

# AMEM SPRING 2022 FINAL PROJECT

## COMMENTS:

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#### Group 1:

##### Forecast:

Well done, much like group 2. The forecast is qualitatively very similar to what actually happened, but it also makes sense from the economic standpoint - trends and gaps tell story which is consistent with reality. So very good job overall. I only have a minor comment: the output potential and REER trend growth have not yet come back to steady-state by the end of the forecast. While that might be fine, in general you want the model to go back to steady-state at the end of the forecast period. This is also true for inflation target - if the CBA wants to hold FX stable again, then they cannot have 6.8% inflation target, cause that would not be consistent with REER trend assumption. Indeed, if you look at inflation in 2018-19, it was below 3%. Note that inflation target is very persistent, so you cannot expect it to go back to sstate on its own.

##### Text:

Also quite good. The text is a bit concise when explaining the transmission of the shock (why will variables move the way you say), but it's logically structured, written in good English, and gives the most important information. There are a few things sentences I find odd:

"central bank has pegged the national currency against the US dollar since 2011, as a result of high inflation expectations" - I think that was wasn't the reason, or the main reason

"Such an implementation will cause a shock in the aggregate demand due to relative prices of imports getting higher (and cheaper exports), which will subsequently lead to a decline in the real GDP growth " There could be wealth effects (people are poorer now), but I think the main problem was the income effect - lower income from oil for companies and households linked to the oil sector. Wouldb egood to clarify what transmission mechanism you have in mind precisely.

#### Group 2:

##### Forecast:

Overall well done, much like group 1. The forecast is qualitatively very similar to what actually happened, but it also makes sense from the economic standpoint - trends and gaps tell story which is consistent with reality. I only have a minor comment that is the same as for group 1:

The output potential and REER trend growth have not yet come back to steady-state by the end of the forecast. While that might be fine, in general you want the model to go back to steady-state at the end of the forecast period. However, you did correctly bring down the inflation target back to low levels at the end of the forecast - you could have done it a bit earlier, but its definitely the right call.

I'm really not sure why you added negative output gap shock in 2016Q2, that seems very random and the output gap then remains quite negative until the end of the forecast. Perhaps you just played around and then forgot to remove it?

### **Text:**

This part is not as good as the forecast... It seems the first part of the text (which is well written) was written by a different person than the second part. I have hard time giving comments cause the second part of the text is the important one, but it's full of weird formulations that I just don't understand.

Examples:

"genuine Gross domestic product development" - what is genuine GDP?

"Accordingly, the possible development of the economy is supposed to lessening to 1-2 %." no idea what that means, perhaps that growth will decline to 1-2% in the long-term?

"An enormous surge of assets is normal before very long." I don't even dare to guess...

The author(s) might want to improve their English, because this is not on a level necessary to work in a company where English is required for business. Alternatively, this was a practical joke, in which case well done.

### **Group 3:**

#### **Forecast:**

There are a few issues:

1. The REER gap becomes deeply negative (=overvalued) over the whole forecast. Essentially, you say that the currency will not restore equilibrium. That drives output gap and inflation down. What is missing is more FX rate shocks to push REER up to the trend, you only have one 10% shock in 2015Q1, which isn't enough.
2. Inflation target and risk premium increase quickly in early 2016, but never come back. By leaving those trends high, you essentially say that Azerbaijan wil lremain in crisis for the whole forecast period. Its not clear why you chose 2016 - what's special about that period?
3. The headline variables are a bit similar to reality, but unfortunately the underlying variables (gaps and trends) are inconsistent with what actually happened.

It's not entirely terrible forecast, but it's far from good, unfortunately. Pls check with your colleagues from other groups if you want to see an example of a good forecast implementation.

**Text:**

You wrote the text basically as evaluation of the model. In real life, almost no one cares about your model, and (almost) no one wants to read about it. Just describe what will happen in the country and why.

The text also describes how variables move (up, down, etc) but doesn't much discuss why - what are the shocks, what's the transmission mechanism? These are more interesting and important things to talk about. People can read tables and charts, they know if inflation goes up or down, your job is to explain why.

"This inflation was particularly caused by more expensive exports which led to inflation of food and non-food products. " did you mean to say imports?

On the other hand, your English is good and the text reads well.