

Improvements in the Economic Forecasting Process

Since May 2000, the MPC has employed the Bank of Thailand's Macroeconometric Model (BOTMM) in forecasting output and inflation 8 quarters ahead to use as inputs in deciding monetary policy stances. The BOTMM, regularly published in the Appendix of the *Report*, has continuously been revised to reflect changes in the economy.

The BOTMM consists of 5 major blocks, namely: 1) the real sector, 2) the government sector, 3) the external sector, 4) the monetary sector and 5) the price indices. In making the forecasts, the MPC uses assumptions on exogenous variables that are deemed most possible, such variables include the Dubai crude oil price, trading partners' GDP growth rates, regional exchange rates, the Fed funds rate, and public sector expenditures. The MPC then incorporates its judgment into the inflation and output forecasts as projected by the BOTMM. The resultant forecasts are then presented in the *Report* as fan charts that reflect uncertainties surrounding the forecasts and the probabilities associated with different forecast ranges.

In making the forecasts, the MPC does not rely solely on the BOTMM but also on other single equation models and economic indicators. The forecasts, however, are still mainly based on quantitative analyzes that are restricted by the models' structures and associated economic theories. Qualitative analyzes are rarely used to support the forecasts. Although business sector surveys have been conducted from time to time, they were largely unsystematic.

In order to incorporate the data or analyses that cannot be built into the model or economic indicators used in monetary policy considerations, particularly those on business sector's expectations and opinions, the BOT set up of the **Economic/Business Information Exchange Programme between the BOT and Business Operators** which was agreed upon by the MPC. The programme aims to facilitate information exchange and build up mutual understanding with the private sector regarding latest economic conditions, both at the macro and the business sector levels. The programme also solicits private sector economic forecasts and feedbacks that could be useful for monetary policy decisions. Summary from the programme will be regularly published in the *Report* from this issue onwards.

In conducting the information exchange programme, approximately 300-400 businesses deemed important to the economy are selected annually. To best cover and reflect real economic activities, enterprises are selected regardless of their size. The enterprises can be classified into 3 groups 1) *Agricultural businesses* which constitute around 12 per cent of all selected enterprises 2) *Manufacturing businesses* which constitute around 48 per cent, with exporting enterprises as the majority and 3) *Service businesses* such as financial institutions, hotels, telecommunication and transportation businesses which constitute together around 40 per cent.

The information exchange programme will be conducted quarterly. Main issues for discussion will cover 1) current conditions and trends over the next year with regards to sales, production, capacity utilization, cost of production, prices and employment, 2) investment plans in the foreseeable future, and 3) obstacles in business operations and policy recommendations. Information from this programme will be used to develop a database that includes qualitative information, as well as of business operators' opinions and expectations. Information from the database will be considered alongside quantitative economic forecasts projected by the macroeconometric model. Such consideration should facilitate assessments of actual economic conditions and improve economic forecasts.