



Macroeconomic Analysis Course Introduction

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Overview

- Why should economists care whether the economy operates in an internal and external balance?
- How do we measure internal and external balance?
- How do we identify vulnerabilities and build economic resilience?

Why should policymakers care about balanced economic development?

Internal and external economic balance is necessary for sustainable economic prosperity



National accounts reflects domestic economic activity

- Expenditure based GDP measure

$$\text{NGDP} = \text{NC} + \text{NGC} + \text{NGI} + \text{NI} + \text{NX} - \text{NM}$$

- Production based GDP measure
- Income based GDP measure

Balance of payments reflects connection of domestic economy with the rest of the world

Summarizes the economic transactions of an economy with the rest of the world for a specific time period (flows)

$$CA + KA - FA = 0$$

current account (CA), capital account (KA), financial account (FA, including accumulation of foreign reserves)

Balance of payments and national accounts

National accounts and the balance of payments are interconnected

$$S - I = X - M + BPI + BSI = CAB$$

where CAB is the current account balance, $S = GNDY - C - G$ is domestic saving.

Current account balance is linked to national savings

- The interrelation of CAB with investment and saving can be seen in more detail by distinguishing between private and government sector.

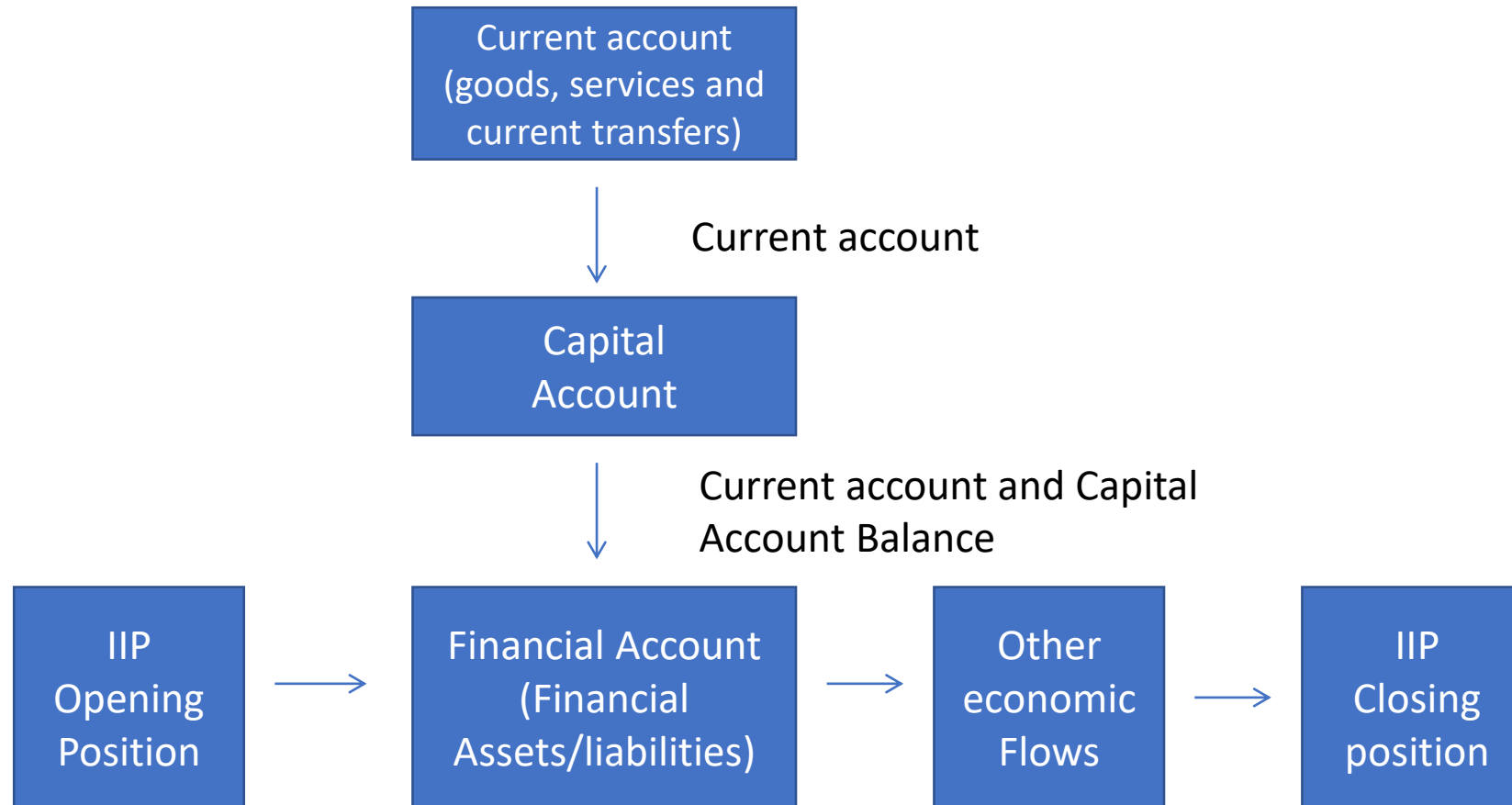
$$S-I = S_p + S_g - I_p - I_g$$

- S_p is private saving, S_g is public saving, I_p private investment and I_g government investment.

$$CAB = (S_p - I_p) + (S_g - I_g)$$

- if the government sector deficit is not compensated by excess savings in the private sector, then CAB will be in deficit.
 - Hence, a sustained deficit in the government sector may be reflected as a deficit in current account balance (**Twin deficits**).

Balance of payments and international investment position



Balance of payments and international investment position (cont.)

- The stock of assets and liabilities changes because of flows and valuation changes:

$$\begin{aligned} IIP_t = IIP_{t-1} + (\text{financial account items and } \Delta \text{reserves})_t \\ + \text{val. changes} \end{aligned}$$

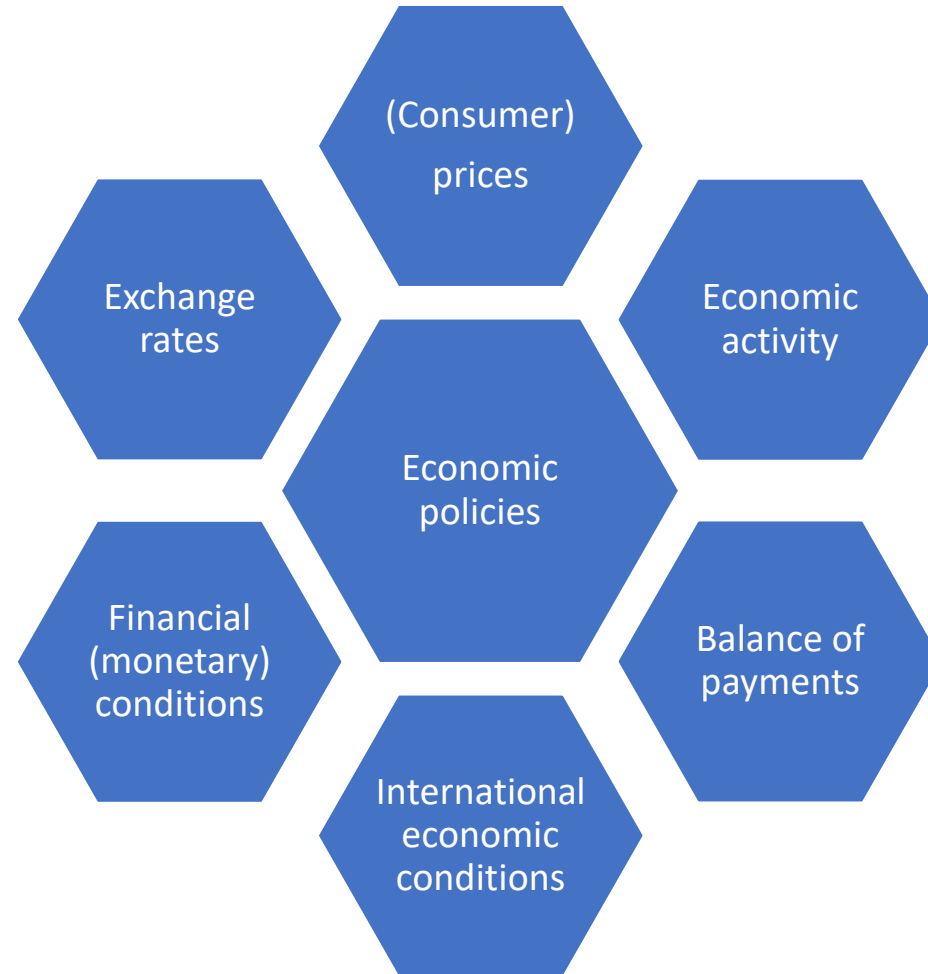
- The net international investment position indicates if a country is a net creditor or borrower to the rest of the world:

$$\begin{aligned} (\text{net IIP})_t &= (\text{Stock assets})_t - (\text{Stock liabilities})_t \\ (\text{net IIP})_t - (\text{net IIP})_{t-1} &= FAB_t + \Delta \text{RESERVES} + \text{net val. changes} \end{aligned}$$

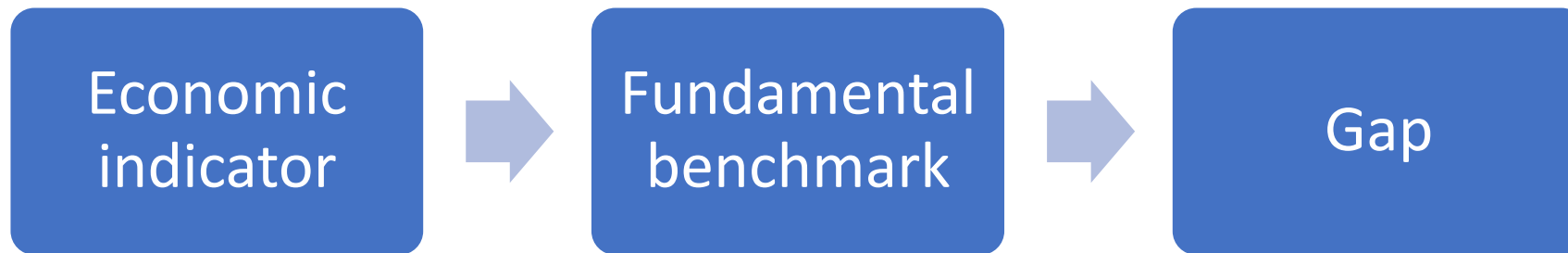
Economic factors affecting national accounts and balance of payments

- Domestic prices
- Domestic interest rates
- Exchange rates
- Foreign prices
- Foreign interest rates

So what we are going to look at to assess internal and external economic balance?



How we are going to identify vulnerabilities and risks to the internal and external balance?



Summary of economic indicators

Macroeconomic assessment of Vietnam economy 2017 I II III IV quarter		Assessment summary	Expected implications for the near term				Relative importance	Notes
			Aggregate demand	Exchange rate	CPI inflation	Monetary policy stance		
Domestic economic conditions	Economic activity							
	CPI inflation							
	Monetary conditions							
	External balance							
	Exchange rate							
	Fiscal policy stance							
	Monetary policy stance							
External sector	Aggregate demand							
	CPI inflation							
	Interest rate							
	Commodity prices							
OVERALL IMPACT							100%	----

Lets get started!