

## Course Structure and Standard Syllabus

### Course Topic: Fiscal Policy

### Course Title: Fiscal Policy Analysis (FPA)

**Course objectives:** This course aims at providing an overview of the key fiscal policy concepts and techniques to analyze how fiscal policy can help ensure macroeconomic stability and sustainable long-term growth. This hands-on course is built around core macro-fiscal topics needed to analyze fiscal policy. Units will be substantiated by general empirical findings, excel-based workshops, case studies, and selected topics of regional interest. The course will be offered to officials who are interested in gaining a broad understanding of the impact of fiscal policy on the economy and related tools of analysis.

#### Summary of learning objectives:

- Discuss the role of fiscal policy in attaining the key objectives of the government: macro-stability, equity and efficiency, and sustainable long -term growth.
- Use the tools and techniques to assess the fiscal stance, fiscal multipliers and debt sustainability.
- Review the key elements of tax and expenditure policy: concepts and best practices.

**Course overview:** Fiscal policy formulation is influenced by the macroeconomic context that a country faces, but it also influences macroeconomic outcomes in a country. The course starts with expenditure and tax policy, then moves to topics related to macro-fiscal policy such as measuring the fiscal stance, fiscal multipliers, and fiscal projections as we well as assessing debt sustainability, and concludes with thematic presentations by participants.

#### *Overview topics*

Unit 1. **Recent macro trends, fiscal challenges and overview of the course:** This lecture provides an overview of the recent macroeconomic trends, and identifies main fiscal challenges in the region where the course is taught, and presents the roadmap for the course.

Unit 2. **Public finance and the macroeconomy:** This unit covers the government's role and key objectives in conducting fiscal policy: macroeconomic stability, efficient and equitable resource allocation, and sustainable long-term growth.

#### *Micro effects of fiscal policy*

Unit 3 and Unit 4. **Expenditure policy and domestic resource mobilization:** In practice, fiscal policy entails specifics about expenditure and tax policy. The level and composition of expenditure and revenue matter greatly when looking at the impact of fiscal policy.

Unit 5. **Fiscal policy and inclusive growth:** Fiscal policy has also a role to play in terms of long-term growth, mainly through investment in physical and human capital, and equity.

#### *Fiscal aggregates and their macro effects*

Unit 6. **Fiscal accounts, fiscal aggregates, and other economic variables:** Different fiscal aggregates have different purposes. To analyze fiscal policy, it is important to have a good understanding of key concepts, their interrelations, and their importance for fiscal objectives.

Unit 7. **Fiscal projections:** Fiscal projections are a key tool to provide the main anchor to set up medium-term fiscal policy objectives.

Unit 8. **Fiscal sustainability, debt tolerance, and fiscal space:** This unit overviews the standard techniques to study debt dynamics, and explains why it is necessary to preserve debt sustainability in the medium to long run.

Unit 9. **Fiscal multipliers:** Fiscal multipliers measure the impact of fiscal policy on the economy and depend on a wide range of variables which are all addressed in the unit.

Unit 10. **Measuring the fiscal stance:** This unit covers the concept of fiscal stance and how it adjusts for cyclical components of output fluctuations, and the impact of countercyclical policies.

### ***Non-core units***

NC Unit 1. **Fiscal policy for the crisis and post-crisis period:** The 2008-09 crisis and its aftermath make the challenge of designing an optimal fiscal policy even more pressing.

NC Unit 2. **Fiscal frameworks in resource-rich countries:** In the case of oil exporters, a specific fiscal policy framework taking into account high income volatility and intergenerational transfers is warranted.

NC Unit 3. **Expenditure subsidy reform:** Subsidies account for a large part of the budget in many countries. With scarce fiscal resources, designing an optimal and implementable subsidy reform is needed.

NC Unit 4. **Dealing with volatility:** Many LICs and EMs (LIIE) face high income volatility. They face more volatile business cycles and less consumption smoothing compared to AEs. They also face more inflation and exchange rate volatility and finally they experience more often fiscal crashes and sudden stops.

NC Unit 5. **Expenditure Policy: Investment spending:** Designing investment spending plans and identifying the challenges associated with it are important for low income countries as well as emerging countries.

### **Target audience and prerequisites**

The course is targeted to (junior to senior) officials interested in the analysis of fiscal policy and its macroeconomic implications (e.g. macro-fiscal unit and forecasting units). Participants should have taken undergraduate courses in macroeconomics, or have equivalent experience, and have a basic background in microeconomics and econometrics. They should also be comfortable using econometric software such as EViews.

### **Performance evaluation**

Two multiple-choice tests will be given, one at the beginning and one at the end of the course.

### **Synergies with TA**

The course provides a general context on fiscal policy and is a first step to training/TA for officials in macrofiscal or other policy units in ministries of finance and central banks.

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## INTERNATIONAL MONETARY FUND

Institute for Capacity Development

Fiscal Policy Analysis (FPA)

### PROGRAM

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#### *Day 1*

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<b>Briefings: 1.5 hours</b>		<b>Administrative briefing</b> <b>Opening session</b> <b>Quiz</b>
<b>Unit 1: 1.5 hours</b>	L-1	<b>Recent macro trends, fiscal challenges and overview of the course</b> <ol style="list-style-type: none"><li>1. Discuss recent global and regional macro trends</li><li>2. Identify main fiscal challenges</li><li>3. Provide a course roadmap</li></ol>
<b>Unit 2: 3 hours</b>	L-2	<b>Public finance and the macroeconomy</b> <ol style="list-style-type: none"><li>1. The role of the government: public goods, externalities, and asymmetric information</li><li>2. Fiscal policy and long-term growth and equity</li><li>3. Fiscal policy and macro stability</li><li>4. Interaction between monetary and fiscal policy</li></ol>
<b>Discussion: 1.5 hours</b>	O-1	<b>Discussion of fiscal challenges in participants' countries</b> <ol style="list-style-type: none"><li>1. Identify challenges</li><li>2. Discuss how the course can provide analytical tools</li></ol>

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#### *Day 2*

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<b>Unit 3: 3 hours</b>	L-3	<b>Expenditure Policy</b> <ol style="list-style-type: none"><li>1. Types of expenditure</li><li>2. Expenditure rationalization</li><li>3. Long-term expenditure issues (for LIC and EM)</li></ol>
	W-1	<b>Expenditure Policy Workshop (case study)</b> <ol style="list-style-type: none"><li>1. Assessment of government employment and wages</li><li>2. Options for public employment rationalization</li><li>3. Structural measures for higher public spending efficiency</li></ol>
<b>Unit 4: 3 hours</b>	L-4	<b>Domestic Resource Mobilization</b> <ol style="list-style-type: none"><li>1. General principles</li><li>2. Recent trends and policy issues</li><li>3. Tax policy reforms</li></ol>
	L-4	<b>Domestic Resource Mobilization, continued</b> <ol style="list-style-type: none"><li>1. Revenue administration</li><li>2. VAT reforms</li></ol>

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**Day 3**

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<b>Unit 4: 1.5 hours</b>	W-2	<b>Workshop: Tax Policy Reform (case study)</b> <ol style="list-style-type: none"><li>1. Assessment of the tax system (structure and tax effort)</li><li>2. Tax system reform package: direct and indirect taxes</li><li>3. Reform of special regimes and tax incentives</li></ol>
<b>Unit 5: 1.5 hours</b>	L-5	<b>Fiscal policy and inclusive growth</b> <ol style="list-style-type: none"><li>1. Fiscal policy and long run growth</li><li>2. Fiscal policy and inequality</li><li>3. Case studies</li></ol>
<b>Unit 6: 3 hours</b>	L-6	<b>Fiscal accounts and fiscal aggregates measures</b> <ol style="list-style-type: none"><li>1. Fiscal accounts and the public sector</li><li>2. Stocks and flows measures</li><li>3. Cash and accrual measures</li></ol>
	W-3	<b>Workshop: Fiscal accounts and fiscal analysis</b> <ol style="list-style-type: none"><li>1. Differences between GFSM 1986 and GFSM 2001 and implications for fiscal analysis</li><li>2. Illustrative consolidation exercise</li></ol>

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**Day 4**

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<b>Unit 7: 3 hours</b>	L-7	<b>Fiscal projections</b> <ol style="list-style-type: none"><li>1. Macroeconomic assumptions</li><li>2. The effective tax rate, buoyancy and elasticity approaches</li><li>3. Discretionary vs. non-discretionary spending</li><li>4. Budget financing needs, domestic vs. external financing tradeoff and cross-sector consistency checks</li></ol>
	W-4	<b>Workshop: Fiscal projections</b> <ol style="list-style-type: none"><li>1. Forecasting revenues and expenditures</li><li>2. Deficit financing</li></ol>
<b>Discussion: 1.5 hours</b>	O-2	<b>Participants' discussion</b> <ol style="list-style-type: none"><li>1. What are the main takeaways so far?</li><li>2. Any areas for clarification?</li></ol>
<b>Presentations: 1.5 hours</b>	O-3	<b>Preparation for participants' presentations</b> <ol style="list-style-type: none"><li>1. Selection of topics</li><li>2. Formation of groups</li></ol>

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**Day 5**

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<b>Unit 8: 6 hours</b>	L-8	<b>Fiscal sustainability, debt tolerance, and fiscal space</b> <ol style="list-style-type: none"><li>1. Fiscal sustainability: debt projections and risks</li><li>2. Debt tolerance across countries and over time</li><li>3. Fiscal space: optimal and safe debt levels, interest rates</li></ol>
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- W-5     **Workshop: Basic debt dynamics**  
 1. Baseline scenario  
 2. Alternative scenarios
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**Day 6**

**Unit 9: 3 hours**

- L-9     **Fiscal multipliers**  
 1. Theory and empirics  
 2. Factors influencing the size of multipliers  
 3. Estimation and use

- W-6     **Workshop: Fiscal multipliers**  
 1. Computing multipliers  
 2. Interpreting multipliers  
 3. Fiscal policy assessment

**Unit 10: 3 hours**

- L-10    **Measuring the fiscal stance**  
 1. Output gap, cyclically-adjusted (CA) and structural balance  
 2. Fiscal elasticities and fiscal stance  
 3. Case studies

- W-7     **Workshop: Measuring the fiscal stance**  
 1. Methods to estimate the output gap  
 2. Estimating and interpreting fiscal elasticities and computing CA and structural balances  
 3. Interpreting the fiscal stance and fiscal impulse
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**Day 7**

**Unit 11: 3 hours**

- L-11    **NC (e.g. Expenditure Policy: Investment spending)**  
 1. Concepts  
 2. Investment and development: theory and evidence  
 3. Investment, efficiency and fiscal stability

- W-8     **NC (e.g. Workshop: Investment spending)**  
 1. Returns to public investment  
 2. Public investment and growth

**Presentations: 3 hours**

- O-4     **Participants' presentations: Preparation**
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**Day 8**

**Unit 12: 3 hours**

- L-12    **Non-core lecture, e.g. NC Unit 2**

- W-9     **Non-core workshop**

**Presentations: 3 hours**

- O-5     **Participants' presentations: Preparation**
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**Day 9**

**Presentations: 6 hours**

- O-6     **Participants' presentations: Preparation**
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**Day 10****Presentations: 2 hours**

O-7

**Participants' presentations****Closing****Final Quiz and course evaluation****Closing Session and Presentation of Certificates**

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**Non-core units:**

NC Unit 1: Fiscal policy for the crisis and post-crisis period

- The pre-crisis debate
- The effect of the crisis on the debate
- Fiscal policy and long term growth

NCW- 1 Workshop: Fiscal policy for the crisis and post-crisis period

NC Unit- 2: Fiscal frameworks in resource-rich countries

- Consumption, investment and savings
- International experiences
- Analytical frameworks and its caveats

NCW- 2 Workshop: Fiscal frameworks in resource-rich countries

NC Unit – 3: Expenditure subsidy reform

- Subsidies: definitions and trends
- A strategy for subsidy reforms

NCW- 3 Workshop: Expenditure subsidy reform

- Case studies on subsidy reform
- Subsidy excel workshop

NC Unit – 4: Dealing with volatility

- Business cycles in LICs and EMs
- Inflation and exchange rates
- Financial crashes and sudden stops

NCW Unit – 4: Dealing with volatility

- Computation of the standard volatility measures (business cycles, consumption to output and government spending to output ratios)
- Interest rate spreads and exchange rate
- Banks and the feedback loop

NC Unit 5 - Expenditure Policy: Investment spending

- Definitions and trends
- Public Investment Management Assessment
- Infrastructure gaps and scaling-up

NCW Unit – 5: Expenditure Policy: Investment spending

- Identifying challenges
- Designing a public investment program