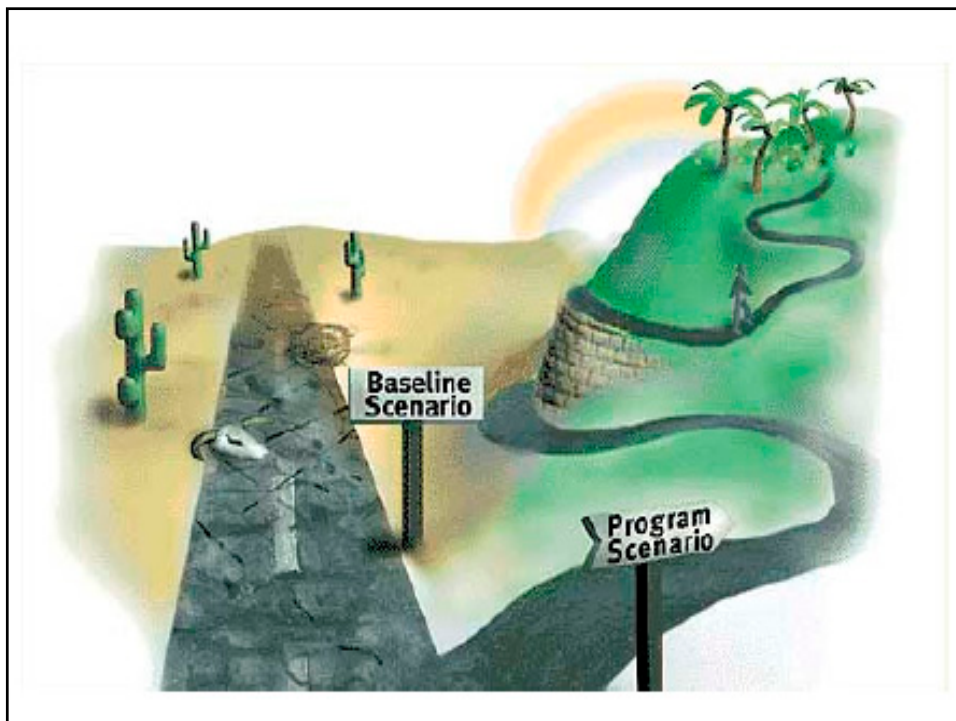


Macroeconomic Frameworks & Financial Programming

Overview

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TAOLAM

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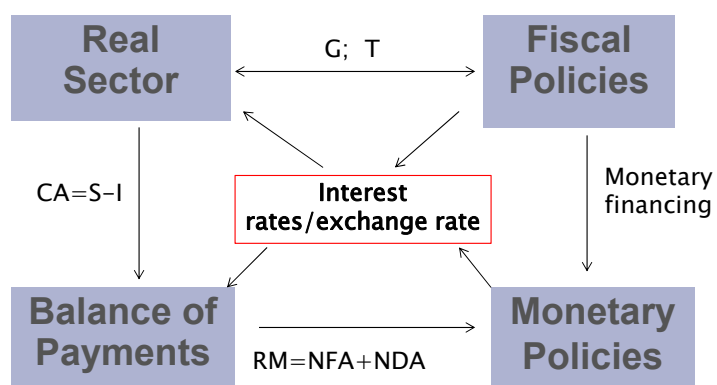


Overview

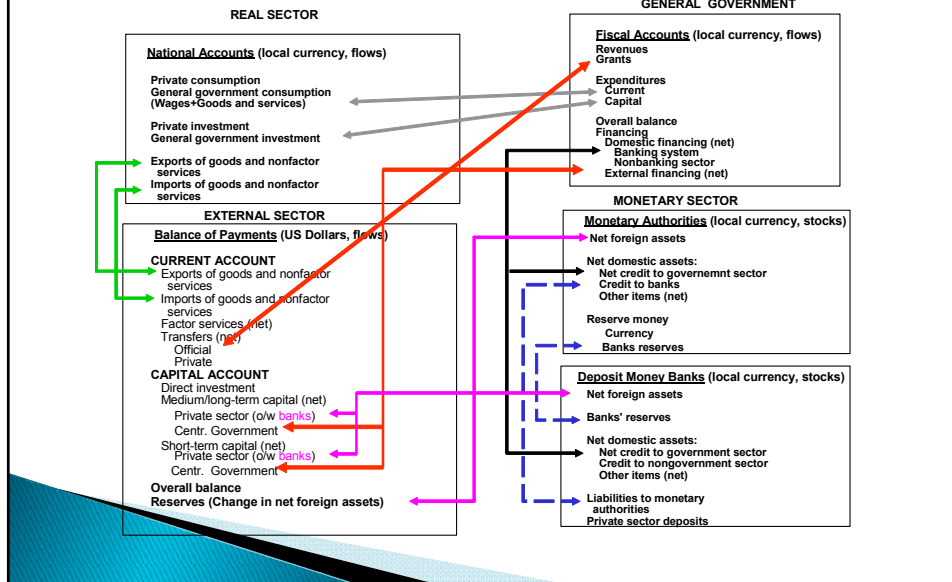
- I. Macroeconomic Frameworks
- II. Financial Programming for Informed Economic Policy Decision-Making

I. Macroeconomic Frameworks

Capturing linkages between sectors

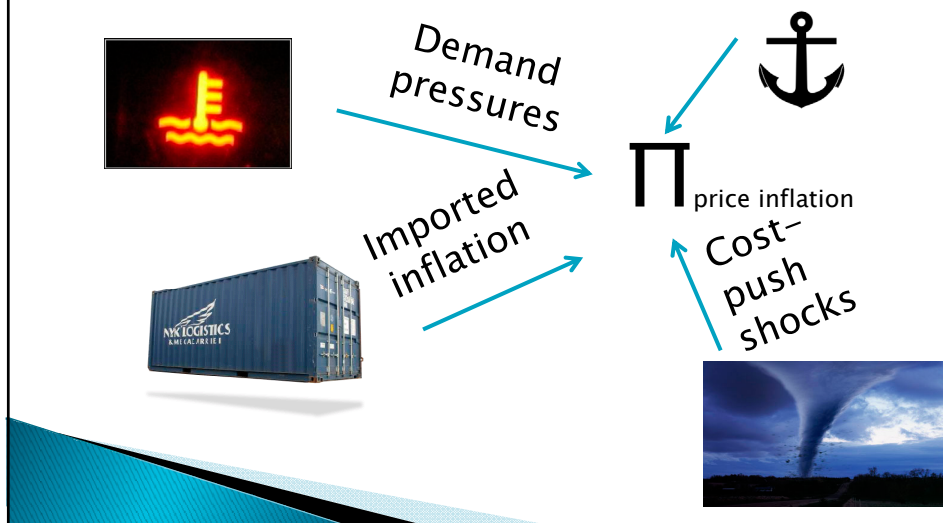


A macroeconomic framework captures accounting links



... 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!



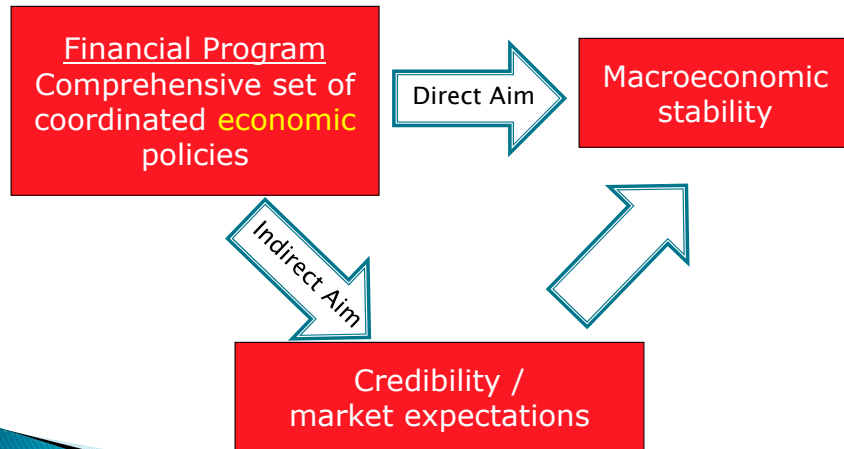
II. Financial Programming for Informed Economic Policy Decision-Making

Developing a financial program involves

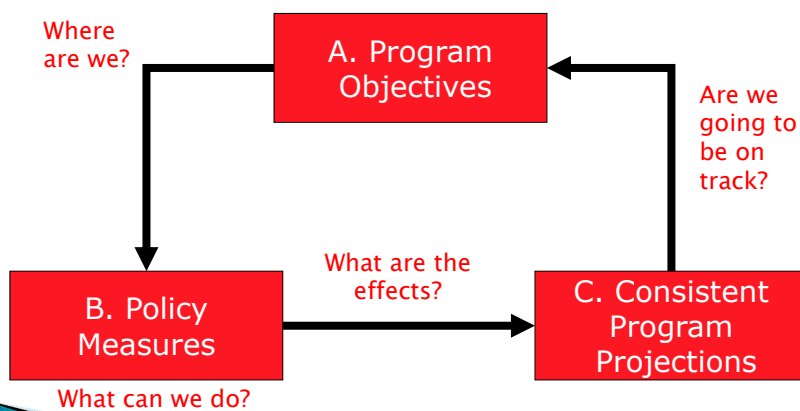
- Analysis of current conditions & forecasting
- Identification of policy measures & and their impact
- Iteration



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!



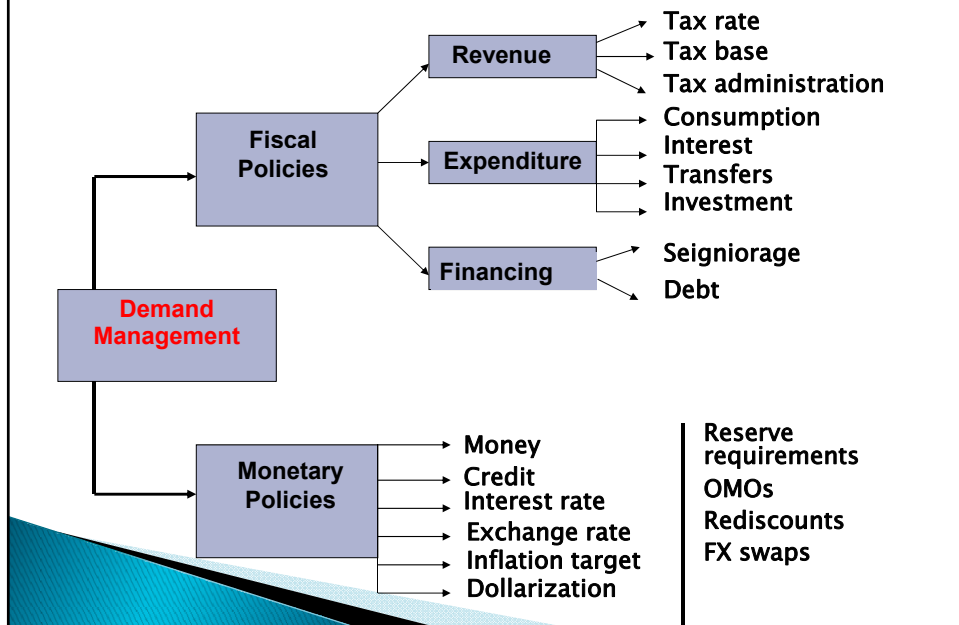
What Can We do?

Depends on the problem ...

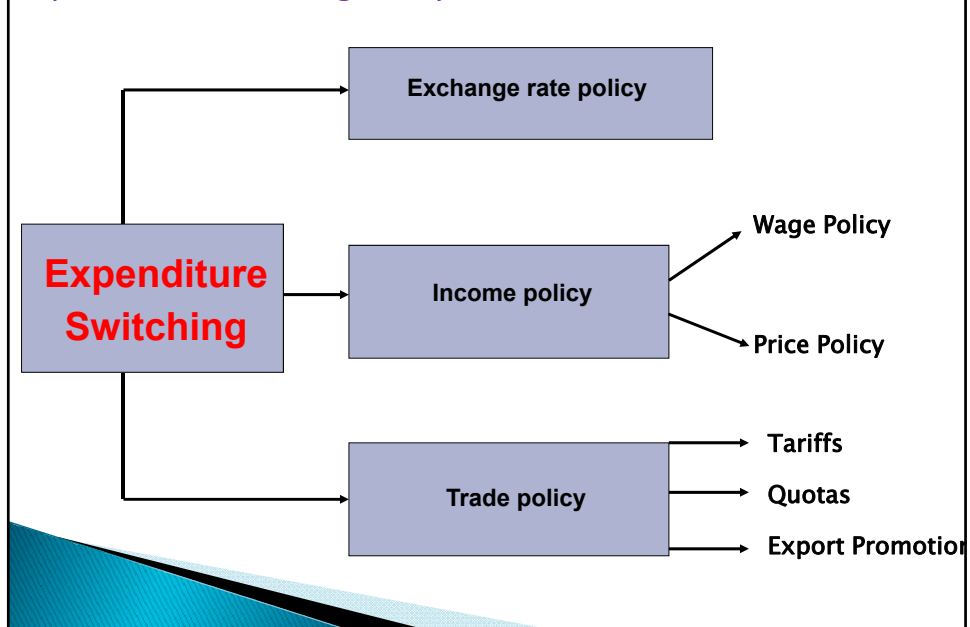
- Inflation → demand management
- External imbalances → demand management plus expenditure switching policies
- Protracted imbalances → structural reforms

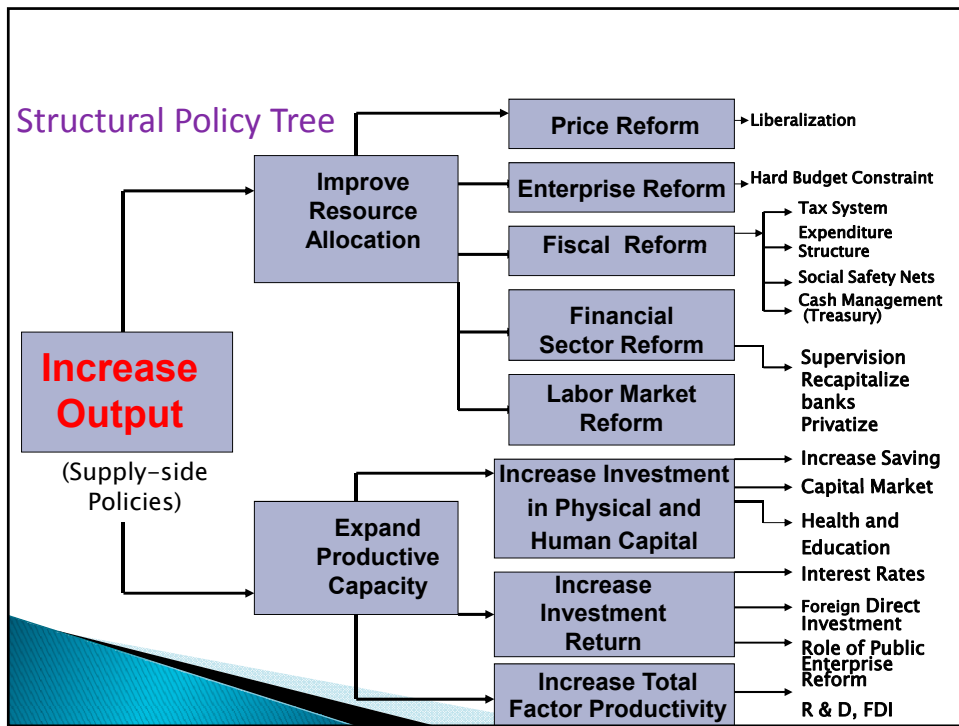


Demand Management Policy Tree



Expenditure Switching Policy Tree

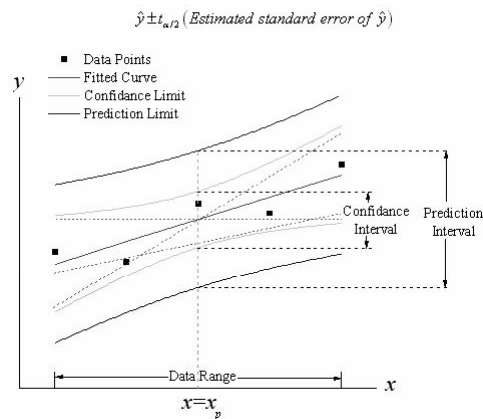




What Are the Effects?

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!