Macroeconomic Frameworks & Financial Programming

Overview

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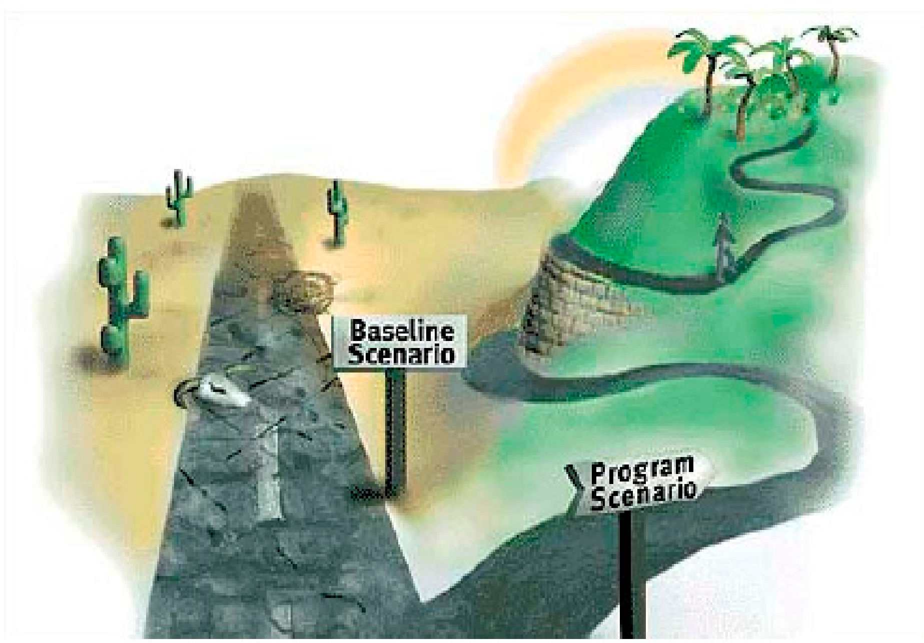

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Overview

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

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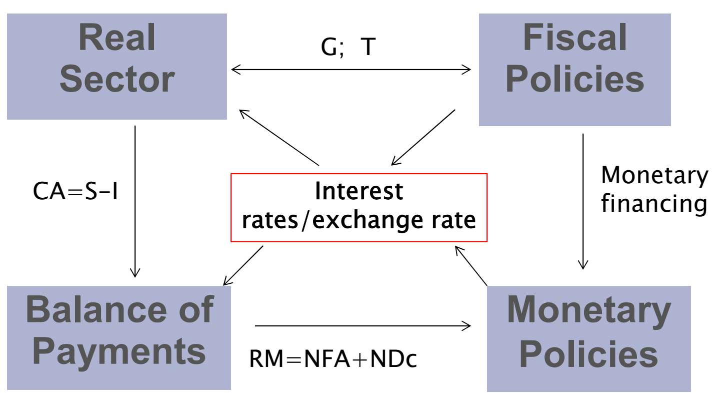
I. Macroeconomic Frameworks

Capturing linkages between sectors



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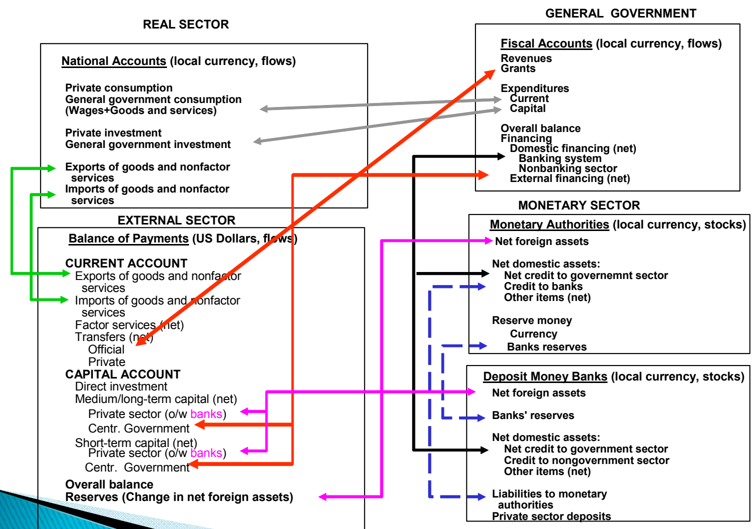
A macroeconomic framework captures accounting links



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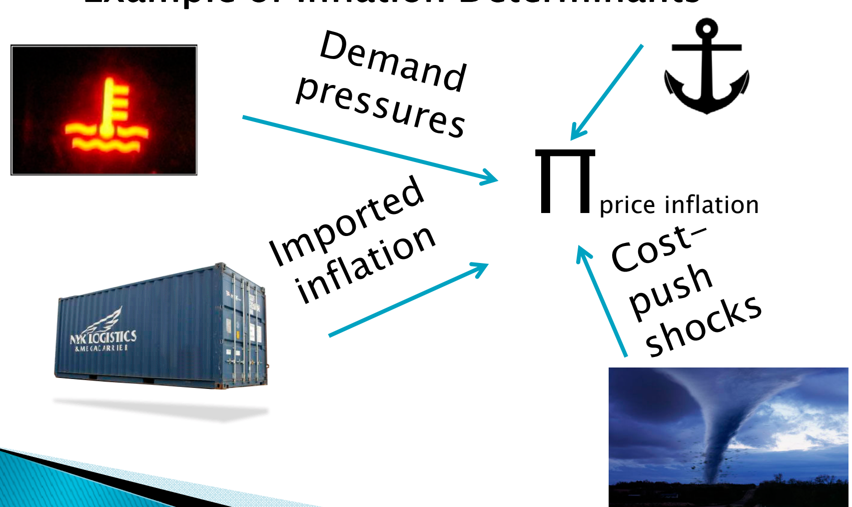
… but it is not very good at capturing behavioral linkages!

Example of Inflation Determinants



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

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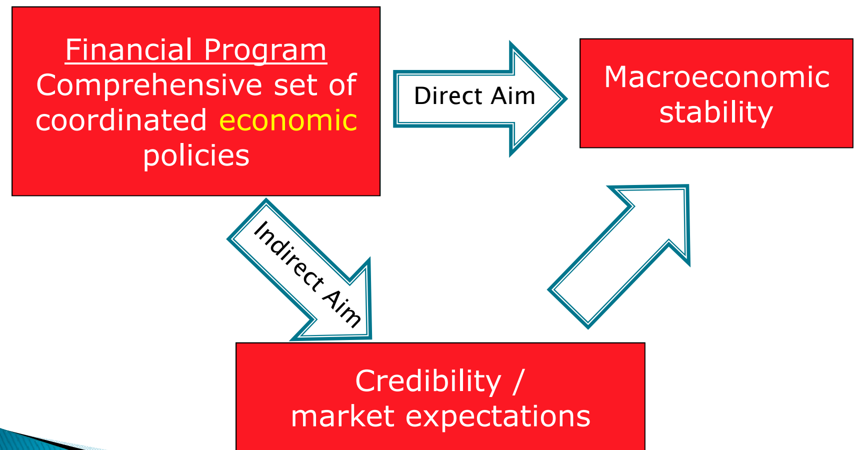
II. Financial Programming for Informed Economic Policy Decision-Making

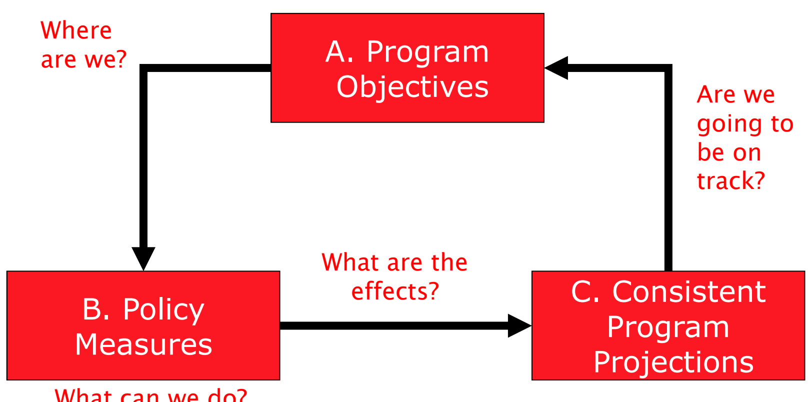
Developing a financial program involves

- 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



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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!

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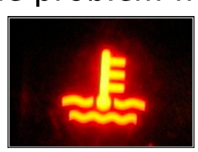
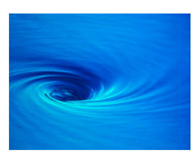
What Can We do?

Depends on the problem …

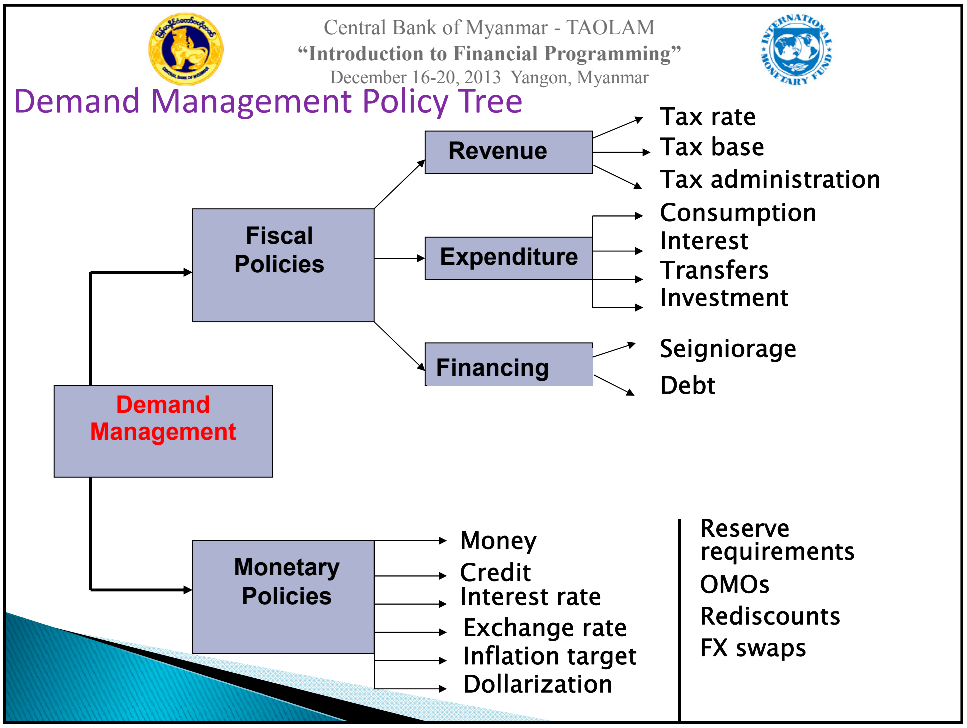
- Inflation → demand management



- External imbalances → demand management plus expenditure switching policies



- Protracted imbalances → structural reforms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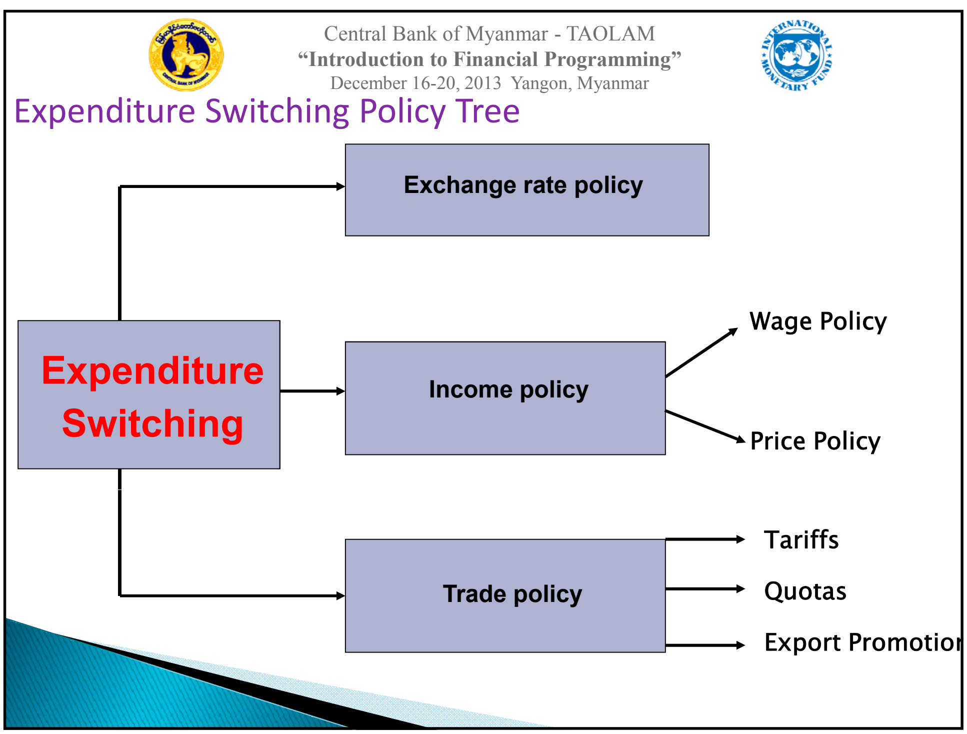
Demand Management Policy Tree
Demand Management
Fiscal Policies
Revenue
Tax rate
Tax base
Tax administration
Expenditure
Consumption
Interest
Transfers
Investment
Financing
Seigniorage
Debt
Monetary Policies
Money
Credit
Interest rate
Exchange rate
Inflation target
Dollarization
Reserve requirements
OMOs
Rediscounts
FX swaps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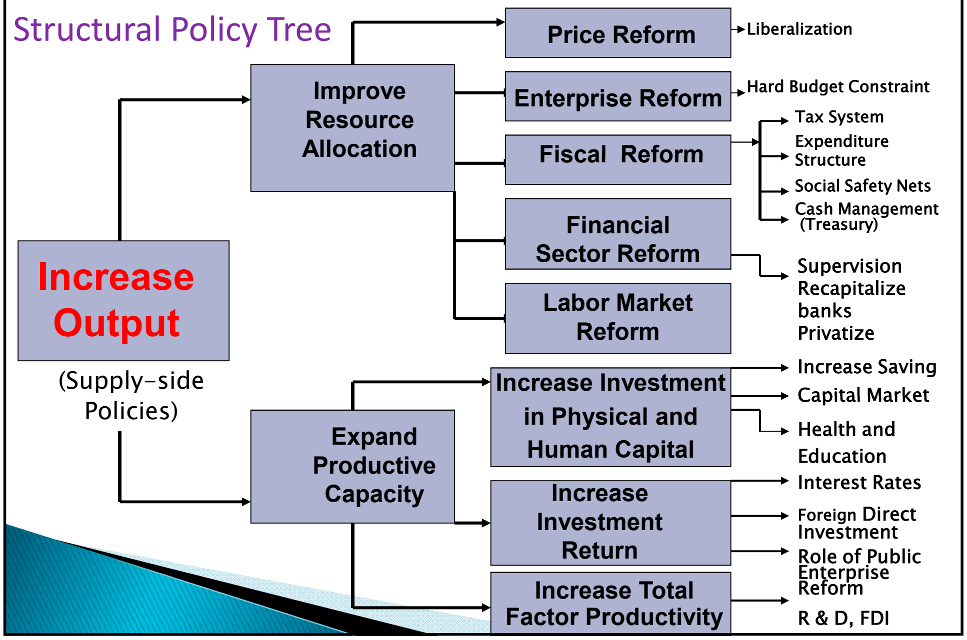
Expenditure Switching Policy Tree
Expenditure Switching
Exchange rate policy
Income policy
Wage Policy
Price Policy
Trade policy
Tariffs
Quotas
Export Promotion

Structural Policy Tree



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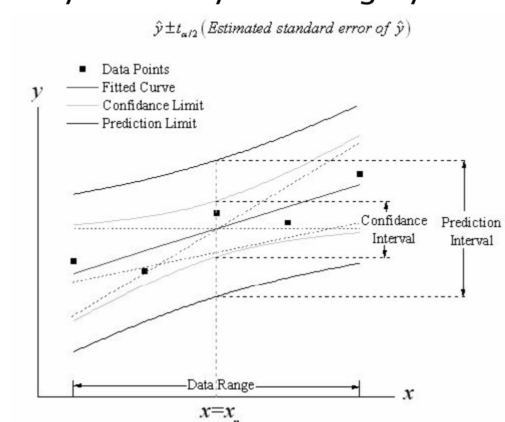
What Are the Effects?

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

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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 …