



Overview to Financial Programming & Policies Workshop

Financial Programming and Policies
Vang Vieng, Lao PDR
May 5 – 16, 2014

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TAOLAM

Outline

- I. What Is Financial Programming & Policies About?
- II. Main Sectors of the Macroeconomy
- III. Macroeconomic Analysis & Informed Economic Policy Decision-Making
- IV. Financial Programming & Policies Workshop

What Is Financial Programming & Policies About?

First, it is about working what is going on in the economy (and what causes what)

→ Developing the 'Big Picture'

Second, it is about forecasting where the economy is going to go without policy intervention

→ Developing a baseline scenario

Third, it is about designing policies that keep the economy stable and prevent crisis

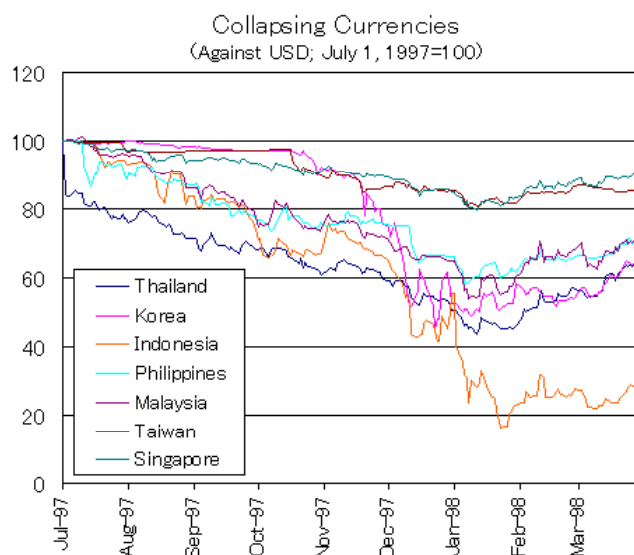
→ Developing a policy scenario

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What Is Financial Programming & Policies About?

Financial programming and developing policies is not a science but more of an art that takes practice:

- Workshop provides an opportunity to practice these skills using Thailand's experience in 1997/98 as a case study
- You will develop policies to address a currency crisis (and more!)



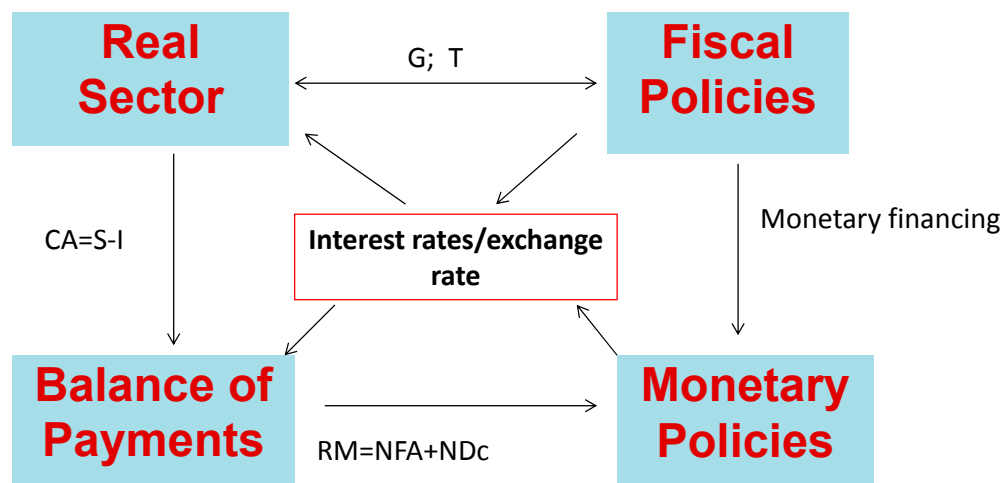
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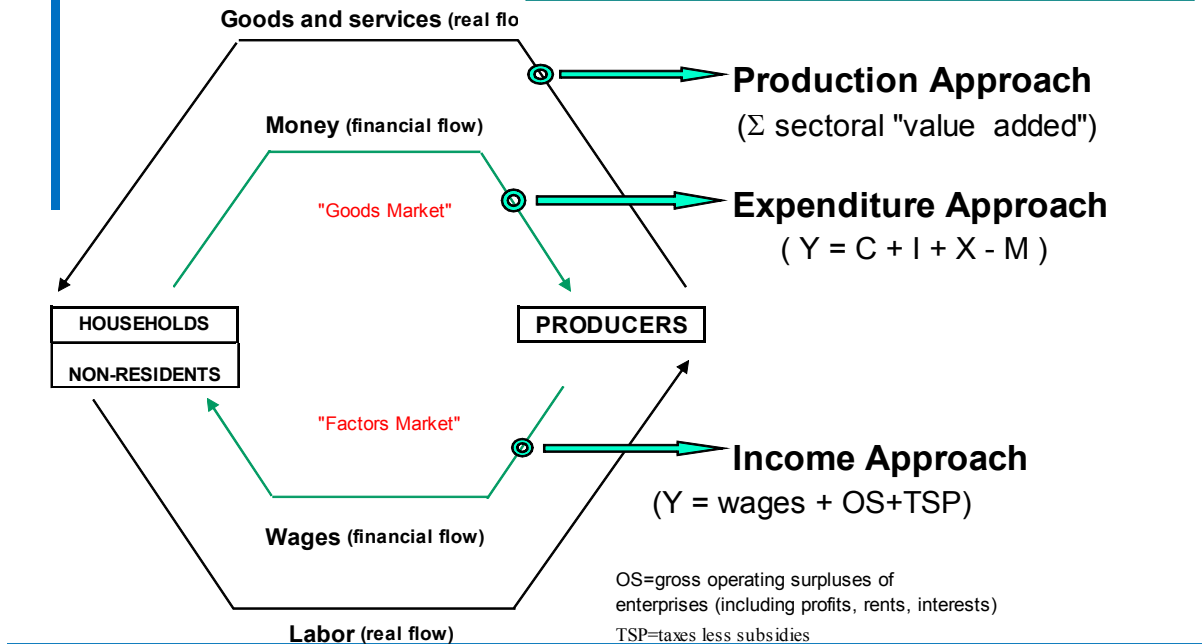
Main Macroeconomic Sectors



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Main Macroeconomic Sectors—Real Sector

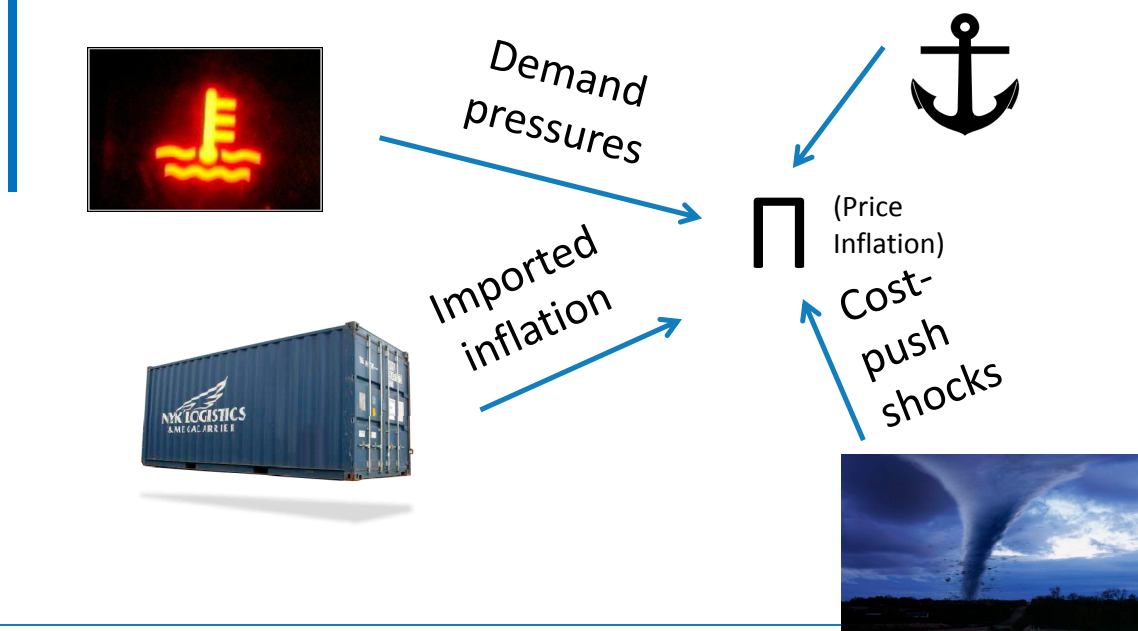
Estimate of GDP



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Main Macroeconomic Sectors—Real Sector

Inflation Determinants

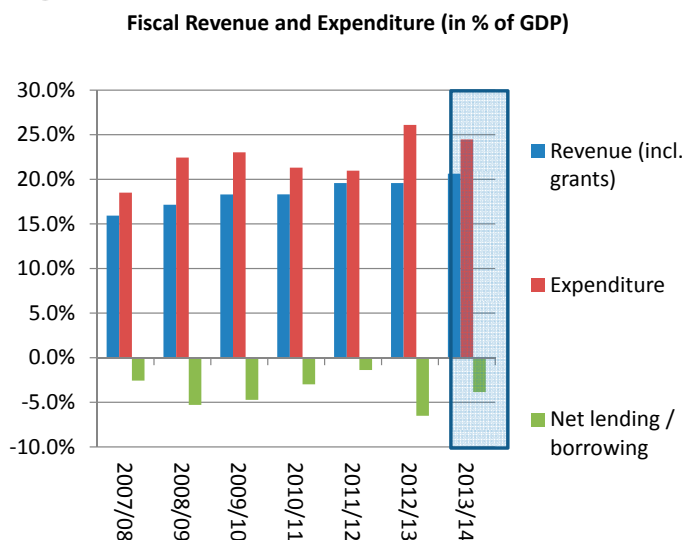


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Main Macroeconomic Sectors—Fiscal Sector

The government budget:

- Revenue
- Expenditure
- Net lending / borrowing [Overall balance]
 - External financing
 - Domestic financing



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Main Macroeconomic Sectors—Fiscal Sector

Recapping the overall balance:

$$\begin{aligned} &\text{Total revenues and grants} - \\ &\text{Total expenditures and net lending} = \\ &\text{OVERALL BALANCE} \end{aligned}$$

- It reflects the financing needs of the general government, and is called the net borrowing requirement under GFS 2001
- The change in the overall balance—usually measured in percent of GDP—is a rough proxy for the impact of fiscal policy on aggregate demand
- The overall balance is a key determinant of debt sustainability

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Main Macroeconomic Sectors—External Sector

Basic structure of the Balance of Payment:

Current Account

Capital and Financial Account

Overall Balance

Financing

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Main Macroeconomic Sectors—External Sector

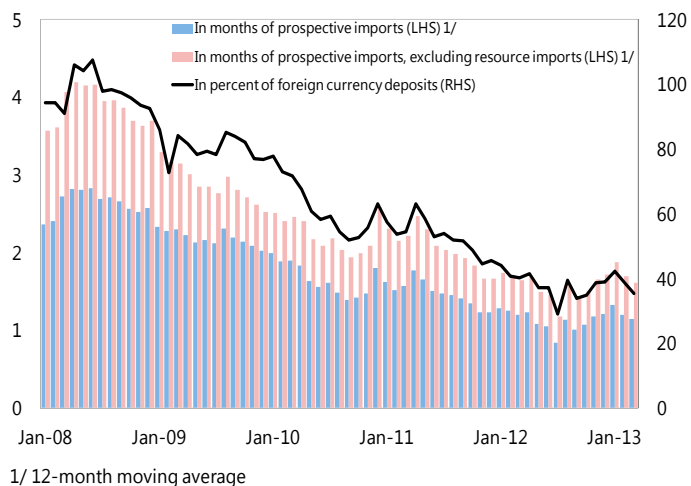
Assessing foreign exchange reserve adequacy:

➤ In relation to trade: import coverage

- Rule of thumb: reserves should cover 3 months of imports

➤ In relation to capital flows: how vulnerable is country to sudden capital outflow?

International Reserves



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Main Macroeconomic Sectors—Monetary Sector

Central bank objectives & functions:

Monetary Stability

- Monetary policy
- Exchange rate policy

Financial stability

- Prudential policy
- Supervision, oversight

Policy Operation Functions

- FX intervention
- FX reserve management
- Liquidity management
- Lender of last resort

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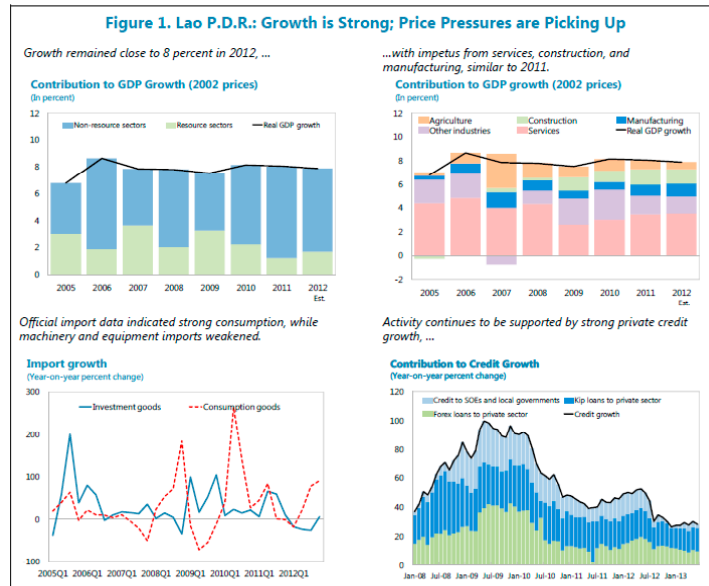
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Macroeconomic Analysis

Macroeconomic analysis on one level is about ...

- Identifying key developments in all sectors
- Highlighting interrelationships between the sectors as well as cause-and-effect
- Flagging fiscal and monetary policy issues for policy makers

At another level, macroeconomic analysis is about telling a story and illustrating it with numbers ...



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Informed Economic Policy Decision-Making

What should fiscal and monetary policies do?

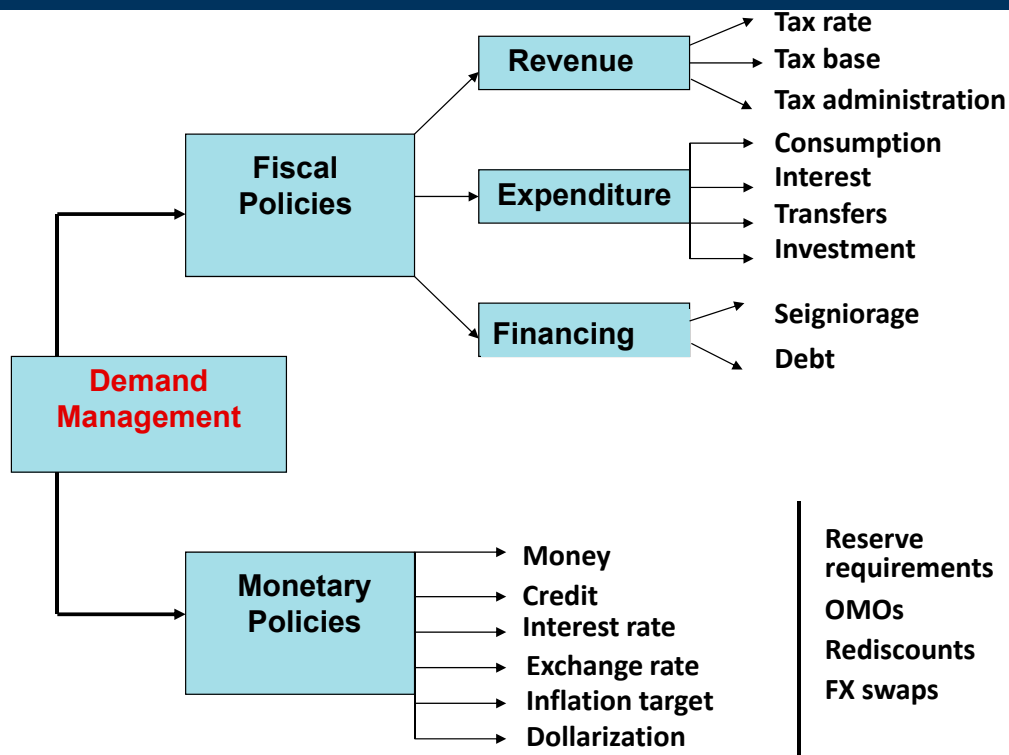
→ Depends on the issue at hand!

- Is macroeconomic demand the issue?
- Or external imbalances?
- Or are there structural issues?



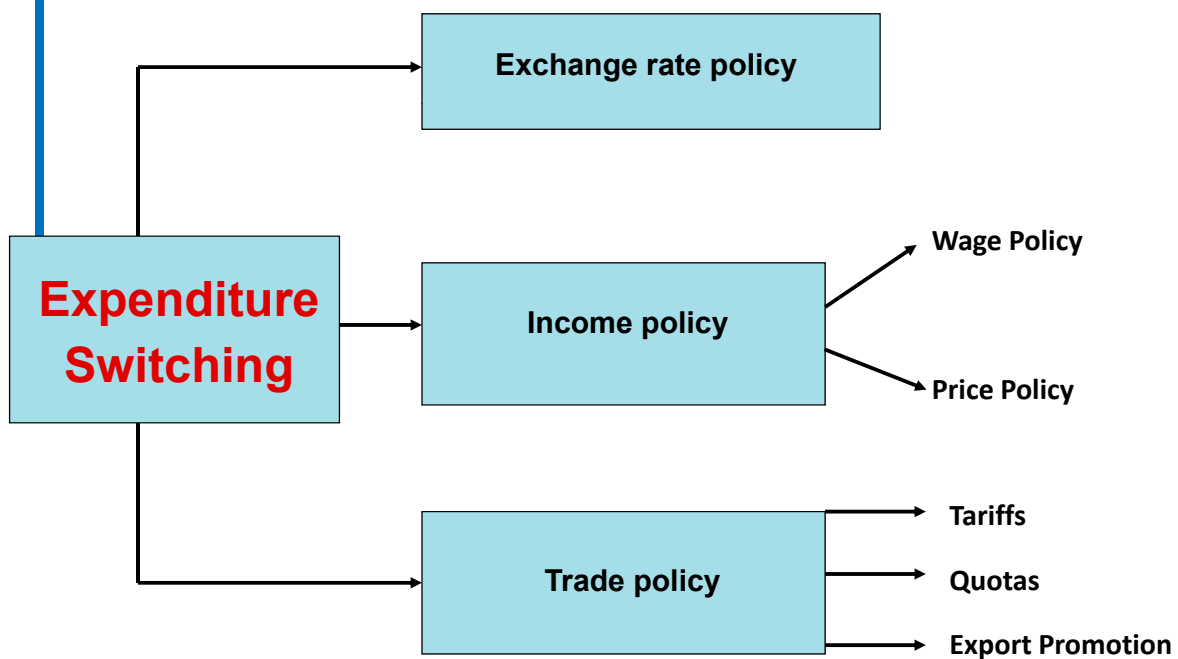
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Demand Management Policy Tree



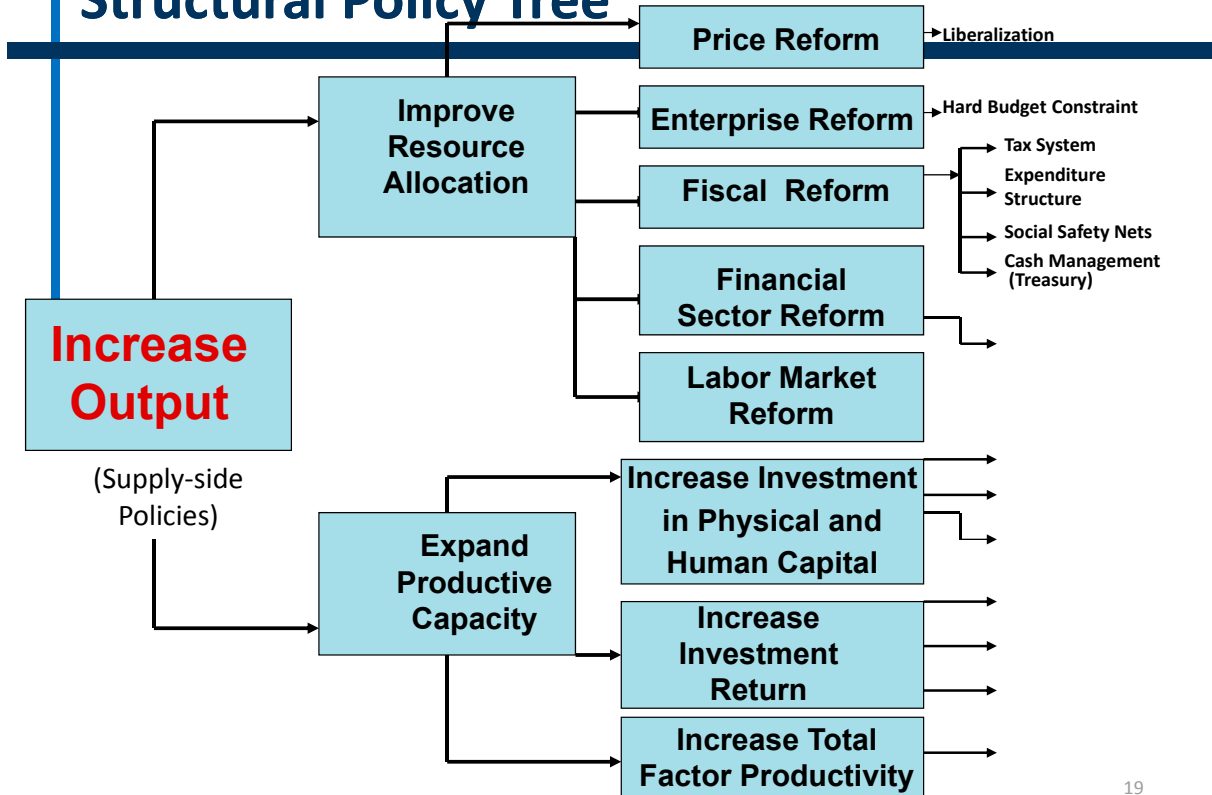
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Expenditure Switching Policy Tree



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Structural Policy Tree



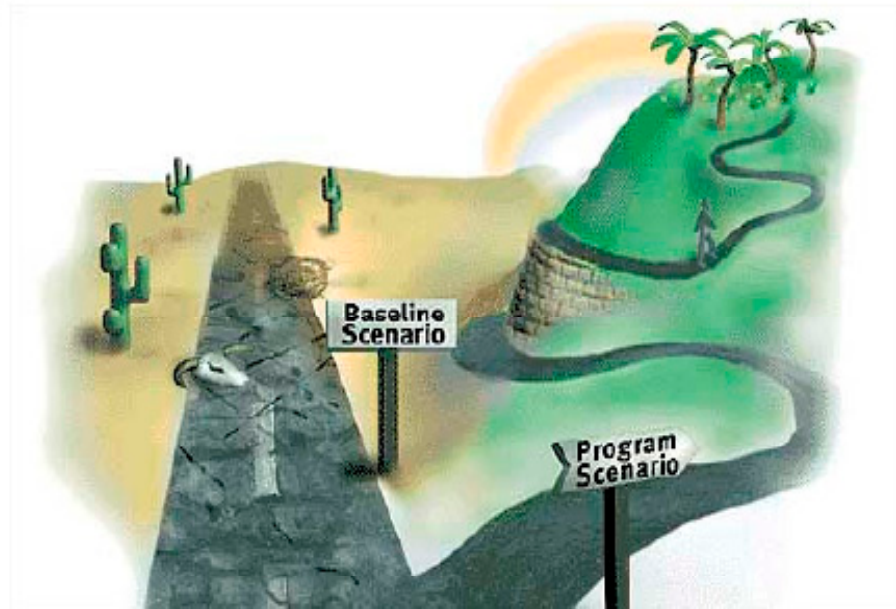
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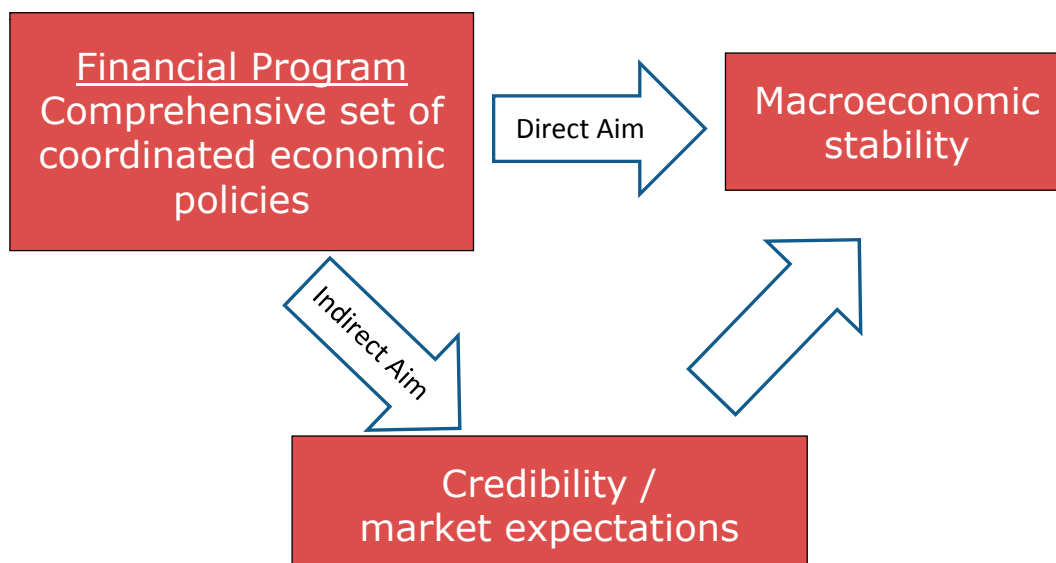
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Financial Programming & Policies



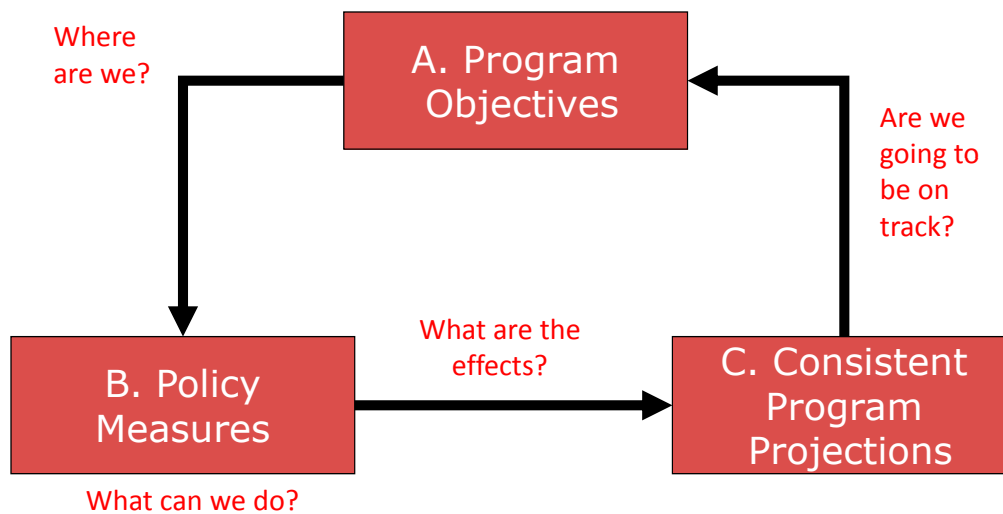
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Aims of a Financial Program



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Iterations to Form a Financial Program



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Thank You!

It is going to be a long-and-difficult journey
these two weeks ...

But we do provide lunch and coffee.