

# Discussion of “MP analysis models etc...”

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- I’m a nice guy (and Adam knows that) but will skip the “praise and niceties” part (owing to our compressed schedule)
- ...and go direct to my healthy dose of skepticism

# Do I think a model like FINEX should become the (core) forecast & analysis production model at a CB?

- FINEX is a fine and well-crafted tool, but the answer is a resolute No
- Building larger, wider, deeper, more disaggregate, more complex forecast production models (“workhorses”) is best avoided at CBs...
- Instead: build systems of models, each with a clearly defined purpose and the most adequate methodological foundations, connected through a clever process, all organized around a simple core

In this context: (i) keep something like QPM, (ii) complement it with a longer-term structural policy DSGE, (iii) set up a clever process to integrate the insights

# Practical reasons to choose a “system of many” over one “biggie”

- Operational/maintenance/business continuity etc... costs
- Failure to see the forest for the trees
- Stock-flow will kick your...

# Operational (and other similar) costs

- One complex model has a much bigger cost of operation/development/maintenance than an “equivalent” system of models
- Easier to set up a clever process connecting multiple tools
- More robust strategy in a high staff turnover environment
- Much easier to merge the individual elements of a “system of many” into a coherent narrative

# Forest for the trees (or the map analogy)

- The key value of models: abstract away from less relevant details, get insights about big-picture policy messages
- Forecasting/analytical teams always get lost in “biggies”, no exception (myself included)
- Very difficult to calibrate “biggies” to pass the very basic smell tests (think cost of disinflation, cost of fiscal/IIP deleveraging, anticipated shocks etc...)
- Way more useful narratives usually arise from the internal processes (connecting multiple tools) rather than from a single biggie

# Stock-flow will kick your... (1)

Do we need/want stock-flow (fiscal, supply side, IIP, etc...)?

- We desperately do in longer-term structural analysis
- We don't in monetary policy forecast production models

# Stock-flow will kick your... (2)

## Pain of stock-flow

- Always about a zillion things going on in the data that cannot be explained by a single model
- Dealing with these by prefiltering etc... is a zillion times more difficult in stock-flow models than in flow models (been there)
- Bringing the models to the data (production-grade forecasting): extremely painful. If you think it's "not that painful" – that's only because you're missing something