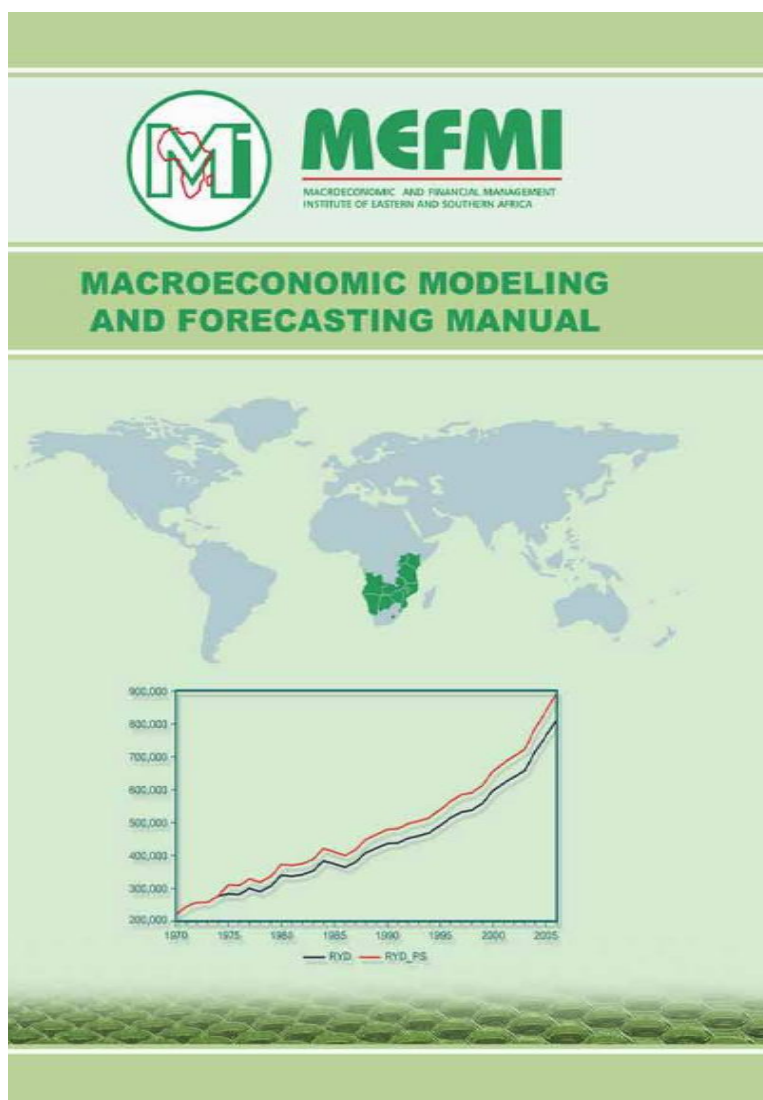


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## MEFMI Macroeconomic Modeling and Forecasting Manual



The MEFMI Macroeconomic Modeling and Forecasting Manual (MFM) was developed in fulfilment of MEFMI's mandate to provide tools for macroeconomic management to enhance sustainable human and institutional capacity in Central Banks, Ministries of Finance and Planning Commissions or equivalent and foster best practices in these institutions.

The region remains plagued with a plethora of economic and social challenges with relatively higher incidences of extreme poverty in the world. About 70% of the region's population lives below the poverty line of \$2 per day and close to 60% are financially excluded. Other key developmental challenges for the region are its vulnerability to global shocks, climatic change and limited participation of its people in decision making process which has resulted in weak governance and policy institutions. This has been exacerbated by other internal constraints notably energy shortages, infrastructure bottlenecks, limited fiscal space, and underdeveloped financial markets.

These challenges continue to hamstring the fragile economies and weigh down on growth and development in the region. Human and institutional capacity is severely undermined. The strategic focus of MEFMI is to design appropriate tools to efficiently and effectively address capacity

challenges in the region. MEFMI endeavours to equip countries with the economic knowledge, skills, competencies, tools, experiences and resources to enhance the formulation and implementation of prudent macroeconomic policies. This is critical to accelerate progress towards poverty eradication in the region.

An assessment of capacity building needs indicates that there is growing demand for macroeconomic modeling as a tool for macroeconomic policy analysis and management. It is evident that countries have made very little progress in applying fully fledged models. Inadequate capacity in econometric modeling thus remains one of the critical missing links in Macroeconomic Management in the region.

A survey of the status of modeling and forecasting in the MEFMI region revealed that:

- Most countries are using the Financial Programming (FP) framework of IMF;
- Some countries have developed simple models in the areas of inflation, exchange rate and monetary transmission mechanisms;
- Some countries show slightly more advancement and have proceeded to establish inflation forecasting frameworks; and
- Most countries are yet to develop fully-fledged modeling and forecasting models.

To advance capacity building efforts in the area of Macroeconomic Modeling and Forecasting, MEFMI initiated a project to develop a Manual that will serve as a reference tool to guide Econometricians and Modelers in the region. This is critical for evidence based policy design and execution. This home grown Modeling and Forecasting Product will reduce exposure to preface external development policies, tools and practices that do not necessarily take into consideration the unique situation, cultural heritage, knowledge systems and institutions in the region.

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