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MACRO RESEARCH FOR DEVELOPMENT
An IMF-DFID Collaboration

Macro-Structural Policies and Income Inequality

Despite sustained economic growth and rapid poverty reduction, income inequality remains stubbornly high in many LIDCs. This pattern is a concern as high levels of inequality can impair growth sustainability and macroeconomic stability, thereby also limiting countries' ability to reach the Sustainable Development Goals. It is critical to understand how policies aimed at boosting economic growth affect income inequality. Using empirical and modeling techniques, an IMF Staff Discussion Note finds that macro-structural policies aimed at raising growth payoffs in LIDCs can have important distributional consequences, with the impact dependent on both the design of reforms and on country-specific characteristics. While there is no one-size-fits-all recipe, the note explores how governments can address adverse distributional consequences of reforms by designing policy packages that are both pro-growth and inclusive.

A blog by the IMF Managing Director highlights the findings and policy recommendations.

Macroeconomic Developments and Prospects in Low-income and Developing Countries

In a recent IMF Policy Paper, the overarching theme is that of an incomplete adjustment to the new world of "lower for long" commodity prices, with many commodity exporters still far from a sustainable macroeconomic trajectory. The paper analyzes risks and vulnerabilities from financial sector stresses and medium-term fiscal risks, and points to actions needed to manage these challenges. The paper also looks at how infrastructure investment can be accelerated in LIDCs, given that weaknesses in public infrastructure are widely seen as a key constraint on medium-term potential growth. With the sharp adjustment in commodity prices now into its third year: a) many commodity exporters remain under significant economic stress; b) countries with more diversified export bases are generally doing well; c) widening fiscal imbalances, in both commodity and diversified exporters, have resulted in rising debt levels, with severe financing stress emerging in some cases; and d) financial sector stresses have emerged in many LIDCs. Key messages on financial sector oversight, on medium-term fiscal risks, and on tackling infrastructure gaps are flagged.

Third Annual Workshop on Macroeconomic Policy and Income Inequality

The Third Workshop on Macroeconomic Policy and Income Inequality in Developing Countries was held at the IMF headquarters in Washington, DC, on February 09-10, 2017. Academics and policy experts participated in two days of presentations and discussions on critical macroeconomic policy and inequality issues in developing countries. In particular, the workshop covered macro-critical issues such as what are the causes and consequences of resource misallocation across sectors, the link between international trade and income inequality, and the importance of energy investment in economic growth.

Conference on Gender and Macroeconomics

A conference on Gender and Macroeconomics will be held on March 23-24, 2017 at the IMF Headquarters in Washington, DC. The conference will provide a forum for discussing innovative empirical and theoretical research on gender and macroeconomics and policy implications, with specific application to the challenges of low-income and developing countries. Topics will include female labor force participation, financial inclusion, trade diversification, firm performance, intra-household choices, public investment, and macroeconomic outcomes. The conference is open to the public but registration is required. The deadline for public registration is March 20, 2017.

IMF Course on Macro and Distributional Analysis Model

To equip Fund economists with the cutting-edge analytical tools on understanding distributional and output impacts of structural reforms, the IMF's Institute for Capacity Development kicked off an internal economic training course to introduce the MDAM (Macro and Distributional Analysis Model) framework. Different versions of this model have been applied recently to Bolivia, Ethiopia, Guatemala, Honduras, Malawi, Myanmar, and the Republic of Congo. The course also offered a hands-on workshop to introduce economists to applications of MDAM for surveillance countries. The course was well received and participants were particularly interested in the practical workshop.

Myanmar Selected Issues Paper

This paper takes stock of progress in Myanmar's financial sector reform since 2012 and updates Fund advice on priorities for financial sector reform over the next two to three years. The authors use a Dynamic Stochastic General Equilibrium (DSGE) model to examine the macro and distributional impact of financial sector reform and find that financial liberalization i) increases savings, private credit, and growth; ii) reduces nationwide inequality and poverty; and iii) increases access to credit for the rural population and has a positive effect on agricultural output and farm income.

Capital Account Openness in LIDCs: Evidence from a New Database

Jahan and Wang (2016) construct a de jure index based on information contained in the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions. It provides an aggregate index to capture the overall openness of the capital account, and also provides a breakdown of openness for various subcategories of capital flows. The new database covers 164 countries with information on 12 types of asset categories over the period 1996–2013. The index provides the largest coverage of LIDCs among all existing indices and also provides granularity on openness across asset types, direction of flows and residency. The paper examines the link between de jure capital account openness with de facto capital flows and outlines potential applications of this database.

Effects of Monetary Policy Shocks on Inequality

Furceri et al. (2016) provide new evidence of the effect of monetary policy shocks on income inequality and find that contractionary (expansionary) monetary actions increase (reduce) income inequality. The effect, however, varies over time, depending on the type of the shocks and the state of the business cycle. Looking across countries, the effect is

Inclusive Growth and the IMF

Prakash Loungani authored a blog on inclusive growth and highlighted how the IMF is working to make inclusion a part of its daily operations. Recent research focuses on jobs and growth, gender equality, income inequality, corruption, financial inclusion, and climate change and natural disasters. The blog also discusses key policies that can spur inclusive growth such as social safety nets, broader access to finance, and pre-distribution and redistribution.

Gender Budgeting

Two articles in the *Economist* ("Why national budgets need to take gender into account"; "Why governments should introduce gender budgeting") discussed the importance of gender budgeting, i.e., the use of fiscal policy and administration to promote gender equality and girls' and women's development, and highlighted the IMF-DFID team's recently completed study on global gender budgeting efforts.

Burkina Faso Article IV Consultation

Burkina Faso, like many developing countries, has significant infrastructure gaps. The central policy question is how best to make use of resource revenues to support the economy while maintaining debt sustainability. The 2016 Staff Report from the Article IV consultation for Burkina Faso applied the Buffie et al. (2012) model to estimate the to compare the impact of public investment scaling up. The results of the simulation indicate that long-term debt sustainability would be compromised by the increase in spending and borrowing implied by the National Economic and Social Development Plan.

Bolivia Article IV Consultation

Bolivia's macroeconomic management of the commodity boom facilitated a decade of strong macroeconomic performance and poverty reduction and the accumulation of sizable policy buffers. Sharply lower commodity prices pose serious challenges to making further progress towards the objectives laid out in the authorities' Patriotic Agenda 2025, including eradication of extreme poverty, better access to health and education, and state-led industrialization. Sizable fiscal and external current account surpluses during the last decade have turned into large deficits. These deficits are projected to persist over the medium term under current policies, eroding policy buffers and raising questions about the sustainability of the plan.

Namibia Selected Issues Paper

larger in countries with higher labor share of income and smaller redistribution policies. Finally, while an unexpected increase in policy rates increases inequality, changes in policy rates driven by an increase in growth are associated with lower inequality.

Work on extending the analysis to analysis to LIDCs is underway.

The authorities in Namibia have embraced ambitious fiscal consolidation plans, and the key challenge is to minimize the negative effects on growth. This paper assesses the impact on growth of alternative fiscal consolidation strategies using Buffie et al. (2012) model simulations. Overall, minimizing the negative impact of fiscal consolidation on growth requires combining revenue and expenditure measures, together with fiscal structural reforms.

lkFor more information, please contact MacroResDev@imf.org.
See IMF-DFID Macroeconomic Research for Development website for further details on the project.