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Department  
for International  
Development

### Oxford Workshop on Macroeconomic Policy in Fragile States

The IMF organized a workshop with Oxford University's Blavatnik School of Government on December 10-11. Recent research on macroeconomic policy in fragile states was presented by academics and experts from a range of international organizations (IMF, World Bank, ILO, OECD). Topics covered included the interaction between society and state (Daron Acemoglu and James Robinson), how to support revenue mobilization (Tim Besley), how should IFIs support transitions (Paul Collier), and the criteria for choosing an exchange rate regime (Chris Adam, Ibrahim El-Badawi). The conference papers will be published as a book in early 2020.

### Remittances and Financial Inclusion in LMICs and Fragile States

Ralph Chami, Ekkehard Ernst, Connel Fullenkamp, and Anne Oeking presented cross-country [evidence](#) on the impact of remittances on labor market outcomes. Remittances appear to have a strong impact on both labor supply and labor demand in recipient countries. These effects are highly significant and greater in size than those of foreign direct investment or official development aid. On the supply side, remittances reduce labor force participation and increase informality of the labor market. In addition, male and female labor supply show significantly different sensitivities to remittances. On the demand side, remittances reduce overall unemployment but benefit mostly lower-wage, lower productivity nontradables industries at the expense of high-productivity, high-wage tradables sectors. As a consequence, even though inequality declines as a result of larger remittances, average wage and productivity growth declines, the latter more strongly than the former leading to an increase in the labor income share. In fragile states, in contrast, remittances impose a positive externality, possibly because the tradables sector tends to be underdeveloped. Our findings indicate that reforms to foster inclusive growth need to take into account the role of remittances in order to be successful.

### The Role of Multilateral Development Banks

Daniel Gurara (co-authors Andrea F Presbitero, Miguel Sarmiento) presented "[Borrowing Costs and The Role of Multilateral Development Banks: Evidence from Cross-Border Syndicated Bank Lending](#)" on January 24, 2019 at the International Finance Corporation Sector Economics Seminar. Cross-border bank lending is a growing source of external finance in developing countries and could play a key role for infrastructure financing. This paper looks at the role of multilateral development banks (MDBs) on the terms of syndicated loan deals, focusing on loan pricing. The results show that MDBs' participation is associated with higher borrowing costs and longer maturities---signaling a greater willingness to finance high risk projects which may not be financed by the private sector---but it is also associated with lower spreads for riskier borrowers. Overall, our findings suggest that MDBs could crowd in private investment in developing countries through risk mitigation.

## Revenue Mobilization and Inequality in Senegal

Making use of a computable general equilibrium model this paper quantitatively assesses the macroeconomic and distributional impacts of a fiscal consolidation in Senegal, raising revenue by 4 percentage points (a target within reach) through value added tax (VAT), personal income tax (PIT), and corporate income tax (CIT). After analyzing the trade-offs between growth and equity for each tax instrument, VAT is found to have the least efficiency cost in output and consumption but expands the rural-urban inequality gap because significant VAT tax incidence falls on the rural area. PIT is the most detrimental in terms of growth and inequality. CIT on the other hand, despite causing large efficiency loss, has better distributional implications by distributing the tax burden more evenly across regions. We show that much of the output and distributional costs can be mitigated when the additional revenue is used for infrastructure investment and cash transfer.

## Commodity Terms of Trade Database

The database includes a set of country-specific commodity price indices for 182 economies from 1962- present. For each country, the change in the international price of up to 45 individual commodities is weighted using commodity-level trade data. The database includes a commodity terms-of-trade index—which proxies the windfall gains and losses of income associated with changes in world prices—as well as additional country-specific series, including commodity export and import price indices. Link to the [paper](#) and [database](#).

## Improving Youth Labor Market Outcomes in Emerging Market and Developing Economies

Economic development and growth depend on a country's young people. With most of their working life ahead of them they make up about a third of the working-age population in the typical emerging market and developing economy. But the youth in these economies face a daunting labor market—about 20 percent of them are neither employed, in school, nor in training (the youth inactivity rate). This is double the share in the average advanced economy. It was nothing else to change, bringing youth inactivity in these economies down to what it is in advanced economies and getting those inactive young people into new jobs would have a striking effect. The working-age employment rate in the average emerging market and developing economy would rise more than 3 percentage points, and real output would get a 5 percent boost.

## Does an Inclusive Citizenship Law Promote Economic Development?

[Imam and Kpodar \(2019\)](#) analyzes how citizenship laws on economic development by documenting 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. The authors compile a data set of citizenship laws around the world, and use cross-country regressions, panel-data techniques, as well as the synthetic control method to provide supporting evidence that jus soli laws—being more inclusive—tend to lead to higher income levels than alternative citizenship rules in developing countries, though to a less extent in countries with stronger institutional environment. A summary of the paper has been published in [Finance and Development \(March 2019\)](#).



## Export Competitiveness - Fuel Price Nexus in Developing Countries: Real or False Concern?

[Kpodar, Fabrizio, and Eklou \(2019\)](#) investigate the impact of domestic fuel price increases on export growth in a sample of 77 developing countries over the period 2000-2014. Using a fixed-effect estimator and the local projection approach, the authors find that an increase in domestic gasoline or diesel price adversely affects real non-fuel export growth, but only in the short run as the impact phases out within two years after the shock. The results also suggest that the negative effect of fuel price increase on exports is mainly noticeable in countries with a high-energy dependency ratio and countries where access to an alternative source of energy, such as electricity, is constrained, thus preventing producers from altering energy consumption mix in response to fuel price changes.

## Gender Gaps in Senegal: From Education to Labor Market

[Malta and Mendes Tavares \(2018\)](#) examine gender gaps in education and in the labor market in Senegal. Despite progress in the last two decades, further reduction of gender gaps in secondary education and in the labor market is needed and would bring macroeconomic benefits. The authors use a general equilibrium model with heterogeneous agents to estimate the impact of policies to reduce these gaps. For instance, increasing years of education so that everyone receives at least 5 years of education promotes GDP gains in a single generation on the order of 8 percent, improves female labor force participation by 11 percentage points and reduces inequality (as measured by the Gini coefficient) by 3 percentage points.

## In Search of Information: Use of Google Trends' Data to Narrow Information Gaps for Low-income Developing Countries

Timely data availability is a long-standing challenge in policy-making and analysis for low-income developing countries. [This paper](#) explores the use of Google Trends' data to narrow such information gaps and finds that online search frequencies about a country significantly correlate with macroeconomic variables (e.g., real GDP, inflation, capital flows), conditional on other covariates. The correlation with real GDP is stronger than that of nighttime lights, whereas the opposite is found for emerging market economies. The search frequencies also improve out-of-sample forecasting performance albeit slightly, demonstrating their potential to facilitate timely assessments of economic conditions in low-income developing countries.

For more information, please contact [MacroResDev@imf.org](mailto:MacroResDev@imf.org).  
See IMF-DFID Macroeconomic Research for Development [website](#) for further details on the project.