

REPORT FROM THE WORKSHOP
On Wednesday August 22nd 2007:

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Input-Output Analysis

Wage and price equations have been elaborated by referring to input-output analysis of hypothesized structure of less developed economy. The virtue of the input-output tables is that they generate coefficients for a number of determinants in the cost-price equations, such as import intensity of exports.

Simulation of Policy Measures with the Model

The group identified a number of policy initiatives prepared by the Government and incorporated in the government program. These measures were put in one package. The package was tested with MacroABC for consistency and to give indicative forecasts of main economic variables.

Tested Package of Initiatives		
	Identified measure	Input to SIM (Assumptions for changes, compared to baseline)
1	Income tax	Flat tax of 12% in 2007, 10% in 2008
2	Profit tax	Decrease to 12% in 2007 and 10% in 2008
3	VAT	Decrease of VAT revenue by 10% in 2008
4	Government expenditures (Education, Training)	Increase of productivity by 1% per year
5	Public investments	Gradual increase to reach 5% of GDP in 2010
6	Monetary stability	Decrease of interest rates by 0.5 percentage points in 2008 and 2009
7	Promotion of consumption of domestic products	Decrease of imports by 1% per year due to import substitution
8	Export promotion	Increase of exports by 3% p.a.
9	FDI increase	Gradual increase from 15 to 20% p.a. by 2010
10	Increase in private investments	Gradual increase from 7 to 15% p.a. by 2013

Main Targets¹		
1	Real GDP Growth	7%
2	Monetary Stability	Minimum 4 months of import coverage of foreign reserve stock

¹ If the model produces fiscal surplus, further measures would be introduced in the model

3	Private Investments	20% of GDP by 2013
4	Fiscal Deficit	Maximum 2% of GDP
5	Fiscal Sustainability	Satisfactory trend

The testing was done in two phases. The first one covered identified measures from 1-7. The second phase would start only if the measures 1-7 did not achieve 7% GDP growth target. If the target of 7% real GDP growth were not achieved, then the group would introduce second stage measures (item 8).

The results of this preliminary simulation were the following.

- The first phase of the modeling did not reach the GDP growth target.
- The second phase achieved all main targets

Since the measures in the second phase are too provisional, further research is needed to justify the selection of these indicators and their exogenous introduction in the model.

Continuation of Review of Behavioral Equations and Introduction of Changes in Baseline for 2006

The group continued with the review of behavioral equations and introduction of changes in baseline for 2006.



Workshop Input Output Analysis by drs. Ate Nieuwenhuis.
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