



BANK OF THAILAND NEWS

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No. 3/2001

Impact of the reduction in the Fed Funds rate on the Thai monetary policy

The Federal Open Market Committee decided on 3 January 2001 to lower its target for the Federal Funds rate by 50 basis points to 6 percent per annum and lower the Discount rate by 25 basis points to 5.75 percent per annum. This prompt action was unexpected by the market as a response to the slowdown in the US economy. The lower interest rate environment should benefit the US economy and reduce the risk of a hard landing which should support the export sector and economic recovery of Thailand as well as other regional economies.

The Reduction in the Fed Funds rate help narrow the interest rate differential which may have been a concern to some that it was too high. This should be accommodative of the monetary policy stance in many countries attempting to stimulate their economies.

This interest rate reduction should not affect domestic interest rates. Under a flexible exchange rate regime, the conduct of Thailand's monetary policy is independent. Domestic interest rates are determined by the Monetary Policy Board (MPB) in line with the country's economic recovery under the inflation targeting framework.

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4 January 2001