



ECUADOR

***2024 -
June***

Component: Revenue

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

*ECUADOR***I. PROJECT PURPOSE**

The IMF has provided CD support to Ecuador for improving its overall forecasting tool and the usefulness of its macro fiscal toolkit in policy making during the past one and a half years, with encouraging progress. However, due to initial planning challenges, an additional CD activity was planned for May 2024 relying on GPFP funds. It is now foreseen that four CD missions will be required after the May 2024 activity, requiring additional financial support from the GPFP. These activities will be delivered through the end of FY25. The additional activities and extended timeline are required not only to meet the original project objectives but also to accommodate requested enhancements to the macro model under construction. Specifically, the additional support, which include a combination of remote and in-person engagements, will incorporate the following features to the model:

- **A production function that allows the endogenization of potential GDP.** Indeed, with it, investment will affect in the medium and long run the stock of capital and potential GDP.
- **The Debt Dynamics Tool developed in ICD**, which produces debt forecasts with confidence intervals anytime a macro forecast scenario is produced.
- **A first pass at measuring risks of the banking system** when there are macro shocks to get an idea of the possible fiscal costs in case the government needs to capitalize some banks.

These enhancements will significantly augment the utility and effectiveness of the tool for our collaborating institutions, namely the Ministry of Economy and Finance (MEF) and the Central Bank of Ecuador (BCE). With these additions, both entities will be empowered to generate not only forecasts but also conduct policy simulations and evaluate risk scenarios by introducing potential systemic shocks.

The additional resources required to fund the four additional engagements is of \$158,829 and the duration of the project extended to the end of fiscal year 2025.