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MACRO RESEARCH FOR DEVELOPMENT
An IMF-DFID Collaboration

Department for International Development

High Level Conference in Botswana: Fostering Diversification to Escape the Middle-Income Trap

Jointly with AFRITAC South, Bank of Botswana, Delegation of the European Union to Botswana, the Southern African Development Community (SADC) and DFID, the IMF organized a high-level conference entitled “Fostering Diversification to Escape the Middle-Income Trap" in Kasane, Botswana. The conference brought together senior officials from Botswana government, representatives from emerging market and advanced economies, academics, regional institutions and six IMF staff including the Deputy Managing Director Mr. Tao Zhang.

The conference discussed a range of topics centered on the experiences from countries that have successfully diversified their economies (including Chile, Costa Rica, Estonia, South Korea and Mauritius), the policies they put in places; how they reformed their macroeconomic frameworks and institutions, the extent to which they upgraded in terms of diversification and lessons can be drawn. In his opening remarks, Mr. Zhang urged Botswana to learn from other countries experiences when identifying “the general principles and arrangements that are relevant to countries’ specific circumstances in order to maximize the chances of the success".

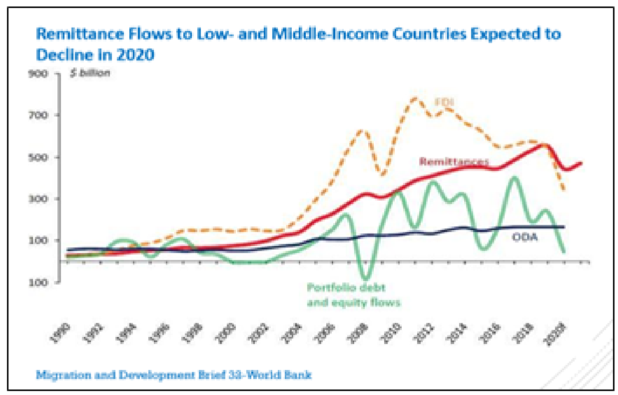
High Level Virtual Conference on Fragile States Facing COVID-19

On May 27, Ralph Chami and Raphael Espinoza joined a panel discussion during a high-level virtual seminar on “COVID-19 in Fragile States” hosted by the London School of Economics (LSE). The discussions focused on the impact of the COVID-19 pandemic in fragile states and the policy responses required to deal with the aftermath of the outbreak both from a social as well as an economic perspective. Recognizing that humanitarian aid would be indispensable to help these economies fight against the pandemic, the seminar highlighted that a transition is needed from the current framework to deal with fragile states to consider development policies better tailored to countries’ specificities. Other speakers included Professors Oriana Bandiera, Tim Besley and Adnan Khan (Chair). The event was streamed lived and can be watched here.

The COVID-19 Pandemic in Africa: Macroeconomic Impacts and Policy Responses

From May 19 to June 2nd 2020, The African Union Commission, the African Training Institute and the IMF organized a virtual conference entitled "The COVID-19 Pandemic in Africa: Macroeconomic Impacts and Policy Responses". The conference aimed to facilitate discussions of the implications of the pandemic in Sub-Saharan Africa.

On May 22nd, Ralph Chami, Deputy Director at the IMF gave a presentation on the impact of COVID-19 on Migrants and Remittances in Low-Income and Fragile States. His presentation highlighted that due to the Covid-19 outbreak, remittances will certainly drop as host economies are experiencing significant income losses and an increase in unemployment. This would adversely impact recipient countries with a decrease in household's consumption and expenditure, a narrower fiscal space (decrease in consumption tax, increase on debt service and spending in public health), and more pressures on financial and private sectors (with a decrease on bank liquidity, a raising cost of borrowing and a decrease on bank capital). On the monetary policy front, many of these recipient countries are under fixed exchange rate regime and could undergo devaluation pressures. On the other hand, losing jobs would likely lead many migrants to return home, which could raise challenges on rising un- and under-employment with potential increase in informality and rise in social pressures. The presentation recommends that host countries consider regulating the migrant workers employment opportunities, extending social protection, and helping to reduce the cost of remitting.



On May 27 2020, Filiz Ünsal, Senior Economist at the IMF, gave a presentation based on the forthcoming IMF Working Paper entitled "Monetary Policy Frameworks: An Index and New Evidence" and a policy note on Central Bank Communication Through COVID-19. The presentation focused on the soundness of monetary policy frameworks at the current juncture, arguing that the soundness of the framework affects a central bank's ability to deal with shocks while the central bank's response to shocks, in turn, affect the soundness of the monetary policy framework. Particular emphasis was placed on the role for communication in safeguarding the existing framework, longer-term focus on price stability and credibility, with explicit guidance on how to communicate crisis measures.

Moldova Article IV Consultation: Tax Expenditures- Medium-Term Growth Benefits from Alternative Policies

Republic of Moldova's latest Article IV Staff Report features an estimation of the medium- to long-term macroeconomic impact of replacing tax expenditure with public investment. Tax expenditures result in significant revenue losses and are an inefficient way to extend support compared to better-targeted spending programs. They are also distortive, as they impair the level playing field for businesses. Simulation results show that such policy would yield large growth dividends.

Accelerating Development in Sierra Leone

Indicators of human capital in Sierra Leone had generally improved over the past two decades, despite major setbacks during the Ebola health crisis. However, education and health outcomes continue to lag most other countries. The IMF Selected Issues Paper "Boosting Human Capital, Accelerating Development, and Lowering Inequality in Sierra Leone", published in April, finds that the gains from providing each child with at least lower secondary education could, in the long-term, boost GDP by 40 percent, substantially lower income inequality, and generate additional revenues through higher individual incomes. Moreover, closing gender gaps in education across income groups or increasing the quality of education could yield gains of 8 and 27 percent of GDP, respectively. With limited fiscal space, evidence-based prioritizing, sequencing and targeting of policies—coordinated across sectors—is critical for sustained improvements to human capital outcomes.

Central Bank Communication Through COVID-19

D. Filiz Ünsal and Hendre Garbers published a policy note under the Research Department Special Series notes on COVID-19. This note provides detailed guidance on how central banks across the board should communicate crisis measures without compromising their existing monetary policy frameworks and longer-term focus on price stability, or their credibility.

Do Remittances Enhance Financial Inclusion in LMICs and in Fragile States?

Based on a large sample of 187 economies over the period 2004-2014, Sami Naceur, Ralph Chami and Mohamed Trabelsi published a working paper that explores the relationship between remittances and financial inclusion. Their research shows that the relationship between the two variables depends on the size of remittances. Indeed, at lowest level of remittances (less than 13% of GDP), financial inclusion seems to improve when remittances increase. However, this relationship becomes negative for highest level of remittances. Their findings suggest that by alleviating credit constraints to households while making their needs of banking services less likely, lowest amounts of remittances tend to substitute formal financial intermediation. On the other side, highest remittance inflows increase households' deposits in formal financial institutions and in that, increase formal financial intermediation by adding to liquidity. Their results also support that remittances inflow increase financial inclusion in Fragile States.

For more information, please contact MacroResDev@imf.org or visit the
IMF-DFID Macroeconomic Research for Development website.