



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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Inflation Report October 2001

Mr. Thirachai Puvanat naranubala, Assistant Governor of the Monetary Policy Group, the Bank of Thailand announced that the Monetary Policy Committee (MPC) released the October 2001 issue of the *Inflation Report* on 29 October 2001, to inform the public regarding the Bank of Thailand's monetary policy stance. The details of the *Report* were as follows.

Economic and monetary conditions

Thai economic conditions remained sluggish in 2001 Q3, due to continuously weakened world economy. The terrorist attacks in the US further eroded recovery prospects of various countries including Thailand, where exports were affected. However, increased monetary and fiscal stimuli implemented by various countries should partly alleviate pressures on the Thai economy. Inflation pressures from the demand and cost sides remained weak. Core inflation should thus remain within the target range for the next 8 quarters.

Inflation and output projections

Compared to the assumptions used 3 months earlier, the MPC deemed that:

1) The US economic slowdown and uncertainties from the military tension would exhibit clear effects on the world economy in 2001 Q4. The MPC thus revised the assumption on trading partners' economic growth downward from the previous assumption.

2) The MPC used the assumption that the Federal Reserve would lower the Fed funds rate by 0.25 per cent per annum in both 2001 Q4 and 2002 Q1, or a total of 0.5 per cent per annum, to stimulate the economy. Once the US economy recovered in the second half of 2002, the Fed funds rate was assumed to adjust slightly upward.

3) The MPC used actual 2001 disbursements for the fiscal expenditure assumption. For 2002, the government was assumed to inject more funds into the economy. Considering the government's emergency schemes, the disbursement rate was expected at 91 per cent, increasing current and capital expenditure budgets by 11.7 and 13.5 per cent respectively. The assumption on the rates of expansion was also used for 2003.

4) Dubai crude oil price was assumed to average 23 US dollars per barrel in 2001 Q4, a decrease from the assumption used in the previous *Report*. However, from 2002 onwards, Dubai crude oil price was assumed to average 22 US dollars per barrel, in line with the previous assumption.

The US economic slowdown would inevitably affect world economic and financial conditions, resulting in a downward revision in Thai export projection. Consumption and investment were accordingly expected to weaken. Fiscal stimulus measures by the government, however, should induce a Thai economic recovery by the second half of 2002. In any case, as the current projections were made under unsettled world economic conditions, the uncertainties in the assumptions were heightened. After incorporating the best case and worst case scenario assumptions into the forecasts, the MPC forecast economic growth in 2001 to be between 1.3-1.8 per cent. For 2002, the highest probabilities of growth lay between 1-3 per cent.

Core inflation outlook

The MPC perceived no risks of core inflation deviating out of the target range. Core inflation should average 1-1.5 per cent per annum in 2001. Once the economy recovered, core inflation could accelerate to 1.5-2.5 per cent average in 2002.

Monetary policy stance

As core inflation was expected to remain low, and the risks of economic slowdown still persisted, the MPC deemed it necessary that easy monetary policy should remain to stimulate the economy. The current level of interest rate was considered to be conducive to recovery, with the real interest rate at around 1 per cent per annum. The current level was also supportive of foreign reserve and baht stability. As the financial system had yet to function properly, any further reduction in the interest rate might not be fully effective in stimulating the economy, but would adversely affect depositors.

The MPC thus decided to maintain the 14-day repurchase rate at the existing level of 2.5 per cent per annum.

The Bank of Thailand would release the seventh issue of the *Inflation Report* at the end of January 2002.

Bank of Thailand

29 October 2001