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MACRO RESEARCH FOR DEVELOPMENT
An IMF-FCDO Collaboration



Food insecurity work featured at the 2022 IMF-World Bank Annual Meetings

Food insecurity was a top issue raised by all low-income countries (LICs)' governors. The work by the MRLIC team on food security was featured prominently, including in the [MD's curtain raiser speech](#) of the 2022 IMF-World Bank Annual Meetings. Recognizing recent food price surges, she highlighted the importance of the new "food shock window" as part of the Fund's emergency financing tools to support countries most affected by term of trade shocks. There was also an [analytical corner presentation](#) featuring the MRLIC team's work, joint with the IMF's African Department, on [climate change and chronic food insecurity](#). Representatives from many LICs were interested using our analytical framework on food insecurity.

Clinic on Macroeconomics of Gender Equality

This clinic, jointly developed by ICD, FAD, LEG, MCM, SPR, and STA, will help staff incorporate gender issues into core IMF work, in line with the IMF Gender Mainstreaming Strategy. The clinic examined trends in gender inequality over time and across countries, including the impact of the COVID-19 pandemic; assist staff in identifying macro-critical gender gaps that would undermine the prospects for inclusive, sustainable growth; analyze policy and institutional reform options in the fiscal, financial, and legal areas to help address gender inequality; and discuss available analytical tools, including the newly released IMF Gender Data Hub. The clinic was introduced by IMF Deputy Managing Director Antoinette Sayeh and moderated by IMF Institute of Capacity Development Deputy Director Michaela Erbenova. This particular delivery focused relatively more on low-income developing countries and emerging markets; a subsequent delivery will focus relatively more on advanced economies.

Clinic on Distributional Impact of Policies and Reforms

On November 14th, the IMF-FCDO team virtually gave "Clinic on Distributional Impact of Policies and Reforms." Attended by around 30 IMF staff, the clinic taught the Multi-sector Incomplete Markets Macro Inequality (MIMMI) model and hands-on training on the associated MIMMI app. The first version of the app's brand-new user manual was released for the course. The first course presented the history and past applications of the MIMMI model and its calibration. The

second presented basic concepts and a refresher of incomplete markets models and conducted a hands-on session on building a box for an Article IV Staff Report with the MIMMI browser-based application. Finally, course participants had the opportunity to access the app's interface and its calibration repository (currently consisting of calibrations for Guinea and Namibia) through the Fund's intranet without installing any additional software. Participants were able to compute scenarios in real time during the course.

Madagascar: Technical Assistance Report—Climate Macroeconomic Assessment Program (CMAP)

The MRLIC team has been contributing to the Climate Macroeconomic Assessment Program (CMAP), a technical assistance program primarily led by the IMF's Fiscal Affairs Department. During a CMAP mission held in April, the MRLIC team used the model on Debt-Investment-Growth-Natural-Disasters (DIGNAD) to quantify the impact of climate change to Madagascar through repeated natural disasters and slowly changing temperature patterns that would decrease productivity. The simulation analysis indicates a sizable implication on debt sustainability from climate change risks in the long run, highlighting the need for Madagascar to proactively design a comprehensive package of policy response measures, factoring in these risks in macroeconomic and fiscal projections. [The CMAP report on Madagascar](#) was published in November as the second CMAP pilot country. The MRLIC team also supported the first CMAP pilot country case, [Samoa](#), whose report was published in March.

How Do Transaction Costs Influence Remittances?

Using a new quarterly panel database on remittances from 2011 to 2020, Kangni Kpodar and Patrick Imam investigate the elasticity of remittances to transaction costs in a high-frequency and dynamic setting. Their [research](#) adds to the literature by systematically exploring the heterogeneity in the cost-elasticity of remittances along several country characteristics. The findings suggest that cost reduction have a short-term positive impact on remittances, that dissipates beyond one quarter. The estimates show that reducing transaction costs to the Sustainable Development Goal target of 3 percent could generate an additional US\$32 billion in remittances, higher than the direct cost savings from lower transaction costs. Among remittance cost-mitigation factors, higher competition in the remittance market, a deeper financial sector, and adequate correspondent banking relationships are associated with a lower elasticity of remittance to transaction costs. Supplementing the panel analysis, the use of microdata from the USA-Mexico corridor confirms that migrants facing higher transaction costs tend to remit less and that this effect is less pronounced for skilled migrants and those that have access to a bank account.

IMF Working Paper on the Quarterly Projection Model for the Bank of Ghana

An important milestone within the Technical Assistance project supporting the development of the FPAS at the Bank of Ghana (BoG) was accomplished by publishing this [working paper](#), co-authored with BoG staff and with support from AFRITAC West 2. The paper describes the BoG's Quarterly Projection Model (QPM), its properties and use in policy deliberations. The paper presents the New Keynesian semi-structural model that incorporates the main features of the Ghanaian economy, transmission channels and policy framework, including an inflation targeting central bank and aggregate demand effects of fiscal policy. The shock propagation mechanisms embedded in the calibrated QPM demonstrate its theoretical consistency, while out-of-sample forecasting accuracy validates its empirical robustness. Historical track record of real time policy analysis and medium-term forecasting conducted with the QPM – as a

component of the broader FPAS analytical organization – establishes its critical role in supporting the BoG’s forward-looking monetary policy framework.

Book chapters: Promoting Inclusive Growth in the Middle East and North Africa (MENA)

Inclusiveness, Growth and Stability: Chapter 2 of this book recently published by the IMF examines quantitatively how the lack of inclusiveness in an economy can cause lower economic growth. The chapter uses a general equilibrium model in which individuals are different in their income, wealth, skill level, and occupations. The presence of barriers and financial frictions creates misallocation by preventing skilled entrepreneurs from entering a business. Calibrated to an average MENA economy, simulations show that a reform package that simultaneously reduces market distortions and improves access to credit could lead to a more efficient allocation of resources and significantly boost output, wages, and jobs. Importantly for the MENA region, the simulations show that an increase in public investment that achieves the same increase in output would not be able to generate the same improvement in welfare compared with reforms that remove market distortions and support a more dynamic economy with an expanded role for the private sector. The book was published during the IMF-World Bank 2022 Annual Meetings in October.

Addressing Gender Gaps in MENA Labor Markets: Chapter 5 of this book focuses on the reasons why female labor force participation is much lower in the MENA region than in the rest of the world. Its main finding is that gender disparities in basic and financial legal rights are likely to be the most powerful barriers to women’s participation in economic life in the MENA region, followed by restrictions in labor market codes and regulation. While to a certain extent those factors reflect well-established social norms that may prove difficult to change, removing barriers that prevent women’s participation in the labor force and entrepreneurship promises to have a substantial impact on output and welfare.

IMF Strategy Toward Mainstreaming Gender: How Large are Gender Disparities

The team produced this background paper that provides additional details on substantiation, illustrations, and arguments to support the Board Paper “IMF Strategy Toward Mainstreaming Gender.” Their work brings forth an overview of the evolution of gender disparities across different dimensions that limit women’s economic empowerment and, in turn, the full potential of total productivity and economic growth of countries.

A Monetary Policy Framework for Low Income Countries

Giovanni Sciacovelli presented the paper “A Monetary Policy Framework for Low Income Countries” during the 2nd Lille-Reading Workshop on International Finance on November 18th. The paper presents an open economy heterogeneous agent model with relevant features for low-income countries (LICs): i) poor households with no access to markets (hand-to-mouth), and ii) a subsistence level of consumption for tradable goods. With the model calibrated for an average LIC, the team, also composed by Filiz Unsal, Carlos van Hombeeck and Juan Passadore, analyze the effects of external shocks on inequality and poverty. A shock to external prices (such as for food) causes a consumption-led recession, with poor households suffering more. While labor income is squeezed for all households, richer households benefit from higher dividends, generating inequality and relevant welfare differences between and within financially included and excluded households. The team also analyzes how monetary policy might offset some of the impact on households and its distributional consequences.

The views expressed in this newsletter are those of the contributors and do not necessarily represent the views of the International Monetary Fund (IMF), or UK's Foreign, Commonwealth and Development Office (FCDO). For more information, please contact MacroResDev@imf.org or visit the IMF-FCDO Macroeconomic Research for Development [website](#).