Country Profile Two

You are a large, relatively open economy with substantial assets abroad. You are not a member of a monetary union. You have a crisis arising from a combined banking crisis and a fiscal crisis, but to date it does not seem to have imperilled the economy. Your borrowing costs are rising, but you can still choose to enter a programme of assistance, or not. Your macroeconomic data are below. A chart pack will also show you the key variables you need to know about.

The public profiles of the players are as follows.

**Minister for Finance**

You are a member of a hard-right party within a minority government. Your grip on power is tendentious but you are well used to dealing with the international institutions.

**Advisor**

You are a career civil servant with no training in economics or in political economy.

**Opposition**

You are a left-leaning party with lots of public support but little credibility on the economic question: your party leader has decided to stay out of power for purely political reasons.

**Media**

The media are weakened and not as trusted as they once were. They are broadly centre-left.

**Unions**

Unions have been weakened for many years with little to help the slide in union membership. Collective agreements still exist between unions, the government, and employers’ groups, but these seem like they might fray as austerity is imposed.

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| Country 2 |  |  | **Past** | **Present** | **3 *t* Forecast (made at time *t*)** | | |  |
| **Major Macro Indicators** | *t-3* | *t-2* | *t-1* | *t* | *t+1* | *t+2* | *t+3* | *t+4* |
| %Change in Real GDP, Year on Year | -3.6 | -1.0 | -2.9 | -1.7 | -3.0 | -1.0 | 1.0 |  |
| %Change in Unemployment Year on Year | -1.0 | -2.0 | 1.0 | 9.0 | 6.0 | 6.0 | 7.0 |  |
| %Change in Inflation, Year on Year | 5.0 | 3.0 | 1.0 | -2.0 | -3.0 | 4.0 | 3.0 |  |
| %Change in Government Spending, Year on Year | 5.0 | 3.7 | 0.4 | 0.2 | -10.0 | -5.0 | -5.0 |  |
| %Change in Government Revenue, Year on Year | 8.0 | 2.8 | 3.4 | -9.5 | -30.0 | -20.0 | -10.0 |  |
| Govt Net Lending/Borrowing, % GDP | -3.0 | 0.8 | -3.0 | 9.7 | 20.0 | 15.0 | 5.0 |  |
| Current Account, % GDP | -0.7 | -3.3 | -4.4 | -9.5 | -4.5 | 0.0 | 1.1 |  |
| Private Sector net lending (+)/borrowing (-), % GDP | -3.0 | -8.0 | -4.0 | -6.0 | -7.0 | -3.0 | -2.0 |  |
| Debt-Service Ratio, Households | 3.0 | 3.0 | 6.0 | 9.0 | 12.0 | 14.0 | 18.0 |  |
| Debt-Service Ratio, Firms | 1.0 | 2.0 | 8.0 | 11.0 | 14.0 | 12.0 | 11.0 |  |
| Non-Performing Loans, International Banks, % of total | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |  |
| Non-Performing Loans, Domestic Banks, % of total | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |  |
| % Change in Housing completions, year on year | 5.0 | 5.0 | 5.0 | 4.0 | 3.0 | 2.0 | 1.0 |  |
| Govt Debt Stock, % of GDP | 82.0 | 83.0 | 85.0 | 86.0 | 100.0 | 105.0 | 110.0 |  |
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| **Fiscal Data** |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| *Government Finances, billions* | *t-3* | *t-2* | *t-1* | *t* | *t+1* | *t+2* | *t+3* | *t+4* |
| Income Taxes | 154.0 | 159.0 | 162.0 | 145.0 |  |  |  |  |
| Consumption Taxes (VAT, etc) | 140.0 | 142.0 | 149.0 | *140.0* |  |  |  |  |
| Property Taxes (Stamp duty, etc) | 41.0 | 41.0 | 41.0 | 38.0 |  |  |  |  |
| Customs/Excise Taxes | 70.0 | 74.0 | 76.0 | 71.0 |  |  |  |  |
| Corporation taxes | 21.0 | 22.0 | 25.0 | 16.0 |  |  |  |  |
| **Total (T)** | **426.0** | **438.0** | **453.0** | **410.0** |  |  |  |  |
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| *Government Spending, billions* | *t-3* | *t-2* | *t-1* | *t* | *t+1* | *t+2* | *t+3* | *t+4* |
| Health | 190.0 | 198.0 | 192.0 | 193.0 |  |  |  |  |
| Education | 83.0 | 89.0 | 92.0 | 96.0 |  |  |  |  |
| Social Protection | 160.0 | 163.0 | 169.0 | 171.0 |  |  |  |  |
| Other current spending (justice, etc) | 22.0 | 22.0 | 21.0 | 18.0 |  |  |  |  |
| Capital Spending | 9.0 | 9.0 | 9.0 | 6.0 |  |  |  |  |
| ***Total (G)*** | **464.0** | **481.0** | **483.0** | **484.0** |  |  |  |  |
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| **Sectoral Balances, % GDP** |  |  |  |  |  |  |  |  |
|  | *t-3* | *t-2* | *t-1* | *t* | *t+1* | *t+2* | *t+3* | *t+4* |
| Private Sector (I - S)  > 0 implies investment boom | -53.0 | -68.0 | -54.0 | -54.0 |  |  |  |  |
| Public Sector (G - T) > 0 implies deficit | 38.0 | 43.0 | 30.0 | 74.0 |  |  |  |  |
| External Sector (X - M) > 0 implies capital inflow | 15.0 | 25.0 | 24.0 | -20.0 |  |  |  |  |
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| **Distributional Data** |  |  |  |  |  |  |  |  |
| Income Inequality Closer to 1 implies more inequality | 0.3 | 0.3 | 0.3 | 0.3 |  |  |  |  |
| Wealth Inquality  Closer to 1 implies more inequality | 0.6 | 0.6 | 0.7 | 0.5 |  |  |  |  |
| Health/Morbidity indicator | 87.0 | 88.0 | 89.0 | 83.0 |  |  |  |  |