

CENTRAL BANKING
TRAINING COURSE/
SEMINAR SERIES

SPRING 2004

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5-day intensive
residential programme

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MAXIMISING THE VALUE OF ECONOMIC ANALYSIS FOR CENTRAL BANKS

Course chairman:

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Venue:
Cumberland Lodge
The Great Park
Windsor



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Dear Delegate,

MAXIMISING THE VALUE OF ECONOMIC ANALYSIS FOR CENTRAL BANKS

Central bank economists face ever-increasing demands for their analysis from the public, markets and policymakers. However, their focus, increasingly, is on supporting the central bank's core functions of assuring price stability and financial stability. Economic analysis forms the backbone of modern central bank policymaking and plays a crucial role in informing markets and the public, and in shaping expectations. Producing timely and understandable analysis of the national and international economic variables – and their interaction – is vital to the credibility and independence of the central bank. The ability to understand and model the behaviour of financial markets and their participants enables the central bank also to identify the risks that could impact on the economy, rank them in order of severity and probability, and advise policymakers on appropriate policy measures to prevent or mitigate the risks.

To meet these demands senior managers need to identify relevant topics, rank them in order of priority and develop a coherent programme of research. Managers also need to plan and organise adequate financial and human resources to deliver results to the satisfaction of policymaking committees and boards.

This training course/seminar provides an opportunity to review and assess the whole range of economic input to policymaking and publications in a central bank, the various ways in which central banks organise this function at present and the conclusions that can be drawn for the optimal ways of organising it in future, given the specific circumstances of individual institutions. This assessment will cover not only the central roles in the process of monetary-policy making and assuring financial stability, but also the efficient conduct of market operations, including reserve management, and risk management throughout the institution. In all such areas, the input of economists and economic modelling is indispensable.

In designing this course, Central Banking is building on its well-established annual training course/seminar series held annually at Cambridge. Over the last five years, the series have attracted over 550 central bankers and financial regulators from over 95 different countries. This is the second series of training courses/seminars to be held in the regal setting of Cumberland Lodge, located in the heart of the famously picturesque Windsor Great Park.

The course reflects the independent standing of the course organisers, which allows and positively encourages the free and open discussion of important and sensitive issues. At the same time, the limited size of the groups allows each individual to contribute fully to discussions and derive maximum benefit from participation. Also, the residential nature of the course provides ample opportunity for informal discussion outside the scheduled sessions.

We look forward to welcoming you to Windsor.

Yours sincerely,

A handwritten signature in blue ink that reads "William Clarke".

William Clarke CBE PhD

Chairman, Central Banking Publications

MONDAY 19th APRIL

REDEFINING THE ROLE, SCOPE AND FUNCTIONS OF ECONOMIC ANALYSIS IN A CENTRAL BANK

Challenges facing the central bank's economic advisory function

Ana Cristina Leal, *Deputy Head of Economic Research, Bank of Portugal*, and
David Mayes, *Bank of Finland*

In this important opening session, the group will discuss the changing expectations of boards and policymakers of what the economics and research department(s) are expected to deliver, and it will review how different central banks are at present responding to these challenges. The aim is to lay the groundwork for later sessions that will help delegates to formulate focused programmes, tailored to their particular requirements, to achieve these goals. To define these requirements more precisely, the group will survey the roles of economists in a wide range of functions, including centrally monetary policy and market operations, but also embracing financial stability, reserve and liability management and risk management.

The group will also consider another critical, yet also frequently neglected, subject: information. The foundation of a good economic service in a central bank is for it to establish and maintain an adequate information base. Before getting into forecasts and models, what is needed first is to determine what data the institution needs to have, how it is to be collected and updated, what relations are with other key official agencies such as the statistics office, how quality control is to be maintained, and the resourcing and organisation of this function.

The organisation and structure of the economics/research department(s)

In this session, delegates will discuss the place of the economics department within the bank's organisation, its mission or mandate and its resources. The department's most important resource is its expert staff. Standards must be as high as possible, given the financial and human resource constraints of the country's given environment. As well as generating reliable data, central banks are expected to produce intellectual material on a par with top academic institutions. Central banks face competition from private, public and official sectors in attracting and retaining economists. This session discusses the effective management and allocation of human resources in order to structure programmes of research to achieve goals set by policymakers as well as retain and motivate staff.

The importance of cooperation between economists belonging to different departments of the bank and the organisation of interdepartmental working groups will also be considered.

Research vs economics

The final subject of the day will task the group to discuss the difficult question of the relationship between research and the provision of direct economic advice to policymakers. At present, practices among central banks vary from labelling the whole of economics 'research' to labelling it entirely 'economics' but nevertheless there is an important distinction that is difficult but essential to manage. There can be a cultural problem for senior management who are not necessarily trained economists to understand why the sorts of simplification that economists make are necessary. Where resources of highly trained economists are scarce, as in many emerging markets, the rationale for the central bank to devote such scarce resources to 'research' as distinct from 'direct input into policymaking' must be explicitly considered. Balancing fundamental, strategic and applied research and organisation is crucial.

Workshop sessions

In a final session, participants will split into working groups to focus on specific subjects.

TUESDAY 20th APRIL

SUPPORTING THE WORK OF MONETARY-POLICY MAKERS AND POLICY COMMITTEES

Monde Mnyande, *Head of Research Department, South African Reserve Bank* and
David Mayes, *Bank of Finland*

Learning from the market

Financial markets provide a crucial source of information about the risks, expectations and policy expectations in a domestic economy, but filtering out the noise to obtain useful information is a specialised and time-consuming task. Central banks, as major players in the market, are uniquely placed to collect and process information. How can central banks learn about domestic and international market anticipation of price movements and policies? What can be garnered from interpreting market movements in lesser-developed financial markets? This session will look at the techniques used by a leading central bank to analyse and interpret movements in financial markets.

Modelling the national economy

In order to test, evaluate and propose policies a central bank needs a model of the domestic economy that is comprehensive but adaptable. What are the key building blocks for a model of a national economy? How can a researcher compensate for or improve on the quality of statistics available? The speaker will also present approaches to incorporating the effects of external factors on the domestic economy into the modelling process. Part of session will be devoted to how to test and revise the model to improve its performance. The approaches of leading central banks will be compared.

In connection with this an important question for consideration is whether one should follow the single or multiple model route. The European Central Bank, for example, arrives at a single assessment of the outlook for inflation and the risks to price stability from analysis of the real economy and monetary variables – the famous “two pillars”. What are the practices of other central banks? What considerations should influence the particular approach adopted by different central banks?

A key area to be discussed by the group is the definition of the role of 'analysis' – central bank economists are often good at running models, and producing forecasts, writing academic research papers, etc. What they are perhaps often weaker at is in providing more direct backing for policy. What are the issues that have to be considered, what is the evidence that can be brought together on the subject, how do economists put together a balanced discussion that can form the basis for others to take decisions? How can they present all this at the right level of complication and length?

Producing forecasts, projections and surveys

The development of inflation targetting as a monetary policy framework has placed an increased demand on central bank economists to produce projections or forecasts for economic variables. Constructing rigorous methods for computing figures for the output gap and the sustainability of the deficits are essential parts of this process. A series of case studies will illustrate how central banks have approached this technical challenge and, crucially, the challenge of explanation to policymakers and the public.

Risk analysis: one crucial development of recent years is the more sophisticated treatment of risk and uncertainty. For instance, in macro-forecasting, governing boards want far more than an economist's “best guess” of what is going to happen over the next few years. Point forecasting is only a small part of the job – scenario building, competing forecasts, fan charts are all central.

This day will also conclude with a **workshop session**.

WEDNESDAY 21st APRIL

MONITORING AND MAINTAINING FINANCIAL STABILITY

Chairman: **David Mayes**

Presenters: **Peter Praet**, *Director, National Bank of Belgium (invited)*,
Robert Aliber, *Professor of International Economics and Finance, University of Chicago*

Identifying and assessing financial sector risks

The role of economists in supporting the central bank's responsibilities in the area of financial stability is not as clear-cut or clearly defined as it is in the area of monetary policy, but it is nevertheless very important. Therefore the challenge of defining exactly how economists can best be deployed in this area remains unavoidable.

All central banks are concerned to assure financial stability – and most also serve as overseers of the banking sector. In both capacities, the central bank faces the challenge of guarding against the potential for systemic risks. With no commonly accepted definition or quantified target for “financial stability” where should research be focused to generate the most useful results in terms of policy advice? How can a central bank construct a picture of the financial sector that will identify potential systemic weaknesses and illustrate these to policymakers? How can they assess the vulnerabilities of the financial system to different kinds of shocks, including interest rate and exchange rate shocks?

Financial infrastructure: developing a better understanding of international and domestic markets

Gaining a better picture of what motivates and affects the behaviour of participants in a domestic economy – as consumers, investors and savers – is critical to improving understanding of the economy and improving policymaking performance. In situations where data may not be readily available central banks need to be able to conduct surveys and gain an understanding of their economy's workings at the grassroots level.

Conversely the increasing globalisation and complexity of international capital markets and instruments means that research must address global trends and how they provide opportunities or pose risks to the domestic banks and markets. This session will consider the effective allocation of resources to these strands and the synergies that can be achieved in the planning of research programmes. As regards modelling financial crises, traditional literature on bubbles and asset prices is still valuable. Microeconomic considerations such as pro-cyclicality in Basel II will be taken into account in the discussions.

The output of economists in the area of financial stability – a role for a financial stability review?

Many central banks are now publishing financial stability reviews. Yet what precisely is their function? How much detail is needed, or demanded by the prospective audience? Whatever the particular vehicle chosen, all central banks need to try to assess and explain the different sources of risk affecting their financial institutions and markets. Presenters will discuss the latest lines of research in the area of financial stability, approaches to the modelling of crises, the input that economists can make to the regulation and supervision of financial institutions and how controlled dissemination of data itself can act as an aid to the financial stability goals. Economists have much to contribute on topical issues such as corporate governance, principal-agent relationships, efficiency (especially payment systems), and moral hazard and on systemic risk and spillovers. A focus of this session will be on how measure and assess the quality of the output of the bank's economists in this challenging area.

THURSDAY 22nd APRIL

MAXIMISING VALUE – MARKET OPERATIONS AND THE EFFECTIVE PRESENTATION OF ECONOMIC RESEARCH OUTPUT

The role of economists in market operations

John Nugée, *State Street Global Advisors* and **Martin Weale**, *Director, NIESR*

This session discusses the role of economists in operational aspects of a central bank's tasks. One of the presenters, John Nugée, formally executive director responsible for reserves at the HKMA and head of reserve management at the Bank of England, focuses on the expectations that the reserve managers, dealers and those more involved in the operations have of economic research and how interaction and coordination can be managed.

Effective presentation of policy advice to external audiences

Avinash Persaud, *Chairman, GAM UK Ltd*

This session addresses the question of the research output of a central bank, the methods and quality of presentation to the outside world. What do market participants and the media find most useful about central bank research, and the information they disseminate? What does central bank analysis lack? A group discussion will explore the most effective ways of presenting information to market participants, commentators and policymakers and how research can be directed to better aid market understanding and the policymaking process. Relations with the academic community, universities and students will also be considered.

Presenting to policymakers

Presentation of research findings at policymaking meetings and ensuring that policymakers understand the findings' qualifications and assumptions is one of the most challenging aspects of economic research in a central bank. This necessitates compressing and simplifying of information for non-specialists and providing continuity in the presentations. This session will discuss the development of research programmes in central banks in a format that is based around regular policymaking meetings, and effective and innovative methods of presenting the results.

Accountability – communicating with official sector bodies

Finally, there is the contribution of economists to fulfilling the responsibilities of the central bank to official bodies. Transparency and accountability have placed an increasing burden on central bank research departments, as governments, parliamentary committees and official sector organisations demand timely and consistent publications and release of information. Resources need to be balanced to deliver this as well as develop a range of publications, from technical working papers to informative leaflets and speeches. These can provide fora for both internal as well as external research that can make a contribution to wider policy debates as well as build up a valuable source of information on the domestic economy. Again, the skills and techniques required are somewhat different from those involved in communicating to the media or scholarly audiences.

FRIDAY 23rd APRIL

INTERPRETING AND EVALUATING QUANTITATIVE ANALYSIS

Martin Weale, *Director, National Institute of Economic and Social Research*

This session focuses on economic techniques and the key role of modelling. Central banks are expected to demonstrate high levels of competence and professionalism in conducting the required analysis. Indeed, they should act as centres of excellence for understanding and research of their economies. The interpretation, evaluation and critique of econometric modelling is thus a core skill for modern central banks. But how should it be managed and organised? How should the work programme or agenda of the economic model-builders be formulated? How does senior management ensure that the econometric skills of the staff are being put to good use? How can the technical language of the model-builders be translated into output relevant to (and understandable by) non-specialists?

Central banks need clearly to understand and make the best use of international best practice of modelling and forecasting. Yet macroeconomic education remains academically orientated. Two sessions on the final day of this course discuss the application of the specific econometric tools and techniques that leading central banks make use of and explore effective means of analysis and interpretation of the findings. Delegates will learn how advanced modelling techniques can be utilised and challenged to help develop a better understanding of their national economy, the forces that impact on it and the effect of central bank policy.

Closing session to round up the main points and lessons of the course.

For more details on this and other courses, please visit <http://www.centralbanking.co.uk/conferences>

Previous attendees:

Central Bank of **Algeria**; National Bank of **Angola**; Central Bank of the Rep of **Armenia**; Central Bank of **Aruba**; Oesterreichische Nationalbank (**Austria**); Central Bank of the **Bahamas**; Central Bank of **Barbados**; National Bank of **Belgium**; Commission Bancaire et Financière (Belgium); **Bermuda** Monetary Authority; Central Bank of **Bosnia and Herzegovina**; **Brazilian** Court of Audit; Bank of **Canada**; Bank of **Cape Verde**; **Eastern Caribbean** Central Bank; **Cayman Islands** Monetary Authority; Central Bank of **Chile**; Banco de la República, **Colombia**; Superintendencia General De Valores (**Costa Rica**), Consejo Nacional de Supervision del Sistema Financia (**Costa Rica**); **Croatian** National Bank; Central Bank of **Cyprus**; **Czech** National Bank; National Bank of **Denmark**; Bank of the **Dominican Republic**; Bank of **England**; Bank of **Estonia**; Bank of **Finland**; Financial Supervision Authority (Finland); Bank of **France**; Central Bank of **The Gambia**; **Deutsche Bundesbank**; Ministry of Finance (Germany); **European Central Bank**; Securities and Regulatory Commission (**Ghana**); Bank of Ghana; Bank of **Greece**; Bank of **Guatemala**; Central Bank of **Guyana**; Bank of **Haiti**; Securities and Futures Commission (**Hong Kong**); Hong Kong Monetary Authority; National Bank of **Hungary**; Central Bank of **Iceland**; Reserve Bank of India; Bank **Indonesia**; Central Bank of **Iran**; Central Bank of **Ireland**; Bank of **Israel**; Commissione Nazionale per le Società e la Borsa (**Italy**); Bank of **Italy**; Bank of **Jamaica**; Financial Services Commission (Jamaica); The Bank of **Japan**; Central Bank of **Kenya**; The Bank of **Korea**; Financial Supervisory Services (Korea); Central Bank of **Kuwait**; Bank of **Latvia**; Central Bank of **Lesotho**; Central Bank of **Libya**; Bank of **Lithuania**; Reserve Bank of **Malawi**; Securities Commission (**Malaysia**); Central Bank of Malaysia; Labuan Offshore Financial Services Authority (Malaysia); Bank of **Mexico**; Central Bank of **Montenegro**; National Bank of **Moldova**; Central Bank of **Mozambique**; Bank of **Namibia**; **The Netherlands** Bank; Reserve Bank of **New Zealand**; Central Bank of **Nigeria**; Central Bank of **Norway**; Central Bank of **Oman**; State Bank of **Pakistan**; National Securities Commission (**Panama**); Central Bank of **Peru**; Central Bank of the **Philippines**; **Poland**'s State Office for Insurance Supervision; National Bank of Poland; Bank of **Portugal**; **Saudi Arabian** Monetary Agency; Bank of **Sierra Leone**; The Monetary Authority of **Singapore**; National Bank of **Slovakia**; **South African** Reserve Bank; Comision Nacional del Mercado de Valores (**Spain**); Central Bank of **Sri Lanka**; Central Bank of **Swaziland**; Sveriges Riksbank (**Sweden**); **Swiss** National Bank; **BIS**; Central Bank of China (**Taiwan**); Bank of **Tanzania**; Bank of **Thailand**; Central Bank of **Trinidad and Tobago**; Capital Market Board (**Turkey**); Central Bank of the Rep of Turkey; Bank of **Uganda**; Central Bank of the **United Arab Emirates**; Bank **Indonesia** (USA); **Federal Reserve System** (USA); Central Bank of **Venezuela**; National Bank of **Yugoslavia**; Bank of **Zambia**; Reserve Bank of **Zimbabwe**



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Discussion

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5 day (5 nights) residential course (4pm 18th April – 1pm 23rd April 2004)*

* Accommodation outside these dates at Cumberland Lodge is not available.

Course and fee includes en-suite accommodation, meals, refreshments, all course documentations and complimentary copy of the most recent issue of the Central Banking quarterly journal. Substitute delegates can be accepted should the above registered delegate be unable to attend; please let us know prior to the event. Accommodation is based on en-suite single bedrooms. Please tick here if you are happy to share a twin room with one other possible delegate of the same gender. In this case, we shall refund £120 to you from your fee.

We accept delegates on a "first-come, first-served" basis. A full refund will be given for cancellations received (in writing) up to 30 days before the event, but a handling fee of £100 will be deducted from the refund. Cancellations received 30 days or less, a 50% refund will apply. Cancellations received less than one week prior to the event are liable to pay the full registration fee. Disclaimer: Central Banking Publications Ltd reserves the right to change or cancel any part of this programme due to unforeseen circumstances. Please note: in completing this registration form, you undertake to abide by our cancellation and payment terms. We recommend that you take out adequate insurance to cover the event of cancellation.

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