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MACRO RESEARCH FOR DEVELOPMENT
An IMF-FCDO Collaboration



Joint IMF-FCDO Conference on Lower-Income Countries Navigating Global Change: Insights and Policy Directions from Macro Research for Development

A [joint IMF-FCDO Conference](#) marked 13 years of collaboration between the IMF and the United Kingdom's Foreign, Commonwealth & Development Office (FCDO) under the Macroeconomic Research in Low-Income Countries (MRLIC) program. The event gathered over 100 participants—including researchers, policymakers, and development partners—to review the program's achievements and discuss the challenges facing low-income countries (LICs) amid geoeconomic fragmentation, demographic transitions, rapid technological change, and increasing climate shocks. The conference included panel discussions and path-finding sessions, outlining areas for future research and partnerships.

The conference opened with remarks by IMF Managing Director Kristalina Georgieva and FCDO Chief Economist Dennis Novy, who underscored pressures facing LICs—including declining aid, high debt burdens, and digital readiness gaps—stressing the importance of capacity-building collaborations.

The first session featured S. Devarajan (Georgetown University) and S. O'Connell (Swarthmore College), who presented their independent evaluation of the MRLIC program, concluding that it "is unquestionably a highly successful project" that "exceeded all expectations," with over 200 working papers, 100+ refereed publications, 16 toolkits, and uptake in more than 120 IMF country reports. The session also featured reflections from MRLIC's IMF founders, C. Pattillo and A. Berg.

Key messages from the path-finding sessions included:

- Fiscal and financial challenges: M. Aguiar (Princeton University) showed that rising debt in LICs has not consistently translated into higher investment or growth. S. Mallick (Queen Mary University of London) highlighted shifts in financial flows underscoring the need for more adaptive financing strategies.
- New technology and trade: A. Khandelwal (Yale University) emphasized that domestic barriers often constrain trade more than tariffs or external market access, suggesting LICs should focus on reducing internal distortions and improving connectivity. D. Comin (Dartmouth College) identified the "utilization gap," noting that firms often underuse technologies they already possess; closing this gap could yield productivity gains.
- New data, tools and methods: N. Limodio (Bocconi University) stressed the importance of granular data and called for centralized data hubs, robust privacy frameworks, and institutional partnerships to strengthen LIC analytical capacity. S. Basu (IMF Research Department) presented the LIC Integrated Policy Framework, which tailors FX intervention, capital flow management, and macroprudential tools to country-specific contexts.
- Strengthening resilience and sustainability: K. Jack (UC Berkeley) argued that climate adaptation requires private action supported by well-designed public policies that address market failures and financing constraints. M. Clemens (George Mason University) showed that well-managed migration can generate fiscal and structural benefits despite brain-drain concerns. L. Kolovich (IMF Strategy Policy and Review Department) illustrated how incorporating distributional and labor-market heterogeneity can enhance resilience and equity.

A policy panel featuring C. Adams (Oxford University), M. Atingi-Ego (Bank of Uganda), R. Glennerster (Center for Global Development) and D. Lagakos (Boston University), moderated by A. Aemro Selassie (AFR), explored practical implications for LIC policymaking, highlighting fragile-state challenges, rising external pressures, limited LIC-specific innovation, and the difficulty prioritizing long-term development needs.

Deputy Managing Director N. Clarke and UK Executive Director V. Poon closed the conference by emphasizing the need for greater investment in data and research to support evidence-based policymaking. While reaffirming commitment to the partnership, both speakers noted the pressing need for additional donors given significant ODA budget reductions across advanced economies.

Country Application: DIGNAR Application to Vietnam

Vietnam's export-led growth model has delivered remarkable performance over the past two decades, but new efforts will be needed to sustain strong growth and reach the desired high-income status by 2045. A comprehensive package of structural reforms, together with increased public investment in infrastructure, could help boost productivity and medium-term economic growth.

An IMF [Selected Issues paper](#) analyzes inefficiencies in Vietnam's labor and capital markets that hinder productivity growth and discusses reforms to close structural gaps, improve resource allocation, and raise productive efficiency, including through technological advancements such as artificial intelligence.

Country Application: DIGNAR Application to Liberia

The IMF's [Selected Issues Paper on Liberia](#)—prepared by a team including G. Cipollone, T. Molise, M. Otero Nule, A. Sultanov, T. Batsuuri, F. Zhang, G. Cui and C. Chen—was welcomed by the country authorities and the Board in November 2025. The paper consists of two connected sections: one discusses the challenges and opportunities of expanding public infrastructure, while the other examines how building resilience to natural disasters affects economic growth and debt sustainability. It highlights the need for increased public investment and improved revenue mobilization following years of insufficient infrastructure development since the civil war and the 2010 debt relief. With external support declining, the report stresses a multipronged strategy involving higher capital spending, better public investment management, and more efficient tax collection to drive growth while safeguarding debt sustainability.

The team applied the [DIGNAR \(Debt-Investment-Growth and Natural Resources\)](#) and [DIGNAD \(Debt- Investment-Growth and Natural Disasters\)](#) frameworks—both MRLIC-financed products—to model the impact of sustained public investment and a set of reforms in Liberia. The analysis shows that scaling up public investment, boosting efficiency, raising tax revenues, and reducing untargeted expenditures can foster growth while maintaining debt sustainability. Additionally, climate adaptation investments and complementary fiscal reforms are crucial for strengthening Liberia's resilience to climate shocks, supporting sustainable growth, and reducing inequality. Accelerating these reforms is essential for advancing Liberia's ambitious climate and development agenda.

Country Application: DIGNAD Application to Vanuatu

The MRLIC-financed [DIGNAD model](#) was used to conduct a cost-benefit analysis of ex-ante public investment in climate-resilient infrastructure and to assess its macro-fiscal implications for Vanuatu, as presented in the [2025 Article IV](#)

[Consultation for Vanuatu](#) (Annex VIII: *Macro-Fiscal Implications of Ex-ante Adaptation Investment in Vanuatu: DIGNAD Simulations*).

In the presence of natural disaster risks, investment in resilient infrastructure reduces damages when disasters occur and supports a stronger economic recovery and long-term growth path. It also lowers post-disaster reconstruction costs, eases public financing needs, and strengthens fiscal space by reducing public debt and mitigating distortions associated with fiscal instruments.

[Working Paper: Patterns of Invoicing Currency in Global Trade in a Fragmenting World Economy](#)

The IMF Working Paper (WP) [Patterns of Invoicing Currency in Global Trade in a Fragmenting World Economy](#) authored by E. Boz, A. Bruggen, C. Casas, G. Georgiadis, G. Gopinath, and A. Mehl, introduces the most comprehensive panel dataset on global trade invoicing currency, covering 132 countries (including over 20 LICs) from 1990 to 2023 and adding new information on the Chinese renminbi. The authors examine how invoicing patterns have evolved amid rising geopolitical fragmentation.

The study documents five key findings. The US dollar remains the dominant currency, with global invoicing shares broadly stable. Renminbi use has expanded gradually beyond Asia, though it remains modest. Countries not aligned with the US still rely heavily on the dollar, although this dependence has fallen in a few cases. Since 2021, the link between a country's geopolitical distance from a currency issuer and its use of that currency has grown more negative, signaling rising polarization. Finally, the authors find no robust evidence that policy initiatives to reduce dollar reliance in oil exports have been effective, highlighting both the resilience of dominant currencies and emerging geopolitical fragmentation.

[Working Paper: External Shocks and Monetary Policy Trade-offs in Low-Income Countries](#)

The IMF WP [External Shocks and Monetary Policy Trade-offs in Low-Income Countries](#), by J. Passadore, G. Sciacovelli, F. Unsal, and C. van Hombecq, presents an Open Economy HANK model tailored to the characteristics of LICs, including hand-to-mouth households and a subsistence consumption of tradable goods. Calibrating the model to a representative LIC, the authors illustrate their framework with an external price shock. The shock causes a consumption-led recession, higher inflation, and a decline in real wages. Consumption inequality rises as poorer households are unable to insure against the shock, unlike richer households who can draw on their wealth.

The paper shows that monetary policy cannot meaningfully improve poorer households' welfare because any gains are offset by adverse effects on real wages and labor demand. Simulations of alternative monetary policy responses yield similar results. In this environment, fiscal transfers emerge as a more effective tool for redistributing resources across households.

[Working Paper: Monetary Policy Transmission to Household Credit: Evidence from Uganda's Credit Registry Data](#)

The WP [Monetary Policy Transmission to Household Credit: Evidence from Uganda's Credit Registry Data](#), by M. Conesa Martinez, E. Kasekende, N. Li, A. Mugume, S. Musoke, C. I Okou, and A. F Presbitero, examines the effectiveness of monetary policy transmission in developing countries using loan-level data from Uganda's credit registry. The authors analyze more than 632,000 household loans issued by all commercial banks between 2017 and 2023, a

period marked by significant policy rate fluctuations. They find that household credit, which accounts for over 50 percent of new loan accounts, responds to monetary policy: rate hikes are followed by higher lending rates and reduced loan size and maturity.

Controlling credit demand with time-varying borrower-group fixed effects, the paper finds stronger transmission among banks with lower liquidity and capital and those holding more government securities. The effects are also more pronounced for fixed-rate loans than for floating-rate loans. Overall, the results support the presence of a bank lending channel in Uganda, similar to what is observed in more advanced economies.

Working Paper: Earthquakes and Sovereign Risk: When Natural Shocks Test Institutions

Authors R. Arezki, P. Imam, K. Kpodar, and D. Le-Van ask in the new WP [Earthquakes and Emerging Market Sovereign Bond Spreads](#) a deceptively simple question: what happens to sovereign borrowing costs when the ground literally moves? Using monthly data for 96 emerging and developing economies between 2012 and 2023, the paper shows that earthquakes shake markets only where institutions are weak. In low-capacity countries, many of them low-income, sovereign spreads jump and stay high, reflecting doubts about fiscal resilience and state credibility. In stronger states, markets remain composed, viewing the shock as temporary and the policy response as credible.

The findings suggest that investors interpret disasters not as random acts of nature but as stress tests of governance. Where institutions function, confidence endures; where they fail, risk premia rise. For LICs, the lesson is straightforward: building fiscal capacity and credibility is not just good governance, it is insurance against the financial aftershocks of an increasingly volatile world.

Working Paper: The Macroeconomic Impact of Earthquakes: A Tale from Two Datasets

Not all disasters are created equal, at least not in the data. The WP [The Macroeconomic Impact of Earthquakes on Growth: A Tale from Two Datasets](#), authored by R. Arezki, Y. Camara, P. Imam, and K. Kpodar reconsiders one of development economics' enduring questions, on whether earthquakes derail growth or merely disrupt it? The answer depends on how the shock is measured.

Using two global datasets, the widely cited EM-DAT and the geophysically grounded USGS record, the authors uncover a striking divergence. When only high-damage events are counted, as in EM-DAT, earthquakes seem macroeconomically benign. But when the full USGS record is used, encompassing even moderate tremors, the picture changes. Growth slows sharply, and the scars persist, especially in LICs with limited fiscal and institutional capacity. The authors show that past optimism about recovery often reflected data omissions, not resilience. This finding reminds us that the economic aftershocks of nature are shaped as much by how we measure them as by the strength of the ground beneath our feet.

Working Paper and External Presentation: Unbalanced Trade 2.0

The IMF WP [Unbalanced Trade 2.0](#), authored by A. Cuñat (University of Vienna) and R. Zymek (IMF), re-visits the question of whether and how trade imbalances influence economies' real incomes. The paper shows that persistent imbalances can have lasting income effects when scale economies are concentrated in the trade sector. In such cases, a trade surplus expands the trade sector, raising productivity and real income, while a trade deficit lowers both.

The authors assess the strength of this mechanism and show that, under plausible calibrations of the relative strength of scale economies in trade production, it can lead to a significant redistribution of the gains from trade away from deficit and towards surplus economies. The paper highlights that this beggar-thy-neighbor effect arises from the underproduction of tradables when traded production is relatively scale intensive, and it discusses possible policies to address this inefficiency.

The paper was also presented by R. Zymek at the BdF-BoE-BdI International Macroeconomics Workshop at the Bank of Italy and at the Midwest Trade & Theory Conference at Penn State University, providing an opportunity to gather feedback from leading scholars and share the findings with policy makers from the Bank of France, Bank of England, and Bank of Italy.

Working Paper and External Presentation: Agricultural Distortions and International Migration

The IMF WP [Agricultural Distortions and International Migration](#), by B. Britos, M. A. Hernandez, and D. Trupkin, examines how agricultural market distortions shape emigration patterns in developing countries. Authors develop a theoretical framework identifying two key channels: distortions push the most productive farmers to emigrate, reducing domestic productivity, while the resulting misallocation lowers incomes economy-wide and further incentivizes out-migration. Detailed Guatemalan agricultural census microdata and household surveys are used to estimate the model.

Counterfactual exercises show that reducing distortions to benchmark levels would decrease emigration by 35% of Guatemalans currently in the US, while boosting agricultural productivity by 30% and welfare by 3.4%. Sub-national analysis reveals that high-distortion areas exhibit limited financial access, poor road connectivity, and weak government presence. These findings carry direct implications for LICs facing similar agricultural inefficiencies and emigration pressures across Latin America, Africa, and South Asia, suggesting that policies promoting financial inclusion, infrastructure investment, and institutional strengthening can simultaneously enhance productivity and reduce outward migration.

The paper was presented at the LACEA 2025 Annual Meeting, held at Universidade Federal de Pernambuco (UFPE) in Recife, Brazil, on November 21, 2025.

External Presentation: Bilateral Trade in Services: Insights from a New Research Dataset

R. Zymek presented the IMF WP [Bilateral Trade in Services research dataset \(BiTS\)](#) at the 13th IMF Statistical Forum. The dataset compiles official statistics on bilateral services trade flows from multiple sources, providing the most comprehensive dataset of its kind for empirical analysis. A companion paper describes the dataset and demonstrates its uses through two research applications.

The Statistical Forum brought together policymakers, researchers, private sector participants, and statisticians from across the Fund's membership to discuss advances in measuring cross-border economic and financial linkages, with presentations by around 40 speakers. The presentation of the BiTS dataset helped raise awareness among potential users and gather feedback on ongoing efforts to expand and improve the dataset and apply it in research projects.

External Presentation: Navigating Cross-border Policy Challenges in a Dynamic World – Emerging Data Gaps

On November 19, P. Topalova was a panelist in the session “Navigating Cross-border Policy Challenges in a Dynamic World – Emerging Data Gaps” at the IMF’s 13th Statistical Forum: Measuring Cross-Border Economic and Financial Linkages in a Dynamic World, held in Washington, DC. The panel explored how to inform key policy decisions related to recent trade developments, shifts in international investment patterns, the interaction of capital flows with financial innovation and illicit financial flows, and cross-border movements of labor and remittances.

The panelist’s remarks focused on the data challenges faced by lower-income countries and highlighted several MRLIC toolkits and ongoing projects that help address these gaps.

External Presentation: Does Climate Change Lead to Structural Transformation? Empirical Evidence from Developing Countries

A. Drabo attended the Inclusive Growth in Mozambique (IGM) conference in Maputo on November 12-13, 2025, where he presented an upcoming IMF WP titled *Does Climate Change Lead to Structural Transformation? Empirical Evidence from Developing Countries*. The paper examines the effects of climate shocks on different sectors of the economy in developing countries and analyzes their implications for structural transformation using detailed sectoral data and appropriate econometric techniques.

The results show that droughts reduce employment in the agricultural sector while shifting labor toward industry and services in the short, medium, and long-term. Droughts also lower the growth of value-added in the agricultural sector relative to services, though this effect lasts for only one year. Floods reduce employment and value added in the service sector in the short term and lead to a mid-term reallocation of labor from agriculture to services. The analysis also finds that certain adaptation strategies can mitigate the withdrawal of workers from agriculture following climate shocks.

External Presentation: Robust Inference via Heteroskedasticity in Linear Models

O. F. Akbal presented an upcoming IMF WP on *Robust Inference via Heteroskedasticity in Linear Models* at the [5th Sailing the Macro Workshop](#) in Siracusa, Italy, held on September 5-7, 2025. The paper proposes a new methodology for inference in simple linear models and shows its usefulness for policy discussions that often suffer from endogeneity or data mismeasurement.

Applications to fuel-price passthrough in Sierra Leone, the effect of remittances on consumption in the Philippines, and exchange-rate passthroughs in several countries illustrate the versatility and scalability of the approach. Discussions with experts and academics provided valuable feedback.

External Presentation: Global Linkages and Global Nowcasting

O. F. Akbal presented the upcoming IMF WP *Global Linkages and Global Nowcasting*, co-authored with D. Giannone, at the [2025 Örebro Workshop on Macro- and Financial Econometrics](#), held on November 3-4 in Sweden. The workshop brought together experts from various areas of macro and financial econometrics and provided an opportunity to discuss policy implications and avenues for further improvement.

The paper develops a model that estimates missing quarterly GDP series by leveraging global and regional economic

interconnections—an especially valuable contribution given that 34% of economies worldwide publish only annual GDP statistics.

External Presentation: Capital Allocation and Firm Dynamics in Small Open Economies

An upcoming WP on *Capital Allocation and Firm Dynamics in Small Open Economies* by F. Camelo was presented at the Washington Area International Finance Symposium on September 26, 2025. The paper examines the consequences of large capital inflows for aggregate output, productivity, and the allocation of resources across firms. Using balance of payments data, the author identifies capital inflow booms in 85 countries between 1975 and 2019, finding that these episodes are associated with persistent increases in private credit and temporary output booms, but also with sustained declines in total factor productivity (TFP).

Firm-level data for 30 countries show that although individual firms experience strong but short-lived booms following these episodes, there is a significant reallocation of capital and debt toward firms with higher marginal revenue product of capital (MRPK). The author interprets these findings through a small open economy firm-dynamics model featuring heterogeneity and financial frictions, demonstrating that general equilibrium adjustments—through shifts in firm entry and exit—are essential to replicating the observed aggregate TFP response.

Blog: Even as Global Uncertainty Surges, Economic Sentiment Remains Positive

An IMF Blog, [Even as Global Uncertainty Surges, Economic Sentiment Remains Positive](#), by H. Ahir, N. Bloom, and D. Furceri, highlights that despite rising geopolitical rifts and trade tensions, global economic uncertainty has surged, yet sentiment about future economic prospects remains positive.

The blog draws on findings from the author's NBER paper, [The World Uncertainty Index](#).

Presentation: Sovereign Risk in a Warming World: Unraveling the Domestic Yield Curve Response

A. Drabo and K. Kpodar presented the upcoming IMF WP *Sovereign Risk in a Warming World: Unraveling the Domestic Yield Curve Response* at an IMF RES presentation session on October 28, 2025. The paper investigates the impact of natural disasters and climate vulnerability on the domestic sovereign yield curve, highlighting distinct transmission channels. Using a newly compiled dataset on domestic treasury bill and bond yields, the authors find—through fixed-effects and local projection difference-in-difference estimations—evidence of a climate premium in the pricing of domestic government securities. It also shows that natural disasters significantly steepen the yield curve for short-term maturities.

The analysis identifies heightened fiscal stress and monetary policy stance as the main transmission channels from natural disasters. By contrast, the effect of climate vulnerability is more pronounced in economies with shallower financial systems. These results underscore the importance of integrating climate risk into debt management and fiscal policy frameworks.

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