



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

COLOMBIA

Autonomous Committee for the Fiscal Rule
Macroeconomic Framework Technical
Assistance: Scoping Mission 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 note summarizes the main findings and action plan of the IMF Technical Assistance (TA) Scoping Mission to support the Colombian Autonomous Committee for the Fiscal Rule (CARF) in building capacity on macroeconomic forecasting and analysis. The TA was requested by the CARF to develop a macroeconomic projections tool, integrate its current satellite fiscal forecasting models, institutionalize the use of the tool, and develop a methodology to independently assess macro-fiscal forecasts produced by the Ministry of Finance.

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High-Level Strategic Summary: Colombia

Background

- **The Ministry of Finance (MoF) and the Central Bank of Colombia requested Technical Assistance to improve macroeconomic forecasting at the Autonomous Committee for the Fiscal Rule (CARF).** In response, ICD staff conducted two virtual pre-scoping meetings with CARF authorities in April 2023. Three additional virtual sessions with CARF technical staff and detailed responses to a questionnaire sent by ICD provided an initial understanding of the CARF's legal mandate and technical capacity.
- **In response to the request, Macroeconomic Frameworks Technical Assistance (TA) project aimed at bolstering CARF's capacity in macroeconomic forecasting and analysis kicked off in June 2023.** During this period, a diagnostic mission took place Bogota between on June 27-28, 2023, and virtually on June 29-30, 2023. The mission assessed the CARF's technical capabilities, human resources, analytical tools, and institutional processes. The insights gathered informed the identification of areas for potential strengthening, leading to the formulation of an Action Plan (AP). This plan aims to enhance the CARF forecast and policy analysis systems.

Summary of Key Findings

- **Among its many responsibilities, the CARF must provide an independent assessment of the MoF's macro-fiscal projections.** Established in 2021, the CARF is a permanent, technical body affiliated with the MoF. It provides independent analysis for key fiscal policy documents (e.g., the Medium-Term Expenditure Framework, the Annual Budget, the Policy Proposal). The CARF's analytical work encompasses macro-fiscal forecasting, policy impact assessment (such as pensions and labor reforms), debt sustainability analysis, potential output estimates, tax elasticities, and wider fiscal policy consultation.
- **The CARF has developed an array of analytical tools, including a methodology to estimate potential output and tax elasticities.** Under the current institutional arrangement, the MoF must use the CARF's potential output estimates as an input for its fiscal rule calculations. The CARF, with its team of five economists, has created its own methods to estimate potential output and non-oil tax revenue's elasticities. The CARF also developed satellite models for fiscal projections and a tool for public debt projections.
- **CARF is yet to develop a unifying macro-fiscal framework that integrates inputs from satellite tools.** While the outputs from the different models serve to inform monthly discussions with the MoF and the monthly presentations to CARF senior management about macro-fiscal prospects and risks, CARF staff do not use a unifying macro-fiscal consistency framework. A unifying macro-framework can facilitate data management and updates, integration of satellite models, production of consistent alternative scenarios, and discussion of transmission mechanisms using disaggregated information. A forecast production calendar associated with macro-fiscal projections is also yet to be rolled out.

Summary of Recommendations

- **The CARF would benefit from implementing a new semi-structural macroeconomic model, fully integrated into a sectoral consistency framework.** The development and calibration of a sector-based macroeconomic consistency framework, with a semi-structural model as its primary engine, can help produce consistent macro-fiscal forecasts. The output from other CARF's satellite models, such as potential output estimation models, should be integrated into this projections tool. Furthermore, the development of a macroeconomic framework would support the creation and implementation of a new methodology for assessing MoF's projections, aligning directly with the CARF's core responsibility.
- **The CARF can enhance its forecast policy and analysis system through continued adoption of best practice, a robust database management system, and strengthened communication with the**

MoF. Continuing with the establishment of a best-practice forecasting process, including the definition of a forecast calendar and responsibilities, would help integrating framework's outputs into the CARF activities. A well-structured, easy-to-update macro-fiscal database is key to efficiently feeding the macroeconomic model and freeing up economists' time for analytical tasks. Robust tool documentation is also important to mitigate turnover risks and facilitate future team members' training. To further enhance its forecast policy and analysis system, the CARF could establish a more regular and open dialogue with the MoF, and other agencies participating in data compilation and forecast production.

Next Steps and Agreed Action Plan

- **The TA project will develop a macroeconomic framework based on the Fund's Comprehensive Adaptive Expectations Model (CAEM) and propose a methodology to assess MoF projections.** Considering the most urgent needs and CARF's absorption capacity, CARF and ICD agreed to structure the TA project around a forecasting tool that aims to strike a balance between simplicity and realism. The CAEM incorporates sufficient underlying economic structure to develop coherent economic narratives and produce internally consistent scenarios, while being very user-friendly.¹ The ICD team will support the CARF analysts in i) building an easily updatable macro-fiscal database, ii) customizing the initial specifications and calibrating the model parameters to incorporate the specific characteristics of the Colombian economy and iii) integrating the CARF's fiscal forecast tools. By the end of the TA project, the CARF will also develop a methodology to independently assess the realism of MoF's macro-fiscal projections.
- **The goal of the TA is for all CARF's economists to become proficient in using the forecasting tool to produce macroeconomic projections and analysis.** To reduce staff turnover risks and individual workload derived from TA and to increase the benefits of the project, the five economists from CARF will be part of the core group receiving TA on macroeconomic frameworks. The initial workplan foresees a clear distribution of responsibilities and back-up roles, including the appointment of a coordinator who will oversee the forecast procedure, sectoral responsibility across team members, and production of documentation.
- **The Action Plan envisages a two-year delivery schedule combining weekly virtual engagements with four in-person missions.** To minimize work disruption and accommodate to the CARF workload and staffing levels, the TA project delivery is structured around a series of weekly virtual engagements with the core team during a two-year horizon. Additionally, the delivery schedule includes four in-person missions, with two scheduled for 2024 and two for 2025, strategically interspersed throughout the project's development.

¹ The CAEM consists of four key macroeconomic sectors interconnected by economic behavioral relationships and accounting identities. The key behavioral relationships, reflect standard macroeconomic theory and guarantee a well-defined balanced growth path and stable "great ratios" in the medium and long term. The baseline version of the framework assumes that expectations are adaptive or reflect the expected medium-term values of the variables (e.g., known inflation target, trend real appreciation of the exchange rate, and others). The Excel-based framework is flexible and allows users to impose their expert judgement in a consistent way, thus providing a common language to discuss economic issues and risk scenarios.