February 2016, Vol. 4(1)

MACRO RESEARCH FOR DEVELOPMENT
An IMF-DFID Collaboration

Public Investment Efficiency and Growth

Recent policy recommendations suggest that the output growth 'bang' for each additional 'buck' of public investment depends on the efficiency of public investment spending. Berg et al. (2015) argue that high-efficiency and low-efficiency countries may have similar growth impacts from additional public investment spending. This is because efficiency and scarcity of public capital are likely to be inversely related across countries. Efficiency and the rate of return need to be considered together in assessing the impact of increases in investment.

Taylor visits Africa

Many low-income countries do not use interest rates as their main monetary policy instrument. Gonçalves (2015) examines the possibility that central banks in low-income countries are de facto pursuing a strategy more akin to a Taylor rule. Estimation of small-scale models for Kenya, Uganda, and Tanzania reveals that monetary policy in these countries respects the Taylor Principle; that is, on average, nominal interest rates have been pushed higher by more than one-to-one with inflation by these countries' central banks.

Monetary Transmission in Uganda: Lessons from a New Dataset

Abuka et al. (2015) look how monetary policy influences credit aggregates and the real economy using a unique loan-level dataset from Uganda, and find that increases in interest rates reduce the supply of bank credit. The results also show there is significant pass-through to retail lending rates. The authors document a strong bank balance sheet channel and show the impact of monetary policy on real activity across districts depends on banking sector conditions. Overall, the results indicate significant real effects of the bank lending channel in developing countries.

Gender Equality and Women's Advancement

Stotsky et al. (2016) examine trends in gender equality and women's development using individual indicators and summary indexes. The authors construct time-consistent versions of the UNDP's Gender Development Index and Gender Inequality Index to examine time trends. In recent decades, the world has moved closer to gender equality and narrowed gaps in education, health, and economic and political opportunity; however, substantial differences remain, especially in South Asia, the Middle East, and sub-Saharan Africa.

Public Investment and Absorptive Capacity

A recent trend in several low-income developing countries has been a rapid scaling-up of public investment. It is argued that in the presence of limited absorptive capacity, countries are not able – in terms of skills, institutions, and management – to translate additional public investment into sustained output growth. Presbitero (2016) tests for the presence of absorptive capacity constraints using a large dataset of World Bank investment projects, approved between 1970 and 2007 in 80 countries. Results indicate that projects undertaken in periods of public investment scaling-up are less likely to be successful, although this effect is relatively small, especially in poor and capital scarce countries.

Government Spending Effects in LICs

Government spending is an important policy instrument in low-income countries, both to counteract business cycles and to promote growth. Despite its importance, few efforts have been devoted to study fiscal policy effects in these countries. Shen et al. (2015) develop a new-Keynesian small open economy model to show that some of the prevalent features of LICs—different types of financing including aid, the marginal efficiency of public investment, and the degree of home bias—play a key role in determining the effects of fiscal policy and related multipliers in these countries.

International Sovereign Bonds in EMDEs

What determines the ability of an emerging market or developing economy (EMDE) to issue bonds in international capital, and what explains the bond spreads? Presbitero et al. (2015) find that an EMDE is more likely to issue a bond when, compared to non-issuing peers, it is larger in economic size, has higher per capita GDP, and has stronger macroeconomic fundamentals. Spreads on sovereign bonds are lower for countries with strong external and fiscal positions and robust economic growth and government effectiveness, and are reduced in periods of lower market volatility.

Public Investment in the Republic of Congo

The tradeoff between savings, debt and public investment in the Republic of Congo is analyzed in Alter et al. (2015). Results highlight the risks to fiscal and capital sustainability of oil exporting countries from a large scaling-up in public investment and oil price volatility in view of a projected decline in the oil revenue to GDP ratio. Structural reforms that improve the public investment efficiency can promote a relatively faster buildup of sustainable public capital and sustain higher non-oil growth without adversely affecting the debt ratio or savings.

Gender Budgeting Workshop

The IMF-DFID group hosted a second workshop on gender budgeting on February 1-2, 2016 at the IMF Headquarters. Along with the authors involved in the work on six regional chapters, attendees included members of the advisory committee for the project and representatives from UN Women, World Bank, and UNICEF. The working papers and a publically-available toolkit on gender responsive budgeting efforts should be available in the fall.

For more information, please contact MacroResDev@imf.org.
See IMF-DFID Macroeconomic Research for Development website for further details on the project.