



BANK OF THAILAND NEWS

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

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The Bank of Thailand releases the inflation report.

The Bank of Thailand appointed the Monetary Policy Board (MPB) on May 5, 2000 and gave power to the Board to maintain price stability through sound monetary policy. The MPB set out to ensure transparent and efficient monetary policy under the new inflation targeting framework. As part of the process, today, the Bank of Thailand releases the first issue of *Inflation Report* (July, 2000).

This first issue marks the first step forward in building awareness and transparency, under the new economic policy reform. This inflation report is viewed by the MPB as a crucial mechanism in communicating the direction of monetary policy to the public as well as fostering public understanding of the policy making process.

The inflation report is published quarterly. It is intended to achieve the following objectives:

- To present the inflation forecasts used to assist the MPB in the policy making process.
- To communicate to the public the MPB's rationale of its decisions on the direction of monetary policy.

Each inflation report will contain two important parts:

1. The assessment and the analysis of recent developments in inflation, monetary conditions, and economic conditions (chapter 2 and chapter 3)
2. Inflation and GDP growth forecasts in the next 8 quarters (chapter 4)

The assessment and the analysis of recent developments in inflation, monetary conditions, and economic conditions

Key summary of the current issues:

1. The MPB assessed the pace of economic recovery to be satisfactory, propelled by exports and fiscal expenditures and reinforced by expansion in private consumption and investment. Most recent data suggested sustained improvement in economic activities from previous quarter. More specifically, the Thai economy expanded at 5.2 percent in the first quarter of 2000, continuing from 6.5 percent in the last quarter of 1999.
2. The Thai economy continues to recover, but the recovery progress is not yet sufficiently broad-based.
3. The MPB assessed that core inflation remains at a low level of about 1.2 percent in June and 1 percent in the second quarter of 2000 despite the rising trend of world crude oil prices and weakening exchange rate.
4. A low level money growth in the system does not indicate the tightening overall liquidity conditions in the financial system given that private sectors still receive credit via corporate bond issued in the capital market. Therefore, the MPB assesses that current monetary conditions are supportive of the economic recovery without exerting undue pressure on core inflation.

Inflation and GDP growth forecasts

Macroeconomic models (shown in appendix 2 of the report) are important tools used in inflation and GDP growth forecasts. These forecasts are used as preliminary data to help the MPB assess the outlook in inflation and economic conditions. The data is used, in addition, to analyze the effect of important policy shift or scenario changes such as changes in exchange rates and oil prices.

Since forecasts are estimated under certain assumptions involving uncertainty factors, the projection of inflation and GDP growth are presented in a fan chart, which represents a range of forecasts over time rather than a single point forecast. A fan chart; therefore reflects the increasing uncertainty over the longer time horizon. Furthermore, the skewness of a fan chart

reflects the MPB's assumptions on certain risk factors affecting the forecasts as well as the MPB's judgement.

The result of forecasts can be summarized as follows:

1. The MPB projects core inflation to rise moderately, but still remain well within the target, except in quarter 4 of 2001 if VAT is raised from 7 to 10 percent in October, 2001. Core inflation is estimated to be around 2-3 percent in 2001, compare to around 1-1.5 percent in year 2000. Headline inflation is estimated to be around 1.5-2 percent and 1.5-2.5 percent in 2000 and 2001, respectively.
2. After considering various uncertainty factors, both upside and downside, the MPB assesses that there is a risk of the GDP growth being lower than estimated, due to the uncertainty of economic growth of some of Thailand's trading partners which may affect Thai export and growth. Under such circumstances, the MPB estimates the GDP growth to be around 4.5-5.5 percent in 2000, averaging from growth forecasts in each quarter. The GDP growth in 2001 is estimated to be around 4-6 percent, the wider range reflects increasing uncertainties.

In the absence of a strong upward pressure on prices, the MPB which met on July 18, 2000 decided to maintain the 14-day repurchase rate at 1.5 percent per annum in order to support the recovery of the economy.

In summary, under the new economic policy reform, the Bank of Thailand and the MPB fully recognize the importance of the operational transparency and accountability of policy makers as integral factors of effective monetary policy execution. For this reason, the Bank of Thailand aims to communicate to the public via *Inflation Report* the rationale of its decisions on the direction of monetary policy from each past quarter as well as disseminating all relevant data used in the assessment, the assumptions, and other issues the MPB considers to be important. The report aims to assist the general businesses in their operational and financial planning under the new monetary policy framework.

Bank of Thailand

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