Global Economic and Financial Outlook and Policy Recommendations Based on VAR Model

Qizheng Wu

University of Western Australia, 10 Halvorson Rd Morley Perth, 6062, Australia

wqz112729@gmail.com

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Abstract: With the increasingly complex and challenging global economic and financial situation, the VAR model, as an important tool for economic and financial forecasting, has gradually become increasingly prominent in terms of its application scope and importance. However, how to construct and apply VAR models to accurately predict global economic and financial trends, and propose effective policy recommendations, is still a problem worthy of in-depth research. Based on the above background, this paper mainly studies the global economic and financial outlook and policy recommendations based on the VAR model. Firstly, the basic principles and characteristics of the VAR model were introduced, as well as methods for processing and preparing global economic and financial data; Secondly, by constructing a global economic and financial outlook model, empirical analysis was conducted and corresponding policy recommendations were proposed; Finally, the application of VAR models in monitoring global economic and financial risks was explored. The global economic and financial outlook method based on the VAR model proposed in this paper has good predictive performance and important reference value for formulating and adjusting global economic and financial policies.

1. Introduction

With the increasingly complex and challenging global economic and financial situation, the VAR model, as an important tool for economic and financial forecasting, has gradually become increasingly prominent in terms of its application scope and importance. However, how to construct and apply VAR models to accurately predict global economic and financial trends, and propose effective policy recommendations, is still a problem worthy of in-depth research. Based on the above issues and the widespread existence of VAR models in economic and financial forecasting, this paper mainly optimizes the VAR model based on the global economic and financial outlook, and conducts empirical analysis based on the VAR model for global economic and financial forecasting problems, effectively improving the accuracy of forecasting. This paper applies VAR model technology and solves the problem of global economic and financial forecasting through empirical analysis, providing important support for research in the global economic and financial field.

2. Background of Global Economic and Financial Outlook Research Based on VAR Model

2.1 The Complexity and Challenges of the Global Economic and Financial Situation

The global economic and financial outlook based on the VAR model is a concept that has developed in parallel with economic globalization. It is imbued with systematic concepts, highlighting the dynamic orientation of economic and financial markets, and reflecting the complexity and challenges of global economic and financial development since the 21st century. However, when we attempt to construct the definition and essence of the global economic and financial outlook using certain traditional economic theory standards, it is still difficult to obtain a comprehensive and accurate description.

2.2 Application of VAR Model in Economic and Financial Forecasting

The VAR model is an important standard for economic and financial forecasting, which is a structural expression of economic and financial time series data.[1] Statisticians and econometricians have discussed different definitions of VAR models from the perspectives of model stability and predictive accuracy. Some scholars believe that the VAR model is the degree of market risk or a precursor to future trends. It is precisely because VAR models are more explanatory and predictive to some extent, and belong to empirical science with the purpose of prediction. The empirical research history of VAR models can even be traced back to the 1980s, and their main activities include parameter estimation, model selection, and predictive evaluation. The concept and method of VAR model are closely related to the volatility of economic and financial markets. Through model diagnosis, The VAR model has become an important responsibility for monitoring and preventing economic and financial crises. The main contribution of econometric theory during the VAR model period is to provide a dynamic prediction method based on endogenous data attributes.[2] Therefore, the concept of VAR model initially focused on predictive metrics based on statistical attributes of data.

2.3 The Importance and Significance of Global Economic and Financial Outlook

Compared with traditional economic forecasting methods, the global economic and financial outlook emphasizes more on the relationship between economic variables and financial markets and has the characteristics of systematicity and foresight. Although some scholars question whether there may be a direct relationship between economic forecasts and actual market performance, most scholars advocate that global economic and financial outlook can provide a rational evaluation of future trends. Engle et al. proposed a classical econometric model called Vector Autoregression (VAR), which includes multiple time series elements.[3] Since then, the model has become a typical tool for economic and financial forecasting, leading to the development of the concept of global economic and financial outlook. These scholars believe that the global economic and financial outlook has endogeneity and serves as a mirror of economic and financial markets. Only when the model accurately reflects market dynamics can predictions be more reliable. Therefore, the global economic and financial outlook is the result of the complexity of economic and financial markets. Some scholars have summarized the global economic and financial outlook as a dual model, namely a prediction model based on macroeconomic data and a prediction model based on financial market data. The former focuses on economic fundamentals, while the latter focuses on market sentiment, i.e. investor expectations. Although the global economic and financial outlook has experienced some practical failures, from a long-term perspective, it can provide valuable insights, and the concept of global economic and financial outlook has gradually become a consensus in economic and financial research and practice.

3. Fundamentals and Key Technologies of Global Economic and Financial Research Based on VAR Model

3.1 Principles and Characteristics of VAR Model

The essence of the VAR model concept focuses on the prediction and analysis of economic and financial time series data. The VAR model is an application of systems thinking in the field of economics and finance. To overcome the shortcomings of univariate analysis methods, it has entered the research field as a new alternative model - the multivariate time series analysis framework.[4] The basic idea of the framework is that the model should ensure the effective implementation of the interrelationships between data; Set statistical standards for economic and financial output; Capturing the dynamic effects between variables through techniques such as impulse response functions; Use variance decomposition method to measure the relative importance of variables. The VAR framework reconstructs economic and financial forecasting analysis, emphasizing the need to enhance the explanatory power of the model and construct the predictability, robustness, flexibility, and applicability of economic and financial variables.

3.2 Processing and Preparation of Global Economic and Financial Data

The processing and preparation of global economic and financial data are the main prerequisites for the application of VAR models, emphasizing the importance of data quality.[5] Through data cleaning and transformation, it directly reflects the real situation and internal connections of economic and financial markets. With the development of data analysis technology, some standard processes and methods for data processing are gradually being formed, and the consistency of data and the adaptability of various analysis models are also gradually being valued. However, from a practical application perspective, some data processing practices are still in the early stages, and there are still contradictions with the logical framework and generation mechanism of VAR models, which leads to the problems of model errors and inaccurate predictions.

3.3 Estimation and Prediction Methods for VAR Models

From the perspective of econometrics, the estimation and prediction of VAR models are fundamental aspects of economic and financial analysis, as well as the core embodiment of model application.[6] Therefore, The VAR model is primarily data-driven in generating logic. Model estimation is the main technical link in the application of VAR, and it is also the main factor in the accuracy of model prediction. At present, The VAR model strengthens parameter control from a methodological perspective, with three main forms: model selection. Clarify that the model achieves optimal fit between within and outside the sample; The second is parameter estimation. By establishing statistical and econometric standards, and publicly disclosing estimation standards to the academic community, standardized control of parameter estimation can be achieved; The third is the internal process reengineering of the model structure. In recent years, scholars and professionals have used VAR models as a means to enhance predictive ability and improve the efficiency of economic and financial decision-making. However, compared with the ideal model, the applicability and prediction accuracy of the current VAR model still need further improvement.

4. Modeling and Application of Global Economic and Financial Outlook Based on VAR Model
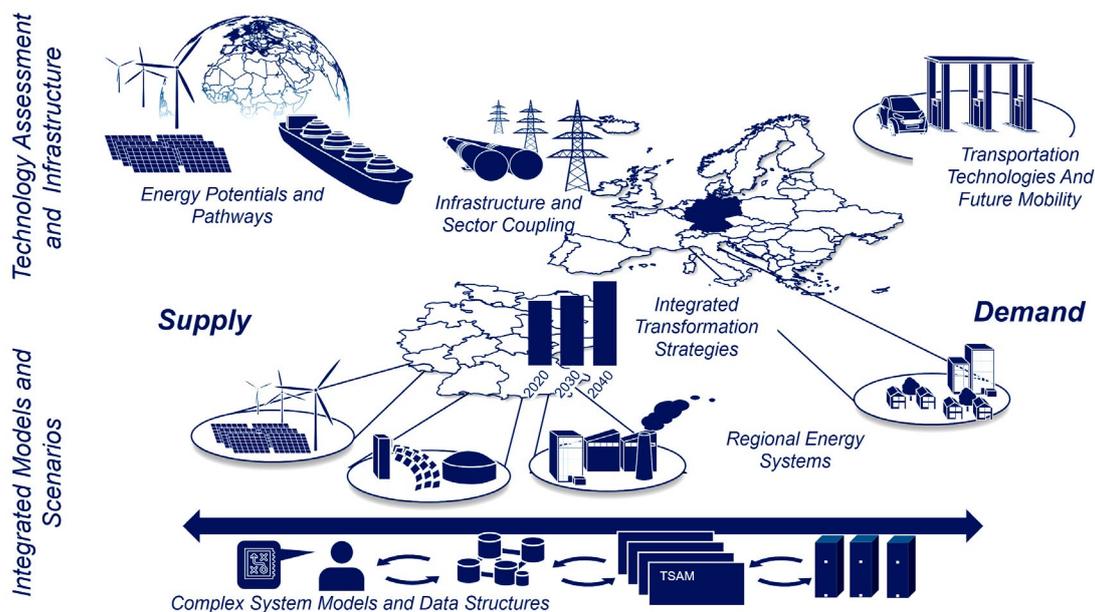

Figure 1 Global Economic and Financial Outlook Modeling and Application Based on VAR Model

4.1 Construction of Global Economic and Financial Outlook Model

The fundamental difference between VAR models and other economic models lies in their multivariate properties. The estimation and prediction standards of VAR models and economic theory guidelines are data-driven, the development of VAR models mainly reflects data analysis and methodological innovation.[7] In the VAR framework of multivariate time series, accurate modeling,

parameter estimation, predictive analysis, and policy recommendations are the core values and highest criteria for the application of VAR models. The complexity of the current global economic and financial markets and the differences in data have led to a diversified trend in model construction. Although VAR models have advantages in predicting global economic and financial trends, the selection of models is still not comprehensive enough, VAR itself also lacks a self-correction mechanism. Therefore, it creates a "weakness" in model construction, which affects the accuracy of the global economic and financial outlook.

4.2 Empirical Analysis of VAR Model in Global Economic and Financial Forecasting

From an empirical analysis perspective, The VAR model cannot accurately provide all the information needed for global economic and financial forecasting. Market participants mainly evaluate economic and financial forecasts through satisfaction evaluation, but VAR models lack sufficient reflection of market sentiment and other related information and nonlinear mechanisms. The core of the problem may be the linear assumption of the model. In empirical research, VAR models are often described as data-driven, and their interrelationships with economic variables directly reflect market dynamics. However, VAR models mostly rely on historical data and other information, and their capture of market expectations is relatively scarce. Usually, market expectations are difficult to obtain or measure. Asymmetric information and imperfect models directly lead to obstacles in global economic and financial forecasting.

4.3 Proposal of global economic and financial policy recommendations

From the perspective of policy recommendations, global economic and financial policymakers have long been limited by the accuracy of predictive models. Since the 21st century, VAR models that integrate big data and computing power have reshaped economic and financial forecasting through multivariate time series analysis.[8] However, the drawbacks of traditional econometric models still constrain policy-making. Not only due to the linear assumption of the model but also due to the influence of market nonlinearity, the accuracy of VAR models in prediction still needs to be improved. Under the premise of data-driven, The VAR model is seen as a direct approach to economic and financial policy recommendations. However, the actual impact of model-based predictions on policy-making remains to be debated. Meanwhile, due to information asymmetry and difficulties in model selection, policy recommendations lack sufficient empirical support. Therefore, The VAR model also seems to not always achieve the goals of policy-making. Proposing effective global economic and financial policy recommendations is not only a technical challenge but also faces challenges in methodology and empirical support.

4.4 Application of VAR Model in Monitoring Global Economic and Financial Risks

Indeed, The VAR model cannot avoid "data dependency" as a predictive tool in monitoring global economic and financial risks. In the risk monitoring mechanism, The VAR model is a standardized and effective statistical analysis tool that plays an important role in economic and financial markets. It also makes the VAR model not only a theoretical concept but also a practical concept. Therefore, the "data-driven" VAR model has become the core mechanism for risk monitoring. The practical deduction of VAR models is generally a method path gradually formed based on data analysis, although the path involves attempts at model selection and parameter estimation. From risk identification to risk warning, The VAR model has been closely focused on the stability of economic and financial markets from beginning to end. Although VAR models should strive to improve prediction accuracy to adapt to market changes. However, when market volatility is amplified, it also brings a dilemma of inaccurate model predictions. Overall, there is still room for improvement in risk monitoring and other aspects of the VAR model, and its prediction mechanism needs further improvement, which is also an important task for future research.

5. Conclusion

The global economic and financial environment has become increasingly complex and challenging,

posing new challenges and requirements for macroeconomic management and policy-making. The analysis based on the Vector Autoregression (VAR) model is not only a symbol of quantitative foresight but also an important means to improve the accuracy of economic forecasting. It is an urgent need to achieve stable economic growth and maintain financial security. Essentially, it reflects the upgrading of the inherent requirements of the big data era for economic governance capabilities. Under the demand leadership, the VAR model has constructed a global economic and financial outlook framework that combines theoretical analysis and empirical testing.

In recent years, the rapid development of modern information technologies such as big data and artificial intelligence has promoted the innovation of economic and financial data analysis technology. By empowering traditional VAR models with deep learning and machine learning algorithms, the accuracy and scientificity of models in capturing global economic and financial dynamic changes have been greatly improved. Its value core aligns with the inherent logic of efficient decision support in the digital economy era. Therefore, the analysis method based on the VAR model also provides an innovative path for global economic and financial monitoring, early warning, and policy formulation.

In summary, with the sustainable improvement and development of VAR models and their extended applications, it will be more helpful for us to better understand the operational mechanisms of the global economy and finance, improve prediction accuracy, and help policymakers respond to global economic fluctuations in a timely and effective manner, maintaining the stability and prosperity of the economic system.

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