



BANK OF THAILAND NEWS

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Inflation Report April 2003

Mr. Bandid Nijathaworn, Assistant Governor of the Monetary Policy Group, Bank of Thailand, announced that the Monetary Policy Committee (MPC) released the April 2003 issue of the Inflation Report on 30 April 2003. 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 strongly in 2003 Q1, despite external uncertainties. This was evidenced by the continued expansion in economic activity during the first 2 months of the year and the expansion in private consumption, export and production during the first quarter, which would provide momentum for economic growth in 2003. External stability remained strong. Core inflation was low, averaging 0.3 per cent in 2003 Q1. The exchange rate remained stable. The current account recorded a surplus throughout the quarter. Meanwhile, international reserves remained high despite the early debt repayment to the IMF.

Nevertheless, the Severe Acute Respiratory Syndrome (SARS) problem remained highly uncertain and posed an important risk to the Thai economy going forward.

Monetary policy stance in the last 3 months

In the 3 March 2002 meeting, the MPC deemed that although external uncertainties continued to be an important short-term risk to the Thai economy, Thailand's growth would benefit from the momentum due to continued economic recovery. Thus, the MPC decided to maintain the 14-day repurchase rate at 1.75 per cent per annum.

In the 21 April 2003 meeting, the MPC viewed that the Thai economy was not significantly affected by the US-Iraq war and continued to grow favourably. However, the effect of SARS on the region's economy may have negative repercussions on Thailand's export and tourism. As a result, monetary policy should remain accommodative. The MPC therefore decided to maintain the 14-day repurchase rate at 1.75 per cent per annum.

Economic growth and inflation projections

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

1) Trading partners' economies grew at a slower rate than previously assessed, especially Asian countries which was expected to be affected by SARS. European countries also continued to exhibit weak economic performance.

2) The MPC viewed that although the US-Iraq war has ended, the effect from the war and remaining uncertainties would exacerbate the US's fragile economy. As a result, the US economy was not expected to recovery rapidly in the near future. The MPC therefore anticipated that the Fed would continue to adopt a lax monetary policy stance, keeping the Fed funds rate at 1.25 per cent per annum until 2003 Q4 before raising the rate when the economy showed clearer signs of recovery.

3) The MPC viewed that crude oil prices had already passed its peak and excess supply of crude oil in the world market was anticipated due to further slowdown in the global economy. As a result, the MPC used the assumption that Dubai crude oil price would average at 23 US dollars per barrel in 2003 Q2 and remain at this level for the rest of the forecast period.

4) The 14-day repurchase rate remained at 1.75 per cent per annum throughout the forecast period.

The Thai economy expanded 6.1 per cent in 2002 Q4 over the same period the previous year. Preliminary data also indicated continued growth in 2003 Q1, which would be a firm basis for sustaining growth going forward. However, due to the remaining external uncertainties especially the impact of SARS, the MPC maintained a view that in 2003 the Thai economy would

grow between 3.5-4.5 per cent, as projected previously, reflecting the MPC's concern over ongoing external uncertainties. The probability of economic growth staying within the 3.5-4.5 per cent range was 75 per cent. However, the probability of economic growth above 4.5 per cent increased slightly. In 2004, Thailand's GDP growth was adjusted upward to 4.5-6 per cent with a probability of 86 per cent.

Core inflation outlook

The MPC anticipated that core inflation in 2003 would be lower than was forecasted in the previous *Report*, owing to the assumption about the impact of SARS on the economy and the world economic slowdown. Headline inflation was expected to be higher, following the increase in world oil and agricultural prices. In 2003, core and headline inflation were expected to average around 0-1.0 per cent and 1-2 per cent respectively. In 2004, both core and headline inflation were expected to average around 1-2 per cent.

Core inflation was expected to remain low and within the target range of 0-3.5 per cent, facilitating the maintenance of an accommodative monetary policy stance to support economic growth.

Bank of Thailand

30 April 2003