

An Evaluation of Inflation Forecast Targeting in Thailand

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Abstract:

This paper has two objectives. First, we assess the accuracy and the efficiency of inflation and output growth forecasts. Second, we examine empirically the policy rate decision made by the Monetary Policy Committee (MPC) by focusing on the interaction between its economic projections and the policy response. Using publicly available information published in the inflation reports between July 2000 and July 2009, there is no significant evidence that the forecasts are not efficient. Under the pooling approach, systematic bias occurs in headline inflation forecast at 10% level but does not exist in GDP growth and core inflation projection. In addition, our empirical results confirm that monetary policy decision in Thailand has been made on the basis of own forecast with relatively strong degree of responsiveness to inflation forecast deviation from the target. Finally, we find that the response of change in the policy interest rate to forecast revisions is statistically significant but the degree of judgment on part of the MPC appears to be high in the policy setting.

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