



## **BANK OF THAILAND NEWS**

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### **Inflation Report October 2002**

**Mr. Bandid Nijathaworn, Assistant Governor of the Monetary Policy Group, Bank of Thailand, announced that the Monetary Policy Committee (MPC) released the October 2002 issue of the *Inflation Report* on 31 October 2002. The *Report* was issued to enhance public understanding of the BOT's policy stance, with the key details summarized as follows.**

#### **Recent developments in inflation and economic conditions**

Preliminary data indicated that the Thai economy expanded at a satisfactory rate in 2002 Q3, driven by both production and domestic demand. Exports grew markedly in both quantity and value. Economic growth in 2002 Q3 was thus expected to remain at a rate close to that in 2002 Q2. Core inflation was subdued, averaging 0.3 per cent in 2002 Q3. External stability continued to be strong.

Nevertheless, there remained various risks to the global economy, especially the uncertainties surrounding the US-Iraq conflict, the US economic recovery, the slump in world stock markets, and the impact of recent terrorist attacks. Consequently, even with sound Thai economic performance in the first 9 months of 2002, external conditions might increase the risks to the Thai economy compared to the previous *Report*.

#### **Monetary policy stance in the last 3 months**

In the meetings on 10 September and 21 October 2002, the MPC viewed that the Thai economy expanded favourably in 2002, which would provide a strong basis for growth in 2003. Core inflation in the 8 quarters ahead was expected to remain low and within the target range. The MPC therefore decided to maintain the 14-day repurchase rate at 2 per cent per

annum. Nevertheless, the MPC would continue to closely monitor external economic conditions and stood ready to adjust the monetary policy stance should risks to economic growth heighten further.

### **Economic growth and inflation projections**

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

1) Increased uncertainties surrounding the recovery prospects of trading partners' economies, especially the US and Japan, prompted the MPC to adjust downward the assumption on trading partners' growth from the previous *Report*.

2) In view of heightened risks to the US economic recovery, the MPC used the assumption that the Fed would maintain an easy monetary policy stance. The Fed was expected to keep the Fed funds rate at the current level until 2003 Q2 instead of 2003 Q1 as previously assumed.

3) Tensions in the Middle East pushed Dubai crude oil price in 2002 Q3 to 25.57 US dollars per barrel on average, higher than the assumption used in the previous *Report*. The MPC assessed that these tensions would be relieved before 2003 Q2. The MPC thus used the assumption that Dubai crude oil price would average 27 US dollars per barrel in 2002 Q4 and 2003 Q1, and would drop to 23 US dollars per barrel for the remaining forecast period.

4) In August 2002, the Cabinet decided to delay the hike in value added tax (VAT) from 7 per cent to 10 per cent for another year until 30 September 2003. The MPC therefore used the assumption of a 10 per cent VAT rate from 2003 Q4 onwards.

5) The 14-day repurchase rate remained at 2 per cent per annum throughout the forecast period.

The Thai economy expanded by 5.1 per cent in 2002 Q2 over the same period the previous year. In light of preliminary data indicating buoyant growth in 2002 Q3, coupled with a relatively low base for calculation in 2001 Q3, economic growth in 2002 Q3 was expected to stay at a rate close to that in 2002 Q2.

The MPC assessed that there was high probability that the Thai economy would grow by 4-4.5 per cent in 2002, the rate announced by the NESDB in September. This would serve as a basis for growth in 2003. Nevertheless, heightened global uncertainties with possible repercussions on the Thai economy prompted the MPC to maintain the growth rate of 3-4 per cent for 2003 as previously. The probability of economic growth staying in the 3-4 per cent range was 67 per cent. With better economic conditions in 2002, there was greater probability that the economy would expand above this range in 2003 compared with the earlier *Report*.

### **Core inflation outlook**

The MPC anticipated core inflation to remain low, averaging 0.5-1 per cent in 2002 and 1-2 per cent in 2003. Headline inflation was expected to average 0.5-1 per cent in 2002 and rise to 1-2 per cent in 2003, partly owing to higher oil and agricultural prices than previously assumed. The notable rise in both core and headline inflation in 2003 Q4 came as a result of the MPC's assumption on the VAT rate hike from 7 per cent to 10 per cent.

**Bank of Thailand**

**31 October 2002**