

ECUADOR

2024

January

Component: Spending

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

PROJECT SUMMARY

LEAD DEPARTMENT: ICDMF

REGION (S): South America

COUNTRY (S): Ecuador

PROGRAM ID: (To be filled out by Secretariat)

PLANNED DATES: 05/2024 – 02/2025

FUNDING PROGRAM TITLE: GPFP

PROJECT MANAGERS: Jorge Restrepo – ICDMF

**SM IV/FISCAL TOOLS,
RESEARCH, AND ANALYTICAL** Jorge Restrepo – ICDMF

PROJECT LEAD MANAGER: Jorge Restrepo – ICDMF

ESTIMATED BUDGET \$105,946

BUDGET FOR ENDORSEMENT: \$105,946 (through FY25)

Contents

Project Summary.....	2
I. Project Purpose.....	4
II. Background	4
III. Project Level Description	5
A. Project Scope	5
Table 1. Summary of Objectives covered by the Proposal	5
B. Country Engagement	5
C. Delivery Modalities	5
IV. Risk Assessment and Mitigation.....	6
V. CD Delivery Plan Country Level	7
Table 2. Summary of Indicative CD Delivery	7
VI. Program Financials	7
ANNEX I. SPENDING MODULE IV – MACROECONOMIC TOOLS	8
A. Program Objectives	8
B. Expected Results	8
C. Targeted Logical Framework – Macroeconomic Project Tool	8

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I. PROJECT PURPOSE

The Ministry of Economy (MEF) of Ecuador requested technical assistance (TA) to improve their overall forecasting tool and usefulness of its macro fiscal toolkit in policymaking. Initially received in 2019, the technical assistance request was for the development of a macroeconomic projection instrument (MPI) and of macroeconomic analysis and fiscal policy capacities. Due to the pandemic, the project was suspended after two training courses and a diagnostic mission but resumed in November 2022. This project will provide the means for the country to finalize the development of the MPI and strengthen capacities to generate a narrative of the results and analyze policy and risk scenarios.

The two-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 \$511,336 in which \$416,219 have already been financed by the Fund (IMF01). The current request aims to cover the costs for the final activities in FY25, estimated at \$105,946.¹ Endorsement is requested for the full amount through FY25.

II. BACKGROUND

Macro-fiscal situation

Ecuador has completed its first Fund-supported program in more than two decades. The 27-month EFF arrangement was approved by the Executive Board on September 30, 2020, for SDR 4.615 billion (about US\$6.5 billion or around 661 percent of Ecuador's quota). The program aimed to support Ecuador's economic recovery from the pandemic, ensure fiscal and debt sustainability, expand the coverage of social assistance programs to protect the vulnerable, promote an efficient and sustainable management of public resources, strengthen the institutional basis for the dollarization regime, advance the transparency and anticorruption agenda, and lay the foundations for job-rich and inclusive growth. Building on the progress made under the program, continued efforts are needed to cement fiscal and debt sustainability, enhance financial sector resilience, further strengthen transparency and governance, improve data quality, and accelerate reforms to boost growth potential.

Following a strong 2022, growth is expected to slow down amid political uncertainty, lower oil output, worsening security situation, and El Niño-related natural disasters. Real GDP growth is projected to reach 1.4 percent in 2023, from 2.9 percent in 2022. Downside risks dominate in the near term, including due to a more severe El Niño, a further decrease in oil production, and tighter global financial conditions. Inflation has been easing since the second half of 2022 and is forecasted to continue declining in 2023 and 2024. The fiscal position has weakened since late 2022. Strengthening fiscal discipline and reinvigorating the reform momentum in 2023 and beyond are key to cement fiscal and debt sustainability and gradually reestablish market access. Public debt is expected to fall below the 2025 target of 57 percent in 2023, and reserves (excluding the SDR allocation) have already exceeded the level expected in 2025 at the time of program approval.

¹ Including the trust fund management fee.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

The Ministry of Economy (MEF) of Ecuador requested technical assistance (TA) to improve their overall forecasting tool and usefulness of its macro fiscal toolkit in policymaking. This CD project aims at: (i) simplifying and refining the coordination of the projections process and its intersectoral coherence; (ii) strengthening capacity to generate a narrative of the results and analyze policy and risk scenarios. Initially received in 2019, the technical assistance request was for the development of a macroeconomic projection instrument (MPI) and of macroeconomic analysis and fiscal policy capacities. Due to the pandemic, the project was suspended after two training courses and a diagnostic mission but resumed in November 2022.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Spending	SM IV Fiscal and Macroeconomic Tools, Research and Analytical Work	Develop capacity in macroeconomic forecasting and policy analysis to support policy decision making and communications - MFR

B. Country Engagement

Coordination with other TA providers within the IMF, especially STA and FAD, as well as with the WHD will be a key factor throughout the project. Ecuador is currently closing a program with the IMF, but interaction with the IMF will continue either with new programs or with the usual support or supervision plan for the Ecuadorian economy. Both institutions are receiving assistance from STA in real and external sector statistics and a change of base year (to a rolling base) is expected in the national accounts starting in 2023.

C. Delivery Modalities

The CD delivery will mainly be in-person activities due to the low capacity of the country, necessitating a more hands-on approach. Virtual deliveries will be used to provide efficiencies to on the ground support, including pre-engagement meetings and post follow-up meetings. The following CD activities will be delivered as a package:

Headquarters-led (HQ) missions and staff visits to provide strategic recommendations, conduct regular follow-ups, assess progress, inspect STX work, coordinate with other TA providers, and adjust reform implementation plans.

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.	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.
Management and Technical Staff Support and Commitment			
	Ecuador is closing a program with the IMF, and in the process of receiving TA from other IMF departments, which could limit the availability of technical staff.	Medium	The considerable size of the technical team involved the need to have a tool that simplifies the macroeconomic forecasting process are an incentive to advance the project and will be fundamental in its success.
	Staff rotation within the teams and possible changes in priorities of the MEF and the ECB	Medium	The project will try to advance as quickly as possible in the critical mesh. In addition, emphasis will be placed on the documentation of the processes and instruments developed during the missions and the institutionalization of the IPM inter-institutional meeting calendar.

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)	-	1	1
STX visits (incl. LTX)	-	-	-
Staff or other visit	-	-	-
Interactive Learning (virtual workshop)	-	1	1
Interactive Learning (in-person workshop)	-	-	-

VI. PROGRAM FINANCIALS

	FY25	TOTAL (USD)
Direct Delivery	99,015	99,015
Module SM IV - Managing Public Finance	99,015	99,015
Subtotal	99,015	99,015
Trust fund management fee (7%)	6,931	6,931
TOTAL	105,946	105,946

The current request aims to cover the costs for the final activities in FY25, estimated at \$105,946. Endorsement is requested for the full amount through FY25.

ANNEX I. SPENDING MODULE IV – MACROECONOMIC TOOLS

A. Program Objectives

The first diagnostic mission and training was completed through another CD project, in accordance with the action plan agreed with the authorities. Three missions (in person and virtual) took place in FY2023-2024 dedicated to training, the development of the macroeconomic framework for Ecuador's economy and consistency checks. This CD project aims to assist the authorities to improve their macroeconomic forecasting and policy analysis to: (i) simplify and refine the coordination of the projections process and its intersectoral coherence; (ii) strengthen capacity to generate a narrative of the results and analyze policy and risk scenarios.

B. Expected Results

To continue the CD, three additional missions, in person and virtual are planned to integrate the analysis of debt dynamics, the inclusion of alternative and risk scenarios, and a final mission to review the projections.

C. Targeted Logical Framework – Macroeconomic Project Tool

Objective	
Develop capacity in macroeconomic forecasting and policy analysis to support policy decision making and communications	
Outcomes	Indicators
Authorities have a baseline understanding of their existing forecasting and analytical capabilities and opportunities for improvement	Diagnostic/scoping produced an overview of existing (baseline) capacities and opportunities for improvement supported by an action plan and agreed upon key outcomes and deliverables
Analytical models and forecasting tools are developed and operational	Macroeconomic Projection Tool (MPT) is developed in the form of an Excel-based macroeconomic framework for forecasting and policy analysis, respecting accounting relationships
Improved analytical skills, and better macroeconomic forecasting and policy analysis capacity	Relevant staff demonstrates the capability to independently operate the MPT and other auxiliary analytical models and tools