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USAID STRATEGIC ECONOMIC RESEARCH AND ANALYSIS – ZIMBABWE (SERA) PROGRAM

ZEPARU MACROECONOMIC POLICY ANALYSIS COURSE REPORT

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ACRONYM LIST

FDI	Foreign Direct Investment
IMF	International Monetary Fund
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MEP	Ministry of Economic Planning
MOF	Ministry of Finance
RBZ	Reserve Bank of Zimbabwe
SERA	Strategic Economic Research and Analysis
STTA	Short Term Technical Assistance
UCT	University of Cape Town
USAID	United States Agency for International Development
US	United States (of America)
ZANU-PF	Zimbabwe African National Union (Patriotic Front)
ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
ZIMSTAT	Zimbabwe National Statistics Agency

This course was designed to provide participants with the basic mechanics of how to create a macroeconomic framework and do financial programming. It taught them how to project the macroeconomic framework—based around the national accounts, the balance of payment, the fiscal budget, and the monetary survey—and how to identify and assess disequilibria

Course Structure

The course was structured to provide a formal lecture on some aspect of economic analysis and policy each morning, and a practical exercise (using EViews and/or Excel) each afternoon that illustrated the concepts discussed in the morning. (See course schedule is shown in Appendix I.) In the afternoon session, Threza Mtenga (my assistant from University of Cape Town) took the participants through the practical exercise, while myself and Nicholas Masiyandima (a Zimbabwean now attending UCT) circulated in the class and gave personal attention to participants when they encountered difficulties.

A prototype case study based on Zambia was used to illustrate the concepts and analytical methodology that were taught. Participant also brought in Zimbabwe data, which was examined and discussed as well. One lecture session was devoted entirely to dollarization and the special characteristics of the Zimbabwe economy.

The course finished with participants doing a monetary programming case study, which several subsequently presented to the class. Participants were also encouraged present or discuss other national economic issues, and several did. Those other presentations included: The Attempted Launch of the Zimbabwe Treasury Bill Market, Goals of the Banking Indigenization Program, The Current Account Deficit, and Forecasting the National Accounts.

The course took place at the Mandel Training. The facilities were very good and the service was excellent. The training room was cleaned daily, tea and coffee were readily available for breaks, and the lunches were very good. Internet generally worked and electricity was constant.

Course Participants

There were 25 participants registered for the course (Appendix II), coming from the Ministry of Economic Planning (7), Ministry of Finance (4), the Reserve Bank of Zimbabwe (4), ZIMSTAT (1), ZEPARU (8) and SERA (1). Notably, 12 out of the 25 participants were women.

This was the first course covering financial programming for most of the participants. Although most participants were younger economists, there was a wide mix of abilities: some had experience and some didn't; and some participants had post-graduate degrees and some didn't.

Pre-Course Expectations of Participants

The participants completed a pre-course questionnaire that reflected their views on economic policy-making and technical skills. Broadly speaking, the participants believed that evidence-based economic analysis and technical expertise were essential. Participants emphasized the perceived importance of technical skills in their jobs and cited improvement in those skills as a primary objective for attending the course. Most felt that they were moderately competent in their technical skills and about half were regularly doing economic forecasting.

My Perceptions of Participants

From the outset, I tried to set a policy of openness, questioning, and free discussion for the course. However, participants were relatively quiet and reserved during most of the first week and only gradually opened up. I detected reluctance to question or analyze official policy.

Participants were serious about learning, they paid close attention to lectures, and they diligently worked on the practical exercises each afternoon. Attendance was virtually 100 percent during the first week, but dropped to about 90 percent during the second week. Participants from the Ministry of Planning of Planning said that they were asked to come into the office in the morning before attending the course, which made them late most days.

Participants were asked to bring in any data that they worked with, and several did. We were able to look at historical Zimbabwe data on the balance of payments, the monetary survey and the fiscal budget. No one was able to share the existing financial programming model being used. Participants were reluctant to talk about their own work and how they did forecasts.

Participants demonstrated varying degrees of technical competence. They were given a variety of exercises to do over the 2 week period with varying amounts of guidance. While many were very competent, it struck me that a number needed a large amount of guidance in doing the exercises, and they seemed to think that there was a single correct way of doing things. A few people were surprisingly weak and even seemed a little confused about how to translate a future inflation rate into the corresponding consumer price index, and vice versa.

Participants Perceptions

Based on a post-course questionnaire (Appendix III), at least 80 percent of the class felt that: (i) the skills they learned in the course would make them more effective in their job and benefit their department; (ii) the course gave them more confidence discussing economic policy; and (iii) the course would benefit others in their department. Most also felt more confident making forecasts after the course.

It appeared that the balance of payments session was the most difficult for the participants to understand, and I can understand that. There were many confusing ideas, such as an increase in foreign reserves being shown as a negative number, the idea that FDI might not represent any cash injection in the economy; or a capital inflow representing an increase in external debt. However, the Zimbabwe economy critically depends on the balance of payments, and more understanding of it is needed.

Participants had mixed views about the role of politics versus technical skills in regard to making economic policy.

There was one post-course attitude that disappointed me, the belief that 'accuracy in forecasting is more important than the logic of creating the forecast.' I tried to emphasize that we were creating 'scenarios of what could happen based on a set of assumptions,' as opposed to 'forecasts of what would actually happen;' and the logic behind the scenario was more important than the accuracy of the projection. I suspect that participants have held on to an older belief about accuracy, or else they didn't understand the question.

Conclusions and Recommendations

ZEPARU should consider developing its own financial programming model in house to give them the ability to create their own view of the economy with alternative policy prescriptions. Such a model

should be technically managed by a team of about 5 economists, including one economist per sector and one team leader who can conceptualize the overall economy and provide guidance to the team. Each sector economist would be responsible for incorporating the latest information on his sector in much the same way that IMF economists work, i.e. by talking with experts in the sector as well as doing technical analysis. This team can develop using a “learning by doing” strategy. There are many precedents in the US, Europe and elsewhere, for domestic think-tanks to have their own macroeconomic model in addition to that of the government. It is also advantageous for the government to have an independent view of where the economy is heading and what policies changes might be appropriate.

ZEPARU should consider developing a few persons who can serve as trainers on financial programming courses. (And who may be different than the modeling team.) That expertise will increase ZEPARU’s capacity to train and advise young economist entering government service. The same group of ZEPARU economists can develop that expertise by repeated participation in financial programming courses, including those of MEFMI and the IMF. If my course is run again, I could train those economists to present different lectures in order to develop their skills. It would also be useful to create a database of key Zimbabwe macroeconomic data in Excel and EViews for practical training exercises.

Participants needs some type of explicit follow-up on the job or with a subsequent short seminar. It may be useful to visit participants on the job to see how advanced statistical techniques and econometrics might be incorporated into their work to raise their productivity. They all seemed to appreciate the practical exercises with EViews and Excel, but often lacked the ability to see how the economic theory could be translated into practical application. This course tried to integrate EViews and Excel by using EViews to identify the parameters of basic economic relationships (particularly price and demand elasticities) and to measure trends (particularly log-linear trends), which would subsequently be incorporated in Excel forecasting formulas.

Participants in the course may have difficulty identifying the no-policy-change scenario in Zimbabwe because of the considerable confusion about the future policy path. For example, ZANU-PF has proposed the reintroduction of the Zimbabwean dollar as soon as possible, while conventional economic wisdom would not even consider this as a medium term possibility—other intermediate regimes are probably required first. Another key issue is the Indigenization Policy. All analysts seem to agree about the need for more liquidity and investment in the economy, but the proposed indigenization policy would probably do the opposite--by actually reduce the amount of foreign FDI. Without some agreement or guidance on such major political issues, it becomes difficult for technical analysts to make good projections.

Dr. Mark Ellyne

(mark.ellyne@gmail.com)

17 December 2012

Appendix I. Schedule:

Zimbabwe: Financial Programming Course						
ZEPARU	3-14 December 2012					
Date	Session	Morning Session 9-12:30	Session	Afternoon Session 1:30-4:30 pm	Exercise	Objectives
3-Dec	1	Introduction to Financial Programming	2	Eviews Class: Data entry; Trend lines; forecasting; Using data for Zimbabwe	How to use Eviews	How to use econometric software easily and efficiently.
4-Dec	3	Real Sector - Output	4	HP filter; potential output from level and growth rate; for SA	Projecting real GDP.	How to project output
5-Dec	5	Real Sector - Prices	6	Seasonal adjustment; phillips curve; supply and demand factors for CPI	Projecting inflation.	How to project prices
6-Dec	7	The Exchange Rate	8	Estimate PPP in level and in changes; Estimate NER from RER	Projecting the exchange rate with PPP.	Understanding the difference between real and nonminal exchange rate
7-Dec	9	External Sector - Balance of Payments	10	Forecasting the current and capital accounts.	Projecting the balance of payments.	Understanding financing and reserve change.
8-Dec		No classes				
9-Dec		No classes				
10-Dec	11	Fiscal Sector - Government Budget	12	Forecasting Revenues and expenditures.	Projecting the fiscal budget.	Understand how the budget is linked into the economy and how impact of different financing.
11-Dec	13	Monetary sector	14	Making monetary projections from bottom-up and top-down.	Projecting the money supply from bottom-up and top-down.	Learn to judge appropriate amount of money.
12-Dec	15	Baseline Scenario and	16	Review; Case study	Review and Case study	Understand consistency and linkages between economic sectors.
13-Dec	17	Characteristics of the Zimbabwe economy	18	The Zimbabwe Treasury Bill Market; The Goals of Indigenization; Preparation for presentations	Preparation for presentations	Learn to present monetary program
14-Dec	19	Presenation on Zim current account; Presentations of monetary programs. Certificates distributed.	20	done		Focus on presentation skills

Appendix II: Course Participants

LIST OF PARTICIPANTS FOR FINANCIAL PROGRAMMING & POLICY COURSE, MANDEL TRAINING CENTRE, 3-14 DECEMBER 2012

Name	Gender	Designation/Title	Email Address
Ministry of Economic Planning and Investment Promotion			
1. Sifikile Moyo	Female	Principal Economist	moyosifikile@gmail.com
2. Patience Yakobe	Female	Principal Economist	pyakobe@gmail.com
3. Adonis T. Ntuli	Male	Senior Economist	atntuli@gmail.com
4. Chamunorwa Nyamuranga	Male	Senior Economist	cnyamuranga@gmail.com
5. Tapiwa Dzvukutu	Male	Economist	tdzvukutu@gmail.com
6. Tavonga Vhezha	Male	Economist	vtavonga@gmail.com
7. Edzai Chinakidzwa	Female	Economist	edzailostance@gmail.com
Ministry of Finance			
8. Trish Chiinze	Female	Economist	trishchiinze@gmail.com
9. David Mabwazara	Male	Economist	dmabwazara@gmail.com
10. Cresinsia Gapare	Female	Principal Economist	gaparec@gmail.com
11. Georgina Shadaya	Female	Economist	gshadaya@gmail.com
Reserve Bank of Zimbabwe			
12. Tawedzerwa Ngundu	Male	Senior Economist	tngundu@rbz.co.zw
13. Pardon Chitsuro	Male	Senior Economist	pchitsuro@rbz.co.zw
14. Rangarirai Sibanda	Female	Senior Economist	rsibanda@rbz.co.zw
15. Kennedy Kupeta	Male	Senior Economist	kkupeta@rbz.co.zw
ZIMSTAT			
16. Ronald Mhlanga	Male	Manager BOP&External Trade	mhlangar@zimstat.co.zw
ZEPARU			
17. Sanderson Abel	Male	Senior Research Fellow	abelsza@yahoo.co.uk
18. Erinah Chipumho	Female	Senior Research Fellow	erinahc@yahoo.co.uk
19. Sehliselo Mpofo	Female	Senior Research Fellow	sehliselom@yahoo.co.uk
20. Jacob Nyamadzawo	Male	Research Fellow	jacobn@yahoo.co.uk
21. Cornelius Dube	Male	Research Fellow	cornydee@gmail.com
22. Evangelista Mudzonga	Female	Research Fellow	emudzonga@gmail.com
23. Tawanda Chinembiri	Male	Research Fellow	tawanda.chinembiri@gmail.com
24. Evidence Ndari	Female	Training Coordinator	evidencendari@gmail.com
USAID-SERA Program			
25. Emmanuella Matorofa	Female	Training Coordinator	ematorofa@sera-program.co.zw

Appendix III: Post-Course Questionnaire

Zimbabwe Financial Programming Course: Macroeconomic Policy Analysis in Low Income Countries. 3-14 December 2012 Harare, Zimbabwe						
Post-Course Questionnaire						
		Completely Agree		Somewhat		Not at all
		5	4	3	2	1
1	The skills I learned in this course will help me be more effective in my job.	13	7	2		
2	The following sessions increased my understanding of financial programming:					
	Financial programming overview	8	8	4		
	Real sector output and prices	8	11	3		
	Exchange rate	9	8	4	1	
	Balance of payments	8	7	7		
	Fiscal sector	11	7	4		
	Baseline scenario	11	6	5		
3	The skills I have learned will help me advance in my career.	10	11			1
4	Accuracy in forecasting is more important than the logic of creating the forecast.	10	6	3		2
5	Economic policy making depends mainly on technical skills.	8	8	5		
6	I feel more confident making forecasts after taking this course.	10	5	6		
7	Economic policy-making is a political issue.	2	4	9	2	5
8	The skills I learned in this course will improve the output and effectiveness of my Department.	12	6	3		
9	The course has given me more confidence to discuss economic policy issues.	10	8	4		
10	Others in my department would benefit from this course.	12	6	3		
11	List some ways that you can use what you have learned in the course in you current job: Use for revenue & expenditure forecasting; GDP and growth forecasting; creating the real exchange rate; use of financial programming; more on using and forecasting with filters; techniques will enhance quality of my output; forecasting; building model for Zimbabwe; Projecting money supply and BOP; stimulated research ideas; sectoral linkages; using trends; improved my forecasting; improves my overall analytical skills; inflation forecasting and inconsistency checks; very useful for members of					
12	Additional topics that could be covered in this course: Debt sustainability analysis; Use Eviews to make BOP forecasts; flow of funds*; more on exchange rate forecasting; more training over longer period; more on consistency checks; production functions;					
13	Additional topics that merit a follow-up course: Spend more time on the programme; Advanced financial programming that concentrates on the programming aspect; Real sector output and prices; building econometric models; more on BOP and exchange rate; more on EViews; sector linkages;					
	Other: Workshop should be held outside of Harare;					