

# Maximising the Value of Economic Analysis and Forecasting for Central Banks

4-day intensive residential programme  
18 – 21 September 2012

Christ's College, Cambridge

Course chairman:

**David Mays**

BNZ Professor of Finance

University of Auckland and former

Advisor to the Board of the Bank of Finland

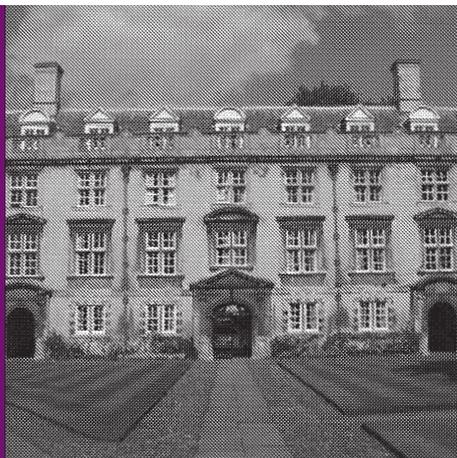
Series adviser:

**Charles Goodhart, CBE**

Professor Emeritus

London School of Economics

Financial Markets Group



# Dear Delegate,

*“The past four years have been tumultuous for the global financial system and the global economy in an unprecedented way for all of us. [...] The violent unravelling of events has shaken many beliefs in the economics profession.”*

Klaas Knot, President, Netherlands Bank,  
28 October 2011

The failure to predict the crisis no longer haunts professional economists. Indeed, while a small group of economists sounded early warnings about the gradual accumulation of systemic risk prior to the crisis, it is fair to say that very few economists came close to predicting the extent of the damage.

What matters now is developing more responsive economic analysis. By ensuring lessons are learnt and, most crucially, approaches altered to reflect the post-crisis environment, economists can better ensure central banks are prepared for future periods of volatility.

Post financial crisis, it is apparent that even the workhorse models that central banks use are not capable of predicting the likely impact of financial shocks on the real economy. Increasingly, observers now agree that models must revisit the structural and behavioural assumptions to render them useful to policymakers.

The days of pure focus on macro-forecasting for monetary policy are over. Central banks economists are now putting their energy into developing reliable models for financial stability.

To this end those in a central bank responsible economics function must open themselves up to the latest in modelling techniques. Further they must ensure that their own scarce resources are put to best use in striving to meet policymakers' needs.

The panel of expert speakers will be chaired by **David Mayes**, who was head of the economics function at the Reserve Bank of New Zealand, and draws on practical central banking experience, as well as views from academia.

This year we are delighted to welcome:

- **Charles Goodhart**, Emeritus Professor, London School of Economics
- **Petra Geraats**, St John's College, Cambridge University
- **Scott Roger**, Senior Economist, International Monetary Fund

Key sessions address:

- Financial stability role: new directions in economic forecasts
- The interaction between researchers and policy makers in central banks
- Understanding macroprudential instruments and their impact
- Highly leveraged institutions: policy directions
- Preventing system failure: modelling interconnectedness

This format, as more than 3,500 central bankers, debt managers and supervisors can attest, encourages delegates to quiz panelists, raise issues and discuss solutions to the specific challenges they face.

We look forward to welcoming you to Cambridge in September.

Yours sincerely,



Robert Pringle  
Chairman  
Central Banking Publications



“ Standing ovation for the idea of the conference, its venue and organisation. ”

*A central bank delegate*

## Tuesday 18 September

# New directions in economic analysis

### How the world has changed

Led by the chairman, **David Mayes**, Professor of Finance, University of Auckland

In this session, the chairman will outline the main themes of the seminar and invite delegates to reflect on, and share their views about, the most pressing challenges that they are facing at the current time. In particular, in recognition that many of the severe dislocations and collapses observed in financial markets would not have been possible under “standard” models, what new approaches are needed? What new techniques? The group will also consider the importance of not only developing a better understanding of the transmission of shocks from the financial sector to the real economy, but also understanding issues of financial fragility in their own right.

### The financial stability role: new directions in economic forecasts

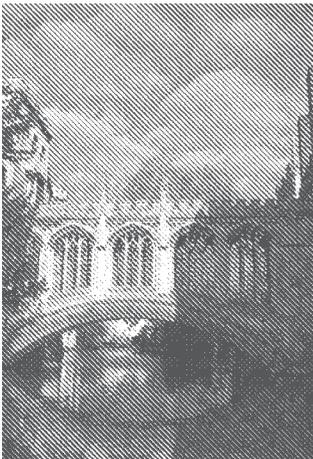
**Grégory Nguyen**, Financial Stability Department, National Bank of Belgium (invited)

In this session, the speaker will look at the increasing emphasis on financial stability in central banks and to the new directions needed for economic forecasts, in particular forward-looking models needed to navigate the post-crisis environment. The speaker, from the financial stability department at the Belgian central bank, will set out techniques and approaches used there as well as under development. Participants will be encouraged to engage in discussion as the speaker outlines the path to more accurate and responsive economic forecasts.

### Failure of models to predict the crisis: lessons for economists

**Charles Goodhart**, Professor Emeritus, London School of Economics

Very few observers came close to predicting the scale of the global economic crisis that erupted in August 2007. And those who did predict a massive correction in financial markets, with the associated impact on the real economy, typically relied on anecdotal evidence and rule-of-thumb indicators that are far less sophisticated than the models employed by central banks and leading academics. What lessons can we draw from the widespread failure of central bank modelling and forecasting prior to the crisis? Which considerations need to be built into models in the future to improve their predictive power? This session, led by one of the preeminent scholars of central banking, will explore answers to these questions.



#### About the course chairman

**David Mayes** is BNZ Professor of Finance, University of Auckland. He has been Advisor to the Board at the Bank of Finland and Professor of Economics at South Bank University in London. Before that he was chief economist at the Reserve Bank of New Zealand. He has had a varied career in academic and public institutions, including being group head at the National Economic Development Office in London, Director and CEO of the New Zealand Institute of Economic Research, and Editor and Senior Research Fellow at the National Institute of Economic and Social Research in London. He has published widely in economics and related areas. His books include *Asymmetry and Aggregation in the Euro Area* (Palgrave-Macmillan 2011) (with M Viren), *Towards a New Framework for Financial Regulation* (Central Banking Publications 2009) (with R Pringle and M Taylor) and *Open Market Operations and Financial Markets* (Routledge 2007) (with J Toporowski).

# Wednesday 19 September

## Adding value to policymaking

### Interaction between researchers and policy-makers

**Matthieu Bussière**, Head of Division, International Macroeconomics Division, Banque de France

It is perhaps no surprise that policymakers and researchers struggle at times to communicate. The former's work cycle maybe in weeks or months, the latter's in years or even decades. Policymakers may need a model run or tweaked fast; researchers may regard such a quick fix at best as a chore, at worst as beneath them.

This session will draw on the experience of the Banque de France and the European Central Bank in aligning the two different interests and cultures.

### How and what to communicate to the monetary policymakers

As some Monetary Policy Committee members are not fully familiar with the workings of an "econometric model", the challenge remains how to get them more involved in the process and how to include their understanding and interpretation of results. What can researchers provide to policy makers? What kind of research do they need? This session will look at how to get the key information that policy makers need for decision making to them at the right time.

### Providing data and analysis to central bank communications

**Petra Geraats**, St John's College, Cambridge University

Economists regularly mobilise statistics when presenting and offer advice to differing audiences. Statistics are not only vital tools for economists to ensure policymakers make informed decisions, but their publication is important to achieve accountability and can greatly impact the effectiveness of policy decisions. In this session, the speaker will provide some illustrative examples and stress the need for central banks to take into account uncertainty and to make the case for them to commit to regular information releases on monetary policy and financial stability. Delegates will have the opportunity to discuss the implications and challenges of this approach.

### Understanding macroprudential instruments and their impact

**Lavan Mahadeva**, Senior Research Fellow: Macroeconomics, Oxford Institute for Energy Studies and former Economist, Bank of England (invited)

The recent financial crisis has prompted an increasing number of countries to use macroprudential instruments. However, the use of these instruments is still relatively new. The question for financial stability economists is, therefore, whether they actually improve banking resilience or stabilise credit cycles.

This session will explore recent research on the choice of instruments, the circumstances in which the instruments are used, and their effectiveness.

### Publishing research: what are the objectives?

Workshop led by the chairman

Central banks publish research for an external audience in a variety of forms: working and research papers, inflation and financial stability reports, and monthly and quarterly reviews. External publication is done for a number of reasons. It can help disseminate information about the inputs that are shaping the central bank's policies, and it can trigger debate on areas of particular importance to policymakers, thereby improving the performance of central banks. This session takes a critical look at the motivations for publishing research externally and how these are changing in an era of low-cost information sharing. Discussion will also consider the question of who sets the research agenda for central banks.

Thursday 20 September

## Economic modelling

### Dynamic stochastic general equilibrium (DSGE) modelling: the state of the art

**Scott Roger**, Senior Economist, IMF

There has been great interest among economists working in academia and central banks over the development of dynamic stochastic general equilibrium (DSGE) models. Proponents of these models argue that they are at the cutting-edge of macroeconomic research and modelling, as they make it possible to combine microeconomic behavioural equations with empirically plausible estimations that fit macroeconomic time series. However, the use of DSGE modelling by central banks is still somewhat nascent. This session will describe the current state of DSGE modelling, outline their relevance to central banks and identify areas for further research including incorporating financial frictions, stress-testing and model-based vs judgment-based approaches to economic forecasts.

### Reassessing workhorse models

**Scott Roger**

While a number of observers have noted that large structural models are unable to capture structural shifts in the global economy, they also struggle to reflect the impact on the real economy from inflationary pressures from financial shocks. Yet these models can still deliver important insights. In this session, the group will consider to what extent the workhorse models used in monetary policy analysis, such as vector autoregressive, New Keynesian and computable general equilibrium models, have stood up to the test of practical experience with particular emphasis placed on experiences during 2011. The speaker, a senior economist with the IMF, will in the light of recent experience, suggest how central banks might better apply these models.

### Preventing system failure: modelling interconnectedness

**Iryna Kaminska**, Economist, Bank of England (invited)

Increasingly, policymakers are looking to natural and behavioural sciences for insights into how systems work and – crucially – breakdown the notion that complexity inherently breeds resilience. The observation that financial systems exhibit robust-yet-fragile tendencies because of interconnections within the system poses serious problems for standard and hitherto unquestioned economic models. In this session, a Bank of England economist will set out the conclusions of this research, explaining how modelling interconnections within the system can identify systemic threats.

### Highly leveraged institutions: prudent policy directions for central banks

**Marcus Miller**, Professor of Economics, University of Warwick (invited)

To explain the Japanese recession that followed the collapse of the asset bubble, Richard Koo has highlighted the balance-sheet pressures facing companies who financed expansion with debt collateralised on these assets. “Fire-sales” of assets to pay down the debt can exacerbate the problem. The externality involved here – where an individual’s sales exert pressures on others to sell – provides the case for public intervention, via asset purchases (US), capital injections (UK) and the discounting of a wider range of assets (central banks of the US, UK and European Central Bank). Dealing with balance sheet pressures widens the role of the central bank almost beyond recognition – to include market making and capital supplying. A simple model of highly leveraged institutions will be used to illustrate these points and discuss further policy directions.



👏 An event to be remembered. 🗨️

*A central bank delegate*

# Friday 21 September

## Effective resource allocation

### Economics: function or service?

Workshop led by **David Mayes** with **Anders Vredin**, Head of General Secretariat, Sveriges Riksbank

No one disputes that economists are an important resource for a central bank. But how can they best be used? And kept? Where can they add the most value? Pulled in many directions: reports, forecasts, briefings, speeches – they must constantly make a well-judged decision about when and where to allocate time. In addition economists typically want to publish externally! This session will comprise a frank discussion about how to staff and run the economics resource at a central bank.

### Measuring the performance and quality of economic research

**David Mayes** and **Anders Vredin**, Head of General Secretariat, Sveriges Riksbank

Participants will split into smaller working groups to consider how to assess the performance and quality of economic research, and to examine some of the wider issues of the economist's role in the central bank. Working groups will also explore how central banks can best provide a good incentive structure for those involved in research to help achieve the desired performance. The session will focus on identifying the problems associated with measuring performance in economic research in the modern central bank, and the practical steps that have been taken to overcome these.

### Closing remarks

Led by **David Mayes**

The course concludes with a session summarising the week's key themes and issues. Participants will identify and discuss how the debates from earlier sessions could be specifically applied to their own institution's challenges, priorities and solutions to enable them to more effectively deal with the dynamic economic markets of the future.



■ ■ This is a good seminar to discuss and share our experiences and broaden your network. ■ ■

*A central bank delegate*

### CBP training course/seminar series, Autumn 2012

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## Booking details

**Course fee: £2,800**

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4-day (3 nights) residential course

**Course fee includes:** en-suite accommodation, meals, refreshments, course documentation and a complimentary copy of the most recent issue of the Central Banking journal. Substitute delegates can be accepted should the registered delegate be unable to attend; please let us know prior to the event.

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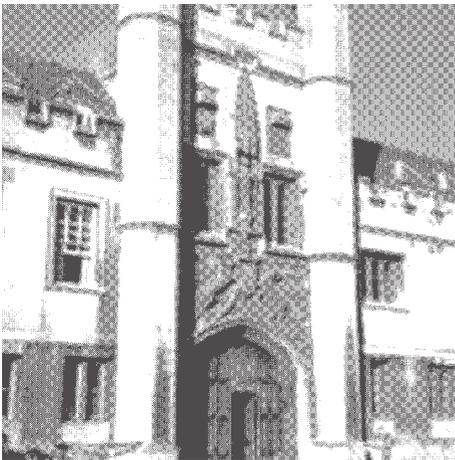
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### The venue

Christ's College is one of England's oldest university colleges and traces its origins back to 1439 when it was founded by William Byngam as "God's house" and adopted by King Henry VI.

The college is conveniently situated in the heart of Cambridge surrounded by all the historical sites, and is one hour by train from London.

### About Central Banking Publications

Central Banking Publications' events division is the leading independent organiser of public policy seminars/training courses for the official sector. Since 1997, CBP has hosted roundtable seminars and training courses for over 3,500 senior policymakers from central banks, ministries of finance and financial regulatory agencies around the world. Senior officials from more than 120 countries have attended these meetings over the past ten years.

# Registration for Maximising the Value of Economic Analysis and Forecasting for Central Banks

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Job title: \_\_\_\_\_

Organisation: \_\_\_\_\_

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