



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

DOMINICAN REPUBLIC

Technical Assistance Project on the development
of a Macroeconomic Projections Tool: End-project
report

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Institute for Capacity Development

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: This document outlines the main achievements of the Technical Assistance Project led by the IMF's Institute for Capacity Development in the Dominican Republic from January 2023 to September 2024. The project supported capacity building in macroeconomic forecasting and analysis within the Ministry of Finance (MoF) and facilitated the development and implementation of a macroeconomic projections tool grounded on Financial Programming principles. Significant gains have been observed in the MoF team's ability to independently operate this tool, and by the end of the project, early signs of its incorporation into the policy process are encouraging. Additionally, the document outlines recommendations to foster its use for policymakers which were discussed with the authorities during the end-project mission. Overall, the project outcomes are expected to positively contribute to the quality of the medium-term macroeconomic and fiscal frameworks.

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Background

- **The Ministry of Finance of the Dominican Republic (MoF) requested Technical Assistance (TA) to IMF's Institute for Capacity Development (ICD) in 2022 for the development of a more fully-fledged macroeconomic framework.** The request sought support for strengthening macroeconomic forecasting and analytical capacity at the Directorate General of Analysis and Fiscal Policy (DGAPF). The DGAPF in collaboration with the Central Bank of the Dominican Republic (CBDR) creates the Medium-Term Macroeconomic Forecasts, and leads the production of the Medium-Term Fiscal Framework (MTFF) and budget forecasts. In the context of the recently approved Fiscal Responsibility Law (FRL), the DGAPF is also expected to play an important role in monitoring ex-ante and ex-post compliance with the new fiscal rules. The goal of the request was to develop and operationalize a multi-annual macroeconomic framework to support the preparation of the Medium-Term Fiscal Framework and in-year projections.
- **In January 2023, a scoping mission fielded in Santo Domingo conducted a capacity assessment of a group of DGAPF staff¹, its policy analysis process, and developed an action plan together with them.** The mission primarily worked with the staff of the Studies Division (SD) within the DGAPF and concluded that there is a room to improve the technical capacity in the area of Macroeconomic Diagnostics and Forecasting. The mission found that the DGAPF analytical toolkit is relatively broad. Forecasting models were primarily oriented to the near-term, with no specific tool for the elaboration of consistent macroeconomic and fiscal medium-term forecasts. In view of the needs of the Directorate and staff's initial capacity, it was recommended to base work on a customized version of ICD's Comprehensive Adaptive Expectations Model (CAEM). The action plan agreed with the authorities aimed to strengthen knowledge in the above-mentioned areas, the development of the tool, and its independent operationalization by staff. The core group that would benefit from the project comprised the whole staff in the SD team.
- **The project, finalized in September 2024, included seven missions in addition to the scoping mission, financed by the COVID-19 Crisis Capacity Development Initiative (CCCDI) and the IMF.** Delivery modalities comprised in-person, hybrid and virtual missions.

Achievements of the project

- **With ICD's support, the DGAPF team developed a dynamic semi-structural model that helps produce annual medium-term projections and facilitates macroeconomic and policy analysis.** The tool helps produce consistent macroeconomic projections across four sectors (real, fiscal, external and monetary). It comprises several EViews programs, which solve the economic model for a set of calibrated parameters and three different scenarios, and an Excel user front-end with control panels for scenario design and reporting options. The Excel front-end also contains an interface to the ICD's Debt Dynamics a Tool (DDT) for debt projections and analysis. The model is structured around several trends (for output, interest rates, real exchange rates and inflation), and dynamic equations that allow to close the gaps to these trends over the medium run, as well anchoring the aggregate demand elements around stable ratios to GDP. Projections made with the tool are not purely mechanical, as they are generated by combining model-based projections with economic expert judgement. Users can flexibly modify baseline and alternative scenarios to reflect

¹ In particular, staff from the Division of Studies within the DGAPF.

economic and policy shocks. Notably, the tool monitors compliance with the new fiscal rule in light of the FRL.

- **The capacity of the DMFP team to understand, autonomously operate and interpret the results of the tool strongly grew over the project.** The project emphasized hands-on sessions and between-mission assignments to the team, to foster independent use and ownership. Over time, the DMFP team significantly improved its grasp of the transmission mechanisms in the model, learnt to apply their expert judgement to the projections and put forward enhancements in the tool. This process culminated in the team producing full-fledged scenarios, critically assessing others' projections based on tool results, constructing coherent narratives, and distilling relevant policy design conclusions.
- **By the end of the project, there are encouraging signs of an early integration of the tool into the policy process, a critical step for the sustainability of the project dividends.** In the last stage of the project, the team was able to produce internal macroeconomic projections, some of which were used as an input to inform the Ministry's views in the MTMF discussions. Moreover, the team has begun to use the tool to conduct sensitivity analyses around the central projections, and assess impacts of fiscal measures at the core of current policy discussions. The team also developed a template for preparing quarterly notes to Management, summarizing the projections of the annual model, and coherently linking them with the results of the Nowcasting models. Finally, the DMFP team prepared a user manual, to document the economics of the tool and the essential processes of forecasting and analysis. The manual should promote the tool's sustainability, particularly to mitigate the impact of staff turnover.
- **The authorities have welcomed the outcomes of the project and consider the project an important step in the development of staff's technical capacity and analytical strengthening.** During the end-project mission, the authorities acknowledged the role of the project in strengthening the team's technical capacity, and the importance of the tool in enhancing the forecasting and policy analysis system (FPAS) at the DGAPF. From the perspective of Fund's surveillance, the project is also expected to have a positive impact on the technical dialogue of the Ministry with the Western Hemisphere Department (WHD).

Recommendations to the authorities

- **Amidst a process of ministerial restructuring, full operability of the macroeconomic framework by a reconstituted core group should be ensured promptly.** After the end of the project, the core team has undergone a deep restructuring, with most of its members having been replaced by new hirings over the last months. At the same time, the ministerial map in Dominican Republic is on the cusp of a reform that will involve merging ministries of Finance and Economy, Planning and Development. This outlook presents opportunities, because of the expansion of the core team, but also challenges, since the new members of the team should be adequately trained in the use of the DGAPF's toolkit, including the annual model. During this transitory period, the user manual developed during the project should support capacity building, but intensive practice will also be essential. Achieving this will be instrumental to provide the necessary momentum to the incipient integration of the tool in decision-making. Further, bringing members of the Fiscal Policy Division of the DGAPF into the core team, as planned by the authorities, will be essential given strong complementarities of the remit of the former with the Studies Division.
- **The DGAPF should capitalize on new opportunities to strengthen cooperation with key stakeholders in the forecasting process.** Once the core team is on sound footing again, the DGAPF could present its functionalities more broadly within the MoF, particularly to those other departments which can provide key inputs to the production of macroeconomic projections (Budget, Debt and Tax Policy, principally). By the

same token, a calendar for the utilization and maintenance of the tool should be approved, consistently with the DGAPF remit, contribution to the policy process, and resources, and the supply of analytical inputs from other departments synchronized with the forecasting timeline. In this way, the tool could become the apex of a reinforced forecasting system. Technical recommendations from the Fiscal Affairs Department of the Fund, which has supported in the last two years a Public Finance Management Reform in the MoF, can be very useful in this respect, particularly in the context of the regulatory development of the FRL. Outside the MoF, the DGAFP could also leverage the reporting facilities of the tool to enrich its analytical discussions with the CBDR, oriented at periodically updating the MTMF.