The impact of institutional quality on Morocco's macroeconomic resilience to external shocks

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Abstract: This paper seeks to examine the effects of both institutional quality and external shocks on macroeconomic performances and the resilience of the Moroccan economy through the use of a VAR model. In order to investigate how these various shocks could influence the Moroccan economy, we have used GDP and inflation as proxies. We found that oil prices are the most important factor in the variance of the forecast errors of GDP and inflation. However, we found the existence of a favorable institutional environment for absorbing exogenous shocks to the Moroccan economy which contributes to its resilience. Therefore, we were able to show that Quality of institutions plays an important role in the stabilization of inflation and GDP in response to external shocks in the Moroccan context.

Keywords: Economic resilience; Macroeconomic performance; External shocks; Institutional quality; Morocco.

1. Introduction

Both Keynesian and neoclassical models have been unable to explain properly how macroeconomic factors in developing countries perform poorly ((Huynh, 2020; Nkengfack et al., 2020 and Huynh and Ho, 2020). In spite of extensive reform efforts in the developing countries, they are failing to make appropriate arrangements for the coordination of their economies towards an optimum performance. Overall, stabilising exogenous shocks in economies is economically logical, but not automatically guaranteed to lead to a significant improvement in the volatility of the macroeconomy. Since developing countries depend on developed ones, exposure to external shocks has to be addressed. Yet, there is little agreement within the literature regarding how external shocks contribute to the economic performance and resilience of developing economies (Demir (2016), Valentinov et al. (2015), Herrera-Echeverri et al. (2014), Wang et al. (2014)).

A shock to the economy happens when an exogenous disturbance is unpredictably encountered which affects the endogenous economic settings. Consequently, economies that are highly dependent on foreign resources and markets are more exposed than other economies to these exogenous shocks. It is widespread to relate economic performance volatility in developing economies to exogenous shocks only. While the emphasis is on the exogenous shocks due to structural characteristics, it should not be assumed that this is the sole contributing factor to volatility. Endogenous shocks caused by corruption, corruption and other types of socioeconomic behavior are potential contributors to vulnerabilities. Concretely, institutional inequalities are the main reason for disparities and differences in economic performance.

Studies such as Calderon et al (2004, 2016) emphasize the significance of institutional settings in determining economic resilience and how they affect political answers on external shocks. Such studies claim that the greater the quality of institutions, the greater the efficiency, which in turn would boost economic development even further. Weak institutional quality can lead to higher risks for the economic growth in reaction of external shocks. A country with institutions of appropriate quality may be able to smooth the impact of external shocks on economic and social performances, contributing significantly to its resilience. Previous papers examining the impact of institutional quality and external shocks on Morocco have examined these individually, whereas in this study they are simultaneously combined to investigate their impact on macro-economic performance.

2. Theoretical and empirical review of the literature

According to Duval and Vogel (2008), resilience is the ability to sustain production near to its potential after a shock strikes. Resilience thus has two aspects: the extent of shock absorption and how well economies recover after a shock. Thus, resilience is defined as the capacity of economies to achieve their potential growth after a shock has been experienced. If the loss of production following a shock and absorption is large, then the economy is regarded as being less resilient. Resilience" refers to this response ability; the state in which a given economy is able to anticipate, integrate or overcome effectively the consequences of the shock within a specified period of time. This is defined as a country's capacity for sustained periods of economic growth and to recover from negative shocks. The emphasis given towards exogenous shocks can be seen as reasonable in view of a number of characteristics of the low-income economies, particularly their dependency on primary commodities. Domestic shocks arising out of political instability, conflict and weak economic governance constitute a major potential contributor to volatility, as discussed in Ahmed (2003) and Acemoglu et al (2003). The issue is thus whether and how large the impact of these shocks is quantitatively significant compared to that of domestic ones. Moschovou and Giannopoulos (2021) suggest that each economic shock resulting in a financial instability is associated with lower production. Moreover, high-quality

institutions may contribute positively to an economy's resilience to negative exogenous shocks (Broos et al. 2016). Zoido and Chavis (2004) and Dollar and Kraay, (2003) provide some evidence to suggest that institutions positively affecting long-term economic growth. In countries where the institutional quality is significantly stronger, the monetary policy tends to be proactive in handling the occurrence of negative shocks as well as in the stabilisation of production and inflation (Broos et al. 2016).

The role played by institutions in stabilizing the economy against the occurrence of external shocks was addressed in various studies (Talvi and Vegh, 2005; Calvo and Reinhart, 2003 and Braun, 2001). While it is accepted that the macroeconomic performance of an economy is substantially influenced by its exposure to such external shocks, it remains a challenge to understand which channel is the exact mechanism for their occurrence and transmission. It is necessary to investigate if macroeconomic instability can be caused by exclusive reliance on external shocks. Institutional quality is crucial in helping to absorb the impact of external shocks affecting macroeconomic indicators of economic resilience (Ilzetzki, 2011 and Alesina, Campante and Tabellini, 2008). In this regard, a number of papers have emphasised the manner by which the regulatory and juridical framework guarantees the effective and efficient functioning of an economy's system. Law and Azman-Saini (2012) argued that a regulatory and legal system entailing protection of ownership and enforcement as well as accounting practices are crucial for the economic growth. Duncan (2014) supports the link of institutional quality with production volatilities and nominal interest rate volatilities, i.e. low institutional quality economies have high production and interest rate volatilities. Genberg (2003) provides a study that finds the relative significance of the Internal and external shocks as drivers of macro fluctuations in Hong Kong. By using the SVAR method, the paper concluded that while external shocks are the major contributors to macro volatility, there is still some level of influence of domestic shocks. Nevertheless, the research does not manage to pinpoint the exact sources of domestic shocks.

The institutional economics field stressed the significance of the institutional framework in shaping the performance of the economy. It was claimed that indicators like education, innovation or accumulation of capital are not factors of growth, but are the growth itself, whereas the crucial reason for economic development differences is the institutions quality (Schönfelder and Wagner, 2018 and Tamilina and Tamilina, 2017). While monetarists state that economies remain suitably stabilized on their own with no stabilization interventions, nonmonetarists consider that instabilities exist in economies which need stabilizing policies (Blau, 2017). Meanwhile, endogenous theory of growth argues that economic growth is the outcome of an endogenous mechanism of economic activity, rather than of exogenous influences. A number of studies have thus suggested that economic and political institutions drive macro-economic performances (Kostel et al., 2017; Menard and Shirley, 2014 and Duflo, 2011). Examining both emerging and industrial countries, Calderon et al (2012) demonstrate that industrial economies have had more success pursuing countercyclical monetary and fiscal policies, while most developing economies have had a pro-cyclical macroeconomic policy approach. The authors maintain that this procyclicality is caused by poor institutions in those economies and contend that macro-economic policy has a significant part to play in smoothing out the business cycle in countries with good quality institutions. Consequently, institutional quality is important for growth efficiency and economic resilience (Tamilina and Tamilina, 2017; Chortareas et al., 2013 and Chortareas et al., 2012). However, Raddatz (2007) asserts that economies that experience significant GDP declines are countries that have divided societies and poor institutions, and the institutional quality would be a factor behind the more cyclical character of both growth and economic policies.

Issues associated with the improvement of economic performance and institutions in countries in transition are investigated by Efendica and Pugh (2015), Draskovi et al. (2017), Rivera Rios et al. (2018) and Kyrychenko et al. (2018). The development of the system of institutions in economies in

transition has been assessed by Vitola and Senfelde (2015) in terms of how it has affected their economic performance. Through the use of a proxy of the institutional quality, they demonstrated the reliance on economic growth in transition economies on institutional developments. The quality of institutions minimises uncertainties and promotes both international and national investments as a result of the stabilizing influence in the markets (Law, Kutan and Naseem, 2018). Moreover, institutional quality, in a political sense, has also been demonstrated to influence the features of financial and economic institutions, promoting sustainable growth in the long run (Acemoglu and Robinson, 2008). Democracy promotes political commitment to responding appropriately to the impact of external shocks, and is thus more successful in dealing with conflicts than autocratic regimes. Participatory political systems induce cooperative behaviour, leading to improved stability in the economy. One channel by which institutions facilitate development is through the fight against corruption, since high levels of corruption can have negative consequences for economic growth (Mauro 1995). The question of the quality of institutions is also critical in considering the resilience of economies to crises. For instance, East Asian economies, with comparatively better institutional quality than other Asian regions, have been subject to relatively lower negative implications of foreign investment in financial crises (Eslamloueyan and Jafari 2019).

The role of institutions in determining production uncertainty has been discussed (Raddatz, 2006; Acemoglu et al., 2003; Rodrick, 1999; among others). This literature argues that economies with robust institutional settings are able to handle the implications of external shocks more effectively and are also more likely to pursue sensible macroeconomic strategies in response to exogenous shocks. The institutions are a major «attraction factor" for the flows of capital, and some of the existing literature has demonstrated that the efficiency of the government, a stable political environment, a strong legal system and regulatory quality are essential institutional determinants for capital flow dynamics (Osina 2021). Yet, if an economy's institutional setting is poor, the flows of international capital and the financial liberalization themselves can result in financial crises (Prasad et al. 2003). The macroeconomic fundamentals, providing foundations for resilient economic growth and development, are the institutional drivers like political stability, low corruption, efficient bureaucracy and public order. The quality of institutions is also crucial when it comes to explain differences in income between countries (Rodrik, Subramanian and Trebbi 2002). The importance of institutional quality to explain cross-country variation in volatility is highlighted by Acemoglu et al (2003). The relationship linking shocks to economic growth is determined by a country's institutional ability to deal with conflicts and to bring its economy into equilibrium. This ability relies on the existence of democratic institutions that support the economic stabilisation via the process of political competition. Consequently, it is argued by Bergman and Hutchison, (2015) on the basis that having high institutional quality ensures that a country is in a position to pursue both counter-cyclical fiscal and monetary policies against the occurrence of foreign shocks. For instance, economies with high institutional quality would follow contractive policies in expansions and expansive policies in recessions (Yevdokimov et al., 2018 and Rogowski, 2017).

3. Empirical methodology and interpretation of results
3.1. Model specification

The Moroccan macroeconomic variables in this paper are characterized as being affected by two distinct factors. External variables directly affect Morocco's macroeconomic indicators via the channels of trade and prices. This means that they are exogenous to the Moroccan economy. In addition, the quality of domestic institutions has significant effects on Moroccan macroeconomic variables. Based on the theoretical background mentioned above in the literature review, the functional model of the The present study can be formulated in the following way:

$$DMV = f (EXTC, QINS) \text{ (1)}$$

Where DMV is the domestic macroeconomic variables represented by: gross domestic product (GDP) and domestic inflation (INF). EXTC : stands for foreign factors like: gross foreign product (FGDP), oil prices (PETP), the foreign interest rate (FINTR) end the terms of trade (TRTRD). While QINS reflects the institutional factors identified by institutional quality indicators, such as: bureaucratic quality (BURQ), corruption (CORR), public order (ORPUB) and government stability (SGOV).

Attention is focused on domestic GDP and inflation (INFLI) by including each of them in the VAR models being estimated, in addition to all external shock indicators and the quality of institutions component. This analysis, by contrast, employs PCA principal component analysis to aggregate the measures of institutional quality into the single component QINS. It should be mentioned that for the purpose of examining the effects of the external shocks we adopt two VAR models for each economic performance indicator: the first one takes into account institutional quality, whereas the second one does not. The aim of this methodology is to visualize the effect of institutional quality and contrast the models with and without institutional quality for the VARs of inflation and GDP.

Therefore, equation (1) invariably becomes:

$$DMVi = f (FGDP, FINTR, PETP, TRTRD) \text{ (2)}$$

$$DMVi = f (FGDP, FINTR, PETP, TRTRD, QINS) \text{ (3)}$$

The model (2) shows the VARs excluding QINS whereas the model (3) includes QINS. For our analysis, all variables that appeared already in their rate form have been used in a direct way (INF, TRTRD) and the remaining variables have been changed to their logarithmic form.

3.2. Estimation method

The Moroccan economy is considered in this study to be small in comparison with the global economy, proxied by the US economy. Using the VAR methodology, information is provided through variance decomposition and impulse response functions. This technique's major advantage is its ability to identify feedbacks, transmission of shock to changes in variables and dynamical relations among macro variables within the economy. Consequently, the present paper investigates how macroeconomic performance (GDP and inflation) is affected by external shocks and the quality of institutions in Morocco. In this sense, the analysis takes into account a p-lagged endogenous time series of economic variables. The linear endogenous equations are formulated as follows:

$$A_0 Y_t = a + A_1 Y_{t-1} + A_2 Y_{t-2} + \cdots + A_P Y_{t-P} + \varepsilon_t \text{ (4)}$$

Where $Yt = (FGDPt, FINTRt, PETPt, TRTRDt, QINSt)$.

This is derived from equation (4); Yt is a vector of dimension n × 1 of the endogenous variables. They are usually ordered in such a way as to place the less endogenous factors first and the endogenous factors last.

3.3. Data presentation

Data on all four measures of the quality of institutions (BURQ, CORR, ORPUB, SGOV) and on all other items were obtained from the IMF's statistics database. Descriptive statistics for all variables are presented in the tables below:

Tableau 1 : Statistiques descriptives des séries de données

	INF	PIB	PIBE	PPET	QINS	TRCHG
Mean	1.466486	0.002043	1.35E+13	68.38271	7.708308	108.9664
Median	1.284080	0.002003	1.46E+13	64.54296	7.878717	107.6224
Maximum	3.714843	0.008622	1.63E+13	119.6487	10.76898	125.4646
Minimum	0.180914	-0.003316	7.28E+12	25.43676	0.132624	96.87879
Std. Dev.	0.796893	0.002748	2.71E+12	29.02707	1.909734	8.122363
Sum	124.6513	0.173626	1.15E+15	5812.530	655.2062	9262.141
Sum Sq. Dev.	53.34324	0.000634	6.19E+26	70775.96	306.3551	5541.713
Observations	85	85	85	85	85	85

3.4. VAR model stability and selection of optimal lag lengths

The theoretical assumption of the VAR model is that the order of the lags is known, but empirical research suggests that this is generally not the case, so its measurement is crucial. The results of the lag selection for the VAR model variables to be estimated are presented in Tables 2 and 3, and the tests support a lag of five for both GDP and inflation.

Table 2: Optimal lag order of the VAR model of inflation

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-3226.065	NA	3.95e+28	82.87346	83.05475	82.94603
1	-2527.026	1272.609	1.64e+21	65.87247	67.14147	66.38047
2	-1973.642	922.3064	2.88e+15	52.60622	54.96292	53.54965
3	-1550.715	639.8127	1.48e+11	42.68501	46.12943	44.06387
4	-1378.137	234.5295	4.82e+09	39.18300	43.71513	40.99730
5	-803.2091	256.0197*	60505.97*	27.21049*	35.00576*	30.33108*
6	-1297.300	97.41914	1.75e+09	38.03333	43.65317	40.28306
7	-1088.488	219.5200	25928482	33.60226	40.30982	36.28742

To further clarify the selection of our five criteria for the optimal lag length, we perform a stability test on the optimal lag lengths selected by an autoregressive (AR) root table and verify the proposed lag lengths. Therefore, the predicted lag length of five is accepted as the optimal lag length in this research because all of its roots are less than one and its points are on the unit circle. The root stability test provides results that meet the VAR model stability condition.

Table 3: Optimal lag order of the GDP VAR model

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-2800.291	NA	7.17e+23	71.95617	72.13746	72.02874
1	-1998.866	1459.004	2.15e+15	52.32989	53.59889	52.83790
2	-1441.038	929.7135	3.38e+09	38.94969	41.30640	39.89312
3	-527.0764	242.5014	14.52217	19.20709	25.91464	21.89224
4	-1053.310	586.5631	426649.7	29.93102	33.37544	31.30988
5	-265.9017	234.3875*	0.062874*	13.43338*	21.22864*	16.55397*
6	-853.4697	271.5774	6927.109	25.72999	30.26212	27.54429
7	-757.7484	115.3564	1718.806	24.19868	29.81852	26.44840

3.5. Impulse responses of VAR results

The literature has shown that when the VAR short-term restriction is applied, no bias is found in the impulse response functions estimated. Hence, the short-term restriction is adopted in this paper in the estimation of the VAR models. The aim of this research is to identify the respective importance of both macroeconomic external shocks and the institutional quality in Morocco's economic performance.

Figure 1: Impact of institutional quality on the response of GDP to external shocks
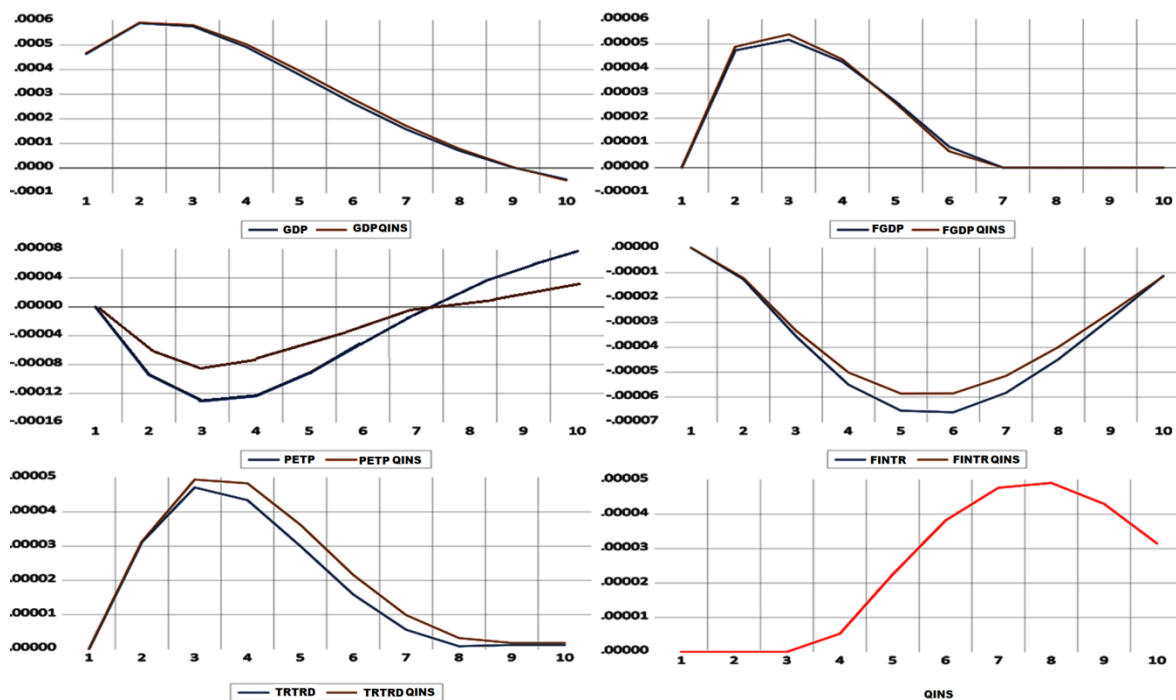
GDP responds to an increase in the price of oil and to a shock to the terms of trade negatively for all horizons in the two VARs we estimate. More specifically, a shock of standard deviation in the price of oil reduces GDP before it starts to rebound after the third period. This supports the view that falling oil prices stimulate Moroccan domestic investment, thereby strengthening the growth perspective. Furthermore, Figure 1 shows the impulse responses of GDP to institutional quality indicators and foreign shocks. It shows that GDP reacts in positive ways to shocks to foreign GDP over all the periods considered. More precisely, a shock of a standard deviation of the external GDP leads to higher domestic GDP during the first 9 periods, which then begins to fall from the fifth period on and returns to the original level in the seventh period. It should be pointed out that the reaction to shocks in foreign GDP is almost identical for the VAR with and without institutional quality. This finding corroborates that increases in external GDP translate into increases in national output and Morocco is linked to the rest of the world economy by its real production.

Likewise, a shock of standard deviation in the terms of trade causes an improvement in GDP, which remains positive for the first 8 time periods. It is also worth noting that the positive response to the terms of trade shock is also enhanced by institutional quality in the results of our two estimated VARs. Hence, we can conclude that a high terms of trade has a significant impact on Morocco's economic performance. We can also observe that the national gross domestic product reacts in a negative way to the shock to the foreign interest rate, which reaches its highest level during the fifth horizon and then starts to rebound. A standard deviation of foreign interest rate shock leads to a decline in GDP, although to a lower degree if we take Morocco's institution quality into account. This result thus highlights a positive impact of the quality of institutions on the reaction to shocks in foreign interest rates. Gross domestic product responds to the institutional quality shock in a positive way over the entire period

considered, but only after a lag of three periods. This positive influence, however, indicates that the institutional quality improves the Moroccan economic activity.

Figure 1: Impact of institutional quality on the response of inflation to external shocks
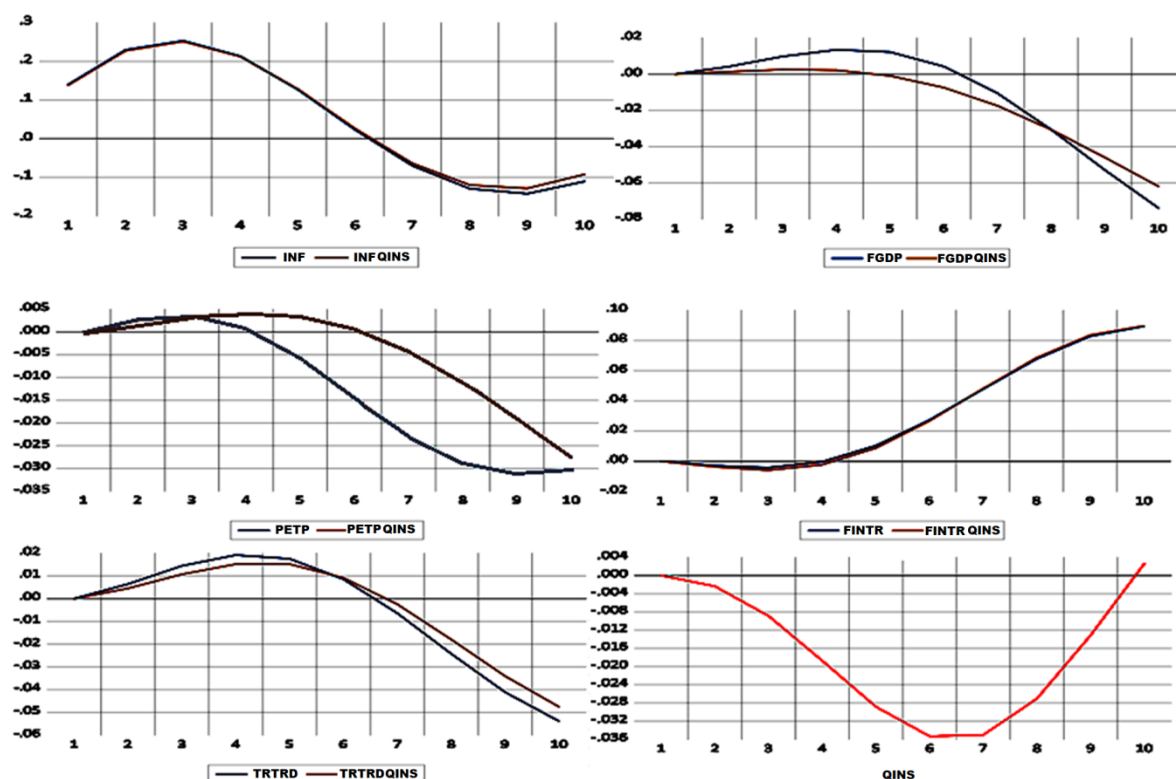
The finding suggests that the shock to the oil price leads to an increase in the rate of inflation, which reaches a peak during the third period and falls off during the fifth period, both for VARs with and without consideration of institutional quality. The impulse responses of the VAR including institutional quality show a more rapid resilience and recovery of Morocco's economy as a result of its institutional quality. The result of the impulse response shown in Figure 2 illustrates the reaction of the rate of inflation to foreign shocks and the quality of institutions. The figure reveals that from period 5 the inflation rate has a negative response to the external GDP shock, with a small but insignificant positive effect at the beginning. It is clear that external GDP negatively affects Morocco's inflation rate, but the quality of institutions has a role to play in absorbing the first wave of inflation generated by the foreign GDP shock. This finding is consistent with an a priori expectations that the growth of global output in all world economies must result in a general decline in the price level. This follows from the assumption that global output growth stimulates competition, resulting in downward pressure on prices.

Similarly, the terms of trade shock leads to a slight increase in the inflation rate, which recovers downwards from the fifth period to become negative from the seventh. It should be noted here that our VAR with the presence of institutional quality allows us to absorb the first shocks to the term of trade until the seventh period, which indicates that institutional quality has a positive impact. However, the Inflation responds to shock in a negative way to the improvement in institutional quality in all the periods studied, after which it becomes positive after the ninth period testifying to the positive impact of institutional quality on the price level. Furthermore, we find that inflation reacts to the foreign interest rate shock negatively starting in the fourth period. It is worth noting that when we compare the

responses to the external interest shock, the reactions are almost identical whether we consider the quality of institutions or not.

3.6. Variance decomposition of the VAR results

Typically, a variance decomposition tells us how much of the forecast error of a variable can be explained by the shock to the variable itself and by the shocks to the other VAR variables. It maintains the recursive ordering of causes used in the impulse response computation. Therefore, the decomposition of variances yields a measure of statistical importance regarding the impact of each of the random innovations that affect the various variables of the VAR model. In this regard, Figures 3 and 4 present the percentage of forecast error variances for each variable that are accounted for by structural equation innovations, although only in our institutional quality VARs. We use forecast horizons of 1 to 10 periods to investigate how much of the variance of each variable's forecast error is due to the shock itself and to other shocks to the model. The results in graphs (3) and (4) are in line with this premise: It is interesting to notice that the own shock of a variable is more important for the variance of its own forecast error than any other shock. The findings demonstrate the link between each variable's forecast variance and innovations in the structural equations.
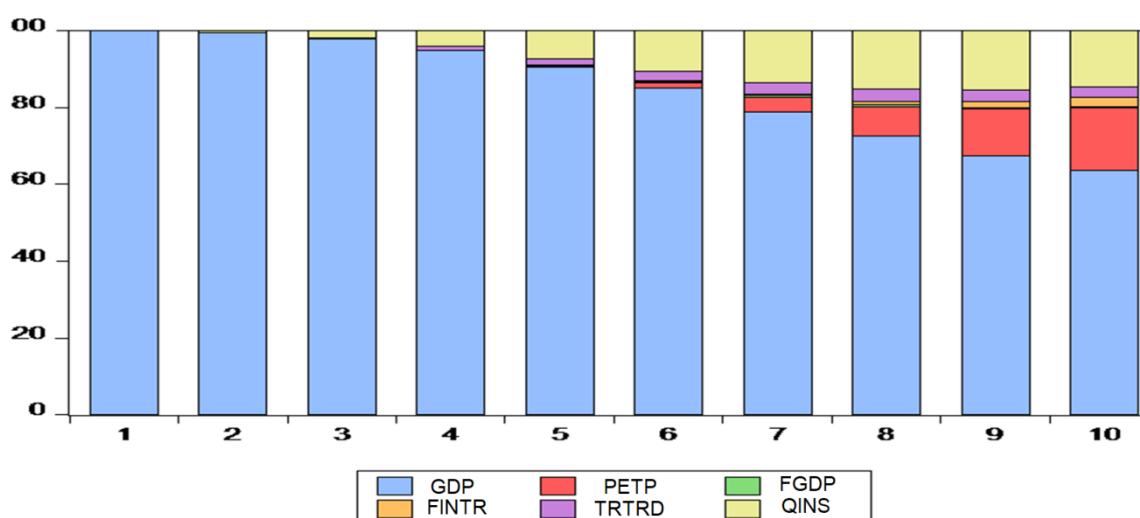
Figure 3: Decomposition of the variance of GDP

Figure (3) indicates that the shock to GDP is responsible for about 99.44% of the variation in forecasting errors during the first period, and this percentage falls down to 63.65% during the tenth period. A similar effect can be seen in Figure (4) in the case of inflation. Figure (3) further reveals that external GDP is initially negligible in the first three periods for the variance of the GDP prediction error, rising to an impact of 0.45% by the tenth period. By contrast, the oil price starts to have a noticeable impact from the fourth period onwards and over the remaining horizons. In the second period, the oil price only accounts for 0.006%, but its impact grows significantly in the later horizons, reaching around 16.11% in the tenth period. Hence, in most periods, the oil price plays a significant role for the variance of the forecast error for GDP. The external interest rate contributes about 0% in the 1st period, but rises to 2.31% in the 10th period. Equally, in the fifth period, the terms of trade explain only 1.56% of the forecast error variance of GDP. However, its contribution slightly picks up at a later horizons, reaching around 3.02% and 2.70% respectively in the eighth and tenth periods.

Comparing our VARs for the effects of external shocks on GDP, we nevertheless notice that in Morocco, the inclusion of institutional quality enhances the responsiveness of the economy to positive shocks to external GDP and the terms of trade. The quality of institutions in the first period explains

approximately 0.00% of the predicted variance of GDP and increases to a peak of 7.35% in the 5th period. In addition, the institutional quality contribution keeps increasing with time and represents approximately 15.33% and 14.75% in the eighth and tenth periods, respectively.

Figure 4: Decomposition of inflation variance
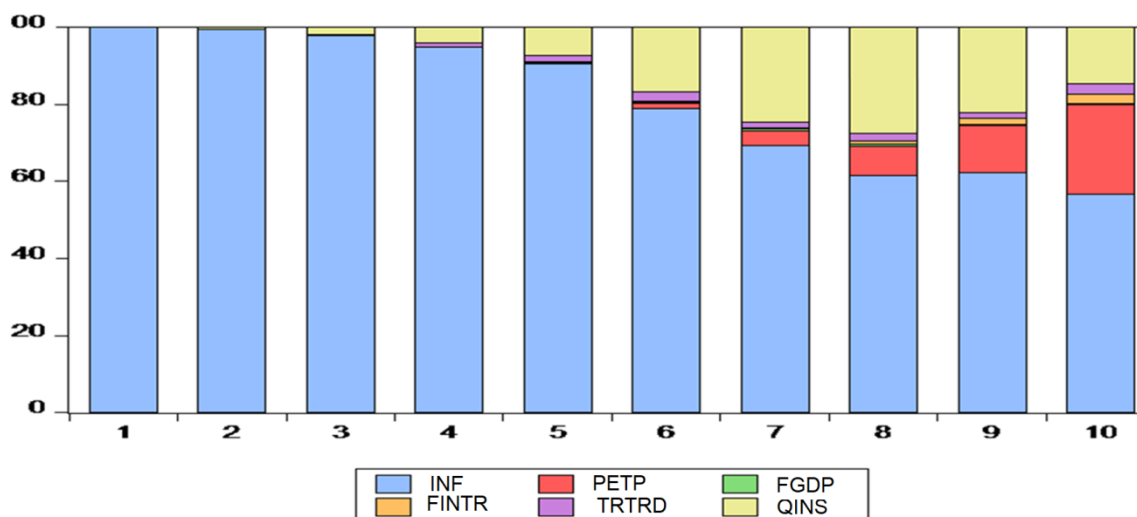
The findings in figure (4) point to the predominance of the shock to the quality of institutions over other shocks, with the sole exception of the oil price, whose impact is also very significant. As shown in figure (4), from the seventh period onwards and throughout the remaining horizons, the impact of the oil price on inflation becomes dominant. Oil price contributes barely 0.006% to inflation in the second period, but increases significantly from the seventh and later periods, reaching around 3.90% and 16.11% respectively in the seventh and tenth periods. While the contribution of the quality of institutions to the inflation forecasting error variance is not negligible in the initial four periods, it significantly increases in the horizons that follow. Between the seventh and ninth periods, it emerges as the most important factor after oil prices, and from the tenth period onwards it becomes the second most important factor. In particular, the contribution of institutional quality is close to 0.00% during the first period, rising considerably starting from the 5th period and throughout the remaining horizons, being around 7.35% and 14.75% in the fifth and tenth periods respectively. Hence, the combination of institutional quality and oil price accounts for a substantial part of the variance in inflation forecasts.

The external interest rate is just 0.13% in the fifth period, before gradually growing in subsequent periods to reach around 2.31% in the tenth period. Foreign GDP contributes just 0.00% to the inflation prediction error variance in the first period, but the contribution rises briefly to a peak of 0.49% in the ninth period, before decreasing modestly in the subsequent periods to around 0.45% in the tenth period. In a similar way, in the fifth period the terms of trade only account for 1.56% of the forecast variance of the inflation rate, but their impact progressively increased in the following horizons, amounting to about 3.02% and 2.70% respectively in the seventh and tenth periods. The findings in Figure 4 suggest that the quality of institutions and external shocks are relevant in affecting the inflation rate in Morocco.

Overall, the instability of Morocco's economic performances may therefore not be entirely due to foreign shocks. An improved institution quality is consequently a precondition for determining the performance of the economy and its resilience to foreign shocks. Meanwhile, the increasing importance of the quality of institutions in the long run indicates that they have a beneficial effect on long-term performance. It can therefore be concluded that institutional quality plays an instrumental part in

explaining Morocco's macroeconomic outcomes. Meanwhile, the quality of institutions plays a stabilising role by attenuating the effects of foreign shocks in particular oil prices on economic activity.

4. Conclusion

This paper investigates the respective relative importance of foreign shocks and the quality of institutions for Morocco's economic performance, employing a VAR methodology. The results suggest that oil prices are the main determinant of the variance of GDP and inflation forecast , whereas the quality of institutions has an impact on the economy's stability in the presence of exogenous shocks. Furthermore, the findings highlight the role of institutions in absorbing the effects of exogenous shocks on macroeconomic variables at the domestic level. Because of the predominance of the impact of foreign shocks on economic performance, it is essential to have quality governance in order to improve institutional quality. Bad quality institutions, when coupled with inadequate economic policies, enhance vulnerability of the national economy to exogenous shocks. Appropriate policies must be implemented to coordinate the reactions of the country's macroeconomic variables. This will provide an encouragement for investment and innovation in our economy as nvestor confidence is crucial for the development of the business sector.

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