Talking to treasury people

* OBR is only 50 people
* Fiscal multipliers: vibes based + lit review
* Skills of liaising
* Skills of knowing underlying assumptions of models
* Baseline, calibrated coefficients, blah blah
* Or, central model with baseline, compare treasury policy prediction with baseline.

Needs to know assumptions governing forecast.

Take a look at OBR documents, see which forecasts the OBR tracks

* Does OBR usually only have 1 scenario?
  + Easy way to make multiple scenarios: have baseline with model, open up Bloomberg term and download Bloomberg consensus data which is a survey of private company estimates.

Why is the UK’s borrowing costs so high?

* High risk premia
* Expensive UK QT program
* People talk about supply a lot and high supply of demands, but people don’t talk about demand side for bonds as much.
  + Debt Management Office forcing more short term issuance
  + 30 year gilts are not in demand anymore

Forecasting:

1. Coefficients are usually calibrated by the data team.
   1. Typically OLS regression
2. Create a baseline built off a regression model – perhaps OLS
   1. Economist makes a judgement call on the model.
   2. Models are generally stationary in the long-run around a historical mean.
      1. For example, following a shock your model may suggest mean-reversion and thus will suggest lack-lustre forecast.
         1. This is bad
         2. This is why economists need to make judgement calls
         3. They make their own models to create a residual – baseline vs. “imposed” value suggested by economist.
         4. Very relevant in OBR following yield spikes. Some kind of long-run stationary model for output
         5. Hodgerick presscot filer is something forecasters use.
         6. Forward bias is also bad.
            1. Take an OLS regression: E(. If a model has a sample range from 2010-2025. If a result is underestimated earlier, it must be compensated at some point. So, the model predicted values change depending on the timeframe set for the model. Important for back-testing.

Top things to talk about for analytics:

* Baseline forecasting,
* Calibrating forecasting,
* How I have calibrated models in the past.
* Blanchard “Fiscal Policy under Low Interest Rates”
  + Natural rate of interest goes down 🡪 Long run average 🡪 Talk about properties of models and their long-run stationary averages which often need correction.
    - In the case of yields, interest rates return to a long-run rate.