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

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

- Real Sector
  - CA=S-I

- Fiscal Policies
  - Interest rates/exchange rate
  - G; T

- Monetary Policies
  - Monetary financing
  - RM=NFA+NDc
Main Macroeconomic Sectors—Real Sector

Estimate of GDP

Production Approach
(\(\Sigma\) sectoral "value added")

Expenditure Approach
(\(Y = C + I + X - M\))

Income Approach
(\(Y = \text{wages} + \text{OS} + \text{TSP}\))

OS=gross operating surpluses of enterprises (including profits, rents, interests)
TSP=taxes less subsidies

Main Macroeconomic Sectors—Real Sector

Inflation Determinants

Demand pressures

Imported inflation

\(\Pi\) (Price Inflation)

Cost-push shocks
Main Macroeconomic Sectors—Fiscal Sector

The government budget:

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

Recapping the overall balance:

Total revenues and grants –
Total expenditures and net lending = OVERALL BALANCE

- 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
Main Macroeconomic Sectors—External Sector

Basic structure of the Balance of Payment:

- Current Account
- Capital and Financial Account
- Overall Balance
- Financing

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 the country to sudden capital outflow?

![Graph showing international reserves over time](image-url)
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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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 ...

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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Financial Programming & Policies

Aims of a Financial Program

Financial Program
Comprehensive set of coordinated economic policies

Direct Aim
Macroeconomic stability

Indirect Aim
Credibility / market expectations
Thank You!

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

But we do provide lunch and coffee.