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MACRO RESEARCH FOR DEVELOPMENT
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Review of Implementation of IMF Commitments in Support of the 2030 Agenda for Sustainable Development

This IMF Policy Paper reviews the implementation of the initiatives the IMF committed to in 2015 to support developing countries in pursuing the 2030 agenda for sustainable development, including (i) strengthening national tax systems; (ii) tackling large infrastructure gaps; (iii) promoting economic inclusion; (iv) the development of domestic financial markets; (v) intensifying engagement in fragile and conflict-affected states; (vi) improving economic statistics; (vii) expanding the financial safety net for developing countries; and (viii) addressing macroeconomic aspects of climate change. The findings show a large scaling up of IMF support for the 2030 development agenda. The IMF has also engaged in other initiatives of direct relevance for the 2030 development agenda, including adopting a framework to assess corruption vulnerabilities and developing a broad framework for assessing the spending levels needed to reach key SDGs. The paper draws lessons learned from the implementation of the various initiative to inform future IMF engagements.

Building Resilience in Developing Countries Vulnerable to Large Natural Disasters

This IMF Policy Paper discusses how countries vulnerable to natural disasters can reduce the associated human and economic cost. Building on earlier work by IMF staff, the paper views disaster risk management through the lens of a three-pillar strategy for building structural, financial, and post-disaster (including social) resilience. A coherent disaster resilience strategy, based on a diagnostic of risks and cost-effective responses, can provide a road map for how to tackle disaster related vulnerabilities. It can also help mobilize much-needed support from the international community.

Economic Gains from Promoting Gender Equality in Lao P.D.R.

Lao P.D.R.’s latest Article IV Staff Report featured a study on how policies can boost growth, reduce gender pay gaps and increase government revenues in that country. Even though labor force participation rates are relatively equitable in Lao P.D.R, gender gaps persist in formal employment and in hourly wages. The 20-percent gender wage gap is partly associated with females’ lower educational attainment. The study thus quantifies the effects of policies promoting girls’ education, increasing the formal sector, and reducing barriers that prevent women from achieving their full potential in the labor market.

Cameroon: The Macroeconomic Impact of Public Investment Reforms

Government policy continues to be guided by the long-term development objective of Cameroon becoming an emerging-market economy by 2035. To achieve this objective, the state prioritized public investment in infrastructure and non-oil sectors by increasingly relying on non-concessional sources to finance projects. This has led to a rapid buildup of public debt., which increased from 12.1 in 2010 (post HIPC debt relief) to 35.6 percent of GDP at end-2018, earning Cameroon a high risk of debt distress rating. With a range of external and domestic risks affecting the medium-term outlook, there is continued need to stabilize the economy, prioritize public investment and cap non-concessional external financing of projects. Annex III presented several scenarios to highlight (a) the benefits from continuing reforms that are geared towards removing inefficiencies and prioritizing high-return projects and (b) payoffs from rebalancing the mix of public investment financing away from non-concessional sources (4th Review Under the ECF).

Monetary Policy and Bank Lending in Developing Countries: Loan Applications, Rates, and Real Effects

Recent studies of monetary policy in developing countries document a weak bank lending channel based on aggregate data. This paper brings new evidence using Uganda's supervisory credit register, with microdata on loan applications, volumes and rates, coupled with unanticipated variation in monetary policy. The analysis shows that a monetary contraction reduces bank credit supply—increasing loan application rejections and tightening loan volume and rates—especially for banks with more leverage and sovereign debt exposure. There are associated spillovers on inflation and economic activity—including construction permits and trade—and even social unrest. A related column has been published on Vox.

Financial access under the microscope

This paper examines the impact of a large-scale microcredit expansion program on financial access and the transition of previously-unbanked borrowers to commercial banks. Using administrative data on the universe of loans from a credit register, the analysis shows that the program improved access to credit, especially in underdeveloped areas. The program also generated positive spillovers to the commercial banking sector. As the newly-created microfinance institutions (MFIs) faced lending constraints, a sizable share of first-time borrowers obtained subsequent loans—that were larger, cheaper, and longer-term—from commercial banks, which expanded their branch network in under-served low-risk areas. Overall, the results suggest that the microfinance sector, coupled with a credit reference bureau, can mitigate information frictions in credit markets and serves as a pathway for first-time borrowers to commercial banks.

Forecasting and Policy Analysis System (FPAS) Manual

A team from Bank of Uganda (BoU) visited IMF headquarters in July 2019 to collaborate with ICD on the bank's "Forecasting and Policy Analysis System (FPAS) Manual". ICD provided feedback to ensure the manual covers all organizational details of the FPAS procedures and is accessible to new experienced users. The manual is intended to be used by BoU internally and presents an overview of the monetary policy framework in Uganda and a broad description of the FPAS in terms of organization of the forecasting process, modeling apparatus - including Quarterly Projection Model - and a comprehensive presentation of codes infrastructure. The document will therefore serve as a user guide for BoU management and for current and prospective economists involved in the forecasting rounds.

Public Investment in Bolivia: Prospects and Implications

Bolivia's "Patriotic Agenda 2025" sets targets for social and economic development propelled by state-led industrialization under a five-year development plan (2016–2020). Large-scale public investment has aimed to fill infrastructure gaps and raise productivity to ensure sustained medium-term growth. Pursuit of these goals in a period of lower hydrocarbon revenues has, however, contributed to widening fiscal and external current account deficits. Yehenew Endegnanew and Dawit Tessema use a structural model to outline different scenarios for the level of public investment in the face of declining hydrocarbon revenues. The paper finds that if public investment is sustained at current levels as a share of GDP while hydrocarbon revenues continue to decline, the sustainability of the public debt could be called into question.

Macro-Fiscal Gains from Anti-Corruption Reforms in the Republic of Congo

This paper argues that oil revenue management and public investment in Congo are vulnerable to corruption as a result of limited transparency and accountability. Corruption has potentially contributed to poor macro-fiscal outcomes. The paper acknowledges the authorities' anti-corruption efforts made so far and proposes further critical reforms to reduce remaining vulnerabilities. Using a dynamic stochastic general equilibrium model results show that, depending on the reforms adopted, the potential additional growth can range between 0.8 to 1.8 percent per year over the next 10 years, and debt can decline by 2.25 to 3 percent of GDP per year over the same period. These results suggest that macrofiscal gains from anti-corruption reforms could be substantial even under conservative reform scenarios.

Monetary Policy Frameworks: An Index and New Evidence

Filiz Ünsal delivered several internal and external presentations of this ongoing project (with Chris Papageorgiou and Hendre Garbers), which provides a comprehensive toolkit for assessing monetary policy frameworks and constructs the first cross-country index. These included high-level presentations to the IMF Board (May 9), FDMD David Lipton (July 12 and 31), and at the Bank Negara Malaysia in Kuala Lumpur at the third joint seminar with the IMF on "Comprehensive Approaches to Monetary and Financial Policy Making in ASEAN 5" (July 17). Filiz also attended, upon invitation, the high-level conferences "Central Bank Communications: From Mystery to Transparency", organized by the National Bank of Ukraine in Kiev (May 23-24), and "Monetary Policy Strategy, Tools, and Communication Practices (A Fed Listens Event)", organized by the Federal Reserve Bank of Chicago (June 4-5).

Remittances and Financial Inclusion in LMICs and Fragile States

Using a sample of 187 countries over the period 2004-2015, the paper shows that remittances do not necessarily lead to more financial inclusion in LMICs and fragile states. We show that the impact of remittance flows on financial inclusion depends on their size. When the remittance-to-gdp is lower than 13%, remittances act as a substitute to formal financial intermediation, alleviating credit-constraint recipients and obviating their need to use banking services. But, when this ratio is high enough, remittances complement formal financial services, by providing banks enough liquidity, which banks use to provide services, including lending. This result seems to hold in LMICs with more developed and stable financial systems. In fragile states, we find that financial access is high, but usage is low.

Building Resilience in Developing Countries Vulnerable to Large Natural Disasters

On June 20th, the working paper, "Building Resilience in Developing Countries Vulnerable to Large Natural Disasters" was presented in Glasgow on the World Forum on Climate Justice hosted by the Elsevier Group. In this paper, we use a dynamic stochastic general equilibrium model to explore the benefits of ex-ante intervention to build resilience to natural disasters. We calibrate our model to six disaster-vulnerable countries. We show that policy makers can save 10 percent of GDP in net present value terms by investing ex-ante in resilient infrastructure and avoiding 4 percent of GDP from recovery costs on average. This paper is conditionally accepted by the peer-reviewed journal, Political Geography.

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

Futoshi Narita presented a Working Paper titled "In Search of Information: Use of Google Trends' Data to Narrow Information Gaps for Low-income Developing Countries" at the 2019 Annual Conference of the International Association for Applied Econometrics (IAAE) in Nicosia, Cyprus on June 25-28. This paper aims to address a long-standing challenge of timely data availability for low-income developing countries (LIDCs), by using an innovative dataset based on online search frequencies taken from the Google Trends service. The online search data are found to be more useful in nowcasting real GDP than famous nighttime lights, demonstrating their potential to facilitate timely assessments of economic conditions in LIDCs. The presentation was well attended, among many other parallel sessions.

For more information, please contact MacroResDev@imf.org or visit the IMF-DFID Macroeconomic Research for Development website.