

Macroeconomic indicators and their importance to performance



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The Company that you work for is currently operating in three countries - Chile, Columbia and Venezuela - for which it has collected the macroeconomic data given below. Write a report to the chief executive based on this data which explains what the macroeconomic indicators mean and the reasons why they are important in terms of their potential impact on the company's performance.

The aim of this report is to understand that how the macroeconomic factors have an impact on economies and what effects do they have on the countries- Chile, Columbia and Venezuela

What is Macroeconomics and what are its indicators?

Macroeconomics is a branch of economics which will focus on the different aspects of the economy and how they are interrelated to each other for generation of wealth. The aspects include performance of the country, its behaviour and decision taken related to the economy of the country. The major indicators of macroeconomics are unemployment, inflation, economic growth, interest rate and balance of payment.

Now, let's understand the meaning of the macroeconomics key indicators and analyze them from the data collected from the three countries - Chile, Columbia and Venezuela where our company is operating.

Economic growth:

The increase in the percentage in national output per year is called as rate of economic growth. It also means rise in the growth of country's productive potential over a period of time in terms of Gross Domestic Product (GDP) per <https://assignbuster.com/macro-economic-indicators-and-their-importance-to-performance/>

capita. To indicate the value of GDP, the total value for all the goods and service that are produced in the year are added together. This result is than compared with those of the previous year to see what the current position of the country is. In the same manner the comparison can be done between various countries to see which country's economy is growing faster? There can be positive or negative growth rate. When the economic growth rate is higher it means that the economy of the company is growing and the growth is positive. Recession and economic depression both can have a negative impact on the growth rate of economy and it can be considered that economy of the country is contracting.

Economic Growth of Chile in 2010 is 4.8% and this is a positive indicator. However in 2011 the economic growth of Chile is 5.7% which is again showing a positive indicator. This positive indicator shows that the country's economic growth is expanding. The expansion of economic growth in this country has been increased by 0.9% from the year 2010 - 2011 which means the economic growth of company is increasing by 0.9% from previous year 2010.

Economic Growth of Columbia in 2010 is 4.6% and this is a positive indicator and in 2011 the economic growth of Columbia is 4.4% which is showing a positive indicator. This shows that the country's economic growth is expanding in the year 2010 and 2011. However the growth of economic expansion has been decreased by -0.2% in the year 2011.

Economic Growth of Venezuela in 2010 is -3.8% and this is a negative indicator. In 2011 the economic growth of Venezuela is -2.5% which also

shows a negative indicator too. The negative indicator means that the country's economy has been contracting and in case of Venezuela, its economy has been contracting since last two successive years -2010 and 2011. However country economy has shown its recovery by -1.3 % in year 2011.

Inflation:

At any time in the year, there can be rise in the prices of the commodities and goods used. This rise is called as Inflation. The main objective of the country is to see that the prices of the goods are minimised and rate of inflation is to be reduced. If the rate of inflation is high than the prices are rising very fast and if there is fall in inflation means that the prices are growing at slow rate than before. The effects of inflation on the economy of the country can be many and they can be positive or negative. A fall in the real value of money and other various monetary items over a period of time and an unknown future may discourage people from investing money; these are some negative effects of inflation. If people come to know that the prices of goods are going to increase than this will cause people to buy and stock goods and this may lead to high rate of inflation. Positive effects of inflation can be such that the banks can encourage people to invest more money in non monetary capital projects.

Inflation of Chile in 2009 is -1.0% and this is a negative indicator which shows the inflation in the country Chile is rising more slowly and in 2010 the inflation of Chile is 1.7% which is a positive indicator. This shows that inflation is rising at faster rate in Chile. The inflation in the country has been

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increased by 2.7% between 2009-2010 which shows that inflation in Chile is rising at much faster rate.

Inflation of Columbia in 2009 is 3.1% and this is a positive indicator which shows the inflation in Columbia is rising more slowly and in 2010 the inflation of Columbia is 2.5% which is also a positive indicator. This shows that inflation is rising more slowly. The inflation in the country has been decreased by -0.6% between 2009-2010 which shows that there is low rate of inflation.

Inflation of Venezuela in 2009 is 28.8% and this is a positive indicator which shows the inflation in the country is rising more slowly and in 2010 the inflation of Venezuela is 30.6% which is also a positive indicator. This shows that inflation is rising more slowly. The inflation in the country has been increased by 2.2% between 2009-2010 which shows that there is high rate inflation in Venezuela.

Unemployment:

According to the government of UK an unemployed person is someone who is ready to do any type of job and is enjoying benefits of an unemployed person. There can be lot of reasons for low level of unemployment. This shows a bad impact of the country as the people who are unemployed are not contributing to the production of goods and service and this results in the loss of output and national income. They will not be able to buy the necessary good and products because they are provided with very little benefits. there is loss to the country also as they have to provide benefits to these unemployed people as these people will not pay any tax to the <https://assignbuster.com/macroeconomic-indicators-and-their-importance-to-performance/>

government instead the government will have to pay them money and this will effect the economy of the country. If unemployment is high it will have a negative effect on the economy of the country and if it is low than it will have positive effect on the economy of the country.

Unemployment in Chile is 8. 3% which means that 8. 3% of total population is unable to buy all goods and services which they would like to buy.

Unemployment in Columbia is 12. 7% which means that 12. 7% of total population is unable to buy all goods and services which they would like to buy.

Unemployment in Venezuela is 8. 2% which means that 8. 2% of total population is unable to buy all goods and services which they would like to buy. All the three countries are in positive but unemployment in Columbia is more compare to Chile and Venezuela.

Balance of Payments:

The country's trading position with other countries depends on the balance of payment that it has to do. Balance of payment account are of two types- capital and current account. Capital account means the flow of money between two countries and current account means trading of goods and services between the countries. Government should focus more on preventing deficit to be large in the current account. if there is deficit in current account than it shows that products of higher value are being bought in one country rather then products being sent out of the country. The government should see to it that the imports should be less than the exports

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in order to balance the economy of the country. There will be decline in level of national income if proper funds are not received for the exports done by the country. It will also reduce the value of country's currency against other currencies- the exchange rate. There are positive or negative effects of the balance of payment. The current account will be higher if the exports are more than the imports and this shows that the balance of payment is positive and if current account is deficit than the country's import is higher than its export and balance of payment is negative.

Balance of Payments current account of Chile is \$3. 2 billion that indicates positive trends in the Balance of Payments current account of the country. The positive Balance of Payments current account means that the country has greater value of export compare to its value of imports. Chile's Balance of Payments current account contributes 0. 5% of its total GDP.

Balance of Payments current account of Columbia is \$-5. 4 billion that shows negative trends in the Balance of Payments current account of the country. This is because Columbia has greater value of imports than its value of exports. This negative trend would be a possible reason in a fall of economic growth of the country in the year 2011. GDP of this country gets -1. 8% of the contribution from the country's Balance of Payments current account.

Balance of Payments current account of Venezuela is \$20. 1 billion. This shows that Venezuela has positive Balance of Payments current account. The country has seen the positive trends in its Balance of Payments current account because the values of the country exports are greater than values of

the imports. Balance of Payments current account of the Venezuela contributes 9. 2% of the total GDP.

Interest rate:

The country's central bank will decide the rate of interest and it will represent the credit price. Basically interest rate can be used to make credit more or less affordable for the people. As the interest rate increase the people who have taken loans will face difficulty in paying money back as they will have to pay more loans with the increase in rate of interest. If the rate of interest is less than this will make people take more loans so that repayment for them will be easy. thus as the impact of rate of interest changes , so will the demand of the money change and accordingly people will take loans . Interest rate can be positive or negative. If interest rate is high than it is negative and if it is positive than it will be low.

The interest rate of Chile is 2. 88 that mean the country has low interest rate. The interest rate of Columbia is 3. 46 that mean the country has low interest rate. The interest rate of Venezuela is 14. 51 that mean the country has low interest rate. By comparing all three countries, Chile has low interest rate.

Government budget:

The annual budget can be used as that source of information form which a lot of economic data can be understood and it indicates about how the trade is faring overseas , about the inflation rate etc. there are three types of budget : surplus , deficit and balanced.

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A balanced budget means that the government spending and the tax amount generated is in balanced ratio. A surplus budget means that government spending is less than the tax amount received and a deficit budget means that the government spending is higher than the amount of tax money received. In order to balance the increasing demand government is putting extra money into the economy than it can take out from the tax received government will borrow money when the economic activity is less and spending of finance is more. This type of borrowing of money is called as public sector net borrowing requirement. (PSNB) . this is defined as annual deficit and it means that the amount to be borrowed from the public sector. The government will sell the securities to the private sector or will directly borrow the amount from central bank of the country in order to provide finance in case of deficit. The budget of the government can either be positive or negative. If it is positive it has a negative value for PSNB indicating government's borrowing and if negative than it has a positive value which indicates government budget is in deficit.

Government budget of Chile is -2. 1% and it is negative indicator that means government budget is in deficit.

Government budget of Columbia is -3. 6% and it is negative indicator that means government budget is in deficit.

Government budget of Venezuela is -3. 2% and it is negative indicator that means government budget is in deficit. In all 3 countries, Columbia has more deficit than Chile and Venezuela i. e. the budget spending of Colombian Government is more than Chile and Venezuela.

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Conclusion:

On the basis of above macroeconomic data given, the company's performance in Chile is better than Columbia as well as Venezuela as per the economic growth. On the basis of inflation, inflation rises at faster rate in Venezuela whereas on the basis of unemployment, Columbia has more number of unemployment percent than unemployment in Chile and Venezuela and on the basis of Balance payment and Government Budget, Columbia has more export than import as well as budget spending of Columbian government is more compare to Chile and Venezuela respectively.