



BANK OF THAILAND NEWS

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Inflation Report April 2001

Mr. Thirachai Phuvanat naranubala, Assistant Governor of the Monetary Policy Group, Bank of Thailand, in the capacity of the Secretary of the Monetary Policy Board, announced that the Monetary Policy Board (MPB) releases the fourth issue of the Inflation Report (April 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

In the first quarter of 2001, clearer signs of slower growth in the US and Japan had an impact on the world economy and led to fluctuations in exchange rates. The MPB assessed that this poses a risk to the Thai economic recovery. Core inflation stayed in the low range at 1.0 per cent year-on-year in the first quarter.

Inflation and GDP growth forecasts

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

1. The continuing US economic slowdown along with the sluggish Japanese economy will weaken the growth of economies in the Asian region. Therefore, the MPB adjusted the assumption of world economic growth in 2001 downward by 1 percentage point but expected the growth figure to pick up in 2002.

2. The Federal Reserve already lowered its interest rates by a total of 2 percentage points in 2001. Nevertheless, in light of the economic weakness in the US, the MPB used the assumption that the Fed would further reduce the Fed funds rate by another 0.5 percentage point in the third quarter of 2001 and maintain the rate at 4.0 per cent onwards.

3. The slowdown in world economic growth put downward pressure on oil prices, while movements in oil prices became more stable. The MPB thus used the assumption that the Dubai crude price would average 24 US dollars per barrel in 2001 and decline to 22 US dollars per barrel for the rest of the forecast period.

4. The MPB adjusted the assumptions on fiscal conditions to reflect the government's policies that recently became clearer. The new spending package was expected to increase the disbursement rate in the fiscal year 2001 from 89 per cent to about 90 per cent. Government expenditure for the fiscal year 2002 was assumed to total 972 billion baht.

5. The increase in the value added tax (VAT) rate from 7 per cent to 10 per cent was assumed to be postponed to October 2002.

GDP growth projection

Assumptions on the world economic recovery played a significant role in the current assessment of Thailand's economic outlook. Although stable world crude oil prices and the higher fiscal spending in 2001/2002 should stimulate domestic demand, the slowdown in the US and Japanese economies would inevitably have a negative impact on Thai exports.

As a consequence, the GDP growth projection for 2001 was adjusted downward from the previous forecast of 3-4.5 per cent in the *January Report*. The probability of GDP growth being skewed towards the downside was also higher. The MPB thus expected the economy to grow between 2.5-4 per cent with 91 per cent probability.

The MPB expected GDP growth to lie in the 4-6 per cent range in 2002, with 89 per cent probability. Stimulus measures that had been implemented in various countries were expected to boost consumer and investor confidence as well as the global economy.

Core inflation projection

Core inflation in 2001 was expected to be lower than previously forecasted, ranging between 1.5-2 per cent with 79 per cent probability. Consistent with the anticipated economic recovery and the assumption that the VAT rate hike would occur in 2002, core inflation should remain within to 1.5-3 per cent in 2002 as in the previous forecast, with 86 per cent probability.

Monetary policy stance

The MPB continuously adopted an easy monetary policy stance that was conducive to economic recovery but world economic and financial conditions, together with inefficiencies in the banking system, remained obstacles. The economy was therefore not expected to experience rapid growth this year, although an economic pick-up and an increase in inflationary pressure in 2002 were likely.

The MPB thus decided to maintain the 14-day repurchase rate at 1.5 per cent per annum for a while further.

The Bank of Thailand will release the fifth issue of the Inflation Report at the end of July 2001

Bank of Thailand

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