HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

PHILIPPINES

Macroeconomic Framework Technical Assistance

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Macroeconomic Framework Technical Assistance: An Interim Report
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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 report outlines the progress and findings of a technical assistance project initiated by the Department of Finance (DOF) of the Philippines to the International Monetary Fund (IMF), aimed at further strengthening the DOF's macroeconomic forecasting and policy analysis capabilities. The project commenced in 2023, focusing on developing a macroeconomic forecasting tool based on the Comprehensive Adaptive Expectations Model (CAEM) by the Institute for Capacity Development of the IMF. DOF staff have made good progress in implementing CAEM for macroeconomic forecasting and policy analysis since the beginning of the project.

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Background

- **The Department of Finance of the Philippines (DOF) has partnered with the International Monetary Fund (IMF) to bolster their capacity in macroeconomic forecasting and policy analysis.** The primary goal of this technical assistance project is to further enhance the DOF’s capabilities by developing and institutionalizing a macroeconomic forecasting tool tailored to the Philippines' economic and policy context to complement other existing policy analysis tools at the DOF. This tool aims to produce comprehensive and sector-consistent projections, thereby supporting a policy-making process grounded in robust macroeconomic forecasts and policy analysis.

- **The project started with a scoping mission which assessed DOF’s macroeconomic forecasting capacity and capacity development need as of January 2023.** The mission identified the goals of the technical assistance project and laid the groundwork for developing the Comprehensive Adaptive Expectations Model (CAEM), an Excel-based tool that integrates data management, model-based macroeconomic projections, and reporting features to provide a comprehensive framework for macroeconomic forecasting. The primary objectives of the project included further enhancing the DOF’s capacity to produce baseline forecasts and alternative scenarios, supporting policy-making through model-based analysis, and institutionalizing the use of CAEM within the DOF's regular policy-analysis process and forecasting cycles. These objectives also align with the ongoing Fund capacity development and surveillance priorities that aim to strengthen policy analysis, as well as the formulation, execution, and monitoring of macroeconomic policies.

Summary of Findings

- **The DOF plays a pivotal role in fiscal policymaking in the Philippines, with key responsibilities including revenue forecasting, assessing the macroeconomic impact of revenue policy initiatives, and supporting overall macroeconomic management work lead by the Development Budget Coordination Committee (DBCC), of which the DOF participates.** The scoping mission recommended DOF to implement the CAEM to complement its existing analytical toolkit and DOF staff to participate in customized training in macroeconomic forecasting. These would further enhance the DOF’s capacity for macroeconomic forecasting and policy analysis.

- Since the onset of the project, through the participation of training sessions, including IMF’s online Financial Programming and Policies course and customized in-person workshops during various in-person missions, the DOF’s core team, comprising staff from the Office of the Chief Economist (OCE) and the Fiscal Policy and Monitoring Group (FPMG), demonstrated enhanced understanding to advanced macroeconomic concepts and made good progress in apply these concepts in developing baseline forecasts and alternative scenarios using the CAEM.

Summary of Recommendations

- **ICD and the DOF agreed that adopting the use of the CAEM in the future within the DOF’s regular forecasting cycles and policy making process to complement the use of other existing forecasting and policy analysis tools, could further enhance the DOF’s capacity in performing**

model-based macroeconomic forecasting and policy analysis. It is also agreed that the adoption of CAEM should be done in a paced manner, based on analytical needs, policy priority and available resources. Recommendations for the DOF to consider include i) dedicating additional resources for performing analytical tasks, conducting in-depth literature reviews, and independent quantitative exercises to calibrate the model; ii) developing a detailed user manual to preserve and disseminate knowledge among DOF staff. The manual should contain detailed instructions on the operation of the tool, including data collection, model solving, output production, and version control protocols to track model evolutions and assumptions over time. The manual could also outline a governance framework, with defined responsibilities and identified units per module for delineation of roles and accountability to allow management of DOF to allocate and reallocate tasks and responsibilities easily in the future. This will ensure tractable maintenance and updates of the CAEM; iii) fostering rigorous process management within each round of projections, which involves formalizing the dissemination of forecast results through a formal and structured reporting system. These recommendations aim to ensure the DOF Staff can operate, maintain and update the CAEM in a continuous manner, sustaining the enhanced analytical capacity developed through this project, and addressing future analytical needs of the DOF.