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CCAMTAC- Regional Research/Analytical Economic Policy Seminar Series
"FINEX - A New Workhorse Model for Macroeconomic Forecasting and Policy Analysis"
March 19, 2024

Introduction and moderation:

Mr. Norbert Funke, Director, CCAMTAC

Presenters:

Mr. Philippe Karam, Deputy Division Chief, Institute for Capacity Development, International Monetary Fund

Mr. Adam Remo, Senior Economist, Institute for Capacity Development, International Monetary Fund

Interventions:

Mr. Gan-Ochir Doojav, Chief Economist, Governor's Office, Bank of Mongolia

The research seminar was dedicated to the presentation of FINEX - the new workhorse model of the Institute for Capacity Development (ICD) of the International Monetary Fund (IMF). FINEX is a semi-structural macroeconomic model for policy analysis and forecasting that can be used in countries with imperfect capital mobility and hybrid monetary policy regimes.

Mr. Philippe Karam presented new innovations introduced by the FINEX model. Compared with traditional quarterly projection models (QPM), the new workhorse model incorporates explicit notions of external and internal balances, a more detailed fiscal sector, and endogenous trends. Although the structure of the FINEX model was motivated by dynamic stochastic general equilibrium (DSGE) models, the new model is more flexible, less micro-founded, and better suited for forecasting due to its superior properties to fit the data. In addition to the uncovered interest parity (UIP) condition, the external sector includes balance-of-payments constraints that have implications for endogenous portfolio flows, and the model also captures non-linear foreign exchange interventions (FXI) and capital flow management (CFM). The model has a richer representation of the fiscal sector to accommodate the main transmission channels of fiscal policy. Trends are endogenized in the FINEX model compared with traditional QPM and DSGE models where trends are exogenous. The trends are linked via economic relationships which are relevant for fiscal policy as it has both short- and long-run effects on the economy.

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Mr. Adam Remo discussed the dynamic and empirical properties of the FINEX model under different monetary policy regimes. Impulse response functions reveal that the model's dynamic properties are mainly in line with economic theory. The real-world application of the FINEX model for Israel data shows that the model possesses a reasonable level of accuracy in fitting the past data while model-based historical decompositions facilitate an intuitive storytelling in line with the economists' consensus.

Mr. Gan-Ochir Doojav emphasized the key strengths and weaknesses of the FINEX model. New innovations of the model were seen as key strengths whereas the absence of the labor market and the financial sector as well as the large size of the model could be looked at in future versions. Mr. Doojav discussed the core structure of the model and suggested that the new elements of FINEX should be adopted in the workhorse QPM models of central banks. He also made some recommendations on further enriching the model structure to better approximate emerging economies using the example of Mongolia.