Macroeconomic Frameworks & Financial Programming

Overview

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Overview

I. Macroeconomic Frameworks

II. Financial Programming for Informed Economic Policy Decision-Making

I. Macroeconomic Frameworks

Capturing linkages between sectors

Real Sector → Fiscal Policies

G; T

CA=S-I

Interest rates/exchange rate

Balance of Payments

RM=NFA+NDc

Monetary Policies

Monetary financing
A macroeconomic framework captures accounting links

### REAL SECTOR
- **National Accounts** (local currency, flows)
  - Private consumption
  - General government consumption (Wages-Goods and services)
  - Private investment
  - General government investment
  - Exports of goods and non-factor services
  - Imports of goods and non-factor services

### GENERAL GOVERNMENT
- **Fiscal Accounts** (local currency, flows)
  - Revenue
    - Grants
  - Expenditure
    - Current General government consumption (Wages+Goods and services)

### EXTERNAL SECTOR
- **Balance of Payments** (US Dollars, flows)
  - **CURRENT ACCOUNT**
    - Exports of goods and non-factor services
    - Imports of goods and non-factor services
    - Factor services (net)
    - Transfers (net)
    - Offshore Private sector
  - **CAPITAL ACCOUNT**
    - Direct investment
      - Medium-long term capital (net)
      - Private sector (net)
      - Central Government (net)
    - Short-term capital (net)
      - Private sector (net)
      - Central Government (net)
    - Overall balance
      - Reserve (Change in net foreign assets)

### MONETARY SECTOR
- **Monetary Authorities** (local currency, stocks)
  - Reserve money
    - Currency
    - Banks’ reserves
  - **Deposits Money Banks** (local currency, stocks)
    - Net foreign assets
    - Banks’ reserves
    - Net domestic assets
    - Net credit to government sector
    - Credit to banks
    - Other items (net)
    - Central Bank of Myanmar - TAOLAM

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

**Example of Inflation Determinants**
- **Demand pressures**
- **Imported inflation**
- **Cost-push shocks**
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 & their impact
- Iteration
Aims of a Financial Program

- Financial Program: Comprehensive set of coordinated economic policies
- Direct Aim: Macroeconomic stability
- Indirect Aim: Credibility / market expectations

Iterations to Form a Monetary Policy Program

A. Program Objectives

Where are we?

B. Policy Measures

What can we do?

C. Consistent Program Projections

Are we going to be on track?

What are the effects?
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 $\rightarrow$ demand management
- External imbalances $\rightarrow$ demand management plus expenditure switching policies
- Protracted imbalances $\rightarrow$ 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 are done.

If not …

- Calibrate the policy measures, and …
- … run another iteration of projections
Thank You!

And good luck …