

**WELCOMING REMARKS BY
MR. HOOKYU RHU
EXECUTIVE DIRECTOR, THE SEACEN CENTRE
AT THE
SEACEN COURSE ON
ECONOMIC MODELLING AND FORECASTING
*Kathmandu, Nepal, 30 March – 4 April 2014***

Dr. Yuba Raj Khatiwada
Governor
Nepal Rastra Bank

Senior officials of the Nepal Rastra Bank

Workshop Participants

Ladies and Gentlemen

Good Morning.

On behalf of The SEACEN Centre, I would like to extend to all of you a warm welcome to the **SEACEN Course on Economic Modelling and Forecasting**.

First and foremost, I would like to extend our deepest appreciation to the Nepal Rastra Bank for hosting this course. Special thanks to Dr. Yuba Raj Khatiwada for taking time out of his busy schedule to officiate at this opening ceremony and to deliver the opening address. We are indeed very grateful to the team of Workshop Officials and Secretariat from the Nepal Rastra Bank for their support in coordinating this course besides arranging for the cordial hospitality throughout this period.

Ladies and Gentlemen,

Economic modelling and forecasting has been a dynamic and powerful tool in policymakers' arsenal of instruments. Such models are key to develop rigorous, coherent and robust frameworks for economic analysis and policy making in central banks. This newly created SEACEN course is aimed at supporting SEACEN member central bankers tasked with econometric modelling and forecasting with the updated theoretical background and practical skills for successfully fulfilling their tasks.

Economic models generally consist of a set of mathematical equations that describe a theory of economic behaviour. To give you a better picture of a model, the 2009 macro model used by the U.S. Fed named the Washington University Macro Model (WUMM) contained roughly 600 variables, 410 equations and 165 exogenous variables (Bezemer, June 2009). These variables aim to provide useful clues about the mechanics of an economy or the behaviour of rational agents. In an efficient forecasting model, errors should be unpredictable and the volatility of these errors ought to be small. Models play an important role in “what-if” scenarios, for example, highlighting the implications when introducing a change in monetary policy tools. Furthermore, economic forecasting allows us to provide economic agents with the proper anchors for their consumption, investment, production and employment decisions. This may help central bankers steer their economies and financial markets in a direction that can bring about optional macroeconomic results in given circumstances.

However, as we are well aware, there is no one equation to rule them all. Economic theories are often complex enough to be broken down into plenty of estimable relations. Even if they are successfully translated into such variables, it is argued that these variables are too simple to be re-translated out into the original theory. Another common challenge most policymakers face while using models is the validity of the data in the model itself. Most of the time, the variables exogenous to agents and the economic environment are unpredictable, leading to dramatically different outcomes in one specific model. This is consistent with the Lucas critique whereby in an economy with rational expectations, it is unlikely that policymakers can manipulate forecast errors in a predictable way. Thirdly, data limitations especially in developing economies hinder the full capacity of economic modelling. So how do we build a reliable economic model that can capture the dynamic features of the economy?

This course provides opportunities to central bankers involved in building or utilizing economic models for policy analyses and forecasting to improve their knowledge and skills in applying estimation techniques and practical tools to develop an efficient economic model. In addition, participants will be able to analyse the benefits and weaknesses of different models so that they can rationalize the model of choice. In the workshop module of this course, participants will use E-Views to apply the Time Series and VAR Models as well as the Generalized Method of Moment following the respective lecture sessions. Finally, the panel discussion comprising experts from SEACEN, Deutsche Bundesbank and the Ministry of Finance of Nepal will demonstrate how economic modelling and forecasting can be formed and applied for practical use in central banks across the region.

Helping us to reach our learning objectives are experienced resource persons namely Dr. Min Bahadur Shrestha and his team, Mr. Supachoke Thawornkaiwong, Ms Sonja Juko, Dr Baikuntha Aryal and Dr Hans Genberg. I wish to convey our gratitude to all resource persons for their commitment and support. It is my pleasure to inform you that 24 central bank officers from 14 economies in the Asia Pacific region will be participating in this course.

Ladies and Gentlemen,

Allow me to say a few words about The SEACEN Research and Training Centre. As approved by the Board of Governors in February 2011, our new vision is “**To be the Regional Learning Hub for Central Banks in the Asia-Pacific Region**“. As a Learning Hub, SEACEN aspires to drive central bank excellence in learning for the region, by being a platform for collaboration for members to synergise efforts in central bank learning among themselves, and across SEACEN’s network base. The vision would be achieved through SEACEN’s mission in building capacity in central banking and fostering networking and collaboration. With strong commitments from our stakeholders as seen in this Workshop, we are confident that our vision will become a reality.

Coming back to this learning event, participants will find it both fruitful and rewarding to learn from the resource persons as well as from other participants. The interaction among participants and with resource persons will not only provide an opportunity to learn from one another but also to strengthen the bond of friendship and cooperation.

Once again I would like to thank our host, Nepal Rastra Bank for coordinating this SEACEN event, resource persons and their respective institutions for the support and valuable contributions; and to all our member and invitee central banks for nominating suitable participants for this course.

I wish you a productive and rewarding learning experience.

Thank you.

References

Bezemer, D. J. (June 2009). *No One Saw this Crisis Coming*. Groningen University.