



BANK OF THAILAND NEWS

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Inflation Report April 2004

Ms. Atchana Waiquamdee, Assistant Governor, Monetary Policy Group, Bank of Thailand (BOT), announced that the Monetary Policy Committee (MPC) released the April 2004 issue of the *Inflation Report* on 29 April 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 6.7 per cent in 2003, growing 7.8 per cent in 2003 Q4, with private consumption being the main driving force as well as strong export growth and acceleration in public spending. With regard to 2004 Q1, preliminary data indicated that economic activity would continue to expand, despite the slight decline in consumer and investor confidence following news of the avian flu outbreak and unrest in the southern region of Thailand.

Overall economic stability remained strong. In 2004 Q1, headline and core inflation rose year-on-year by 1.9 and 0.1 per cent respectively, although administered prices gradually adjusting upwards due to the continued increase in oil prices. Excluding housing rents, core inflation averaged 0.6 per cent, reflecting the possibility that the core inflation trend could increase following higher production costs. Furthermore, the increasing trend of inflation in other countries, higher oil prices and non-fuel commodity prices, together with strong world economic growth could also put pressure on domestic inflation going forward. 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

In order to determine the appropriate monetary policy stance going forward, the MPC discussed various important issues as follows:

1. In the 17 March 2004 meeting, the MPC deemed that the economy continued to grow strongly despite the decline in consumer and investor confidence following the news of the avian flu outbreak. Overall, the economic growth process remained sound and did not indicate signs of economic overheating. While there could be some upward price pressures from higher production costs and stronger demand, core inflation is expected to remain within the target range. 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 April 2004, the MPC viewed that the Thai economy grew strongly in January and February 2004, supported by domestic demand and exports. Although the impact from unrest in southern Thailand and the avian flu was higher than first assessed, it did not affect domestic spending. While upward pressure on price became more apparent, core inflation remained within the targeted range. 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. Nevertheless, the MPC stressed the need to monitor inflation trends in other countries, oil prices and non-fuel commodity prices closely since they have the potential to affect prices domestically.

Economic growth and inflation projections

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

1) Crude oil prices rose from the previous assessment owing to higher demand, uncertainties pertaining to the situation in the Middle East and OPEC's decision to reduce the production quota. As a result, the oil price trend was expected to adjust upwards in 2004 before declining somewhat in 2005. However, the measure to stabilize domestic retail oil prices was reintroduced since 10 January 2004, the retail oil price was thus assumed to remain stable throughout the forecasting period.

2) World commodity prices, including world farm prices and non-fuel commodity prices, increased due to supply shortage in the world market, while demand continued to rise.

3) Trading partners' economies were expected to improve than previously assessed, especially Japan and countries in the Asian region.

4) The impact of the Avian flu was higher than assessed in January.

Due to changes in the aforementioned assumptions together with risks regarding trading partners' economies, the world crude oil price trend and the impact on consumer and investor confidence, the MPC assessed that in 2004 the economy would grow higher than previously projected, averaging between 6.8-7.8 per cent (compared to 6.3-7.3 per cent in the January projection), with probability around 93 per cent. For 2005, notwithstanding high uncertainties, the Thai economy was expected to expand 6.3 – 7.8 per cent, with probability of around 89 per cent.

Core inflation outlook

With regard to the inflation trend, the MPC assessed risks pertaining to the impact and pressure from world economic recovery, the rising inflation trend – particularly in Asian region countries following world economic recovery – as well as continued increase in oil and world non-fuel commodity prices, which would lead to an acceleration in Thailand's inflation. The MPC thus expected core inflation in 2004 and 2005 to accelerate slightly to 0-1 and 1-2 per cent, respectively. Meanwhile, headline inflation should average around 1.5-2.5 and 1-2 per cent, respectively, in 2004 and 2005.

Bank of Thailand

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