

September 2022

MACRO RESEARCH FOR DEVELOPMENT
An IMF-FCDO Collaboration



Ghana Forecasting and Policy Analysis System TA

The IMF-FCDO team continues to support the Bank of Ghana (BoG) in its efforts to develop a Forecasting and Policy Analysis System (FPAS). In this context, ICD conducted an in-person TA mission during July 4-15, 2022 focusing, among other things, on extending the Quarterly Projection Model (QPM) used by the BoG to produce policy analysis and forecasts for its Monetary Policy Committee (MPC). The TA team helped BoG decompose the model-based GDP into agriculture, oil, and non-agriculture-non-oil value added. This allows to better capture the demand-side vs. supply-side inflationary pressures and more accurately assess the fundamental drivers of price dynamics in Ghana. Using the extended modeling environment, the TA mission assisted the BoG staff in preparing the real-time analysis and forecasts for the July 2022 MPC sessions, amidst a very challenging macroeconomic environment, with inflation rates close to 30%.

2022 International Conference on Development Economics

Jointly with the French Association of Development Economics and other distinguished organizations, the IMF-FCDO project organized a high-level international [conference](#) on development economics, hosted by the Centre d'Études et de Recherches sur le Développement International (CERDI), Clermont-Auvergne University, France, from June 30 to July 1st, 2022. The conference offered a platform for discussing the latest research in development economics, notably on migration, climate change, growth, poverty, monetary policy, international trade, inequality, and fiscal policy. Keynote speakers included Rabah Arezki (formerly African Development Bank, Cote d'Ivoire), Jean-Marie Baland (Université de Namur, Belgium), and Ana María Ibáñez (Universidad de Los Andes and Inter-American Development Bank, Colombia). More than fifteen participants funded by IMF-FCDO from LICs across the world presented at the conference.

Conference on Fragile States

On June 6-7, the International Monetary Fund organized a conference, under the IMF-FCDO partnership, to explore the nexus between fragility, conflict, and macroeconomic policy. The conference gathered FCS policymakers, leading academics, and practitioners to reflect on the role of macroeconomic policy in FCS, and the Fund's stepped-up efforts to

support these countries. Discussions highlighted insights and lessons learned from the volume *Macroeconomic Policy in Fragile States* ([OUP, 2021](#)). The sessions focused on the critical role fiscal, monetary, and financial sector policies can play in reversing state fragility and preventing a spiral into state failure. Challenges and opportunities to build state capacity in FCS were also highlighted. Some discussions were also dedicated to the Fund's FCS Strategy, which aims to enhance the IMF's ability to deliver tailored, robust, and long-term support to FCS.

Monetary Policy Frameworks-An Index and New Evidence

On June 30th, 2022, D. Filiz Ünsal and Chris Papageorgiou hosted a hybrid seminar at the IMF titled "Monetary Policy Frameworks-An Index and New Evidence" and launched the [Monetary Policy Frameworks: IAPOC toolkit](#). This seminar aimed at disseminating and promoting the use of the IAPOC Index, along with the underpinning methodology covered in [Working Paper](#) released in February. D. Filiz Ünsal used different country examples to show how to download and use the data from the website. The seminar included welcoming remarks by Pierre-Olivier Gourinchas (IMF) and panel discussions moderated by David Wessel (The Hutchins Center on Fiscal and Monetary Policy, Brookings Institution), with Alan Blinder (Princeton University), Richard Clarida (Columbia University) and D. Filiz Ünsal. Leading researchers and practitioners participated in this seminar both online and in person, exchanging views and ideas on the vital role of monetary policy frameworks, related challenges, and the importance of the newly released IAPOC data.

On July 28th, 2022, D. Filiz Ünsal presented the paper "[Monetary Policy Frameworks-An Index and New Evidence](#)" in a joint research seminar with the 'Caucasus, Central Asia, and Mongolia Regional Capacity Development Center' (CCAMTAC). The presentation covered the intuition behind the IAPOC index, the methodology and the data collection process. Moreover, she shared the main findings obtained from the analysis and assessment of monetary policy frameworks both globally and for the CCA. Haykaz Igityan (Head of Model Improvement Division, Central Bank of Armenia) and Azat Kozubekov (Head of Economic Department, National Bank of Kyrgyz Republic) were the discussants in this seminar. A lively conversation followed with the participants.

Income Convergence Or Divergence in The Aftermath of the COVID-19 Shock?

In this [Working Paper](#), Mariya Brussevich, Shihui Liu, and Chris Papageorgiou extend the work of Deaton (2021) by exploring income convergence in the period of post-crisis recovery in 2021-2024. The research documents per-capita income divergence during the period of post-shock recovery, with countries at the bottom of the income distribution falling significantly behind. Findings suggest that higher COVID-19 vaccination rates and targeted virus containment measures are associated with faster recovery in per-capita incomes in the medium term. Evidence on the effectiveness of economic support policies for reducing cross-country income inequality, including fiscal and monetary policies, is mixed especially in the case of developing countries.

Staple Food Prices in Sub-Saharan Africa: An Empirical Assessment

Cedric Okou, John Spray, and Filiz Unsal published a [Working Paper](#) that analyzes the domestic and external drivers of local staple food prices in Sub-Saharan Africa. The paper exploits data on domestic market prices of the five most consumed staple foods from 15 countries. It documents that while external factors drive food price inflation, domestic factors can mitigate these vulnerabilities. On the external side, our estimations show that Sub-Saharan African countries

are highly vulnerable to global food prices, with the pass-through from global to local food prices estimated close to unity for highly imported staples. On the domestic side, staple food price inflation is lower in countries with greater local production and among products with lower consumption shares. Additionally, adverse shocks such as natural disasters and wars bring sharp real increases in staple food prices. Economic policy can lower food price inflation, as the strength of monetary policy and fiscal frameworks, the overall economic environment, and transport constraints in geographically challenged areas account for substantial cross-country differences in staple food prices. The outcomes from this working paper will be featured in an IMF departmental paper and presented during the October 2022 IMF-World Bank Annual meetings.

External Sector Impact of Disaster Shocks

An analysis using the DIGNAD model (Marto, Papageorgiou, and Kluyev, 2018)—a workhorse model developed under the FCDO-IMF partnership—is featured in Box 1.3 in Chapter 1 of the [IMF's 2022 External Sector Report](#), published in August 2022. The model allows to assess the impact of natural disasters on the external sector of natural disaster-prone economies, which are in large part small low-income countries. Together with an empirical analysis showing that natural disasters tend to be followed by large current account deficits, model-based results show that the impact of natural disasters on both GDP and the current account can be mitigated by ex-ante investments in adaptation. A contingency fund can also reduce reliance on external debt to finance reconstruction, thereby smoothing the recovery.

Adapting to Climate Change: A Macro Framework

Vu T. Chau and Filiz D. Unsal presented a seminar “Adapting to Climate Change: A Macro Framework” at the IMF Research Development-Macroeconomic Seminar Series on June 27, 2022. The seminar showcased the working paper (in preparation) and introduced a novel macroeconomic model to analyze the impacts of climate physical and transition risks on macroeconomic stability and study optimal policies for developing and low-income countries. The analytical model will also be developed into a user-friendly climate analysis interface as part of an interdepartmental project that won the first prize of the IMF Climate Innovation Challenge 2022.

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](#).