



Financial Programming and Policies, Part 2

Module 2

“Introducing the Case of Macronia”

This training material is the property of the International Monetary Fund (IMF) and is intended for use in IMF Institute for Capacity Development (ICD) courses.
Any reuse requires the permission of the ICD.

Characteristics of Macronia

- A small open economy. (2012 GDP = \$41bn)
 - Emerging market highly vulnerable to shocks.
 - Real 'trend' output growth. (~4%)
 - Higher inflation than trading partners. (5-8% vrs. 1-2%)
 - No easy answer to solving economic problems.
-

Macronia Recent Economic Developments (2008-2013)

- Persistent GGov deficits → Rising public debt
 - Larger Current Account Deficits, and lower FX reserves in months of imports.
 - RER appreciation trend but Central Bank 'leaning against the wind' ('fear' of floating → managing ER to resist stronger appreciation).
 - Policy Mix: Fiscal "Loose", Money "Tight"
-

Steps in the FPP Process

"How to do FPP"

Step 1 – Project economic sectors under existing policies.

Step 2 – Form your baseline based on Step 1.

Step 3 – Identify the problems in the baseline projection.

Step 4 – Set the program objectives to adjust for the baseline.

Step 5 – Identify the policy measures to achieve the program objectives.

Step 6 – Project forward the impact of your proposed policy measures on the baseline.

Step 7 – Iterate to achieve economic and accounting consistency.
