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MACRO RESEARCH FOR DEVELOPMENT
An IMF-FCDO Collaboration

On the capacity to absorb public investment: How much is too much?

In a paper published in *World Development*, Daniel Gurara, Kangni Kpodar, Andrea Presbitero and Dawit Tessema show that while expanding public investment can contribute to fill infrastructure gaps, scaling up too much and too fast often leads to inefficient outcomes. The paper rationalizes this outcome by looking at the association between cost inflation and public investment in a large sample of road construction projects in developing countries. Consistent with the presence of absorptive capacity constraints, they find a non-linear U-shaped relationship between public investment and project costs. Unit costs increase once public investment is close to 10% of GDP. This threshold is lower (about 7% of GDP) in countries with low investment efficiency and, in general, the effect of investment scaling up on costs is especially strong during investment booms.

Export Growth - Fuel Price Nexus in Developing Countries: Real or False Concern?

In their latest paper published in *The Energy Journal*, Kangni Kpodar, Stefania Fabrizio and Kodjovi Eklou investigate the impact of domestic fuel price increases on export growth in a sample of 77 developing countries over the period 2000-2014. They find that an increase in domestic gasoline or diesel price adversely affects real non-fuel export growth, with the impact phasing out within two years after the shock. The impact is mainly noticeable in countries with a high-energy dependency ratio and where access to electricity is limited. Further, large fuel price shocks do not seem to lead to disproportionately large changes in exports, suggesting that neither the gradualism nor the shock therapy approach in fuel subsidy reforms dominates. In countries where the export sector is vulnerable to fuel price shocks, appropriate mitigating measures should be designed to smooth the transition to higher fuel prices.

Forecasting and Policy Analysis Systems (FPAS) Technical Assistance 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 conduct and modernize its forecasting and policy analysis capacity. As part of this initiative, the team delivered a virtual FPAS TA mission in March 2021. The mission assisted the BoG forecasting team in producing the model-based analysis and medium-term projections for the March 2021 forecast round and helped enhance the BoG's near-term forecasting (NTF) toolkit. A considerable amount of time on the mission was dedicated to the discussions of a newly-announced fiscal package and to the design of the related alternative scenarios.

Macroeconomic Policy in Fragile and Conflict-Affected States (FCS)

On March 12, IMF-FCDO team gave the final session of the Fragile States Internal Seminar Series. These series took root against the backdrop of the renewed attention the IMF is giving to fragile and conflict-affected states (FCS, also called countries experiencing fragility, conflict, and violence, or FCV). FCS pose different challenges for macroeconomic policy and, more broadly, for the relationships these countries have with international institutions. As a result, the “what” of both macroeconomic diagnosis and policies in FCS will differ from that in other countries. The “how” of the Fund’s interactions with FCS countries will also differ in many cases. While the first five modules of the series focused on what, this module turned to how. With the participation of four distinguished FCS Mission Chiefs (Carol Baker, Tokhir Mirzoev, Mika Saito, and Charalambos Tsangarides), the Deputy Director in charge of Fragile States (Franck Bousquet), the lead authors of the new book Macroeconomic Policy in Fragile States (Ralph Chami and Raphael Espinoza), and Professor Robert Klitgaard, the program targeted desk economists and mission chiefs working on FCS, with a focus on tools, policy design, and implementation challenges. Participants to this final session explored the operational challenges and practical lessons from FCS experience.

Macroeconomic Fragile States post COVID-19: What Stabilization Policies?

FCDO-IMF recently organized a webinar at the Euro-Mediterranean Economists Association to discuss the increased fragility in the Middle East and Africa, particularly in the context of COVID-19. The discussion was based on the book “*Macroeconomic Policy in Fragile States*” — coedited by Ralph Chami, Raphael Espinoza, and Peter Montiel—that covers the challenges of developing and implementing macroeconomic policy in Fragile and Conflict Affected States and provides the backbone to grasp the multifaceted fragility and how to mitigate via analytical frameworks and case studies.

The webinar also provided avenues for stabilization policies anchored in fiscal policy, trust, governance and private sector involvement. Discussions on the role of international partners, coordination and solidarity to tackle fragility were also featured.

Macroeconomic Fragile States post COVID-19: What Stabilization Policies?

FCDO-IMF recently organized a webinar at the Euro-Mediterranean Economists Association to discuss the increased fragility in the Middle East and Africa particularly in the context of COVID-19, while addressing the political economy issues and corruption. The discussion was based on the book “*Macroeconomic Policy in Fragile States*” — coedited by Ralph Chami, Raphael Espinoza, and Peter Montiel—that covers the challenges of developing and implementing macroeconomic policy in Fragile and Conflict Affected States and provides the backbone to grasp the multifaceted fragility and how to mitigate via analytical frameworks and case studies.

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Are the Remittance Flows Another Casualty of COVID-19?

IMF-FCDO experts have put together a course that discusses the risks and implications of a drop in remittances on economic, fiscal, and social outcomes. This course had been taught during two webinars at the Joint Vienna Institute and the Singapore Training Institute. Indeed, the COVID-19 pandemic is crippling the economies of rich and poor countries alike. For many low-income and fragile states, the loss of remittances—money sent home by migrant and guest workers employed in foreign countries-will exacerbate the shock. They represent a lifeline that supports households and a steady source of much-needed demand and tax revenue. As of 2018, remittance flows to fragile and vulnerable countries alone reached $350 billion, surpassing foreign direct investment, portfolio investment, and foreign aid as the single most important source of income from abroad. The target audience were officials involved in analyzing and forecasting remittance and their effects on social and economic outcomes.