COVId-19 and Fragile States: Promoting Resilient Recovery for the Most Vulnerable Communities

As part of the World Bank-IMF 2021 Annual Meetings, an event was held on October 11, to take stock of the economic and social impact of COVID-19 in fragile and conflict-affected states (FCS) and to identify pathways for progress toward resilient recovery. A background analysis for this event was produced, as part of the FCDO-IMF research collaboration, to examine economic situations in FCS during the pandemic period. The IMF Managing Director Kristalina Georgieva chaired this event, reiterating the IMF’s strong commitment to FCS, particularly by developing an FCS Strategy. Senior officials from the United Nations and the International Committee of the Red Cross, as well as finance ministers from Madagascar and Sudan, participated and shared their reflections on responses to the pandemic and on opportunities to scale up joint multilateral support in the most fragile settings, where climate risks, food insecurity, and active conflict often overlap.

East African Community: Challenges to Monetary Policy Space and Transmission

D. Filiz Ünsal joined a virtual meeting with East African Community (EAC) Ministers of Finance and Central Bank Governors on October 19th during the 2021 Annual Meetings and collaborated with the African Department, providing input to the presentation on “EAC: Challenges to Monetary Policy Space and Transmission” that took place during this meeting. This high-level event by invitation during the Annual Meetings covered the monetary policy developments since the start of the pandemic and the path going forward for the East African Community (EAC) countries. There was a presentation by the IMF’s EAC team, the discussants included Mr. Atingi-Ego (Deputy Governor of the Bank of Uganda) and Mr. Rwangombwa (Governor of the Central Bank of Rwanda), and the welcoming and closing remarks were given by Mr. Abebe Aemro Selassie (Director of the IMF’s African Department).

Supporting Food Security in Sub Saharan Africa Amid the COVID Pandemic and Climate Change

Jointly with the IMF’s African Department, IMF-FCDO organized a high-level virtual panel on “Supporting Food Security in Sub Saharan Africa Amid the COVID Pandemic and Climate Change” on October 19th 2021 as part of the 2021 Annual Meetings. This panel focused on the role of macroeconomic policy and structural reforms in safeguarding food
security amid the COVID-19 pandemic, while fostering an inclusive and green economic recovery in sub-Saharan Africa. The discussion came at a time when the IMF is identifying viable options to support vulnerable member countries in their pandemic recovery and achieve resilient and sustainable growth, including through voluntary channeling of some SDRs from countries with strong external positions to those most in need. The panelists included Tahir Hamid Nguilin (Minister of Finance and Budget, Chad), David Beasley (Executive Director of the World Food Programme), and Musa Kpaka (Chief Technical Advisor in the Office of the President, Sierra Leone); and was moderated by Antoinette Monsio Sayeh (IMF’s Deputy Managing Director).

Course: Macro-Structural Training: Distributional Impact of Policies and Reforms

This clinic is one in a series of training clinics on macro-structural issues. The course provides an overview of the IMF’s analytical and policy work on inequality and its operationalization in country work. Specifically, it discusses the multifaceted nature of inequality drawing from case studies conducted in the context of surveillance. It then zooms in on the role of fiscal policy—the main tool for redistribution available to the authorities—with a focus on taxes, transfers/social spending, followed by an overview of the latest tools available to Fund economists. Two of the four sessions focus on the two new user-friendly templates produced by Fund staff: (i) a template to assess the distributional incidence of fuel subsidy reform; and (ii) a multi-sector heterogeneous agents model and the associated user-friendly toolkit to analyze the macro and distributional implications of alternative policy reforms (such as revenue mobilization, infrastructure investment, tax consolidation, and measures to counteract possible negative effects such as cash-transfer or universal base income).

Forecasting and Policy Analysis Systems Technical Assistance to Bank of Ghana

The IMF-FCDO team continues to support the Bank of Ghana (BoG) in its efforts to build and develop analytical capacity, FPAS processes and organization. In this context, a new virtual FPAS TA (Forecasting and Policy Analysis Systems Technical Assistance) mission was conducted during November 2021. The first part of the mission was dedicated to enhancing short-term forecasting architecture, revisiting and conducting various counterfactual simulations with the Quarterly Projection Model (QPM), and studying the performance of BoG staff historical forecasts. The second part of the mission focused on supporting the BoG staff in using their extended modelling framework to produce the model-based analysis for the November 2021 forecast round. In parallel, the Institute for Capacity Development Department’s FPAS TA team is being closely engaged with the BoG modelling team on documenting various components of BoG’s FPAS organization, with outputs in the form of User Guides for internal use as well as various external publications, like the prospective IMF Working Paper on Ghana QPM.

Human Capital Scarring Due to the Pandemic: Potential Loss Estimates to Inform the IMF-FSB joint Early Warning Exercise

The pandemic has posed a serious risk to human capital accumulation and may lead to a deep scarring effect on long-term economic outcomes. Such human capital scarring was one of the significant downside risks considered in the confidential Early Warning Exercise, jointly conducted by the IMF and the Financial Stability Board (FSB) and presented to the IMFC during the World Bank-IMF 2021 Annual Meetings. As part of the FCDO-IMF research collaboration, the team that examined education losses during the pandemic (April 2021 World Economic Outlook, Chapter 2, Box 2.2)
contributed to this Early Warning Exercise by estimating long-term GDP losses from school closures and other pandemic-related disruptions under a downside risk scenario. The analysis indicated a potentially higher scarring effect due to more school closures in low-income countries, contributing to gathering the strong support for low-income countries, in this IMFC meeting.

Opening Up: Capital Flows and Financial Sector Dynamics in Low-Income Developing Countries

Over the past two decades, many low-income developing countries have substantially increased openness towards external financing and have received large capital inflows. Futoshi Narita, co-authoring with Sebastian Horn, produced an IMF Working Paper that analyzes the link between the increased capital flows and financial sector dynamics in low-income countries. Using bank-level micro data, the analysis shows that capital inflows have been associated with financial deepening through increases in bank loans, deposits, and wholesale funding. Domestic banks increase loans more than foreign banks. There are only modest signs of a build-up in financial vulnerabilities. Causality is examined through an instrumental variable approach and an augmented inverse-probability weighting estimator. These approaches indicate only limited evidence for global push effects, pointing towards the importance of domestic pull factors.

This paper became available online recently, while it was already reported in the 2020 Annual Report of the FCDO-IMF research collaboration.

The Distributional Implications of the Impact of Fuel Price Increases on Inflation

In this Working Paper, Kangni Kpodar and Boya Liu investigate the response of consumer price inflation to changes in domestic fuel prices, looking at the different categories of the overall consumer price index (CPI). The paper also provides an update to the Global Monthly Retail Fuel Price Database, expanding the product coverage to premium and regular fuels, the time dimension to December 2020, and the sample to 190 countries. The paper finds that: (i) the response of inflation to gasoline price shocks is smaller, but more persistent and broad-based in developing economies than in advanced economies; (ii) past studies using crude oil prices instead of retail fuel prices to estimate the pass-through to inflation significantly underestimate it; (iii) while the purchasing power of all households declines as fuel prices increase, the CPI of the 20 percent richest households rises more than that of the 20 percent poorest households. But this progressivity phases out within 6 months after the shock in advanced economies, whereas it persists beyond a year in developing countries.

The Socio-Economic Impact of Special Economic Zones: Evidence from Cambodia

On November 20 Mariya Brussevich presented a paper at the Southern Economic Association Meetings, which examines the socio-economic impact of special economic zones (SEZs) in Cambodia—a prominent place-based policy established in 2005. The paper employs a database on existing and future SEZs in Cambodia with matched household surveys at the district level and documents stylized facts on SEZs in a low-income country setting. It finds that entry of SEZs disproportionately benefits female workers and leads to a decline of income inequality at a district level. However, land values in SEZ districts tend to rise while wage levels remain largely unchanged relative to other districts. In addition, the paper tests for socio-economic spillovers to surrounding areas and for agglomeration effects associated with clusters of multiple SEZs.

Climate financing and compensation have emerged as key themes in the international climate mitigation debate. According to one argument in support of compensation, advanced economies (AEs) have used up much of the atmosphere’s absorptive capacity, thus causing global warming and blocking a similar, fossil-fuel driven development path for emerging markets and developing economies (EMDEs). In this Working Paper, Johannes Wiegand develops a simple model of a sequential, fossil-fuel driven development process to discuss these issues systematically. The results suggest: (i) AEs have typically a stronger interest in climate change mitigation than EMDEs, (ii) from an equity perspective, compensation is called for only if EMDEs are relatively small; (iii) there can also be an efficiency case for compensation, however, with AEs buying EMDEs out of some of their GHG emissions; (iv) ultimately, a superior option—for both the world’s climate and growth prospects—is the development of clean energy technologies by AEs and their transfer to EMDEs. The latter requires strong mitigation efforts by AEs even if EMDEs fail to play along initially.

Food Insecurity and Prices during COVID-19

D. Filiz Ünsal coauthored a note on the impact of the global pandemic on food security. This note has been featured as a box (Box 2.1) in the October 2021 World Economic Outlook, Chapter 2. It highlights that the recent increases in global food prices have made food insecurity macro-critical to many countries. The box emphasizes that the dual shock of rising food prices and falling incomes will exacerbate inequality, as low-income countries and poorest the households generally spend an outsize amount of their income on food.

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.