



BANK OF THAILAND NEWS

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Inflation Report January 2001 Press Release

Today the Monetary Policy Board (MPB) releases the third issue of *the Inflation Report (January 2001)*. The report intends to increase public understanding of the direction of monetary policy. A summary of key issues is as follows:

Recent developments in inflation and economic conditions

Pressure on prices experienced in the last quarter, particularly from oil prices, has weakened during the fourth quarter of 2000. Core inflation, thus, stayed in the low range at 0.8 per cent year-on-year in the fourth quarter while economic growth slowed down since the third quarter of 2000.

Inflation and GDP growth forecasts

Compared to the assumptions underlying forecasts in the previous report, the MPB viewed that:

1. The apparent slowdown in US economic growth may affect the world economy. However, the recent cut in Fed funds rate will help accommodate the adjustment of the US economy.
2. The moderating US economy will slow down growth in Asia. This would have an impact on Thai export growth because the US and the Asian markets accounted for approximately 70 per cent of the total value of Thai exports.
3. Oil prices has declined and become more stable in the fourth quarter. Although the OPEC countries agreed on production cut, the expected increase in oil prices should be lower than the level experienced in 2000. Therefore, the MPB adjusted the assumption of the Dubai crude price used in the previous forecast, from an average of 26 dollar per barrel to 24 US dollar per barrel for the year 2001/2002.

4. Until now, the Bank of Thailand has continued its low interest rate policy to support the economic recovery. The economic and financial structure has also become more broad-based, helping Thailand to cope better with the changing external market conditions.

5. While waiting for the new government's agenda to be unfolded after the election, the MPB chose not to change the assumptions on fiscal conditions at this stage. The MPB, however, would be closely monitoring the development of this issue.

GDP growth projection

The evident slowdown in the world economy has affected the growth of Thai exports. Growth in private consumption and investment has also been moderate.

- The previous forecast had projected GDP growth in 2000 to lie between 4.5–5 per cent with 86 per cent probability. However, the current forecast projected a much lower probability for GDP growth to rise above 4.5 per cent in 2000. It is now projected to lie between 4-4.5 per cent with 95 percent probability.
- For 2001, there is also a lower probability for GDP growth to lie in the 4-5.5 per cent range as projected in the previous forecast. It is now projected to lie between 3-4.5 per cent with 57 per cent probability.
- For 2002, the MPB anticipated growth in private investment and consumption to pick up. Consequently, the average GDP growth is projected to lie between 4.5-6.5 per cent with 51 per cent probability.

Core inflation projection

The MPB assessed that the pressure from oil prices has been reduced. Combined with the economic slowdown, it is now less likely that core inflation will move outside the target range of 0-3.5 per cent in 2001/2002 despite the scheduled VAT rate increase in the fourth quarter of 2001. Core inflation for 2001 is estimated to lie between 1.5-2.5 per cent with 72 per cent probability, increasing from 50 per cent in the October forecast. In 2002, the core inflation is projected to be between 1.5-3.0 per cent, with 60 per cent probability.

Monetary policy stance

In light of the lower core inflation projection and risks to economic growth, the MPB took the option of an interest rate cut into consideration. Nevertheless, this action will affect income of depositors unless alternative saving methods are offered.

Considering these factors, the MPB decided to maintain the 14-day repurchase rate at 1.5 per cent per annum, but will continue to closely monitor the economic conditions and stand ready to adopt an appropriate monetary policy stance in order to maintain price stability conducive to sustainable economic growth.

The Bank of Thailand will release the fourth issue of *the Inflation Report* at the end of April 2001.

Bank of Thailand

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