

Tables

Table 1.1A
Unit Root Tests: Interest Rates
(4th April 1997 to 27th Sep 2002)

TESTS VARIABLE	Null: $y=0$ in Eq. (3) T_T	Null: $y=0$ $\alpha=0$ in Eq. (3) ϕ_1	Null: $y=0$ in Eq.(2) T_μ	Null: $y=0$ $a=0$ in Eq.(2) ϕ_1	Null: $y=0$ Eq. (1) T	RESULTS (UNIT ROOT PRESENT)
<i>ADF Test</i>						
Call	-2.7811	5.4754	-2.8663	4.1488	-0.1408	Yes
<i>PP – Test</i>						
Call	-6.8731					No
<i>ADF Test</i>						
TB 15-91	-2.7826	4.8078	-2.1482	2.3083	-0.3675	Yes
<i>PP – Test</i>						
TB 15-91	-5.0258					No
<i>ADF Test</i>						
GSec 1	-1.4013	1.7811	-0.1033	0.7163	-1.1964	Yes
<i>PP – Test</i>						
GSec 1	-2.5803	3.4403	-1.5296	1.5194	-1.0830	Yes
<i>ADF Test</i>						
GSec 5	-1.4301	1.3449	0.0149	2.1185	-2.0284	Yes
<i>PP – Test</i>						
GSec 5	-2.0582	2.2371	-0.5675	1.6432	-1.7982	Yes
<i>ADF Test</i>						
GSec 10	-1.0165	1.9433	0.9373	2.4971	-1.8928	Yes
<i>PP – Test</i>						
GSec 10	-2.4080	3.1000	-0.6252	1.1396	-1.4511	Yes
Critical Values						
10%	-3.13	5.34	-2.57	3.78	-1.62	
5%	-3.41	6.25	-2.86	4.59	-1.95	
1%	-3.96	8.27	-3.43	6.43	-2.58	

Table 1.1B
Unit Root Tests: Variables in Multivariate Models
(4th April 1997 to 27th Sep 2002)

TESTS VARIABLE	Null: $y=0$ in Eq. (3) T_T	Null: $y=0$, $\alpha=0$ in Eq. (3) ϕ_1	Null: $y=0$ in Eq.(2) T_μ	Null: $y=0$, $\alpha=0$ in Eq. (3) ϕ_1	Null: $y=0$ Eq. (1) T	RESULTS (UNIT ROOT PRESENT)
<i>ADF Test</i>						
FP-3months	-2.8823	4.4100	-2.1868	2.3929	-0.6641	Yes
<i>PP – Test</i>						
FP-3months	-4.1844					No
<i>ADF Test</i>						
FP-6months	-2.5820	3.6693	-1.7450	1.5229	-0.5247	Yes
<i>PP – Test</i>						
FP-6months	-3.4559	5.9741	-3.1015	4.8300	-1.2992	Yes
<i>ADF Test</i>						
Inflation (year-on-year)	-1.6866	1.4224	-1.6486	1.4480	-0.9981	Yes
<i>PP – Test</i>						
Inflation						

(year-on-year)	-1.7583	1.5472	-1.7184	1.5590	-1.0072	Yes
<i>ADF Test</i>						
LIBOR-3months	-1.6423	1.7114	-0.7667	0.6723	-1.0520	Yes
<i>PP – Test</i>						
LIBOR-3months	-0.4825	2.9814	1.2195	3.7826	-1.9507	Yes
<i>ADF Test</i>						
LIBOR-6months	-1.5795	1.7062	-0.6489	0.6280	-1.0605	Yes
<i>PP – Test</i>						
LIBOR-6months	-0.3411	3.0851	1.3736	4.4630	-2.0811	Yes
<i>ADF Test</i>						
Bank Rate	-3.2039	5.3812	-1.5325	2.8072	-2.0119	Yes
<i>PP – Test</i>						
Bank Rate	-4.5168					No
<i>ADF Test</i>						
Repo Rate	-2.7577	4.2585	-2.9242	4.3125	-0.3141	Yes
<i>PP – Test</i>						
Repo Rate	-3.3344	5.6361	-3.3113	5.4851	-0.7729	Yes
<i>ADF Test</i>						
Spread	-2.1485	2.8604	-2.0077	3.0540	-2.0818	Yes
<i>PP – Test</i>						
Spread	-3.4821	6.1687	-2.2768	2.8958	-1.6155	Yes
<i>ADF Test</i>						
Inflation (week-to-week)	-6.7507					No
<i>PP – Test</i>						
Inflation (week-to-week)	-15.538					No
<i>ADF Test</i>						
Credit	-1.2590	2.3677	1.5198	5.1700	3.2130	Yes
<i>PP – Test</i>						
Credit	-1.4108	3.9202	2.1503	19.0300		Yes
<i>ADF Test</i>						
Liquidity	-2.3712	5.4351	2.0295	19.4790		Yes
<i>PP – Test</i>						
Liquidity	-21.2670					No
Critical Values						
10%	-3.13	5.34	-2.57	3.78	-1.62	
5%	-3.41	6.25	-2.86	4.59	-1.95	
1%	-3.96	8.27	-3.43	6.43	-2.58	

Table 1.2
KPSS Level Stationarity Test

	I=0	I=1	I=2	I=3	I=4	I=5	I=6	I=7	I=8	Conclusion (Unit Root Present)
Call	3.0161	1.7590	1.2842	1.0434	0.8908	0.7831	0.6996	0.6345	0.5812	Yes
TB 15-91	4.0575	2.1826	1.5559	1.2335	1.0320	0.8933	0.7912	0.7139	0.6538	Yes
GSec 1	15.9503	8.1296	5.4985	4.1773	3.3822	2.8516	2.4730	2.1891	1.9680	Yes
GSec 5	22.8168	11.5259	7.7465	5.8517	4.7119	3.9504	3.4058	2.9975	2.6801	Yes
GSec 10	22.1516	11.2160	7.5453	5.7062	4.6007	3.8626	3.3348	2.9388	2.6306	Yes
fp-3months	4.8488	2.5593	1.7775	1.3868	1.1475	0.9868	0.8726	0.7880	0.7229	Yes
fp-6months	7.4406	3.8533	2.6377	2.0287	1.6588	1.4109	1.2343	1.1025	1.0002	Yes

Inflation										
(year-on-year)	2.9759	1.5036	1.0113	0.7652	0.6178	0.5198	0.4500	0.3979	0.3574	Yes
LIBOR-3months	14.8076	7.4365	4.9756	3.7448	3.0064	2.5143	2.1630	1.8998	1.6952	Yes
LIBOR-6months	14.8824	7.4763	5.0032	3.7661	3.0240	2.5295	2.1765	1.9120	1.7064	Yes
Bank Rate	24.2326	12.3041	8.2889	6.2748	5.0648	4.2580	3.6820	3.2505	2.9153	Yes
Repo	3.7406	1.9419	1.3334	1.0289	0.8470	0.7260	0.6391	0.5737	0.5229	Yes
Spread	20.4757	10.4332	7.0479	5.3517	4.3317	3.6499	3.1626	2.7970	2.5121	Yes
Inflation										
(week-to-week)	0.1138	0.1006	0.0915	0.0864	0.0812	0.0778	0.0770	0.0771	0.0781	No
Credit	27.8840	14.0262	9.3934	7.0747	5.6827	4.7546	4.0915	3.5943	3.2077	Yes
Liquidity	27.2143	14.1717	9.5184	7.1881	5.7725	4.8316	4.1563	3.6510	3.2567	Yes
Note: l is the lag truncation parameter.										
Asymptotic critical values for $\hat{\eta}_n$:										
Critical level:		0.10		0.05		0.025		0.01		
Critical value(η_μ):		0.347		0.463		0.574		0.739		

Table 1.3
Unit Root Tests (Summary)

	ADF	PP	KPSS
Call	Yes	No	Yes
TB 15-91	Yes	No	Yes
Gsec 1	Yes	Yes	Yes
Gsec 5	Yes	Yes	Yes
Gsec 10	Yes	Yes	Yes
FP-3months	Yes	No	Yes
FP-6months	Yes	Yes	Yes
Inflation			
(year-on-year)	Yes	Yes	Yes
LIBOR-3months	Yes	Yes	Yes
LIBOR-6months	Yes	Yes	Yes
Bank Rate	Yes	No	Yes
Repo Rate	Yes	Yes	Yes
Spread	Yes	Yes	Yes
Inflation			
(week-to-week)	No	No	No
Credit	Yes	Yes	Yes
Liquidity	Yes	No	Yes

Table 2A: Call Money Rate**ARMA (2,2)**

$$\text{Call} = 0.005 - 0.435 \text{ Call}_{t-1} + 0.545 \text{ Call}_{t-2} + \varepsilon_t + 0.059 \varepsilon_{t-1} - 0.922 \varepsilon_{t-2}$$

(0.649) (0.000) (0.000) (0.000) (0.000)

AIC = 3.147

SBC = 3.219

LL = -380.560

$$\text{Q-Statistics: } Q(8) = 5.761$$

(0.218)

$$Q(16) = 18.990$$

(0.089)

$$Q(24) = 28.223$$

(0.104)

$$\text{ARCH-LM Test: } \chi^2(1) = 5.711 \quad \chi^2(4) = 19.425$$

(0.017) (0.001)

$$\chi^2(8) = 23.867$$

(0.002)

ARMA(2,2)-GARCH(1,1)

$$\text{Call} = 0.006 - 0.384 \text{ Call}_{t-1} + 0.598 \text{ Call}_{t-2} + \varepsilon_t + 0.088 \varepsilon_{t-1} - 0.893 \varepsilon_{t-2}$$

(0.738) (0.000) (0.000) (0.124) (0.000)

$$h_t = 0.092 + 0.120 \varepsilon_{t-1}^2 + 0.788 h_{t-1}$$

(0.002) (0.004) (0.000)

AIC = 2.932

SBC = 3.046

LL = -351.174

$$\text{Q-Statistics: } Q(8) = 4.904$$

(0.297)

$$Q(16) = 15.493$$

(0.216)

$$Q(24) = 19.561$$

(0.486)

Table 2B: TB 15-91**ARMA (3,0)**

$$\text{TB(15-91)} = -0.019 - 0.216 \text{ TB(15-91)}_{t-1} - 0.067 \text{ TB(15-91)}_{t-2} - 0.259 \text{ TB(15-91)}_{t-3} + \varepsilon_t$$

(0.463) (0.002) (0.341) (0.000)

AIC = 1.658

SBC = 1.724

LL = -160.966

$$\text{Q-Statistics: } Q(8) = 8.277$$

(0.142)

$$Q(16) = 19.780$$

(0.101)

$$Q(24) = 27.655$$

(0.150)

$$\text{ARCH-LM Test: } \chi^2(1) = 0.771 \quad \chi^2(4) = 1.696$$

(0.379) (0.791)

$$\chi^2(8) = 2.915$$

(0.939)

ARMA(3,0)-ARCH(1)

$$\text{TB(15-91)} = 0.008 - 0.169 \text{ TB(15-91)}_{t-1} - 0.133 \text{ TB(15-91)}_{t-2} - 0.287 \text{ TB(15-91)}_{t-3} + \varepsilon_t$$

(0.721) (0.031) (0.009) (0.000)

$$h_t = 0.187 + 0.517 \varepsilon_{t-1}^2$$

(0.000) (0.001)

AIC = 1.609

SBC = 1.709

LL = -154.159

$$\text{Q-Statistics: } Q(8) = 8.105$$

(0.151)

$$Q(16) = 17.582$$

(0.174)

$$Q(24) = 23.835$$

(0.301)

Table 2C: 1-year Government Securities**ARMA (1,0)**

$$\text{GSec1} = -0.029 - 0.206 \text{GSec1}_{t-1} + \varepsilon_t$$

(0.138) (0.005)

AIC = 0.571

SBC = 0.607

LL = -49.72

$$\text{Q-Statistics: } Q(8) = 10.684$$

(0.153)

$$Q(16) = 17.576$$

(0.286)

$$Q(24) = 25.432$$

(0.328)

$$\text{ARCH-LM Test: } \chi^2(1) = 10.949$$

(0.001)

$$\chi^2(4) = 25.453$$

(0.000)

$$\chi^2(8) = 29.860$$

(0.000)

ARMA(1,0)-GARCH(1,1)

$$\text{GSec1} = -0.027 - 0.119 \text{GSec1}_{t-1} + \varepsilon_t$$

(0.077) (0.104)

$$h_t = 0.004 + 0.103 \varepsilon_{t-1}^2 + 0.810 h_{t-1}$$

(0.000) (0.000) (0.000)

AIC = 0.115

SBC = 0.203

LL = -5.384

$$\text{Q-Statistics: } Q(8) = 7.767$$

(0.354)

$$Q(16) = 13.644$$

(0.553)

$$Q(24) = 19.279$$

(0.685)

Table 2D: 5-year Government Securities**ARMA (2,0)**

$$\text{GSec5} = -0.020 + 0.100 \text{GSec5}_{t-1} - 0.169 \text{GSec5}_{t-2} + \varepsilon_t$$

(0.147) (0.116) (0.008)

AIC = -0.072

SBC = -0.029

LL = 11.772

$$\text{Q-Statistics: } Q(8) = 10.779$$

(0.095)

$$Q(16) = 13.449$$

(0.492)

$$Q(24) = 19.291$$

(0.627)

$$\text{ARCH-LM Test: } \chi^2(1) = 52.119$$

(0.000)

$$\chi^2(4) = 63.031$$

(0.000)

$$\chi^2(8) = 67.524$$

(0.000)

ARMA(2,0)-ARCH(2,0)

$$\text{GSec5} = -0.020 + 0.044 \text{GSec5}_{t-1} - 0.007 \text{GSec5}_{t-2} + \varepsilon_t$$

(0.029) (0.571) (0.895)

$$h_t = 0.016 + 0.831 \varepsilon_{t-1}^2 + 0.134 \varepsilon_{t-2}^2$$

(0.000) (0.000) (0.059)

AIC = -0.480

SBC = -0.395

LL = 64.847

$$\text{Q-Statistics: } Q(8) = 3.427$$

(0.754)

$$Q(16) = 8.413$$

(0.867)

$$Q(24) = 15.230$$

(0.852)

Table 2E: 10-year Government Securities**ARMA (1,0)**

$$\text{GSec10} = -0.017 - 0.076 \text{GSec10}_{t-1} + \varepsilon_t$$

(0.216) (0.239)

AIC = -0.117 SBC = -0.089 LL = 16.426

LB Q-Statistics: Q(8) = 10.839 Q(16) = 21.019 Q(24) = 24.488

(0.146) (0.136) (0.377)

ARCH-LM Test: $\chi^2(1) = 0.012$ $\chi^2(4) = 3.584$ $\chi^2(8) = 3.723$

(0.913) (0.465) (0.881)

ARMA(1,0)-ARCH(1,0)

$$\text{GSec10} = -0.015 - 0.112 \text{GSec10}_{t-1} + \varepsilon_t$$

(0.385) (0.230)

$$h_t = 0.048 + 0.074 \varepsilon_{t-1}^2$$

(0.000) (0.315)

AIC = -0.108 SBC = -0.051 LL = 17.241

LB Q-Statistics: Q(8) = 10.807 Q(16) = 21.282 Q(24) = 24.943

(0.147) (0.128) (0.353)

Note : p-alu in parenthesis

Table 3**Tests for Cointegration: $\lambda_{\max}$ Tests**

		Critical values			RESULTS	No. of C. V.
H ₀ :	H ₁ :	Statistics	99%	95%		
MODEL A : $i_{(\text{Call})} = f(\pi_1, \text{Bank Rate, Spread, Liquidity}, i^*_1, \text{fp}_1)$						
r = 0	r = 1	79.32	45.10	39.37	Reject Null Hypothe	1
r =1	r = 2	38.68	38.77	33.46	Do not Reject Null Hypothesis	
MODEL B : $i_{(\text{TB 15-91})} = f(\pi_2, \text{Bank Rate, Spread, Liquidity}, i^*_1, \text{fp}_1)$						
r = 0	r = 1	59.12	51.57	45.28	Reject Null Hypothesis	1
r =1	r = 2	37.41	45.10	39.37	Do not Reject Null Hypothesis	
MODEL C : $i_{(\text{GSec 1})} = f(\pi_2, \text{Bank Rate, Spread, Liquidity}, i^*_2, \text{fp}_2)$						
r = 0	r = 1	52.75	51.57	45.28	Reject Null Hypothesis	1
r =1	r = 2	40.13	45.10	39.37	Do not Reject Null Hypothesis	
MODEL D : $i_{(\text{GSec 5})} = f(\pi_2, \text{Bank Rate, Spread, credit}, i^*_2, \text{fp}_2)$						
r = 0	r = 1	55.29	51.57	45.28	Reject Null Hypothesis	1
r =1	r = 2	36.23	45.10	39.37	Do not Reject Null Hypothesis	
MODEL E : $i_{(\text{GSec 10})} = f(\pi_2, \text{Bank Rate, Spread, credit}, i^*_2, \text{fp}_2)$						
r = 0	r = 1	63.77	51.57	45.28	Reject Null Hypothesis	1
r =1	r = 2	40.68	45.10	39.37	Do not Reject Null Hypothesis	

Note: r is the order of cointegration. C. V. denotes the cointegrating vector. π_1, π_2 denote inflation (week-to-week) and inflation (year-on-year), respectively. i_1^* and i_2^* denote LIBOR-3 months and LIBOR-6 months respectively. fp_1 and fp_2 denote three- and six-months Forward Premium, respectively. Critical values are from Osterwald M. and Lenum (1992).

Table 4**Granger Causality Tests**

Null Hypothesis	Number of Lags	X^2 (calculated)	Conclusion
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MODEL A $i_{(Call)} := f(\pi_1^\dagger, \text{Bank Rate, Spread, Liquidity}, i^*_1, fp_1)$

$i_{(Call)}$ is not granger caused by Bank Rate	3	70.99 (.00)	Reject null hypothesis*
$i_{(Call)}$ is not granger caused by Spread	3	52.42 (.00)	Reject null hypothesis*
$i_{(Call)}$ is not granger caused by Liquidity	3	43.66 (.00)	Reject null hypothesis*
$i_{(Call)}$ is not granger caused by i	3	44.11 (.00)	Reject null hypothesis*
$i_{(Call)}$ is not granger caused by	3	61.51 (.00)	Reject null hypothesis*

MODEL B : $i_{(TB\ 15-91)} = f(\pi_2, \text{Bank Rate, Spread, Liquidity}, i^*_1, fp_1)$

$i_{(TB\ 15-91)}$ is not granger caused by π_2	2	54.94 (.00)	Reject null hypothesis*
$i_{(TB\ 15-91)}$ is not granger caused by Bank Rate	2	114.29 (.00)	Reject null hypothesis*
$i_{(TB\ 15-91)}$ is not granger caused by Spread	2	45.75 (.00)	Reject null hypothesis*
$i_{(TB\ 15-91)}$ is not granger caused by Liquidity	2	50.50 (.00)	Reject null hypothesis*
$i_{(TB\ 15-91)}$ is not granger caused by i^*_1	2	45.23 (.00)	Reject null hypothesis*
$i_{(TB\ 15-91)}$ is not granger caused by fp_1	2	115.37 (.00)	Reject null hypothesis*

MODEL C : $i_{(GSec\ 1)} = f(\pi_2, \text{Bank Rate, Spread, Liquidity}, i^*_2, fp_2)$

$i_{(GSec\ 1)}$ is not granger caused by π_2	3	43.36 (.00)	Reject null hypothesis*
$i_{(GSec\ 1)}$ is not granger caused by Bank Rate	3	140.92 (.00)	Reject null hypothesis*
$i_{(GSec\ 1)}$ is not granger caused by Spread	3	39.47 (.00)	Reject null hypothesis*
$i_{(GSec\ 1)}$ is not granger caused by Liquidity	3	34.28 (.00)	Reject null hypothesis*
$i_{(GSec\ 1)}$ is not granger caused by i^*_2	3	27.75 (.00)	Reject null hypothesis*
$i_{(GSec\ 1)}$ is not granger caused by fp_2	3	104.18 (.00)	Reject null hypothesis*

MODEL D : $i_{(GSec\ 5)} = f(\pi_2, \text{Bank Rate, Spread, credit}, i^*_2, fp_2)$

$i_{(GSec\ 5)}$ is not granger caused by p_2	3	08.22 (.08)	Reject null hypothesis**
$i_{(GSec\ 5)}$ is not granger caused by Bank Rate	3	87.95 (.00)	Reject null hypothesis*
$i_{(GSec\ 5)}$ is not granger caused by Spread	3	19.99 (.00)	Reject null hypothesis*
$i_{(GSec\ 5)}$ is not granger caused by Credit	3	08.77 (.07)	Reject null hypothesis**
$i_{(GSec\ 5)}$ is not granger caused by i^*_2	3	11.52 (.02)	Reject null hypothesis*
$i_{(GSec\ 5)}$ is not granger caused by fp_2	3	37.74 (.00)	Reject null hypothesis*

MODEL E : $i_{(GSec\ 10)} = f(\pi_2, \text{Bank Rate, Spread, credit}, i^*_2, fp_2)$

$i_{(GSec\ 10)}$ is not granger caused by π_2	3	10.31 (.04)	Reject null hypothesis*
$i_{(GSec\ 10)}$ is not granger caused by Bank Rate	3	61.04 (.00)	Reject null hypothesis*
$i_{(GSec\ 10)}$ is not granger caused by Spread	3	15.26 (.00)	Reject null hypothesis*
$i_{(GSec\ 10)}$ is not granger caused by Credit	3	10.25 (.00)	Reject null hypothesis*
$i_{(GSec\ 10)}$ is not granger caused by i^*_2	3	05.98 (.20)	Reject null hypothesis***
$i_{(GSec\ 10)}$ is not granger caused by fp_2	3	26.31 (.00)	Reject null hypothesis*

Note: p-value in parenthesis. *, ** and *** denote significance at 5%, 10% and 20% levels, respectively.

$\dagger$ Week-to-week Inflation has been used as an exogenous variable.

Table 5A
Accuracy of out-of-sample forecasts: Call Money Rate
(January – September 2002)

Week- N* ahead		ARMA(2,2)		ARMA(2,2) –GARCH(1,1)		LVAR (LAG 4)		VECM (LAG 4)		Optimal BVAR Model (w=.2,d=1,k=.5)		Alternative BVAR Models			
		U	4	U	4	U	4	U	4	U	4	(w=.1, d=.5, k=.5)	(w=.1, d=1, k=.5)	(w=.2, d=.5, k=.5)	(w=.2, d=1, k=.7)
		Weeks Average U		Weeks Average U		Weeks Average U		Weeks Average U		Weeks Average U		Weeks Average U	Weeks Average U	Weeks Average U	Weeks Average U
1	39	1.160		1.014		3.124		3.108		1.522					
2	38	1.208		0.958		2.370		2.293		1.208					
3	37	1.278		0.975		1.828		2.132		1.132					
4	36	1.275	1.230	0.967	0.978	1.384	2.177	2.132	2.416	1.094	1.239	1.253	1.079	1.354	1.366
5	35	1.264		0.972		1.353		2.163		1.079					
6	34	1.197		0.928		1.186		1.944		0.967					
7	33	1.215		0.932		1.121		2.002		0.996					
8	32	1.264	1.235	0.958	0.948	1.117	1.194	2.132	2.060	1.058	1.025	1.236	1.058	1.189	1.018
9	31	1.201		0.918		0.971		1.975		0.972					
10	30	1.193		0.907		0.879		1.889		0.906					
11	29	1.179		0.890		0.806		1.830		0.838					
12	28	1.170	1.186	0.876	0.898	0.785	0.860	1.827	1.880	0.814	0.882	1.058	0.938	1.021	0.862

13	27	1.186		0.879		0.786		1.879		0.826					
14	26	1.163		0.857		0.745		1.856		0.800					
15	25	1.136		0.827		0.700		1.839		0.786					
16	24	1.125	1.153	0.811	0.844	0.653	0.721	1.840	1.854	0.776	0.797	0.930	0.855	0.916	0.770
17	23	1.114		0.788		0.595		1.809		0.763					
18	22	1.113		0.771		0.549		1.737		0.729					
19	21	1.186		0.768		0.552		1.749		0.731					
20	20	1.299	1.178	0.795	0.780	0.600	0.574	1.751	1.762	0.731	0.738	0.880	0.814	0.869	0.709
21	19	1.393		0.795		0.579		1.751		0.636					
22	18	1.440		0.779		0.481		1.738		0.464					
23	17	1.447		0.773		0.478		1.680		0.389					
24	16	1.464	1.436	0.783	0.783	0.462	0.500	1.723	1.723	0.342	0.458	0.648	0.567	0.621	0.436
25	15	1.466		0.788		0.465		1.678		0.317					
26	14	1.437		0.784		0.456		1.610		0.256					
27	13	1.504		0.807		0.479		1.741		0.234					
28	12	1.522	1.482	0.815	0.799	0.477	0.469	1.812	1.710	0.221	0.257	0.378	0.317	0.353	0.255
29	11	1.547		0.814		0.479		1.841		0.217					
30	10	1.592		0.828		0.464		1.873		0.211					
31	9	1.584		0.810		0.428		1.763		0.207					
32	8	1.623	1.587	0.817	0.817	0.421	0.448	1.750	1.807	0.208	0.211	0.380	0.294	0.365	0.188
33	7	1.647		0.818		0.398		1.747		0.233					
34	6	1.664		0.832		0.396		1.679		0.281					
35	5	1.679		0.835		0.332		1.806		0.324					
36	4	1.675	1.666	0.848	0.833	0.233	0.340	1.894	1.781	0.313	0.288	0.620	0.466	0.547	0.254
Average U		1.350		0.853		0.809		1.888		0.655	0.655	0.821	0.710	0.804	0.651

* N is the number of observations.

Variables: Inflation (week-to-week), Bank Rate, Spread, Liquidity, Libor-3months and fp-3months.

Table 5B
Accuracy of out-of-sample forecasts: TB 15-91
(January – September 2002)

Week-ahead	N*	ARMA(3,0)		ARMA(3,0) ARCH (1)		LVAR (LAG 4)		VECM (LAG 4)		Optimal BVAR Model (w=.2,d=1,k=.5)		Alternative BVAR Models			
		U	4 Weeks Average U	U	4 Weeks Average U	U	4 Weeks Average U	U	4 Weeks Average U	U	4 Weeks Average U	4 Weeks Average U	4 Weeks Average U	4 Weeks Average U	4 Weeks Average U
1	39	0.977		1.016		1.600		1.559		1.264					
2	38	1.067		1.134		1.586		1.911		1.549					
3	37	1.035		1.104		0.999		1.552		1.269					
4	36	1.024	1.026	1.090	1.086	0.871	1.264	1.474	1.624	1.163	1.311	1.177	1.189	1.518	1.260
5	35	0.982		1.046		0.862		1.450		1.075					
6	34	0.984		1.057		0.862		1.502		1.028					
7	33	0.975		1.061		0.787		1.484		0.947					
8	32	0.984	0.981	1.085	1.062	0.840	0.838	1.585	1.505	0.968	1.004	1.182	1.115	1.241	0.925
9	31	0.979		1.092		0.829		1.620		0.951					
10	30	0.982		1.105		0.745		1.567		0.896					
11	29	0.981		1.119		0.699		1.547		0.843					
12	28	0.985	0.982	1.137	1.113	0.696	0.742	1.578	1.578	0.834	0.881	1.097	1.008	1.083	0.824
13	27	0.968		1.127		0.649		1.511		0.793					
14	26	0.962		1.132		0.623		1.530		0.779					
15	25	0.940		1.120		0.633		1.569		0.788					
16	24	0.928	0.950	1.131	1.127	0.666	0.643	1.718	1.582	0.844	0.801	1.008	0.926	1.002	0.750
17	23	0.905		1.131		0.726		1.823		0.903					
18	22	0.907		1.182		0.740		2.035		1.043					
19	21	0.958		1.284		0.819		2.239		1.169					
20	20	0.999	0.942	1.362	1.240	0.769	0.763	2.254	2.088	1.185	1.075	1.352	1.242	1.363	1.011
21	19	1.052		1.431		0.849		2.143		1.187					
22	18	1.060		1.414		0.688		1.820		0.989					
23	17	1.047		1.366		0.629		1.536		0.863					
24	16	1.050	1.052	1.356	1.392	0.605	0.693	1.392	1.723	0.817	0.964	1.255	1.146	1.298	0.904
25	15	1.034		1.317		0.583		1.173		0.737					
26	14	1.028		1.301		0.511		1.125		0.678					
27	13	1.027		1.299		0.527		1.122		0.649					
28	12	1.025	1.028	1.297	1.304	0.527	0.537	1.120	1.135	0.631	0.674	0.832	0.773	0.899	0.639
29	11	1.024		1.297		0.550		1.063		0.636					
30	10	1.026		1.302		0.541		1.002		0.629					

Week- ahead	N*	U	4 Weeks Average U	U	4 Weeks Average U	U	4 Weeks Average U	U	4 Weeks Average U	U	4 Weeks Average U	4 Weeks Average U	4 Weeks Average U	4 Weeks Average U	4 Weeks Average U
1	39	0.985		0.958		1.260		0.972		0.902					
2	38	0.984		0.944		1.333		0.967		0.895					
3	37	0.970		0.943		1.388		0.944		0.905					
4	36	0.955	0.974	0.939	0.946	1.288	1.317	0.918	0.950	0.904	0.901	0.954	0.910	1.010	0.901
5	35	0.947		0.939		1.237		0.863		0.900					
6	34	0.942		0.940		1.266		0.817		0.910					
7	33	0.934		0.939		1.340		0.786		0.938					
8	32	0.929	0.938	0.938	0.939	1.390	1.308	0.759	0.806	0.965	0.928	1.016	0.957	1.106	0.940
9	31	0.927		0.936		1.415		0.722		0.984					
10	30	0.922		0.934		1.429		0.678		0.982					
11	29	0.919		0.935		1.449		0.637		0.977					
12	28	0.917	0.921	0.938	0.936	1.494	1.447	0.614	0.663	0.993	0.984	1.103	1.028	1.226	1.006
13	27	0.919		0.947		1.562		0.595		1.032					
14	26	0.924		0.961		1.660		0.569		1.096					
15	25	0.936		0.985		1.815		0.558		1.199					
16	24	0.952	0.933	1.017	0.978	2.014	1.763	0.569	0.573	1.342	1.167	1.320	1.216	1.476	1.193
17	23	0.975		1.065		2.298		0.603		1.543					
18	22	1.025		1.149		2.713		0.646		1.846					
19	21	1.172		1.345		3.634		0.744		2.503					
20	20	1.529	1.175	1.798	1.339	5.514	3.540	0.983	0.744	3.877	2.442	2.730	2.518	3.027	2.491
21	19	1.602		1.926		6.271		1.075		4.505					
22	18	1.334		1.661		5.731		0.997		4.169					
23	17	1.011		1.313		4.809		0.873		3.535					
24	16	0.717	1.166	0.971	1.468	3.982	5.198	0.696	0.910	2.897	3.776	4.214	3.862	4.670	3.845
25	15	0.518		0.709		3.204		0.565		2.340					
26	14	0.384		0.524		2.543		0.461		1.855					
27	13	0.364		0.461		2.081		0.435		1.538					
28	12	0.351	0.404	0.424	0.530	1.821	2.412	0.406	0.467	1.344	1.769	1.994	1.800	2.224	1.800
29	11	0.342		0.404		1.676		0.391		1.216					
30	10	0.314		0.361		1.622		0.376		1.184					
31	9	0.316		0.352		1.553		0.355		1.142					
32	8	0.302	0.319	0.319	0.359	1.441	1.573	0.355	0.369	1.108	1.163	1.315	1.178	1.466	1.180
33	7	0.289		0.273		1.315		0.323		1.075					
34	6	0.287		0.236		1.197		0.279		1.021					
35	5	0.348		0.306		1.058		0.272		0.929					
36	4	0.384	0.327	0.358	0.293	0.970	1.135	0.318	0.298	0.834	0.965	1.066	0.971	1.165	0.976
Average U			0.795		0.865		2.188		0.642		1.566	1.746	1.604	1.930	1.592

* N is the number of observations.

Variables: Inflation (year-on-year), Bank Rate, Spread, Credit, Libor-6months and fp-6months.

Table 5E
Accuracy of out-of-sample forecasts: 10-year Government Securities
(January – September 2002)

Week- ahead	N*	ARMA(1,0)		ARMA(1,0) ARCH (1)		LVAR (LAG 4)		VECM (LAG 4)		Optimal BVAR Model (w=.2,d=2,k=.5)		Alternative BVAR Models			
		U	4 Weeks Average U	U	4 Weeks Average U	U	4 Weeks Average U	U	4 Weeks Average U	U	4 Weeks Average U	4 Weeks Average U	4 Weeks Average U	4 Weeks Average U	4 Weeks Average U
1	39	0.972		0.959		0.783		0.805		0.847					
2	38	0.967		0.956		0.710		0.748		0.805					
3	37	0.950		0.933		0.700		0.756		0.783					
4	36	0.942	0.958	0.940	0.947	0.725	0.729	0.797	0.776	0.777	0.803	0.824	0.815	0.789	0.796
5	35	0.938		0.943		0.665		0.742		0.710					
6	34	0.931		0.936		0.638		0.715		0.689					
7	33	0.916		0.917		0.602		0.685		0.680					
8	32	0.891	0.919	0.895	0.923	0.600	0.626	0.691	0.708	0.691	0.692	0.704	0.696	0.698	0.687
9	31	0.874		0.889		0.602		0.707		0.673					
10	30	0.872		0.888		0.533		0.645		0.577					
11	29	0.855		0.872		0.507		0.630		0.565					
12	28	0.837	0.860	0.855	0.876	0.486	0.532	0.619	0.650	0.535	0.588	0.594	0.591	0.615	0.587
13	27	0.811		0.833		0.494		0.637		0.539					
14	26	0.792		0.821		0.489		0.642		0.512					

15	25	0.785		0.814		0.469		0.623		0.458				
16	24	0.761	0.787	0.785	0.813	0.445	0.474	0.601	0.626	0.435	0.486	0.486	0.506	0.496
17	23	0.720		0.746		0.493		0.667		0.502				
18	22	0.662		0.690		0.513		0.710		0.517				
19	21	0.633		0.661		0.512		0.722		0.521				
20	20	0.636	0.662	0.659	0.689	0.478	0.499	0.703	0.701	0.530	0.517	0.494	0.562	0.547
21	19	0.611		0.636		0.439		0.710		0.537				
22	18	0.611		0.641		0.371		0.686		0.452				
23	17	0.618		0.658		0.308		0.661		0.347				
24	16	0.661	0.625	0.701	0.659	0.267	0.346	0.615	0.668	0.293	0.407	0.398	0.426	0.423
25	15	0.643		0.684		0.225		0.594		0.289				
26	14	0.642		0.684		0.196		0.569		0.244				
27	13	0.644		0.689		0.191		0.558		0.224				
28	12	0.638	0.642	0.687	0.686	0.173	0.196	0.544	0.566	0.213	0.242	0.260	0.230	0.229
29	11	0.631		0.683		0.146		0.518		0.181				
30	10	0.629		0.684		0.125		0.476		0.141				
31	9	0.623		0.680		0.130		0.456		0.149				
32	8	0.613	0.624	0.675	0.681	0.112	0.128	0.433	0.471	0.130	0.150	0.174	0.136	0.131
33	7	0.608		0.678		0.053		0.395		0.075				
34	6	0.604		0.676		0.026		0.359		0.065				
35	5	0.597		0.671		0.039		0.352		0.045				
36	4	0.589	0.600	0.665	0.672	0.056	0.043	0.346	0.363	0.038	0.056	0.071	0.059	0.054
Average U		0.742		0.772		0.397		0.614		0.438	0.445	0.447	0.477	0.439

* N is the number of observations.

Variables: Inflation (year-on-year), Bank Rate, Spread, Credit, Libor-6months and fp-6months.

Table 6A
Accuracy of out-of-sample forecasts: Call Money Rate
(January – September 2002)

		RW	ARMA (2,2)		GARCH (1,1) ARMA (2,2)		LVAR (LAG 4)		VECM (LAG 4)		Optimal BVAR Model		Alternative BVAR Models			
													(w=.1, d=2, k=.5)	(w=.1, d=1, k=.5)	(w=.2, d=2, k=.5)	(w=.2 d=1 k=.7)
Week- ahead	N*	RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE	4 RMSE Weeks Average RMSE
1	39	0.255		0.296		0.258		0.797		0.793		0.389				
2	38	0.333		0.402		0.319		0.788		0.762		0.402				
3	37	0.366		0.467		0.357		0.667		0.778		0.413				
4	36	0.407	0.340	0.519	0.421	0.394	0.332	0.563	0.704	0.867	0.800	0.445	0.412	0.429	0.366	0.458
5	35	0.442		0.558		0.429		0.597		0.954		0.476				0.450
6	34	0.499		0.597		0.463		0.591		0.969		0.482				
7	33	0.515		0.625		0.480		0.577		1.030		0.512				
8	32	0.519	0.494	0.656	0.609	0.497	0.467	0.579	0.586	1.105	1.014	0.548	0.504	0.608	0.521	0.585
9	31	0.575		0.690		0.528		0.558		1.135		0.559				0.501
10	30	0.600		0.715		0.544		0.527		1.132		0.543				
11	29	0.633		0.746		0.563		0.510		1.158		0.530				
12	28	0.665	0.618	0.777	0.732	0.582	0.554	0.522	0.529	1.215	1.160	0.541	0.543	0.651	0.578	0.629
13	27	0.677		0.804		0.595		0.533		1.273		0.559				0.530
14	26	0.723		0.841		0.619		0.538		1.341		0.578				
15	25	0.753		0.855		0.622		0.527		1.384		0.591				
16	24	0.779	0.733	0.876	0.844	0.632	0.617	0.508	0.527	1.432	1.357	0.604	0.583	0.680	0.626	0.670
17	23	0.807		0.899		0.635		0.480		1.459		0.615				0.564
18	22	0.830		0.923		0.640		0.455		1.441		0.605				
19	21	0.796		0.944		0.611		0.439		1.391		0.581				
20	20	0.748	0.795	0.971	0.934	0.594	0.620	0.449	0.456	1.309	1.400	0.546	0.587	0.699	0.647	0.690
21	19	0.727		1.012		0.578		0.420		1.272		0.462				0.564
22	18	0.738		1.063		0.575		0.355		1.283		0.343				
23	17	0.761		1.102		0.589		0.364		1.279		0.296				
24	16	0.777	0.751	1.137	1.079	0.608	0.587	0.359	0.375	1.338	1.293	0.266	0.342	0.485	0.423	0.464
25	15	0.801		1.174		0.631		0.372		1.344		0.254				0.325
26	14	0.847		1.217		0.664		0.386		1.363		0.217				
27	13	0.822		1.235		0.663		0.394		1.430		0.192				
28	12	0.826	0.824	1.257	1.221	0.674	0.658	0.394	0.387	1.497	1.408	0.183	0.211	0.311	0.260	0.290
29	11	0.820		1.269		0.668		0.392		1.509		0.178				0.210
30	10	0.806		1.284		0.668		0.374		1.510		0.170				
31	9	0.820		1.299		0.664		0.351		1.445		0.170				

15	25	0.607		0.568		0.598		1.101		0.339		0.727					
16	24	0.576	0.611	0.548	0.570	0.585	0.597	1.159	1.074	0.328	0.351	0.772	0.711	0.804	0.741	0.899	0.72
17	23	0.530		0.517		0.565		1.219		0.320		0.819					
18	22	0.466		0.478		0.535		1.265		0.301		0.861					
19	21	0.358		0.419		0.481		1.300		0.266		0.895					
20	20	0.239	0.398	0.366	0.445	0.430	0.503	1.320	1.276	0.235	0.281	0.928	0.876	0.980	0.904	1.087	0.89
21	19	0.208		0.334		0.401		1.306		0.224		0.938					
22	18	0.220		0.294		0.366		1.262		0.219		0.918					
23	17	0.248		0.251		0.326		1.193		0.217		0.877					
24	16	0.295	0.243	0.212	0.272	0.287	0.345	1.176	1.234	0.206	0.216	0.856	0.897	1.002	0.917	1.110	0.91
25	15	0.361		0.187		0.256		1.157		0.204		0.845					
26	14	0.446		0.171		0.234		1.134		0.206		0.827					
27	13	0.528		0.192		0.243		1.098		0.229		0.812					
28	12	0.596	0.483	0.209	0.190	0.253	0.246	1.086	1.119	0.242	0.220	0.802	0.821	0.926	0.836	1.033	0.83
29	11	0.653		0.223		0.264		1.094		0.255		0.794					
30	10	0.693		0.218		0.250		1.125		0.261		0.821					
31	9	0.746		0.236		0.263		1.159		0.265		0.852					
32	8	0.808	0.725	0.244	0.230	0.258	0.259	1.164	1.135	0.287	0.267	0.895	0.840	0.951	0.852	1.059	0.85
33	7	0.872		0.252		0.238		1.147		0.282		0.938					
34	6	0.945		0.271		0.222		1.131		0.264		0.964					
35	5	1.053		0.366		0.323		1.114		0.286		0.978					
36	4	1.172	1.011	0.450	0.335	0.419	0.301	1.137	1.132	0.373	0.301	0.978	0.965	1.065	0.970	1.163	0.97
Average U		0.534		0.366		0.389		0.978		0.295		0.708	0.791	0.725	0.876	0.72	

* N is the number of observations.

Variables: Inflation (year-on-year), Bank Rate, Spread, Credit, Libor-6months and fp-6months.

Table 6E
Accuracy of out-of-sample forecasts: 10-year Government Securities
(January – September 2002)

Week- ahead	N*	RW		ARMA (1,0)		ARMA(1,0) ARCH (1)		LVAR (LAG 4)		VECM (LAG 4)		Optimal BVAR Model (w=.2,d=2,k=.5)		Alternative BVAR Models (w=.1, d=2, k=.5) (w=.1, d=1, k=.5) (w=.2, d=1, k=.5) (w=.2, d=2, k=.7)			
		4		4		4		4		4		4		4	4	4	4
		Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE	Weeks Average RMSE
1	39	0.335		0.326		0.322		0.263		0.270		0.284					
2	38	0.394		0.380		0.376		0.279		0.295		0.317					
3	37	0.430		0.408		0.401		0.301		0.325		0.336					
4	36	0.434	0.398	0.409	0.381	0.408	0.377	0.314	0.289	0.346	0.309	0.337	0.319	0.327	0.323	0.313	0.311
5	35	0.511		0.480		0.482		0.340		0.379		0.363					
6	34	0.584		0.544		0.547		0.373		0.418		0.403					
7	33	0.609		0.558		0.559		0.367		0.417		0.414					
8	32	0.610	0.579	0.544	0.531	0.546	0.534	0.366	0.361	0.422	0.409	0.422	0.400	0.407	0.403	0.403	0.397
9	31	0.613		0.535		0.544		0.369		0.433		0.412					
10	30	0.663		0.578		0.589		0.354		0.428		0.383					
11	29	0.684		0.585		0.597		0.347		0.431		0.387					
12	28	0.712	0.668	0.596	0.574	0.609	0.585	0.346	0.354	0.441	0.433	0.381	0.391	0.395	0.393	0.410	0.391
13	27	0.728		0.591		0.606		0.360		0.464		0.392					
14	26	0.715		0.566		0.587		0.350		0.459		0.366					
15	25	0.721		0.566		0.587		0.339		0.449		0.330					
16	24	0.704	0.717	0.536	0.565	0.553	0.583	0.313	0.340	0.423	0.449	0.306	0.349	0.349	0.363	0.402	0.351
17	23	0.693		0.499		0.516		0.341		0.462		0.347					
18	22	0.644		0.426		0.444		0.330		0.457		0.333					
19	21	0.621		0.393		0.411		0.318		0.449		0.324					
20	20	0.642	0.650	0.408	0.431	0.423	0.449	0.307	0.324	0.451	0.455	0.340	0.336	0.321	0.365	0.433	0.351
21	19	0.672		0.410		0.427		0.295		0.477		0.361					
22	18	0.742		0.453		0.475		0.275		0.509		0.335					
23	17	0.811		0.501		0.533		0.249		0.536		0.282					
24	16	0.890	0.779	0.588	0.488	0.624	0.515	0.237	0.264	0.547	0.517	0.261	0.310	0.303	0.323	0.378	0.32
25	15	0.960		0.617		0.657		0.216		0.570		0.277					
26	14	1.046		0.671		0.716		0.206		0.595		0.255					
27	13	1.127		0.726		0.777		0.215		0.629		0.252					
28	12	1.139	1.068	0.727	0.685	0.783	0.733	0.197	0.208	0.620	0.604	0.243	0.257	0.276	0.243	0.247	0.24
29	11	1.167		0.737		0.798		0.171		0.605		0.211					
30	10	1.210		0.761		0.828		0.151		0.575		0.171					
31	9	1.283		0.800		0.872		0.166		0.586		0.191					
32	8	1.310	1.243	0.803	0.775	0.884	0.845	0.146	0.159	0.567	0.583	0.170	0.186	0.215	0.168	0.167	0.16

33	7	1.321		0.804		0.896		0.070		0.522		0.099					
34	6	1.418		0.856		0.958		0.036		0.510		0.093					
35	5	1.436		0.857		0.964		0.056		0.506		0.064					
36	4	1.452	1.407	0.856	0.843	0.966	0.946	0.081	0.061	0.502	0.510	0.055	0.078	0.099	0.083	0.137	0.071
Average U		0.834		0.586		0.618		0.262		0.474		0.292	0.299	0.296	0.321	0.29	

* N is the number of observations.

Variables: Inflation (year-on-year), Bank Rate, Spread, Credit, Libor-6months and fp-6months.

Table 7A
Comparison of out-of-sample forecasts: Call Money Rate
(January – September 2002)

Week- ahead	N*	LVAR (LAG 4)			VECM (LAG 4)			Optimal BVAR Model(w=.2,d=1,k=.5)		
		4 weeks Average	4 weeks Average	% Increase	4 weeks Average	4 weeks Average	% Increase	4 weeks Average	4 weeks Average	% Increase
		U	U	in U	U	U	in U	U	U	in U
		With BankRate	With Repo		With BankRate	With Repo		With BankRate	With Repo	
4	36	2.177	2.101	-3.451	2.416	2.428	0.485	1.239	1.266	2.186
8	32	1.194	1.357	13.627	2.060	1.967	-4.506	1.025	1.068	4.206
12	28	0.860	1.108	28.777	1.880	1.709	-9.121	0.882	0.957	8.487
16	24	0.721	1.008	39.776	1.854	1.686	-9.068	0.797	0.890	11.656
20	20	0.574	0.847	47.533	1.762	1.574	-10.633	0.738	0.874	18.401
24	16	0.500	0.483	-3.439	1.723	1.497	-13.142	0.458	0.637	39.191
28	12	0.469	0.272	-42.089	1.710	1.501	-12.257	0.257	0.496	93.212
32	8	0.448	0.302	-32.650	1.807	1.598	-11.537	0.211	0.689	226.972
36	4	0.340	0.317	-6.688	1.781	1.663	-6.661	0.288	0.933	224.020
Average U		0.809	0.866	7.018	1.888	1.736	-8.069	0.655	0.868	32.503

* N is the number of observations. Increase in U implies deterioration in forecast accuracy.

Variables: Inflation (week-to-week), Bank Rate/Repo, Spread, Liquidity, Libor-3months and fp-3months

Table 7B
Comparison of out-of-sample forecasts: TB 15-91
(January – September 2002)

Week- ahead	N*	LVAR (LAG 4)			VECM (LAG 4)			Optimal BVAR Model(w=.2,d=1,k=.5)		
		4 weeks Average	4 weeks Average	% Increase	4 weeks Average	4 weeks Average	% Increase	4 weeks Average	4 weeks Average	% Increase
		U	U	in U	U	U	in U	U	U	in U
		With BankRate	With Repo		With BankRate	With Repo		With BankRate	With Repo	
4	36	1.264	1.418	12.179	1.624	1.583	-2.543	1.311	1.219	-7.032
8	32	0.838	0.853	1.806	1.505	1.316	-12.577	1.004	0.995	-0.931
12	28	0.742	0.825	11.167	1.578	1.439	-8.819	0.881	0.884	0.364
16	24	0.643	0.762	18.501	1.582	1.462	-7.583	0.801	0.787	-1.734
20	20	0.763	1.010	32.276	2.088	2.018	-3.349	1.075	1.047	-2.587
24	16	0.693	0.768	10.854	1.723	1.912	10.956	0.964	0.871	-9.688
28	12	0.537	0.323	-39.869	1.135	1.379	21.499	0.674	0.507	-24.760
32	8	0.534	0.270	-49.419	0.944	1.260	33.551	0.615	0.442	-28.185
36	4	0.511	0.200	-60.805	0.713	1.014	42.322	0.472	0.292	-38.063
Average U		0.725	0.714	-1.473	1.432	1.487	3.811	0.866	0.783	-9.662

* N is the number of observations. Increase in U implies deterioration in forecast accuracy.

Variables: Inflation (year-on-year), Bank Rate/Repo, Spread, Liquidity, Libor-3months and fp-3months.

Table 7C
Comparison of out-of-sample forecasts: 1-year Government Securities
(January – September 2002)

Week- ahead	N*	LVAR (LAG 4)			VECM (LAG 4)			Optimal BVAR Model(w=.2,d=1,k=.5)		
		4 weeks Average	4 weeks Average	% Increase	4 weeks Average	4 weeks Average	% Increase	4 weeks Average	4 weeks Average	% Increase
		U	U	in U	U	U	in U	U	U	in U
		With BankRate	With Repo		With BankRate	With Repo		With BankRate	With Repo	
4	36	0.936	1.023	9.229	1.017	1.070	5.163	0.780	0.802	2.777
8	32	0.727	0.723	-0.479	0.828	0.814	-1.619	0.680	0.687	1.020
12	28	0.634	0.589	-7.090	0.755	0.707	-6.308	0.601	0.598	-0.521
16	24	0.677	0.605	-10.674	0.926	0.783	-15.387	0.617	0.621	0.738

20	20	0.898	0.857	-4.612	1.410	1.169	-17.098	0.874	0.916	4.816
24	16	0.921	0.873	-5.215	1.687	1.593	-5.587	0.885	0.959	8.347
28	12	0.535	0.484	-9.456	1.169	1.236	5.739	0.423	0.461	8.963
32	8	0.374	0.320	-14.429	0.725	0.849	17.168	0.348	0.368	5.594
36	4	0.457	0.381	-16.472	0.387	0.551	42.360	0.328	0.314	-4.093
Average U		0.684	0.651	-4.929	0.989	0.975	-1.470	0.615	0.636	3.431

* N is the number of observations. Increase in U implies deterioration in forecast accuracy.

Variables: Inflation (year-on-year), Bank Rate/Repo, Spread, Liquidity, Libor-6months and fp-6months.

Table 7D
Comparison of out-of-sample forecasts: 5-year Government Securities
(January – September 2002)

Week- ahead	N*	LVAR (LAG 4)			VECM (LAG 4)			Optimal BVAR Model(w=.1,d=2,k=.5)		
		4 weeks Average	4 weeks Average	%	4 weeks Average	4 weeks Average	%	4 weeks Average	4 weeks Average	%
		U	U	Increase	U	U	Increase	U	U	Increase
		With BankRate	With Repo	in U	With BankRate	With Repo	in U	With BankRate	With Repo	in U
4	36	1.317	1.273	-3.326	0.950	0.972	2.330	0.901	0.927	2.863
8	32	1.308	1.158	-11.529	0.806	0.834	3.412	0.928	0.981	5.708
12	28	1.447	1.223	-15.476	0.663	0.676	2.073	0.984	1.041	5.807
16	24	1.763	1.443	-18.162	0.573	0.556	-2.988	1.167	1.212	3.837
20	20	3.540	2.884	-18.534	0.744	0.632	-15.000	2.442	2.468	1.038
24	16	5.198	4.208	-19.051	0.910	0.932	2.369	3.776	3.758	-0.491
28	12	2.412	1.952	-19.073	0.467	0.656	40.506	1.769	1.743	-1.483
32	8	1.573	1.273	-19.068	0.369	0.551	49.129	1.163	1.137	-2.183
36	4	1.135	0.978	-13.794	0.298	0.433	45.204	0.965	0.940	-2.536
Average U		2.188	1.821	-16.766	0.642	0.694	7.984	1.566	1.579	0.791

* N is the number of observations. Increase in U implies deterioration in forecast accuracy.

Variables: Inflation (year-on-year), Bank Rate/Repo, Spread, Credit, Libor-6months and fp-6months.

Table 7E
Comparison of out-of-sample forecasts: 10-year Government Securities
(January – September 2002)

Week- ahead	N*	LVAR (LAG 4)			VECM (LAG 4)			Optimal BVAR Model(w=.2,d=2,k=.5)		
		4 weeks Average	4 weeks Average	%	4 weeks Average	4 weeks Average	%	4 weeks Average	4 weeks Average	%
		U	U	Increase	U	U	Increase	U	U	Increase
		With BankRate	With Repo	in U	With BankRate	With Repo	in U	With BankRate	With Repo	in U
4	36	0.729	0.687	-5.754	0.776	0.759	-2.296	0.803	0.801	-0.282
8	32	0.626	0.591	-5.577	0.708	0.716	1.057	0.692	0.692	-0.061
12	28	0.532	0.495	-6.936	0.650	0.662	1.764	0.588	0.594	1.139
16	24	0.474	0.435	-8.320	0.626	0.655	4.652	0.486	0.504	3.768
20	20	0.499	0.451	-9.525	0.701	0.728	3.923	0.517	0.534	3.213
24	16	0.346	0.329	-4.778	0.668	0.714	6.809	0.407	0.405	-0.582
28	12	0.196	0.194	-1.220	0.566	0.631	11.384	0.242	0.237	-2.050
32	8	0.128	0.125	-2.508	0.471	0.553	17.422	0.150	0.146	-2.588
36	4	0.043	0.041	-4.336	0.363	0.453	24.921	0.056	0.054	-3.848
Average U		0.397	0.372	-6.289	0.614	0.652	6.152	0.438	0.441	0.649

* N is the number of observations. Increase in U implies deterioration in forecast accuracy.

Variables: Inflation (year-on-year), Bank Rate/Repo, Spread, Liquidity, Libor-6months and fp-6months.