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Economic modeling and forecasting: Effective ways to communicate the results

Sensible decisions regarding government policymaking as well as developing business strategies is based on economic modeling and forecasting the possible consequences of various policy program alternatives. Therefore preparing an economic outlook or policy simulation is of little value if there is a failure to effectively communicate the results to those involved in the decision-making. A workshop entitled "Communication Strategies for Economic Forecasts and Policy Simulations" was held last week at ICPS, as part of the project "Economic Modeling and Forecasting in Ukraine". Paul M. Darby, Director of the Economic Forecasting Department at the Conference Board of Canada shared his experience with Ukrainian officials from the Ministry Of Economy, the Ministry of Finance, and the National bank of Ukraine. The main ideas of the workshop are summarised below

The guiding principles of communicating the results of policy simulations and economic forecasts are:

- Understand the message;
- Define your message;
- Understand the forecasting tool;
- Know the material.

Economic forecasts

Understanding the audience. Mr. Darby divided the customers of economic forecasts into two groups: the government and the private sector. Both have to keep in mind the reaction of the mass media and the public. The main target groups among the government and the private sector ➔

Types of economic forecasts and customers

Senior management:

- *no time;*
- *risk sensitive;*
- *low level of technical expertise;*
- *needs economic outlook to asses their subordinate officials' proposals;*

Analysts:

- *time is available;*
- *moderate degree of technical expertise;*
- *need forecasts for planning and briefing to their senior management;*
- *need machine readable data for custom reports;*

Mass media:

- *works to immediate deadlines;*
- *no time for analysis;*
- *no technical expertise;*
- *needs one key message delivered in a fashion easily understood by the general public.*

The project "Economic Modeling and Forecasting in Ukraine" continues

The Coordination Council of the project entitled "Economic Modeling and Forecasting in Ukraine" held a meeting on 3 October. The project has been implemented by the joint efforts of the Conference Board of Canada and ICPS for three years. The participants of the meeting discussed the achievements reached within the framework of the project over the last six months. It was also informed about the project extension till September 2002

The goal of the project is to strengthen the institutional capacity of the government of Ukraine to develop economic policy, through constructing an econometric model of the Ukrainian economy. The principal objective of the project is to create a socioeconomic database and macro econometric model of the Ukrainian economy. The project provides for Ukrainian government officials an opportunity to train in macro-economic modeling and the use of analytical tools for policy analysis. The participants of the project include officials from the Ministry of Economy, the Ministry of Finance, the National Bank of Ukraine, and the State Committee of Statistics of Ukraine. The project is financed by the Canadian International Development Agency (CIDA).

As of 30 September, 2001 eighteen Canadian missions were completed and seventeen sets of seminars delivered ➔

in Ukraine. Trainees are now well versed in basic economic interrelationships and continue to improve their computing skills with respect to their Eviews software. The project has maintained its focus on upgrading the analytical skills of trainees, and continues to look for ways to make the training practical and applicable to their everyday responsibilities.

The database was completed last year and is now being updated with statistics for the year 2000. The theoretical model developed in the first year of the project has become a working model of the Ukrainian economy. The first version of the model was completed in June 2001. The challenging task of fine-tuning and calibrating this model will be the primary focus over the next six-month period.

The Conference Board of Canada's request for a six-month extension has been approved by CIDA. This extends the life of the project to September 2002. Thanks to this decision, the Ukrainian partners have the opportunity to master a complete set of economic analysis tools and to improve the outputs of the project, such as the model and the database. ■

Further information on the project entitled "Economic Modeling and Forecasting in Ukraine" is available online at: http://www.icps.kiev.ua/eng/economicmodelling.html.

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Economic modeling and forecasting...

are senior management and analysts. To understand the audience properly it is necessary to put yourself in the shoes of your audience. It is essential to tailor the communication to the needs and expertise of the audience. "Note that effective communication begins with a good understanding of your audience," said Mr. Darby.

Defining the message. Macroeconomic models are only one of the tools used to prepare economic forecasts. Others tools include time series analysis and leading indicators. One should always remember that the model is not a perfect reflection of reality. Therefore, first of all it is necessary to define the forecast assumptions that may be important for a certain audience. The key forecast assumptions will depend upon the most essential messages and the audience. The key assumptions should be communicated to the audience up front.

Mr. Darby advises not to spend time talking about the tool and to discuss it only in response to questions or in technical forums. One should keep the discussion focused on key assumptions and the most important messages. The speaker should not be afraid to admit to errors and on the contrary be ready to discuss what went wrong. "Never cling to an outdated forecast," said the Canadian expert.

Knowing the material. It is important to be able to defend the key assumptions and to know which assumptions are critical. "Forecasters" should be able to trace the causal path from key assumptions to important outcomes. It is essential to identify all possible risks and to assign their probability. Discussed and evaluated, risks can be used to develop alternative scenarios. Another piece of advice, given by Mr. Darby was "to try and anticipate questions".

Policy simulation

Understanding the audience. The principal customers of policy simulations are the government and private enterprises. While presenting policy simulation, it is important, as in the case with economic forecasts, to tailor all the material to the needs and expertise of a particular audience.

Defining the message. Key messages usually define the impact of policy changes on the public. The baseline of impact measurement is provided by the status quo that is one of the policy options, actually. It is very important to provide independent public policy alternatives. To evaluate the scope of impact of a certain policy, one should analyse the risks and consider the political context.

Understanding the tools of simulation. Macroeconomic models are the tool of choice to generate policy simulations. However, there are other tools. Econometric models provide very aggregated and coarse information, while reality is disaggregated and detailed. Hence, a careful understanding of the structure and the dynamics of a model is crucial. Mr. Darby considers it important to be able to foresee unintended consequences and anticipate surprises.

Knowing the material. Analysts should be prepared to defend their model of policy changes. Mr. Darby gave the participants of the workshop the following advice: "Be ready to trace the causal path to the most important outcomes, and to discuss risks with assigned probabilities." All policy recommendations should be supported with arguments, based on other tools of analysis. ■

All the materials of the workshop "Communication Strategies for Economic Strategies and Policy Simulation" are available online at: http://www.icps.kiev.ua/eng/training_materials.html#communication_strategy.

Conference Board of Canada is a key partner of ICPS

The Conference Board of Canada (CBoC) is one of the biggest independent research institutes in Canada. Its staff includes more than 200 fellows.

The Conference Board's expertise falls into two broad areas. First, CBoC implements research on the social and economic environment in Canada, as well as on global economic trends and issues. Second, CBoC provides knowledge about organisational change, including changes in management systems such as strategy, organizational structure, technology, human resources, information management, and other important areas.

Every year, the Conference Board hosts more than 250 meetings and conferences, holds over 80 leadership programs, publishes 150 research documents, and replies to more than 4,500 requests for information from members.

Further information on the Conference Board of Canada is available online at: http://www.conferenceboard.ca.

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