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MACRO RESEARCH FOR DEVELOPMENT
An IMF-FCDO Collaboration

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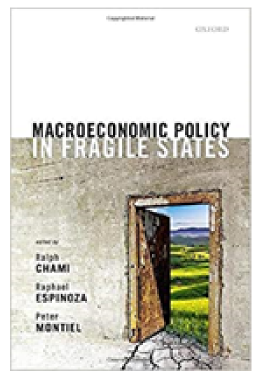
Macroeconomic Policy in Fragile States

In February 2021, the IMF published a book on Macroeconomic Policy in Fragile States. Co-edited by Ralph Chami, Raphael Espinoza (both IMF) and Peter Montiel (Williams College), the book comprises 20 chapters by experts drawn from the IMF, academia, World Bank and other IFIs, ILO, as well as from thinktanks around the globe. The book is geared for practitioners, policymakers, as well as applied economics and political science programs interested in understanding the challenges faced in designing and implementing macroeconomic policies in such situations. This book is also meant to help develop training modules for IMF economists interested in working on fragile states, as well as help inform IMF capacity development in member countries.



COVID-19 Pandemic in Developing Countries Conference

In December 2020, the IMF organized a virtual conference on COVID-19 Pandemic in Developing Countries. The motivation departed from the fact that economic outlook has worsened significantly in some emerging market and low-income economies where infections are rising rapidly. Consequently, these economies, excluding China, are projected to incur a greater loss of output over 2020-21 relative to the pre-pandemic projected path when compared to advanced economies. These uneven recoveries significantly worsen the prospects for global convergence in income levels. In this event, senior IMF staff, ministers, central bankers and academics from both emerging market and low-income countries discussed policy priorities to save lives and livelihoods, particularly the options to keep economies stable until there is a widely available vaccine. As a widely accessible, high-level virtual external event with a specific focus on developing countries, the event attracted a large audience across our membership and offered a valuable opportunity for peer-learning.

Central Banks and Inequality – COVID-19 and Beyond

In collaboration with the Peterson Institute for International Economics (PIIE) and the Council on Economic Policies (CEP), the IMF-FCDO coordinated three high-level virtual roundtables on Central Banks and Inequality in December

2020. The event hosted high senior staff from the organizing intuitions, several other key international organizations and academia. The first session elaborated on inequality and financial regulation. The second session featured a discussion about financial market infrastructure and inequality while the third session discussed the role of monetary policy and inequality. There was a consensus that Covid-19 profoundly increased inequality and that support measures from central banks (in addition to fiscal responses and structural reforms) are needed to help the most economic vulnerable.

Internal Economics Training: Macroeconomic Policy in Fragile and Conflict-Affected States (FCS)

Fund staff and external experts gave an online series of Internal Economics Training on FCS during September 2020 – January 2021. The program targets IMF desk economists and mission chiefs working on FCS, with a focus on tools, policy design, and implementation challenges. The program was modular with each module consisting of an overview session by an outside expert and a Fund-led session reflecting expertise and lessons from the field.

On September 22nd, the first module presented an *Overview and General Macroeconomic Policy in FCS*. The first session presented the salient characteristics of FCS, highlighting the challenges facing policy design and implementation, and discussed feasible solutions to help these states manage and, in some cases, exit fragility. The second session developed the macroeconomic framework that highlights what's different about FCS.

Entitled *Governance, Operating in a Fragile Environment*, the second Module was covered on November 2nd. Its first session focused on the social, political and economic factors that characterize fragile states. The second session examined the unique challenge of confronting governance vulnerabilities and corruption in FCS with the objective to explain the centrality of corruption in the governance dynamics in FCS.

On November 9th, the third module was entitled *Fiscal, Building Fiscal Institutions in a Fragile Environment*. The first session highlighted the complex web of causal relationships which connect fiscal capacity and state fragility. Based on IMF's extensive technical assistance programs in FCS, the second session presented concrete steps toward building or restoring fiscal institutions in fragile states.

On December 3rd, the third module entitled *Monetary, External, and Financial Sector* was covered. The first session of the module documented monetary and exchange rate policy aspects of countries' descent into, and exit from, economic fragility to draw out some key normative policy lessons for fragile countries and their external partners. The second session highlighted the types of inflows into FCS, examined their effects and provided an overview of financial underdevelopment in FCS.

The fifth module was covered on January 27th and presented the *Fund Policy in FCS*. In its first session, the course discussed some of the findings of the IMF's Independent Evaluation Office on "The IMF and Fragile States" published in 2018. The second session was dedicated to Fund engagement with FCS, including during the COVID crisis along with principles of program and conditionality design various aspects distinguish FCS, requiring a unique approach for Fund engagement with those members.

The remaining module of the series is planned in Mid-March and will present the *Operationalizing Fund Policy in FCS*.

Macroeconomic Consequences of Remittances in Low and Middle Income Countries (LMICs) and FCS

In November 2020, Ralph Chami (IMF) and Connell Fullenkamp (Duke University) gave a seminar on Macroeconomic Consequences of Remittances in (LMICs) and FCS. The presentation provided a tour through the growing literature on the macroeconomic impact of these private income flows in recipient countries, and discussed policy implications for LMICs and Fragile States, as well as for Fund policy advice, especially in light of the unfolding COVID-19 crisis. Relevant stylized highlighted that prior to this crisis, remittances had become the main flows into LMICs and Fragile States, bypassing portfolio flows and Official Development Assistance. The seminar underlined the well-known crucial role of remittances on welfare and poverty reduction. It featured that these private income flows, however, have been shown to entail macroeconomic challenges; producing Dutch Disease-type effects, reducing the quality of institutions, delaying needed fiscal adjustment, complicating monetary policy transmission, reducing labor participation, and possibly trapping recipient countries in an anemic long-run growth.

Online Course: Public Debt, Investment, and Growth. The DIG and DIGNAR Models

Giovanni Melina and Felipe Zanna (both IMF) released an online course for the IMF Training Catalog on Public Debt, Investment, and Growth. The DIG and DIGNAR Models. This course explains how to analyze the relation between public investment, growth, and public debt dynamics, using two dynamic structural models: the Debt, Investment, and Growth (DIG) model and the Debt, Investment, Growth and Natural Resources (DIGNAR) model. The course presents and discusses the key pieces of these models (the investment-growth nexus, the fiscal adjustment, and the private sector response) and their interactions, which helps understand and assess the macroeconomic effects of public investment scaling-up plans, including on growth and debt dynamics.

DIGNAR-19: A Toolkit for Macro Policy Assessments of the COVID-19 Pandemics in Emerging and Developing Economies (EMDEs)

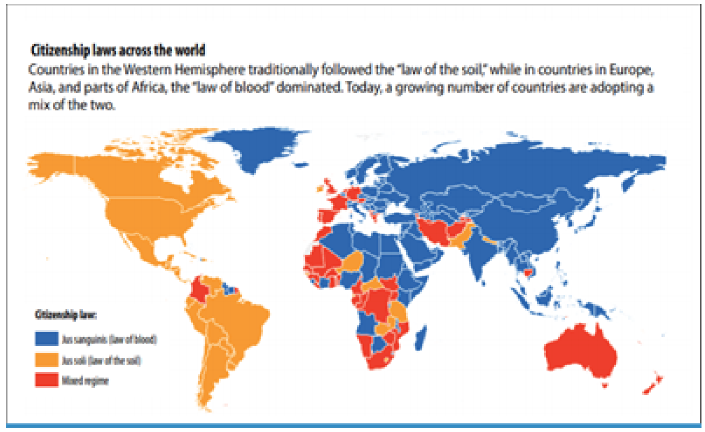
Zamid Aligishiev, Giovanni Melina, and Felipe Zanna (all IMF) developed the DIGNAR-19 toolkit to help area departments conduct quantitative macroeconomic assessments and policy scenario analysis in EMDEs, with a focus on growth and debt. The DIGNAR-19 toolkit provides a user-friendly Excel-based interface that requires little to no knowledge of advanced software. The toolkit comprises three blocks: simulation, graphing, and realism tools. These translate the contents of an Excel input file into instructions for Matlab/Dynare programs. All three tools run behind the scenes and produce an Excel file with simulation outputs and customizable charts.

Estimating the Impact of COVID-19 Resurgence in Nigeria

Gabriela Cugat , Giovanni Melina and Felipe Zanna (all IMF staff) estimated the impact of a global and domestic resurgence of the COVID-19 pandemic on growth and public debt in Nigeria for the IMF's Article IV consultation with the authorities. The model used is a dynamic general equilibrium model, DIGNAR-19 (Melina and Zanna, 2020), combined with an epidemiological multigroup susceptible-infectious-removed (SIR) model (Cugat, 2020). Simulations show that the COVID-19 resurgence would take a heavy toll on the Nigerian economy, with GDP contracting by 1.7 percent in 2021 and the public-debt-to-GDP ratio continuing to increase in the medium term.

Does an Inclusive Citizenship Law Promote Economic Development?

In a recent paper published in the *Review of Law and Economics*, Patrick Imam and Kangni Kpodar (both IMF) analyze the impact of citizenship laws on economic development. First, they document the evolution of citizenship laws around the world, highlighting the main features of jus soli, jus sanguinis as well as mixed regimes, and shedding light on the channels through which they could have differentiated impact on economic development. Using a newly compiled database of citizen laws with cross-country regressions, panel-data techniques, as well as the synthetic control method, the paper finds that jus soli laws—being more inclusive—lead to higher income levels than alternative citizenship rules in developing countries, though to a less extent in countries with stronger institutional environment.



Quarterly Projection Model for the National Bank of Rwanda

A joint Working Paper with staff at the IMF and National Bank of Rwanda documents the structural quarterly projection model (QPM) which is at the core of Forecasting and Policy Analysis System (FPAS) at the National Bank of Rwanda (BNR), and is applied for macroeconomic analysis and projections to support staff's policy recommendations to the monetary policy committee at BNR. The model is an extension of the canonical structure in Berg et al (2006) to reflect specifics of the interest-rate-based policy framework in Rwanda and features a managed exchange rate, the effect of agricultural sector and harvests on prices, and the role of fiscal policies and aid flows.

Central Bank Communication Through COVID-19 —Focusing on Monetary Policy

This Policy Note written by D. Filiz Ünsal and Hendre Garbers (both IMF) has been published as part of the Special Series note on COVID-19. The note was motivated by the fact that the COVID-19 shock has forced central banks to relent priority to crisis management objectives. It provides insights on how central banks can integrate the crisis response into the monetary policy communication cycle in order to safeguard integrity.

Is Regional Trade Integration a Growth and Convergence Engine in Africa?

In this Working Paper, Vigninou Gammadigbe uses a panel data covering the period 1979- 2018 to assess the contribution of regional trade integration (RTI) to economic growth and income convergence in Africa and its major Regional Economic Communities (RECs). Based on several econometric models that address substantial endogeneity issues, the results show that RTI promotes economic growth in Africa. However, it appears that RTI leads to income divergence, reflecting the distribution of the gains from regional integration in favor of the more developed economies of the continent. These findings emphasize the importance to support the African Continental Free Trade Area (AfCFTA) project with policies aimed at reducing non-tariff barriers to trade and improving infrastructure in order to maximize the effects on growth in all participating countries.

Food Price Shocks and Household Consumption in Developing Countries: The Role of Fiscal Policy

Carine Meyimdjui (IMF) and Jean-Louis Combes (Clermont-Auvergne University) published a Working Paper that studies whether fiscal policy plays a stabilizing role in the context of import food price shocks using data for a sample of 70 low and middle-income countries over the period 1980-2012. The paper specifically seeks to provide evidence of a dampening effect of fiscal policy on the transmission of import food price shocks to household consumption. The results suggest that as expected import price shocks have a sizeable negative effect on household consumption, but this appears to be mitigated by discretionary government consumption, notably through government subsidies and transfers. The results are particularly robust for African countries and countries with less flexible exchange rate regimes.

Supply-Chain Bottlenecks during a Pandemic

John Spray (IMF) presented joint work with Vasco Carvalho and Matt Elliott (both at University of Cambridge) at the COVID-19 and Supply Chains session of the 2021 Annual Conference of American Economic Association. The presentation provided a theoretical framework and new algorithm to identify bottleneck firms which preclude an economy from meeting demand targets during a pandemic. It then uses tax data from Uganda to identify bottleneck firms in Uganda and simulations from a shock to import supply-chains which occurred at the start of the pandemic to show that a small set of firms are disproportionately important to ensure that the economy can meet output goals.

Exports upgrading and Consumption Volatility

In January 2021, Carine Meyimdjui (IMF) presented a paper at the Global Economic Policy Group online conference co-organized by Fern University in Hagen (Germany) and University of Westminster (UK). The paper estimates the effect of export quality and export concentration on household consumption volatility based on a sample of 147 developing and developed countries over the period 1980-2015. The results show that export quality upgrading significantly decreases consumption volatility while export concentration significantly increases consumption volatility. The effects are stronger in African and in non-OECD countries, in higher oil rent countries, as well as in countries with higher agricultural value added. The main channels through which export upgrading affects household consumption volatility include exports volume volatility and income volatility.

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