
DOMINICAN REPUBLIC

2024

January

Components Spending

***Module: SM IV – Fiscal and
Macroeconomic Tools, Research,
and Analytical***

*DOMINICAN REPUBLIC***PROJECT SUMMARY****LEAD DEPARTMENT:** ICDMF**REGION (S):** Central America**COUNTRY (S):** Dominican Republic**PROGRAM ID:** (To be filled out by Secretariat)**PLANNED DATES:** February 2024 – April 2025**FUNDING PROGRAM TITLE:** GPFP Dominican Republic**PROJECT MANAGERS:** Alberto Soler – ICDMF**SM IV/ FISCAL TOOLS,
RESEARCH, AND ANALYTICAL** Alberto Soler – ICDMF**PROJECT LEAD MANAGER:** Alberto Soler – ICDMF**ESTIMATED BUDGET:** \$111,280**BUDGET FOR ENDORSEMENT:** \$111,280 (through FY25)

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*DOMINICAN REPUBLIC***I. PROJECT PURPOSE**

The Ministry of Finance requested technical assistance (TA) to improve the general consistency of its macro-fiscal instruments and their use in the design of the fiscal policy strategy. The CD seeks to improve the macroeconomic and fiscal forecasting and analytical tools of the Fiscal Policy and Analysis Directorate (DGAPF). This Directorate produces the Ministry's macroeconomic forecasts and has a coordinating role in the elaboration of the annual Medium-Term Fiscal Framework. Further, when the forthcoming Fiscal Responsibility Law enters into force, the Directorate is expected to play a relevant role in ensuring its enforcement and verifying its compliance. Other strategic reports are also under the remit of the DGAPF, mainly on fiscal risks and budgetary policy, which could also benefit from the outputs of this TA.

The one-and-a-half year project has been discussed with the authorities and the medium-term objectives and outcomes were agreed upon. The estimated budget for this project was of \$364,801, in which \$273,408 have already been financed by CAPTAC and the Fund. The current request aims to cover the costs of the sixth and seventh missions in the project activities in FY25, estimated at \$111,280.¹ Endorsement is requested for the full amount through FY25.

¹ Including the trust fund management fee.

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II. BACKGROUND

Macro-fiscal situation

The Dominican Republic continues to show notable resilience to recent global shocks, based on fiscal and monetary policies that contributed to adequately addressing the pandemic emergency and making the most of the global rebound. The economy recovered strongly from the pandemic, despite global factors that created challenges in terms of inflation. Real GDP increased by 12.3% in 2021 and according to government estimates it would have grown around 5% in 2022, with this recovery having a broad sectoral base. The convergence of inflation to the 4% target is taking longer than expected due to factors such as rising import prices, higher global energy and food prices, and supply chain disruptions. In fiscal matters, the 2022 results presented by the Minister of Finance show a significant recovery in tax revenues and a reduction of around 4 percentage points in the ratio of public debt to GDP of the Central Administration between 2021 and 2022, going from 50% to 46% of GDP.

On the other hand, the country has made significant progress in institutional strengthening for the development of functions associated with the design, implementation and monitoring of fiscal policy. Recent technical assistance, with the participation of STA, and the joint work of the Ministry of Finance and the Central Bank resulted in the publication of the monthly operations report of the Central Administration aligned with the 2014 Fiscal Statistics Manual and it is expected to soon achieve the publication of quarterly data on general government (GG) operations.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

The Dominican Republic MoF requested technical assistance (TA) to improve their overall forecasting tool and usefulness of its macro fiscal toolkit in policymaking. This continuing project with the authorities will help them develop an annual macroeconomic framework based on an adaptive expectations semi structural model to produce macroeconomic forecasts in baseline and risk scenarios and use this framework for macroeconomic policy analysis, especially fiscal policy-related and contribute to the inter-institutional forecasting and policy-making process.

The goals of the project are in line with the findings and recommendations of a FAD diagnostic mission in early 2022. This scoping mission had recommended to the Ministry of Finance action to better embed medium-term strategic considerations in the design of fiscal policy. The following aspects had a prominent place in those recommendations: (i) a closer integration of the medium-term macroeconomic and fiscal projections; (ii) the development of macroeconomic analytical capacities to provide a narrative to projections and forecasting errors; (iii) the review of some specific forecasting tools -such as those used to project to revenues and capital spending-, (iv) an extended utilization of Debt Sustainability Analyses; (v) a deeper assessment of macroeconomic risks to inform projections and the fiscal strategy.

With three missions after the scoping one since January 2023, the current project has already made significant progress, but it is estimated that at least 4 additional missions, in addition to continuous between-mission work, will be needed to achieve its objectives. During the fourth mission, scheduled in December 2023, it is expected that the DGAPF team becomes able to produce first whole set of baseline projections, mutually consistent across sectors, including those for the Central Government and the relevant

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stock of debt to monitor compliance with the new fiscal rule. The activities through this project will further refine the calibration of the semi structural model, work on the evaluation of the implied fiscal multipliers, assess alternative scenarios and customize the output (tables, charts, etc.) of the semi structural model to DGAPF's remit.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Spending	SM IV Fiscal and Macroeconomic Tools, Research and Analytical Work	Improved analytical skills and better macroeconomic forecasting and policy analysis at the Ministry / central bank / or other governmental agency(ies) feeds into the economic policymaking process
		Develop capacity in macroeconomic forecasting and policy analysis to support policy decision making and communications - MFR

B. Country Engagement

The Dominican Republic has achieved successful progress benefiting various technical assistance projects have contributed to improving capacities to improve budget policy design (TA from the IMF through FAD for the general improvement of budget management and the design of a fiscal rule) and forecasting instruments (e.g., World Bank Mission on the use of the MFMOD macro-fiscal projection model). Therefore, advancing in the consolidation of forecasting tools and analysis of the impacts of fiscal measures is very relevant for modernization efforts and adoption of best practices in fiscal policy management.

C. Delivery Modalities

The CD delivery will combine in-person and duty-station based missions. The initial missions of the project were predominantly in the field to adequately assess the capacity of the participants, establish a direct working relationship with them and ensure that the absorption of basic concepts was complete. Once these objectives have been achieved though, the project aims to balance in-person with remote missions for budgetary reasons, without any expected significant impact on the results.

D. Coordination / Cooperation

FAD initiated a broad engagement with the country to enhance its PFM system in 2022. As commented before, the recommendations of the FAD scoping report constituted an excellent basis to assess the remit of the macro-fiscal department during ICD's scoping mission. Additionally, regular contact with FAD and CAPTAC-DR has been maintained thereafter to exchange information on TA work within the respective remit of each department and reap as many synergies as possible.

In this context, FAD has recently delivered a Public Investment Management Assessment (PIMA) that will be useful to improve planning, budgeting and execution of these operations. The quality of public expenditure projections will beyond doubt benefit from any progress in this area. Within this framework, CAPTAC-DR is also providing assistance on the identification and assessment of fiscal risks, a highly complementary subject to the scenario analysis that the ICD project intends to implement.

Besides, ICD has kept FAD informed about the project outputs in terms of the integration of fiscal projections in the framework, the main methodological challenges faced by the MOF and possible future TA needs regarding the enhancement of the medium-term expenditure framework, that could be better by the latter.

IV. RISK ASSESSMENT AND MITIGATION

Program risks based on the assessed probability and impact on the achievement of the expected results.

General or Module	Description	Risk Assessment	Mitigation Measures
External climate/conditions			
General	Risk that external events create a more challenging environment to implement reforms.	Low	Ensure sufficient flexibility in program execution across countries and allow for ability to adjust activities in the case of adverse events.
Political Support			
General	Possible changes in management and/or priorities in the MoF over the two years of the project. As a matter of fact, 2024 is an election year in Dominican Republic.	Medium	The project will be closely coordinated with WHD, who agrees on its importance for the improvement of the fiscal framework. In this regard, assuming the project delivers its expected results it can be expected to be supported by the country team until its conclusion, which lowers the probabilities of discontinuation. Besides, the deliverables of the project are distributed quite uniformly over its life, whereby tangible results will be observable from the first missions. In any case, the fact that the project is expected to finish a few months after the elections, and before (an eventual) new government is sworn-in, represents another mitigating factor.
Management and Technical Staff Support and Commitment			
	Participation of 3 entities, which could hamper the results if coordination failures between them arise or the motivation to participate is uneven.	Medium	The cooperation of the MEPD and CBRD is only requested on specific topics that can also benefit them, namely the quality of the macroeconomic forecasting process or the improvement of joint publications. The fact the FAD report also pointed to the need to strengthen the cooperation between the three entities somehow mitigates the risk of inaction.

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V. CD DELIVERY PLAN COUNTRY LEVEL

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD activities)	Total for FY24	Total for FY25	Grand Total
HQ-led CD mission (incl. LTX)	0	1	1
STX visits (incl. LTX)	0	2	2
Staff or other visit	0	1	1
Interactive Learning (virtual workshop)	0	1	1
Interactive Learning (in-person workshop)	0	1	1

VI. PROGRAM FINANCIALS

	FY25	TOTAL (USD)
Direct Delivery	104,000	104,000
Module SM IV - Managing Public Finance	104,000	104,000
Subtotal	104,000	104,000
Trust fund management fee (7%)	7,280	7,280
TOTAL	111,280	111,280

The current request aims to cover the costs of the sixth and seventh missions in the project activities in FY25, estimated at \$111,280. Endorsement is requested for the full amount through FY25.

ANNEX I. SPENDING MODULE IV – MACROECONOMIC TOOLS

A. Program Objectives

The project will assist the authorities to improve their overall forecasting tool to use for policymaking. As agreed with the Dominican authorities during the scoping mission of the project, its objectives are: (i) develop an annual macroeconomic framework based on an adaptive expectations semi structural model to produce macroeconomic forecasts in baseline and risk scenarios; (ii) use the same framework to conduct macroeconomic policy analysis, especially fiscal policy-related; (iii) interface the annual framework with the Debt Dynamics Tool (DDT) to generate public debt projections and risk analysis; and (iv) ingrain all these outputs in the contributions of the DGAPF to the inter-institutional forecasting and policy-making process.

B. Expected Results

The activities through this project will help embed the CD by further refining the calibration of the semi structural model, improve the evaluation of the implied fiscal multipliers, provide an assessment of alternative scenarios and customized outputs (tables, charts, etc.) of the semi structural model to DGAPF's remit. Beyond the December 2023 mission, one additional mission (around February) is expected to take place before the end of FY24, and two additional ones would be scheduled in the second and third quarter of CY24, respectively. The sixth and seventh missions of the project still need funding.

C. Targeted Logical Framework – Macroeconomic Project Tool

Objective	
Improved analytical skills and better macroeconomic forecasting and policy analysis at the Ministry / central bank / or other governmental agency(ies) feeds into the economic policymaking process	
Outcomes	Indicators
Authorities have a baseline understanding of their existing macroeconomic forecasting, policy analysis and analytical capabilities and opportunities for improvement	Diagnostic/scoping produced a baseline workplan of CD engagement, including a tentative timeline for the CD project, indicative schedule for training and TA missions, and expected key outcomes and deliverables
Objective	
Develop capacity in macroeconomic forecasting and policy analysis to support policy decision making and communications	
Outcomes	Indicators
Decisionmakers understand the structure and function of the Macroeconomic Projection Tool (MPT), and use staff's MPT-based analysis and forecast in the policy formulation process	Policymaking committee/board demonstrates understanding of the structure of the MPT and its core role in the forecasting process
Improved analytical skills, and better macroeconomic forecasting and policy analysis capacity	Analytical framework centered around the MPT is used to produce medium-term forecasts, scenarios as well as risk and policy analysis
	Relevant staff demonstrate the ability to independently operate the MPT and other auxiliary models and tools
Outcomes	Indicators
Analytical models and forecasting tools are developed and operational	MPT is developed

