



## **BANK OF THAILAND NEWS**

Communications and Relations Office, Management Assistance Department  
Tel. 0-2283-5016-7 FAX 0-2281-5648 www.bot.or.th

**No. 3/2004**

### **Inflation Report January 2004**

Mr. Bandid Nijathaworn, Deputy Governor, Monetary Stability, Bank of Thailand (BOT), announced that the Monetary Policy Committee (MPC) released the January 2004 issue of the *Inflation Report* on 29 January 2004. 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**

The Thai economy expanded 6.5 per cent in 2003 Q3, accelerating from 5.8 per cent in the second quarter, with private consumption being the main driving force while public spending also accelerated. With regard to 2003 Q4, preliminary data indicated that the economic activity would continue to expand, supported by both private and public spending. Production in the agricultural and non-agricultural sectors continued to expand.

Overall economic stability remained strong. In 2003 Q4, headline inflation rose year-on-year by 1.6 per cent, whereas core inflation averaged 0.1 per cent, which was mainly due to the decline in housing rents while the real estate market adjusted. Excluding housing rents, core inflation averaged 0.6 per cent, reflecting the rising trend of core inflation from the pass-through effect of higher production costs. External stability remained strong with international reserves at a high level. Meanwhile, the current account continued to record a surplus, while foreign debt declined.

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

The subdued core inflation facilitated a continuation of accommodative monetary policy to maintain economic recovery. In order to determine the appropriate monetary policy stance going forward, the MPC discussed various important issues as follows:

1. In the 12 December 2003 meeting, the MPC deemed that the economy continued to grow strongly supported by robust domestic and external demand. Solid private spending will provide further momentum to future economic expansion. External stability remained strong, while the baht remained stable following the implementation of various measures to prevent speculation. However, movements of major currencies and domestic asset price developments following economic growth should be monitored closely. As a result, the MPC decided to maintain the 14-day repurchase rate at 1.25 per cent per annum.

2. In the latest meeting on 21 January 2004, the MPC viewed that the Thai economy grew strongly, supported by domestic demand and exports. With the recovery in world economic growth, external risks have receded. However movements of major currencies will have to be closely monitored. Inflation should remain low and not pose a threat to economic stability. However, due to economic growth, current account adjustments as well as imbalances that might

occur with respect to developments in asset prices and household balance sheets should be monitored in the following periods. As a result, the MPC deemed the current policy stance appropriate, and therefore, decided to maintain the 14-day repurchase rate at 1.25 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 were expected to improve than previously assessed, especially the US and Japan. Moreover, the euro area and Asian region economies were also expected to pickup following the US economic recovery.

2) The assumption on crude oil price rose from the previous assessment owing to higher-than-expected demand for oil following economic recovery in many countries. Furthermore, uncertainties pertaining oil supply from Iraq and OPEC's decision to reduce the production quota also facilitated the hike in oil price. Crude oil price was expected to remain high in 2004 Q1 before declining in the following periods, in line with world production which was expected to increase, especially from economies outside the OPEC group

3) Fiscal expenditure for fiscal year 2004 was assumed to be higher than that in the previous *Report*. The higher assumption was partly due to the supplementary budget of 135.5 billion baht.

4) Due to US' low inflation level and economic recovery, the MPC assumed that the Fed would keep the Fed funds rate at 1 per cent until mid-2004 before rising continuously, as previously assumed.

After the MPC meeting on 21 January 2004, the reaffirmed spread of the avian flu caused the death of many fowls and much more were destroyed following the government's measure to contain the spread of the avian flu. Furthermore, exports of frozen fowl, live poultry and prepared or preserved meat of poultry were also affected. As a result, the MPC approved additional assumptions pertaining to the avian flu. The assumptions included affects of the avian flu on exports during the first half of 2004, which could lead to a decline in exports of around 500 million US dollars. Furthermore, chicken stock had been destroyed as a precautionary measure, and the government approved an initial budget of 3,000 million baht to deal with the problems.

From the aforementioned assumption together with effects from the avian flu, the MPC assessed that in 2003 the Thai economy would grow at a higher rate than previously projected, at around 6.3 per cent. Due to the continuously growing economic trend as well as strong domestic and external stability, the MPC assessed that the economy would be able to weather unexpected shocks. As a result, although the avian flu could adversely affect the economy, the government's measure would facilitate economic growth in 2004 to average between 6.3 – 7.3 per cent, with probability around 80 per cent. For 2005, notwithstanding high uncertainties, the Thai economy was expected to expand 6 – 7.5 per cent, with probability of around 82 per cent.

**Core inflation outlook**

In 2003, core and headline inflation averaged 0.2 and 1.8 per cent respectively. For 2004 and 2005, the MPC expected core inflation to accelerate slightly to 0-1 and 0.5-1.5 per cent, respectively, following the economic recovery. Meanwhile, headline inflation should average around 1-2 per cent in both 2004 and 2005.

Bank of Thailand  
29 January 2004

For further information, please contact: Ms. Pinnarat Vongsinsirikul Tel: +66 (0) 2283 6185 e-mail: [pinnarav@bot.or.th](mailto:pinnarav@bot.or.th)