

# Macroeconomic Frameworks & Financial Programming

## Overview

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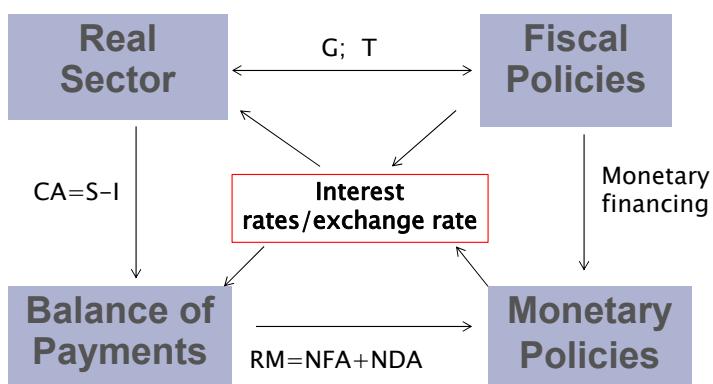


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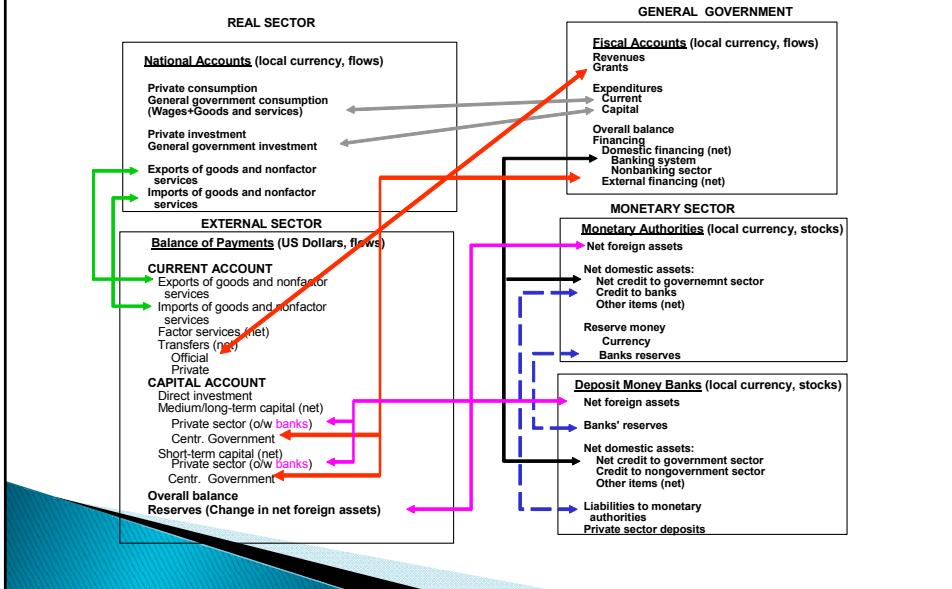
- I. Macroeconomic Frameworks
- II. Financial Programming for Informed Economic Policy Decision-Making

### I. Macroeconomic Frameworks

Capturing linkages between sectors

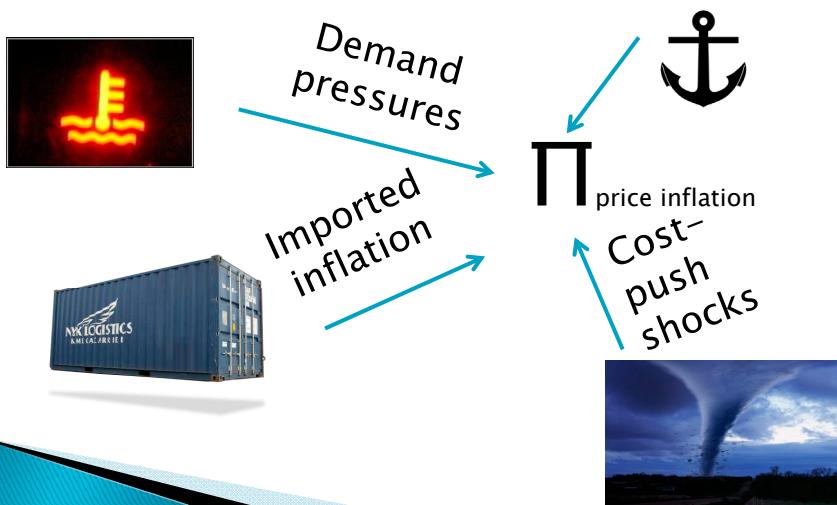


## A macroeconomic framework captures accounting links



... but it is not very good at capturing behavioral linkages!

### Example of Inflation Determinants



Which is why you cannot run the macroeconomic framework on autopilot!



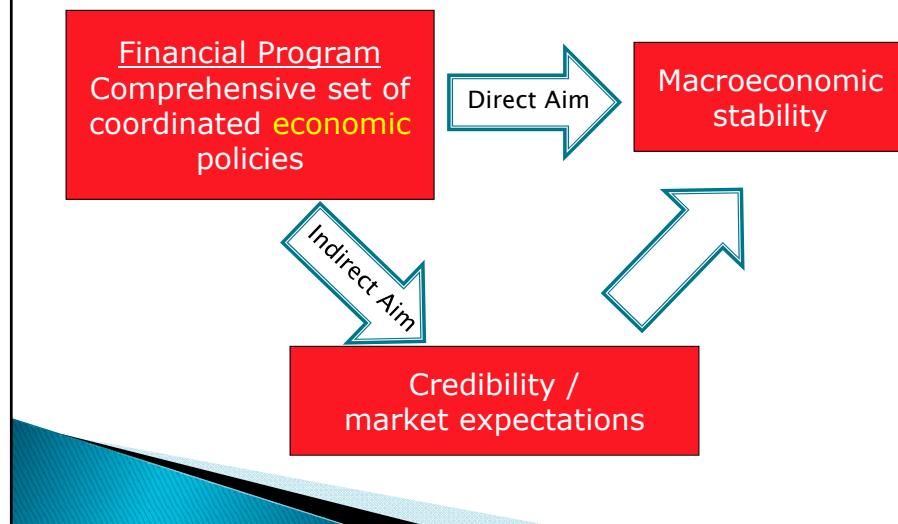
## II. Financial Programming for Informed Economic Policy Decision-Making

Developing a financial program involves

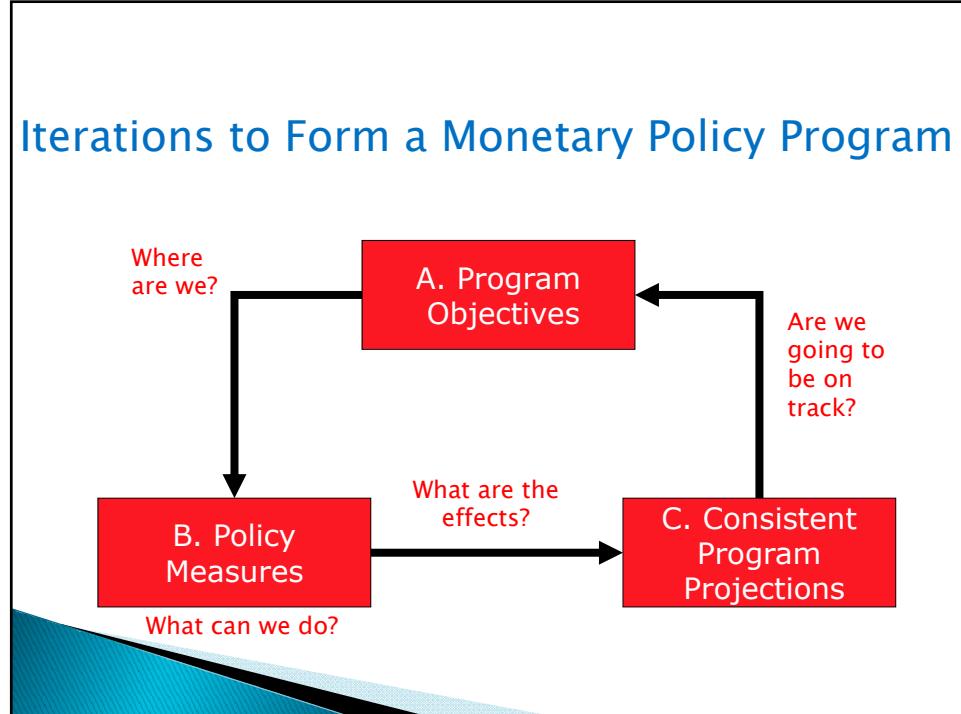
- Analysis of current conditions & forecasting
- Identification of policy measures & and their impact
- Iteration



## Aims of a Financial Program



## Iterations to Form a Monetary Policy Program



## Where Are We?

Begin by taking stock of current macroeconomic situation

- Create baseline projection under unchanged policies
- Be mindful of incomplete information: we only see parts of the past and the future is just a guess!

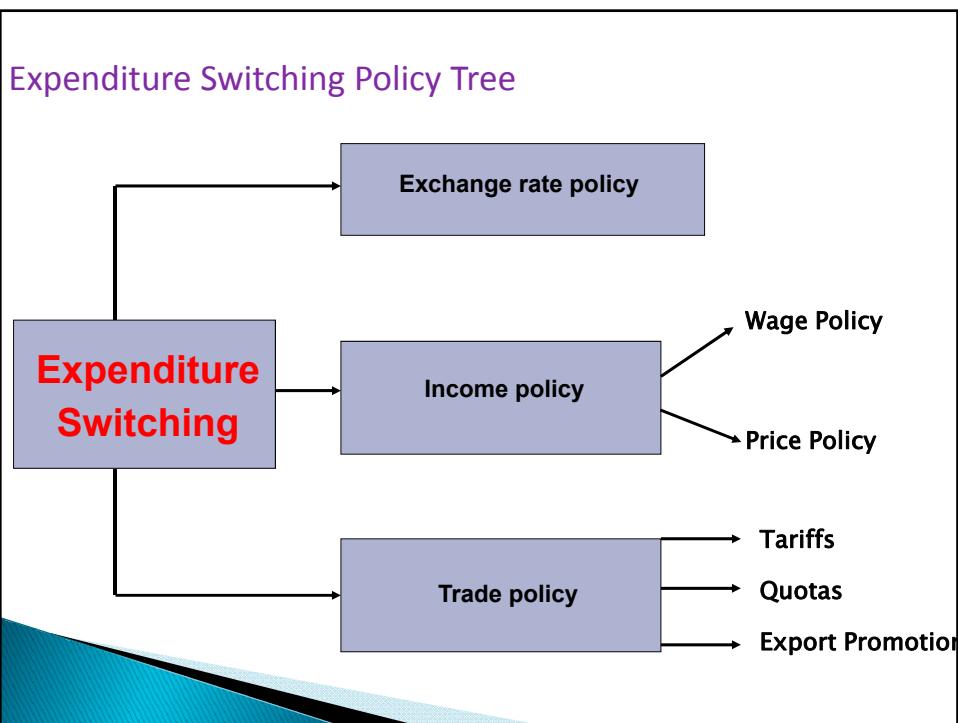
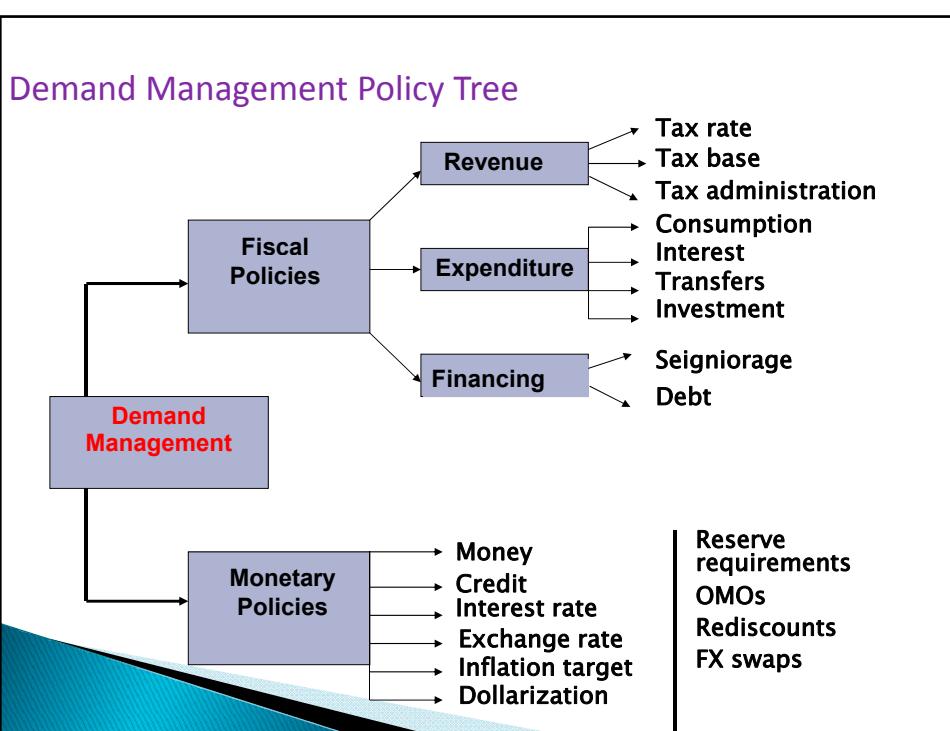


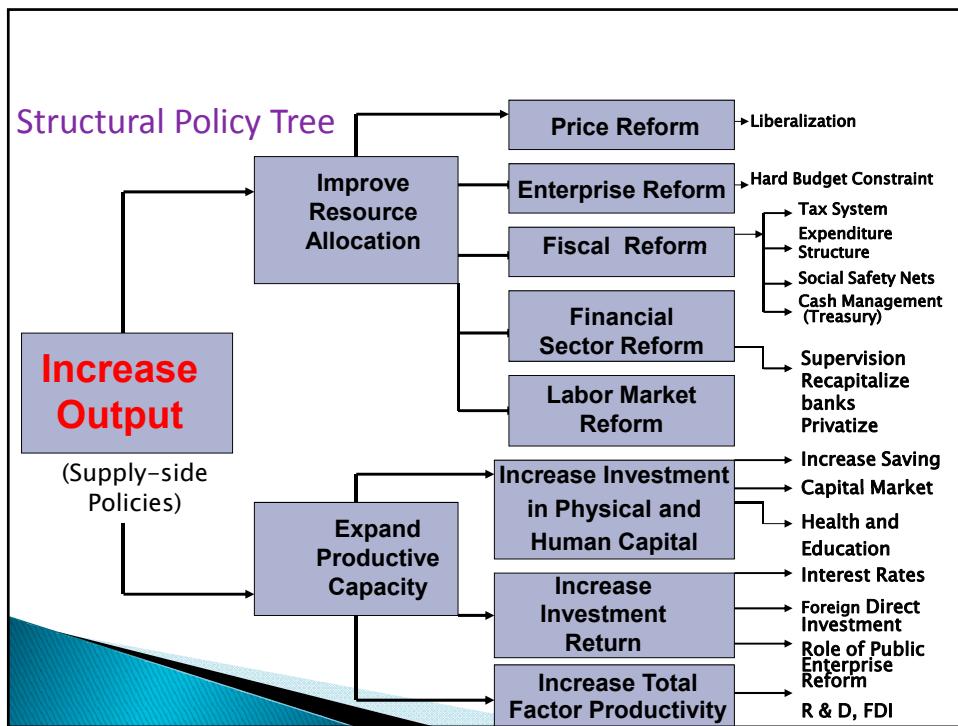
## What Can We do?

Depends on the problem ...

- Inflation → demand management
- External imbalances → demand management plus expenditure switching policies
- Protracted imbalances → structural reforms





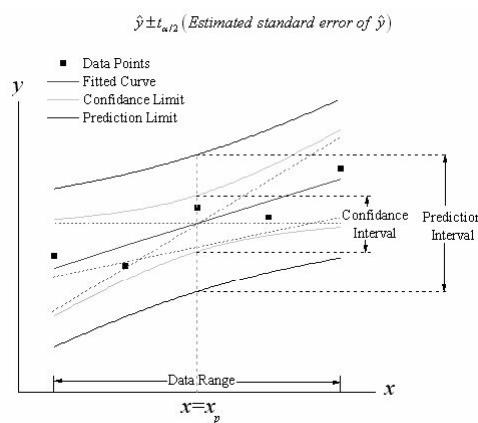


## What Are the Effects?

Analysis of effects of policy are likely to be highly uncertain because of:

- Limited data
- Limited understanding of behavioral linkages

→ Acknowledge uncertainty!



## Dealing with Uncertainty

The challenge is not to avoid mistakes but to learn from them:

- Forecast error analysis
- Learning from mistakes
- Incremental policy steps



## Are We Going to Be on Track?

If yes, you are done.

If not ...

- Calibrate the policy measures, and ...
- ... run another iteration of projections



Thank You!

