



BANK OF THAILAND NEWS

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

The Federal Open Market Committee (FOMC) decided on 31 January 2001 to lower its target for the Federal Funds rate from 6.0 to 5.5 percent per annum and lower the Discount rate from 5.5 to 5.0 percent per annum. Both Fed Funds rate and Discount rate were previously cut by 50 basis points on 3-4 January 2001. The Bank of Thailand expect the cut in interest rates to be beneficial to the economic recovery due to the following reasons:

1. This prompt action was a response to the evident slowdown in the US economy along with the new President's fiscal proposal for a tax cut. The synchronization of monetary and fiscal policies should bode well for future recovery in the US economy and benefit the export sector in Thailand as well as other regional economies.

2. The lower rate of returns in the US is likely to induce more capital outflow towards other countries including the Asian economies and should directly support the economic recovery in this region.

The Monetary Policy Board (MPB) will consider these interest rate cuts in its next deliberation and will keep a close watch on changes in the US economy as well as other countries.

Bank of Thailand

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