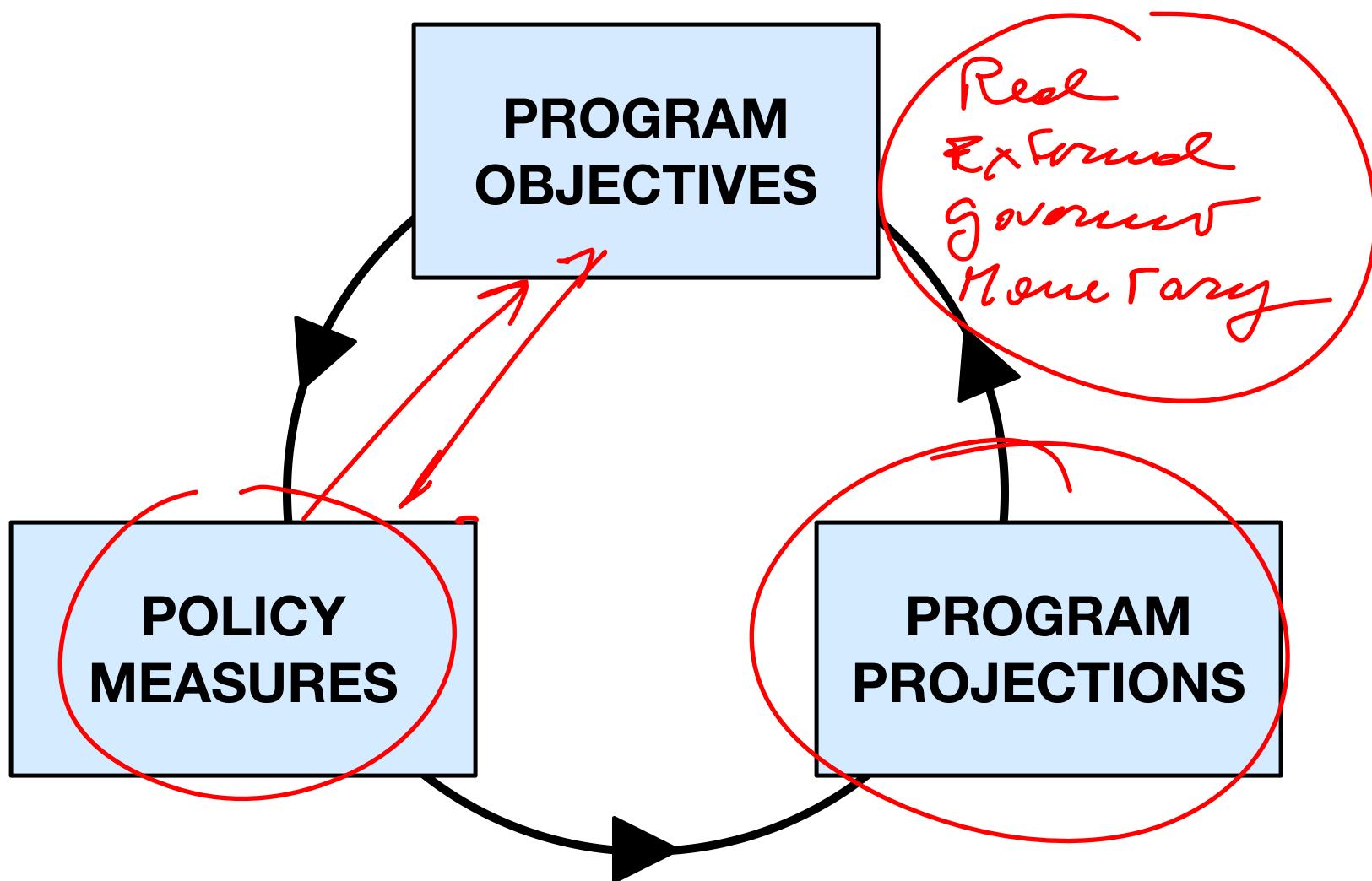




Financial Programming and Policies, Part 2

Module 1

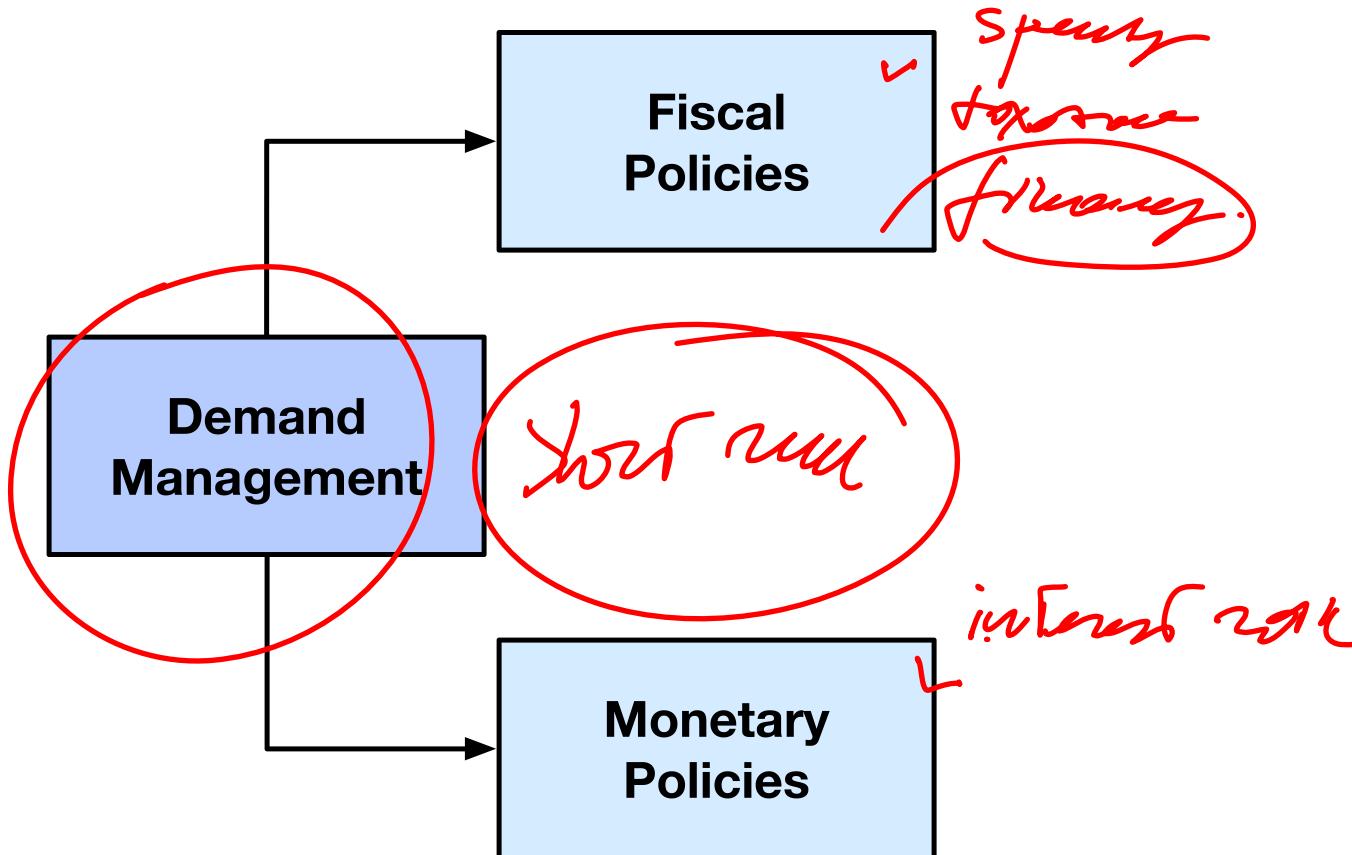
“What is Financial Programming, Part 2?”

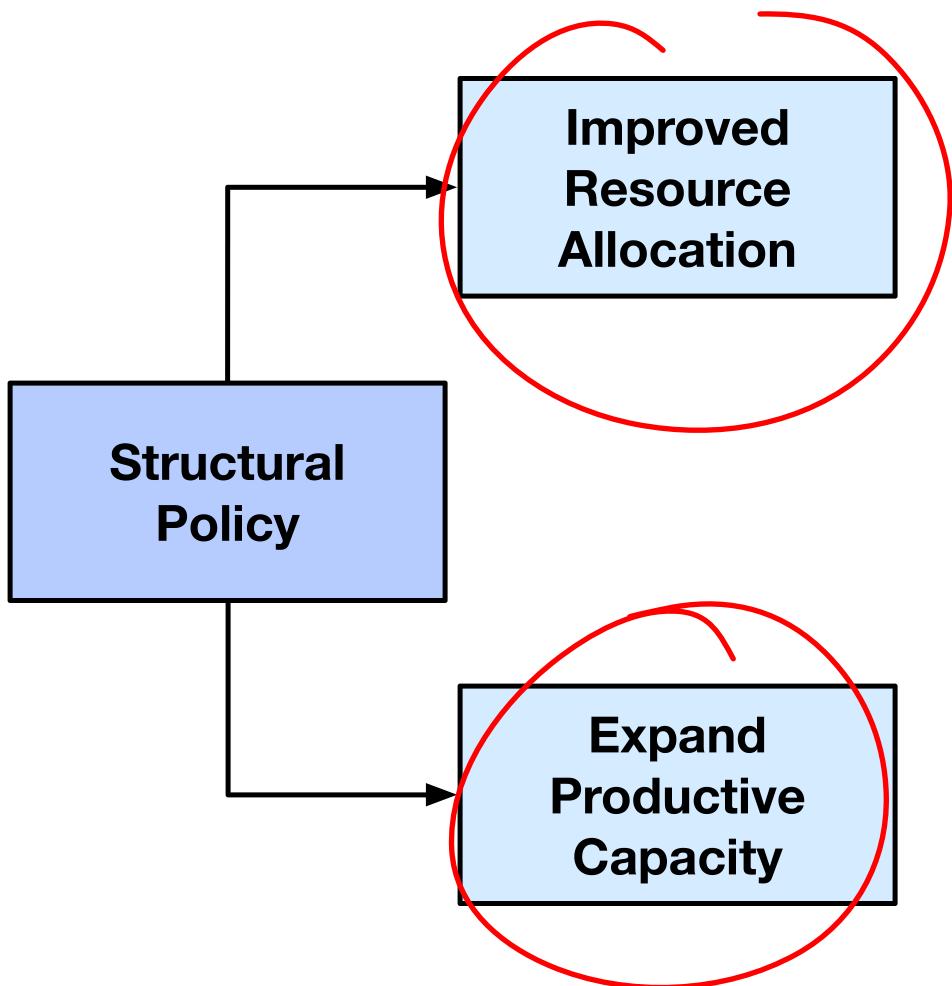


An Example of Program Objectives: Ghana (ECF), 2009

Targets for 2009-2011:

- Achieve real non-oil GDP growth of 5.5%.
- Keep inflation in the range of 7-9% per year through the end of the program period.
- Achieve an overall budget deficit of 4.5% of GDP by 2011.
- Maintain international reserves coverage equal to 3 months of imports.





An Example of Policy Measures: Ghana (ECF), 2009

- Fiscal adjustment in the first year of 3.5% of GDP.
- Revenue mobilization.
- Cuts in low-priority spending.
- Flexible pricing of energy products to avoid costly subsidies.
- Implement a comprehensive public sector reform program.
- Further strengthen the recently-adopted inflation targeting regime, including by a revamped central bank communications strategy.

Behavioral Relationships

- Consumption Function
- Investment Function ✓
- Price Formation Function or Phillips Curve
- Demand for Imports
- Supply of Exports

REAL SECTOR

GDP by Expenditures from NATIONAL ACCOUNTS (SNA, 2008, domestic currency, transactions)

Private Consumption
Final Government Consumption
Private Investment
Government Investment
Exports of Goods and Non-Factor Services
Imports of Goods and Non-Factor Services
Gross Domestic Product

EXTERNAL SECTOR

BALANCE OF PAYMENTS (BPM6, US dollars, transactions)

Current Account (surplus +, deficit -)

Exports of Goods and Services

Imports of Goods and Services

Primary Income (net)

Secondary Income (net)

Official

Private

Capital Account (surplus +, deficit -)

Financial Account

Direct Investment

Portfolio Investments

Financial Derivatives a.o.

Other Investments

Net Errors and Omissions

Overall BOP Balance (surplus +, deficit -)

Change in Reserve Assets (increase +, reduction -)

GENERAL GOVERNMENT

FISCAL ACCOUNTS (GFSM 2001, domestic currency, transactions)

Revenue
Grants
Expense
Interest Payments
Operating Balance
Transactions in Non-Financial Assets
Net Lending/Borrowing
Domestic Financing (net)
Banking System
Nonbanking Sector
External Financing (net)

MONETARY SECTOR

CENTRAL BANK (domestic currency, stocks)

Net Foreign Assets

Net Domestic Assets

Net Claims on Government

Claims on Other

Depository Corporations

Other Items (net)

Monetary Base

Currency

Banks' Reserves

OTHER DEPOSITORY CORPORATIONS (domestic currency, stocks)

Net Foreign Assets

Banks' Reserves

Net Domestic Assets

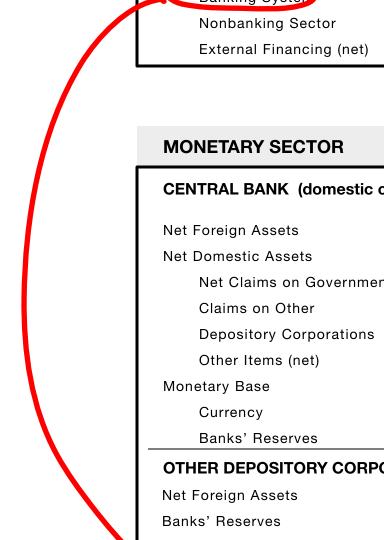
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Claims on Non-Government

Other Items (net)

Liabilities to Central Banks

Private Sector Deposits



REAL SECTOR

GDP by Expenditures from NATIONAL ACCOUNTS (SNA, 2008, domestic currency, transactions)

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Final Government Consumption

Private Investment

Government Investment

Exports of Goods and Non-Factor Services

Imports of Goods and Non-Factor Services

Gross Domestic Product

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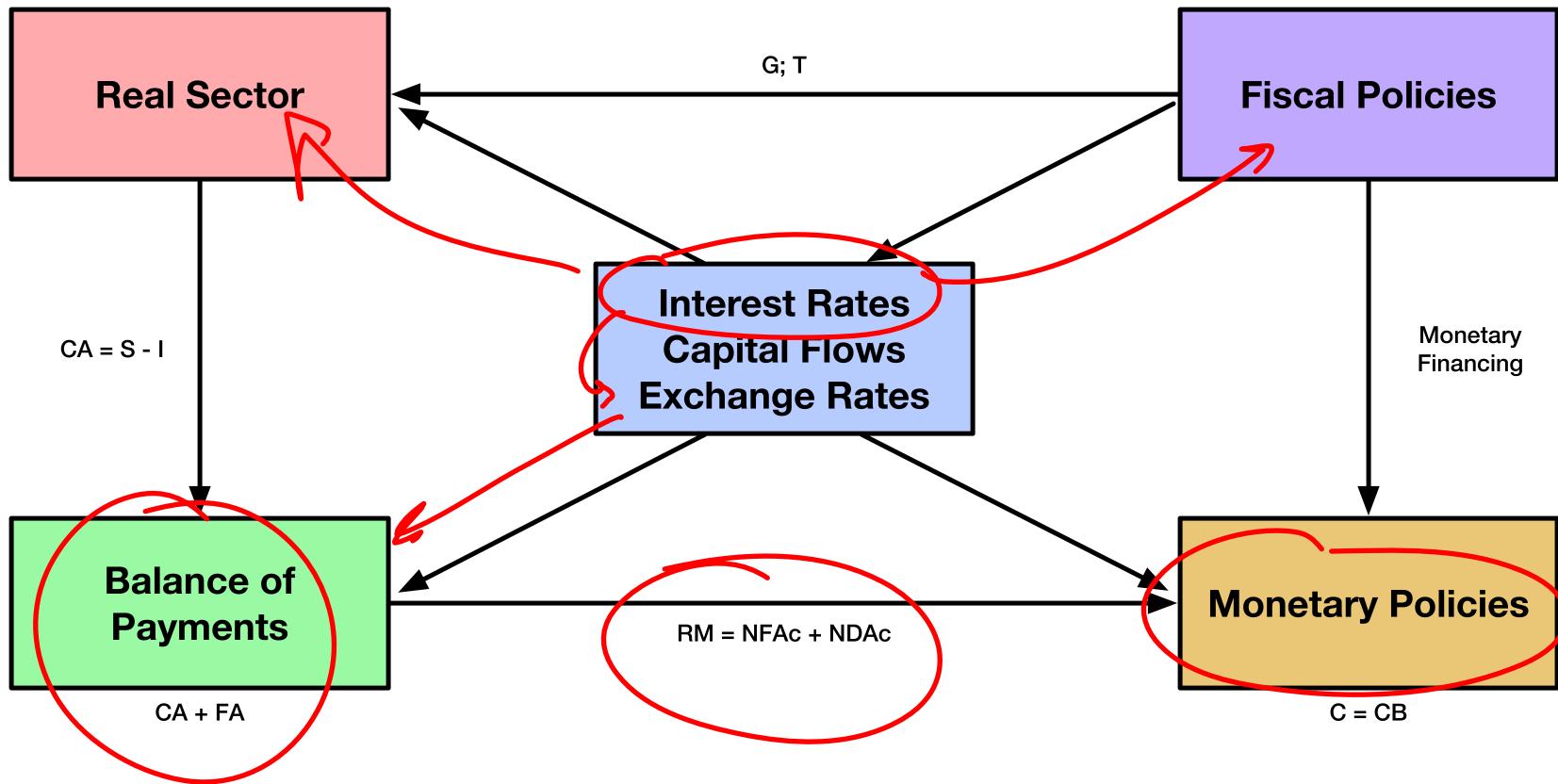
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Liabilities to Central Banks

Private Sector Deposits



Steps in the FPP Process

"How to do FPP"

-
- The diagram illustrates the FPP process with seven numbered steps. A red circle highlights Step 1, and a large red oval encloses the first four steps. Handwritten red text within the oval reads: "real", "economic", "fiscal", and "measures". A red arrow points from the end of Step 7 back to the start of Step 1, indicating a cyclical process.
- 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.