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MACRO RESEARCH FOR DEVELOPMENT
An IMF-FCDO Collaboration

Inclusiveness in Emerging Market and Developing Economies and the Impact of COVID-19

Gabriela Cugat and Futoshi Narita conducted a research that documents the possible implications of the pandemic for poverty reduction, improvements in life expectancy, and progress toward greater equality in emerging market and developing economies. The number of people in extreme poverty is likely to rise substantially this year, for the first time in more than 20 years, and income inequality, on average, across these economies could rise back to levels seen in 2008, reversing gains since the global financial crisis. Life expectancy is less likely to be affected, although there are downside risks related to the fragile state of health care systems and interruptions in treatments of other life-threatening illnesses. This research has been published as a box in the October 2020 World Economic Outlook, and featured in the IMF Blog, Quartz Magazine, and the World Economic Forum.

As Covid-19 rages on, Countries need to Support Migrant Workers

In this blog, Saad Quayyum and Kangni Kpodar document the disproportionate impact of the pandemic on the migrants as they face job loss and struggle with limited access to social safety nets. Although it is obvious to expect remittances to take a hit from the pandemic, high frequency data suggest remittances flows have been surprisingly resilient in many countries across different continents. This could be driven by a greater need to send money back to families as the remittance-receiving countries started to struggle with the pandemic and collapse in external demand. However, this trend may not be sustainable. Therefore, adequate and timely policy responses from both remittance-sending and remittance-receiving countries are critical to help migrant workers. The piece, published in the IMF Blog and CNN Business, provides insights on possible policy options.

Forecasting and Policy Analysis System (FPAS TA) Mission to Ghana

The IMF-FCDO team continues to collaborate closely with the Bank of Ghana (BoG) in its effort to build effective macroeconomic framework for the monetary policy and modernize its forecasting and policy analysis capacity. As part of this initiative, the IMF delivered a virtual FPAS TA mission to Ghana in September 2020. The mission assisted the BoG forecasting team in extending the core Quarterly Projection Model (QPM) to accommodate the decomposition of headline CPI into food and non-food components, given the importance of the former in the overall CPI basket (43%) and considering a different dynamics the two components exhibit. The extension allows to produce relevant model-based analysis and inform better policy decision making, especially in view of the recent price developments in Ghana, whereby an increase in inflation above the upper band of the target was driven exclusively by food price increases, including on the account of excessive demand for foodstuff amidst the pandemic-related uncertainty.

To Pass (or Not to Pass) Through International Fuel Price Changes to Domestic Fuel Prices in Developing Countries: What Are the Drivers?

While many developing countries limit the international fuel price pass through to domestic fuel prices, others do not. In this paper published in Energy Policy, Kangni Kpodar and Patrick Imam examine the factors that determine to what extent governments allow international fuel price changes to be passed through to domestic prices using a dataset spanning 109 developing countries from 2000 to 2014. The findings suggest that the pass-through is higher when changes in international prices are moderate and less volatile. The flexibility of the pricing mechanism is also associated with a higher pass-through, while exchange rate depreciation and lower retail fuel prices in neighboring countries inhibit it. Furthermore, countries with high inflation tend to experience lower pass-through, whereas those with high public debt exhibit larger pass-through. There is no evidence that political variables or environmental policies matter for fuel price dynamics in the short-term. The findings are consistent across fuel products (gasoline, diesel and kerosene), with important policy implications for fuel subsidy reforms.

Do Monetary Policy Frameworks Matter in Low Income Countries?

In recent years, many Low-Income Countries (LICs) have implemented substantial reforms to their monetary policy frameworks, but existing economic research has not provided a clear rationale to guide those efforts. In this Working Paper, Alina Carare, Carlos de Resende, Andrew Levin and Chelsea Zhang analyze the role of monetary policy frameworks in the propagation of aggregate shocks, using a large panel dataset of 79 LICs over the period 1990-2015 as well as event study analysis for a group of 28 sub-Saharan African LICs. The paper finds significant differences in the propagation of external shocks between LICs that target monetary aggregates or inflation compared to those that maintain rigid nominal exchange rates as a nominal anchor. It also finds that the large surprise devaluation of the CFA Franc in January 1994 had highly significant effects on the GDP growth of 10 CFA countries compared to 18 similar countries that are outside the monetary zone. The empirical analysis provides strong support for the role of monetary policy frameworks in facilitating macroeconomic stability in LICs—a conclusion that is particularly relevant as LICs now face a multitude of similar shocks associated with the global COVID-19 pandemic.

Imported Food Price Shocks and Socio-Political Instability: Do Fiscal Policy and Remittances Matter?

Using a panel of 101 low- and middle-income countries from 1980 to 2012, this Working Paper by Carine Meyimdjui applies various econometric approaches that deal with endogeneity issues to assess the impact of food price shocks on socio-political instability once fiscal policy and remittances have been accounted for. It focuses on import prices to reflect the vulnerability of importer countries / net-buyer households to food price shocks. The research shows that import food price shocks strongly increase the likelihood of socio-political instability, with the effect larger in countries with poorer countries and those with a shallow financial depth. While remittances seem to dampen the adverse effect of import food price shocks on socio-political instability in almost all countries, the mitigating role of fiscal policy is statistically significant only in countries with less developed financial systems.

Macroeconomic Outcomes in Disaster-Prone Countries

Giovanni Melina presented the paper "Macroeconomic Outcomes in Disaster-Prone Countries" (co-authored with Alessandro Cantelmo and Chris Papageorgiou) at the IMF Annual Research Conference. Using a dynamic stochastic general equilibrium model, the authors study the channels through which natural disaster shocks affect macroeconomic outcomes and welfare in disaster-prone countries. The model is solved using Taylor projection, a solution method that is shown to deal effectively with high-impact weather shocks calibrated in accordance to empirical evidence. They find large and persistent effects of weather shocks that significantly impact the income convergence path of disaster-prone countries. Relative to non-disaster-prone countries, on average, these shocks cause a welfare loss equivalent to a permanent fall in consumption of 1.6 percent. Welfare gains to countries that self-finance investments in resilient public infrastructure are found to be negligible, and international aid has to be sizable to achieve significant welfare gains. In addition, the findings support that it is more cost-effective for donors to contribute to the financing of resilience before the realization of disasters, rather than disbursing aid after their realization.