

Macroeconomic Frameworks

Algeria

Extending the Quarterly Projection Model (QPM) to the Fiscal Sector

During 26 May to 6 June, METAC assisted the Bank of Algeria (BA) in extending the Quarterly Projection Model to incorporate the fiscal sector and assess implications on inflation dynamics, the central bank's reaction function, and the evolution of debt. The mission team provided hands-on training on preparing the forecasts and various alternative scenarios. Incorporating the effect of fiscal policy, forward-looking expectations, and timely intervention of the Central Bank will help BA in conducting monetary policy and achieving its long-term goals.

Extending the Quarterly Projection Model

In November 2024, a joint IMF HQ and METAC mission assisted the Algerian authorities in expanding their Quarterly Projection Model by incorporating the external sector dynamics into the model. To this end, the forecasting framework now incorporates feedback from the external sector to other economic sectors, thereby promoting the forecast accuracy. Following a previous mission that extended the model to include the fiscal block, the current mission's focus on the external sector allows for monitoring external developments and gauging the strength of the underlying transmission mechanisms into the economy. These efforts are aligned with the central bank's objectives of achieving the inflation target and minimizing deviations of GDP from its potential level.

Egypt

Updating the Quarterly Projection Model

The mission examined the Central Bank of Egypt's existing inflation targeting practices and extended the current framework to incorporate multiple Philips curves and a credit channel bloc. The mission also presented various nowcasting models in the pursuit of updating existing nowcasting models. The incorporation of a fiscal bloc and external sector developments will follow in the upcoming missions to obtain a fully operational Quarterly Projection Model (QPM). The mission also revisited communication strategies and public reporting methods.

Iraq

Improving the Central Bank's Projections by Incorporating High-Frequency Data

The mission team supported a core team at the Central Bank of Iraq during 9-13 June to incorporate high-frequency data in the Macroeconomic Forecasting Tool (MFT) to ensure the timely updating of the current year's estimates and improve the forecast set. The MFT is a multi-sectoral model that can capture endogenous economic responses of scenarios, such as oil price fluctuations. The baseline projection, alternative scenarios, and formulation of year-on-year forecasts are now based on quarterly forecasts rather than historic figures or personal judgment. The mission team underscored the critical role of developing fiscal policy scenarios and determining an adequate level of foreign reserves buffers.