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MACRO RESEARCH FOR DEVELOPMENT
An IMF-DFID Collaboration

Department for International Development

Conference on Gender and Macroeconomics

A conference on Gender and Macroeconomics was held on March 23-24, 2017 at the IMF Headquarters in Washington, DC. The IMF Managing Director and the IMF Director of the Research Department offered opening remarks. The conference provided a forum for discussing innovative empirical and theoretical research on gender and macroeconomics and policy implications, with specific application to the challenges of low-income and developing countries. Topics included female labor force participation, financial inclusion, trade diversification, firm performance, intra-household choices, public investment, and macroeconomic outcomes.

Natural Resource Booms and Sustainable Growth

Many resource-rich developing countries are in the process of harnessing immense mining resources towards inclusive growth and prosperity. The often-large infrastructure gap in developing countries calls for public investment to unlock the long-term growth potential. This paper uses a structural model-based approach to analyze macroeconomic impacts of different public investment strategies on key fiscal and growth variables. The authors find that, although scaling up of public investment could provide a boost to the growth, too rapid fiscal outlays will push the economy to its limit of absorptive capacity and increase macroeconomic vulnerabilities.

Financial Liberalization, Inequality, and Inclusion

This paper examines the distributional impact of capital account reforms and the linkage among liberalization, inequality and inclusion in low-income countries. Using a panel data for 29 low-income countries from 1970 to 2010, the authors find that capital account liberalization reforms are associated with statistically significant and persistent increase in income inequality in both short and medium term. The authors also highlight that the level of financial development has an important role in determining the response of inequality to liberalization: impact of capital account liberalization on inequality is larger in countries with lower level of credit market development and financial inclusion.

World Trade in Services: A New Dataset

Using a newly constructed dataset on trade in services for 192 countries from 1970 to 2014, this paper shows that services currently constitute one-fourth of world trade and an increasingly important component of global production. A detailed analysis of patterns and stylized facts reveals that exports of services are not only gaining strong momentum and catching up with exports of goods in many countries, but they could also trigger a new wave of trade globalization. Research applications of the trade in service dataset on structural transformation, resilience, labor reallocation, and income distribution are outlined.

IMF Course on Inclusive Growth

Prakash Loungani taught a two-day course at the IMF on inclusive growth, which offered a unifying framework for the IMF’s work on fiscal and monetary policies and inclusive growth. In addition to non-technical lectures on these topics, the course features cameo appearances by staff from various departments who are engaged in the work on inclusive growth.

Growth and Equity: Can Countries Have It All?

Sandra Lizarazo and Marina Mendes-Tavares presented at the IMF Analytical Corner, a TED-style talk, at the IMF Spring Meetings. The presentation shed light on how core macroeconomic and structural policies affect growth and income distribution in developing countries and the channels through which growth-equity tradeoffs tend to be generated, and focused on two country case studies, Malawi and Honduras.

Weakening Growth in EMDEs

Growth in emerging market and developing economies (EMDEs) has recently weakened, compared to the strong growth performance observed in much of the 2000s. This paper assesses the nature of this growth slowdown by examining both the demand and the supply side of the story from a longer-term perspective. Overall, the analysis suggests that while growth in EMDEs will continue to deliver economic convergence, the pace will likely remain modest going forward. Promoting faster convergence would require reforms that facilitate needed investment flows, and ensure demographic dividends, where expected, to materialize.

Macroprudential Policy, Incomplete Information and Inequality

In this paper, the authors use a DSGE model to study the passive and time-varying implementation of macroprudential policy when policymakers have noisy and lagged data, as commonly observed in low-income and developing countries (LIDCs). The authors compare policy performances of permanently increasing the collateral requirement (passive policy) versus a time-varying (active) policy which responds to credit developments. Results show that with perfect and timely information, an active approach is welfare superior, as it is more effective in providing financial stability with no long-run output cost. If the policymaker is not able to observe the economic conditions perfectly or observe with a lag, a cautious (less aggressive) policy or even a passive approach may be preferred. However, the latter comes at the expense of increasing inequality and a long-run output cost.

Anti-tax Evasion Schemes in Ethiopia

Shimeles et al. (2017) analyze data from a randomized controlled trial of two innovative anti-tax evasion schemes in Ethiopia that signal threats of audit and complimentary messages that encourage tax morale. The results indicate that the threat of audit reduces tax evasion significantly, and its effect is higher in businesses commonly suspected of high tax evasion rates. The authors also find that appealing to the tax morale promotes compliance but slightly less than that of audit threat. The results are robust to different estimation strategies and less sensitive to potential confounding factors.

IMF Knowledge Exchange on Infrastructure Investment

We launched a knowledge exchange website with the aim of providing practical information to country teams regarding macroeconomic aspects of infrastructure investment including infrastructure gaps, public investment efficiency, the Fund’s Infrastructure Policy Support Initiative (IPSI) and tools comprising it. The IPSI aims to consolidate ongoing efforts to help countries increase the efficiency of public investment, thus pulling together tools used in the assessment of options for scaling up such spending. Several countries where infrastructure issues are particularly salient and constitute one of the key areas of engagement with the authorities were identified as IPSI pilots. In these countries surveillance over public investment has been integrated with technical assistance and several IPSI tools have been used. These pilots are: Cambodia, Colombia, Honduras, Kyrgyz Republic, Serbia, Solomon Islands, Thailand, Timor-Leste, and Vanuatu.

Investing in Public Infrastructure

Why do governments in developing economies invest in roads and not enough in schools? In the presence of distortionary taxation and debt aversion, the different pace at which roads and schools contribute to economic growth turns out to be central to this decision. Specifically, while costs are front-loaded for both types of investment, the growth benefits of schools accrue with a delay. Besides debt aversion, political myopia also turns out to be a crucial determinant of public investment composition. A "big push," by accelerating growth outcomes, mitigates myopia—but at the expense of greater risks to fiscal and debt sustainability. Tied concessional financing and grants can potentially mitigate the adverse effects of both debt aversion and political myopia.

Analytical and Empirical Tools for Inequality

In an effort to disseminate information within the IMF staff on inequality-related issues and available analytical and empirical tools to analyze them, a Fund-wide open discussion took place in March 27, 2017 between the First Deputy Managing Director Mr. Lipton and a number of staff working on inequality related-issues. Among the panelists, Davide Furceri discussed the Fund's research on inequality and Stefania Fabrizio the Fund's policy work on inequality and its operationalization at country level.

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