



Part 4



4.2 Policy brief 6

Developing a Strategic Policy Framework (SPF) using the 17 Sustainable Enterprises Policy Pillars

SOUND AND STABLE MACROECONOMIC POLICY

- ❑ Sound macroeconomic policies that engender sustainable economic growth are a vital ingredient in any economy's ability to create prosperity. "Sound policies" should be judged by their efficacy in fulfilling the socio-economic objectives of steady growth, employment growth, price stability, and a viable external payments situation, as mandated by the prevailing socio-political consensus, and framed by the underlying economic structure and institutions.¹
- ❑ Stable public finances and price stability contribute to lower real interest rates and this in turn stimulates investment and economic growth.
- ❑ A country's current account balance should not experience a systematic and growing deficit leading to excessive external debt.
- ❑ A large and persistent budget deficit will lead to an explosion of public debt. An increase in interest charges increases the budget deficit, which in turn feeds the debt and the deficit, there is then a snowball effect which results in an increasing burden of costs on state expenditure.
- ❑ Transparency in fiscal policy builds confidence in the public and potential investors and leads to better-informed public debate about the design and results of fiscal policy. It is a major contributor to good governance. Without it, unsustainable public finances will, if unchecked, inevitably lead to crises.
- ❑ Improvements to the fiscal situation can be realized by improving efficiency in government spending.
- ❑ Macroeconomic instability generates uncertainty regarding returns on investment, increases the country's risk rate, raises the cost of credit, and can destroy entire financial systems.
- ❑ The dynamics of growth, innovation, productivity increases, and structural change occur within the private sector, and are the necessary foundation for the maintenance of a stable macroeconomic environment.

¹ Mansoor Dailami and Nadeem ul Haque: "What Macroeconomic policies are 'Sound'", World Bank Working Paper Series, 1995.