



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

MONGOLIA

Ministry of Finance Macroeconomic Framework
Technical Assistance: Scoping Mission Report

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High-Level Strategic Summary and Technical Assistance Report Institute for Capacity Development (ICD)

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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: Further to Mongolia's Ministry of Finance (MOF) request, an assessment mission was carried out from May 24 to June 2, 2023. The mission reviewed the needs, capacity and constraints for the development of institutional macroeconomic forecasting capacity at the Financial and Fiscal Research Department (FFRD). Notably, despite FFRD's ambitious goals in fiscal policymaking, a comprehensive macroeconomic framework for analysis, forecasting, and assessing fiscal policy's macroeconomic impact is not yet in place. The action plan and logical framework is centered around capacity development and customization of the Comprehensive Adaptive Expectations Model (CAEM) to the Mongolia economy. This note summarizes the main findings and action plan agreed on for the project.

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High-Level Strategic Summary: Mongolia

Background

- **The Ministry of Finance (MOF) of Mongolia recognizes the need for enhanced macro framework capacity and have requested ICD support.** In November 2022, the Finance Minister requested a TA to develop a macroeconomic forecasting and policy analysis that feed into the economic policy-making process. This project focus on developing a financial programming (FP) macroeconomic framework to strengthen the consistency of analysis and forecasting capacity of the Financial and Fiscal Research Department (FFRD). Recently established, FFRD is tasked with macroeconomic forecasting, assessing the effectiveness of fiscal policies, devising prospective policy actions, and impact analysis, and require a macroeconomic framework based on solid economic principles, adaptable to diverse policy analysis.
- **This scoping mission initiated a Macroeconomic Framework Technical Assistance (TA) project to support the FFRD in building their forecasting capacity and macroeconomic analysis.** The scoping mission took place in Ulaambaatar from May 24 to June 2, 2023 to assess existing analytical and forecasting tools, data availability and management, human resources and skills set, and the current policy analysis systems at the FFRD. Considering this assessment and based on identified areas for potential improvement, the mission prepared a three-year action plan to improve the MoF's macroeconomic analysis and forecasting capacity. Annex D provides a detailed work program of the mission

Summary of Key Findings

- **FFRD is the newest among the MOF's Departments, created in 2022.** After the split of the Ministry of Economy and Finance in 2022 into the Ministry of Economy and Development and the Ministry of Finance, staff experienced in macroeconomic forecasting and analysis stayed with MED. FFRD recruited staff from within MOF, and hired recent university graduates
- **FFRD is adequately staffed at this moment to support its core functions and efficiently absorb the CD project and staff movements that would be a potential risk for the proposed CD project are not expected.** FFRD has 11 staff, including the Director General and a long-term junior and senior experts from the World Bank. The Department also used an ADB grant to hire (on part-time-basis) two professors from local universities to cooperate with the core team on selected policy-relevant projects. The authorities are committed to make their team fully available for the duration of the CD project.
- **Although FFRD is well resourced for the CD project's needs, there is no macroeconomic framework currently in use at the FFRD.** The authorities stressed that establishing a good FFRD practice is their top priority, and they are committed to providing all needed resources. Staff have access to laptops with dual monitor, Microsoft Teams to share files and facilitate communication and data sharing and one Bloomberg terminal used to collect market data on commodity prices¹. The Internet connectivity for off-site support is appropriate. FFRD's role would benefit from a central

¹ FFRD equipment was provided by international cooperation agencies such as Koica and Jica.

analytical tool that could support an internally consistent policy analysis and advice to the Minister and the Cabinet.

- **There are sound communication channels with the Bank of Mongolia (BOM) and the Ministry of Economy and Development (MED).** The communication channels between BOM and FFRD seem open and healthy at both management and technical levels. Staff often exchange views on the macroeconomic situation. BOM maintains a rich portfolio of analytical tools for current economic situation assessments, NNTF and medium-term forecasting, including a basic static accounting FFP framework. MED is tasked with preparing medium and long-term macroeconomic projections used by the MOF during the annual budget and medium-term fiscal framework preparation.

Summary of Recommendations

- ***The scoping mission found that the FFRD staff has an overall good level of economic training, but there's room to further bolster the consistency of forecasts and integrated policy guidance.*** The solution lies in adopting a flexible tool which would incorporate the Ministry of Economy's macroeconomic projections, assimilate comprehensive sectoral information, and validate forecast consistency. Furthermore, it would allow the evaluation of alternative scenarios, elevating and sustaining the department's capacity for macroeconomic analysis and better integrate the specialized work of each subgroup consistently.
- ***Fund staff recommended the customization of the Comprehensive Adaptive Expectations Model (CAEM).*** The authorities engaged well in the sessions and agreed that the CAEM tool would be useful to enhance policy discussions, especially the policy analysis functionality. They also consider that the core team will have the ability to implement and customize the CAEM template. It is expected that this assistance will enhance staff capacity in applying financial programming techniques to macroeconomic diagnosis and forecasting, thus consolidating a sustainable practice for model-based policy decision making. A MDS course was delivered during the scoping mission to ensure that sufficient specialized knowledge is transferred to the core staff team in charge with running the model.
- ***Developing FFRD's Nowcasting capacity could be reassessed during the implementation of the TA project, based on the capacity of staff and needs of the MOF.*** When the CAEM model is fully operationalized and customized, the team could reassess the possibility to add a nowcasting component to enhance the GDP forecast from a production function perspective.
- ***The mission recommended to both MOF and MED to participate jointly in this TA to enhance coordination and assure good practices for the macro-fiscal projections during the MTFF.***

Next Steps and Agreed Action Plan

- ***The TA project will aim to develop institutional capacity on macroeconomic analysis and forecasting.*** Fund staff presented the Comprehensive Adaptive Expectations Model (CAEM). The authorities engaged well in the sessions and agreed that the CAEM tool (given further customization) would be useful to enhance policy discussions, especially the policy analysis functionality. They also consider that the core team will have the ability to implement and customize the CAEM template. Moreover, the Action Plan takes into consideration the customization needs of the tool. It is expected

that this assistance will enhance staff capacity in applying financial programming techniques to macroeconomic diagnosis and forecasting, thus consolidating a sustainable practice for model-based policy decision making. A MDS course was delivered during the scoping mission to ensure that sufficient specialized knowledge is transferred to the core staff team in charge with running the model.

- **The project will help strengthen macroeconomic data management practices to provide a consistent, unified, and user-friendly database to feed into the macroeconomic projection tool.** This may entail consolidating existing data spreadsheets to allow for future automation of routine data monitoring/reporting/nowcasting/forecasting. The indicative deliverables include a review of data management practices and improve data storage architecture to allow for dynamic data querying from MS Excel and other analytical software.
- **To strengthen the sustainability of the macroeconomic forecasting and policy analysis system, a regular forecasting practice that relies on clearly defining production processes and institutional arrangements will be developed.** In addition to the production of documentation on how to operate the tools and data management guidelines to adequately store input/output data and log files to replicate forecasts and simulations, the regular request on running the tools and producing structured outputs is key to maintain a forecasting practice alive and evolving according to the needs of the FFRD. The mission plan includes guidance to set up adequate policy analysis processes and institutions, and to document the tool.
- **This action plan was informed by the scoping mission findings and needs assessment discussed in the previous sections.** The current section details the objectives of the plan and the intended steps, timeframes, and modalities to achieve the objectives. The proposed macro framework tool and customization required is discussed and the core team responsible for the project engagement is stated. Risks to the project are highlighted and proposed mitigation measures are proposed in the following section.