account balance	-372.6	-53.2	-312.0
(As % of GDP)	-(7.9)		-(6.0)
3.5 Balance of payments	54.6	-2.6	20.0
3.6 Total outstanding debts (billion US\$)	89.8	91.7	...
3.7 International reserves (billion US\$)	38.7	38.1	...
<b>4. Public Finance (Fiscal year)</b>			
Cash balance (billion baht)	104.3	-44.4 <sup>1/</sup>	-23.1
(As % of GDP)	(2.2)		-(0.4)
<b>5. Money and Banking ( % change )</b>			
Deposits	13.7	12.1	13.0
Private credits <sup>2/</sup>	14.2	13.3	12.5

P = Preliminary      E = Estimated

1/ As of the First half of Fiscal Year 1997.

2/ Operation of Banking System Concept.

**Bank of Thailand**

May 26, 1997