ANNUAL MEETINGS
2024 | WASHINGTON DC
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IMF SEMINARS

RECOMMENDED READING

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FOREWORD

Welcome to the 2024 Annual Meetings.
I am pleased to introduce this year's edition of the Recommended Reading. The Recommended Reading is a curated list of relevant works covering Seminar topics of the 2024 Annual Meetings. The references were carefully selected by Library staff, from a diverse pool of resources, to promote ideas and knowledge exchange.

This year's meetings will focus on critical economic topics in today's evolving landscape:

- Debate on the Global Economy: Addressing the Low Growth – High Debt Conundrum
- Monetary Policy in a Shock-Prone World

I trust that this Recommended Reading will provide a useful roadmap to navigate the vast amount of information on these topics and allow you to make the most of these seminars. I hope you will find these readings both enjoyable and instructive and wish you a rich experience during the Meetings.

Keith Clark
Chief, Information, Resilience and Services, Corporate Services and Facilities
International Monetary Fund

INTRODUCTION

The Annual Meetings of the International Monetary Fund (IMF) and the World Bank are key events on the global agenda where global stakeholders gather to tackle pressing issues. This year, amidst political instability and social tensions, countries face multiple challenges, including complex financial landscapes, sustainable growth, high debt, financial inclusion, and climate action. To address these challenges, the IMF will host seminars for stakeholders to exchange ideas and promote economic resilience.

To support these seminars, the IMF Library, in collaboration with the Communications Department and selected IMF Departments, proposes this Recommended Reading list, a curated collection featuring relevant works from research bodies across the world, with links for easy and wide access.

This annotated bibliography covers two key themes:

1. Navigating Policy Constraints: Discusses challenges such as high debt levels, elevated interest rates, and eroded fiscal buffers, exploring strategies for policymakers to gain political support for necessary reforms.

2. Boosting Economic Dynamism: Highlights policy options to enhance growth, focusing on pro-growth reforms and the potential of green and technological transformations.

This bibliography aims to provide insights to deepen the discussions at the Annual Meetings, contributing to a more resilient and inclusive global economy.

IMF Library
Washington, DC
October 2024

The Recommended Reading is not an official document of the International Monetary Fund. The external works referenced therein are not vetted nor are they endorsed by the organization. The views expressed in this document and the referenced publications do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

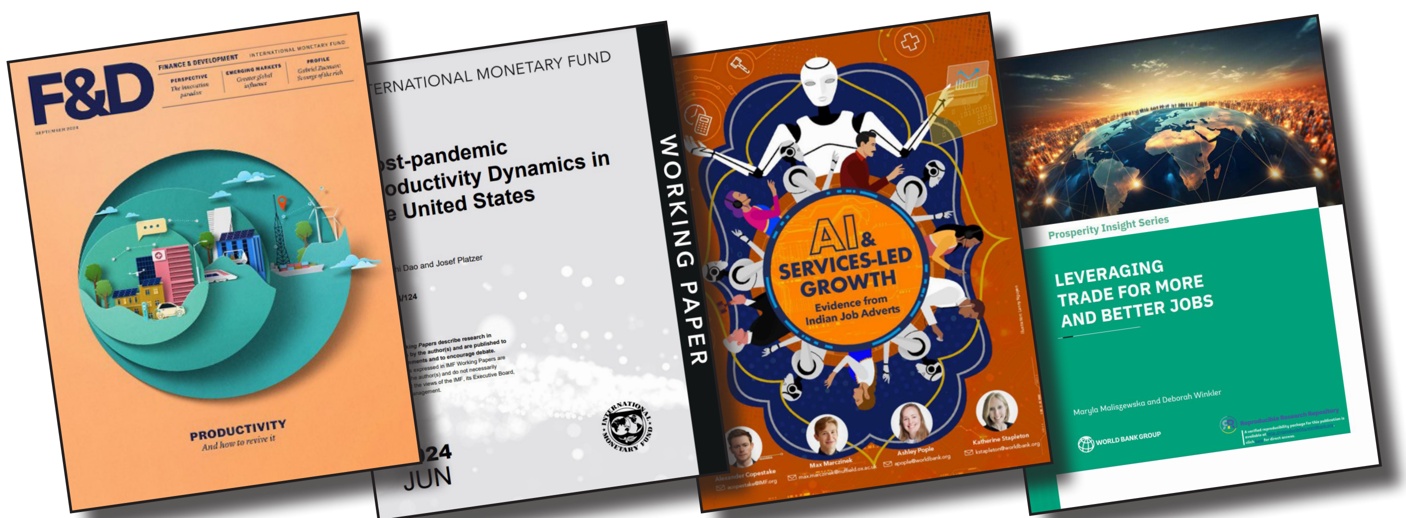
THURSDAY, October 24, 2024
2:45 PM - 3:45 PM, HQ1 Atrium HQ1-1-700

Debate on the Global Economy: Addressing the Low Growth – High Debt Conundrum

Sponsored by the IMF's Fiscal Affairs Department

The global economy has demonstrated remarkable resilience in the face of numerous shocks, and a smooth landing now seems within reach. Yet, medium-term growth prospects remain the weakest in decades amid persistent structural headwinds, such as aging populations and weak productivity. While domestic policy priorities vary across countries, the overarching goal is clear: to revive improvements in living standards and ensure economies—and people—thrive amid the structural shifts brought by the green transition and rapid technological change—both of which present opportunities and challenges.

However, policymakers face immense hurdles in crafting—and implementing—the policies needed to support structural transformations. Policy choices are becoming increasingly difficult (how to rebuild depleted fiscal buffers and reduce debt without unduly harming growth) at a time when the political economy environment is becoming more fraught amid fragmentation and growing social strains. The conversation will explore these challenges, the policy options to overcome them, and the vital need to build the social support to implement and sustain critical reforms.



Albanesi, Stefania, António Dias Da Silva, Juan F. Jimeno, Ana Lamo, and Alena Wabitsch. 2023.

"New Technologies and Jobs in Europe." ECB Working Paper 2831, European Central Bank, Frankfurt.

We examine the link between labour market developments and new technologies such as artificial intelligence (AI) and software in 16 European countries over the period 2011-2019. Using data for occupations at the 3-digit level in Europe, we find that on average employment shares have increased in occupations more exposed to AI. This is particularly the case for occupations with a relatively higher proportion of younger and skilled workers. This evidence is in line with the Skill Biased Technological Change theory. While there exists heterogeneity across countries, only very few countries show a decline in employment shares of occupations more exposed to AI-enabled automation. Country heterogeneity for this result seems to be linked to the pace of technology diffusion and education, but also to the level of product market regulation (competition) and employment protection laws. In contrast to the findings for employment, we find little evidence for a relationship between wages and potential exposures to new technologies.

Alonso, Cristian, and Margaux MacDonald. 2024.

"Advancing India's Structural Transformation and Catch-up to the Technology Frontier." IMF Working Paper 24/138, International Monetary Fund, Washington, DC.

While India's growth has been strong in recent decades, its structural transformation remains incomplete. In this paper, we first take stock of India's growth to date. We find that economic activity has shifted from agriculture to services, but agriculture remains the predominant employer. Catch up to the technological frontier has been uneven, with limited progress in agriculture, but also in construction and trade, which have grown the most in terms of employment. We do find some Indian firms already operating at the technological frontier. These strong performers tend to be large firms. We then consider India's employment challenge going forward. We find that India needs to create between 143-324 million jobs by 2050 and that doing so and with workers shifting towards more dynamic sectors could boost GDP growth by 0.2-0.5 percentage points. Structural reforms can help India create high-quality jobs and accelerate growth.

Arnold, Nathaniel G., Guillaume Claveres, and Jan Frie. 2024.

"Stepping Up Venture Capital to Finance Innovation in Europe." IMF Working Paper 24/146, International Monetary Fund, Washington, DC.

Relative to the US, productivity growth and investment in R&D in lagging in the EU, where it is more difficult to finance and scale up promising, innovative startups. Many of the most successful EU startups move elsewhere for financing, causing the EU to lose out on both the direct growth benefits and positive spillovers from these innovative firms. The EU could nurture innovative startups by accelerating the development of its venture capital (VC) ecosystem. Reducing regulatory frictions, especially ones that deter pensions funds and insurers from investing in VC, combined with well-designed tax incentives for R&D investments could help accelerate the development of the VC sector. These and other key CMU initiatives, such as the consolidation of stock markets and reforming and harmonizing insolvency regimes, will take time. Given the urgency to boost innovation, giving public financial institutions like the European Investment Fund a more active and expanded role in kickstarting VC markets where needed and in familiarizing investors with the VC asset class can be a helpful interim step.

Bhatt, Gita. 2024.

"Sustained Economic Growth Hinges on Productivity Gains as Populations Age." *IMF Blog*, September 4.

A productivity slump is eroding living standards and imperiling financial and social stability. This issue of F&D brings together leading researchers to help explain the withering of productivity gains, how to counter these trends, and how to spark economic dynamism.

Cerdeiro, Diego Gee Hee Hong, and Alfred Kammer. 2024.

"How to Awaken Europe's Private Sector and Boost Economic Growth." *IMF Blog*, September 11.

Among large, leading companies, productivity and innovation have diverged markedly across both sides of the Atlantic. Market valuations of US-listed firms have more than tripled since 2005, while Europe's have grown by only 60 percent. While valuations can reflect expectations that end up unmet, our analysis suggests that the divergence stems also from a productivity gap

across all industries and is particularly pronounced in technology sectors. Productivity for US technology firms has surged by nearly 40 percent since 2005, yet it's little changed for European companies. This significant difference is underpinned by much greater innovation efforts among enterprises in the United States, where research and development spending as a share of sales is more than double that of Europe.

Chen, Chen, Koralai Kirabaeva, Christina Kolerus, W.H. Ian Parry, and Nate Vernon. 2024.

"Changing Climate in Brazil: Key Vulnerabilities and Opportunities." IMF Working Paper 24/185, International Monetary Fund, Washington, DC.

This paper assesses the Brazilian economy's exposure to climate change focusing on two key areas: agriculture and hydropower. While climate vulnerabilities are significant and recent patterns of land-use further amplify climate change risk, Brazil's opportunities for green growth are vast. Given geography and existing infrastructure, notably the very green energy mix, Brazil can boost its economic potential while mitigating a potential tradeoff between energy use, emissions, and growth. Policy options to address key vulnerabilities and leverage opportunities include boosting the Amazon's resilience via fiscal incentives for forest protection, investing in climate smart agriculture and insurance guided by sustainable feebates, continuing the diversification of renewable power generation, and stimulating green growth while greening the financial sector.

Dao, Mai, and Josef Platzer. 2024.

"Post-pandemic Productivity Dynamics in the United States." IMF Working Paper 24/124, International Monetary Fund, Washington, DC.

We study U.S. labor productivity growth and its drivers since the COVID-19 pandemic. Labor productivity experienced large swings since 2020, due to both compositional and within-industry effects, but has since returned to its pre-pandemic trend. Industry-level panel regressions show that measures of labor market churn are associated with higher productivity growth both in the cross-section and over time. Sectors with higher investment in digitalization, particularly in teleworkable industries, also experience higher productivity growth on average. There has also been an increase in business formation since the pandemic, but its impact on productivity dynamics will likely need more time to be reflected in the data.

Firat, Melih, and Can Sever. 2024.

"Unraveling the Wage-Output Disconnect: The Role of Labor Market Power." IMF Working Paper 24/136, International Monetary Fund, Washington, DC.

In this paper, we theoretically and empirically explore the role of firm labor market power in the wage-output relationship. We start by laying out a theoretical model with imperfect labor mobility between firms and sectors, which implies upward-sloping labor supply curves that firms face, allowing firms to have labor market power (i.e., wage markdown). Assuming firm heterogeneity under oligopsony, markdowns can be represented as a function of firm labor market share. The model implies that firms with higher labor market share, indicated by a higher payroll share in their respective sectors, exhibit a weaker relationship between the changes in wages and output. We test the model's prediction using data from the European subsample of the ORBIS dataset spanning from 2000 to 2018. We find that: (i) the pass-through of firm value added growth to wage growth is lower for firms with a higher payroll share in their sectors, with about one-fifth of the pass-through disappearing in firms at the top 1 percentile of the payroll share distribution, relative to an atomic firm; (ii) this pattern holds across various subsamples and timeframes, and also after accounting for several alternative explanations; and (iii) the weakening in the link between value added and wages growth due to firm labor market power intensifies during the downturns in the labor market or in the overall economy.

Finance & Development, September 2024:

***Productivity and How to Revive It*. International Monetary Fund. Communications Department. Washington, DC.**

Productivity must play a more important role in driving sustained growth as our societies age. But there's no consensus on how to reverse the broad slowdown in productivity growth seen across almost all countries over the past 20 years. F&D magazine's September issue invites leading thinkers to examine productivity from multiple angles, including dynamism, innovation, demographics, and sustainability.

Georgieva, Kristalina. 2024.

"A Low-Growth World Is an Unequal, Unstable World." *IMF Blog*, July 23.

Long periods of slow economic growth can cause a

jump in inequality. But a balanced set of policies can stave off that outcome.

International Monetary Fund (IMF). Research Dept. 2024.

"AI and Services-Led Growth: Evidence from Indian Job Adverts." *IMF Research Perspectives, May 2024: New Technologies, Digitalization, and AI* 26 (1).

Official statistical surveys have only recently begun collecting data on Artificial Intelligence (AI) usage, but we can spot the emergence of the phenomenon in historical job * postings. These reveal that demand for AI-related skills took of around the world in the mid-201 0s (Figure 1). Among myriad implications, this is particularly important for countries pursuing a services-led development model. Many of the services industries that have driven growth and job creation could be susceptible to machine-learning-based automation. In India-the archetype of services-led development-Information Technology (IT) and business process outsourcing have grown rapidly to employ more than 4 million people and contribute about 8 percent to GDP. Any threats to employment in such sectors are a significant concern given the 200 million young people expected to age into the labor market by 2030.

International Monetary Fund (IMF). 2024.

"G-20 Background Note on the Impact of Growth on Inequality and Social Outcomes." Washington, DC.

In recent years, the global economy has shown signs of resilience. But growth remains slow and medium-term growth prospects have steadily weakened since the Global Financial Crisis, undermining hard-won gains in poverty reduction and social conditions. Moreover, economic growth has become uneven, causing the long-term decline in between-country inequality to stall. At the same time, progress in reducing within-country inequality has been mixed, notably among emerging market and developing countries.

The relationship between economic development and inequality within countries is complex. In the absence of policy intervention, structural transformations—such as technological change and globalization—can entail tradeoffs, particularly in the early stages of economic development. However, domestic policy settings—often reflecting social norms or institutional quality—can also shape growth-inequality dynamics.

Klein, Caroline, and Jonathan Smith. 2024.

"Addressing Labour and Skills Shortages in a Fast-Changing Economy." OECD Economics Department Working Papers 1811, OECD Publishing, Paris.

The Danish labour market is strong, but tensions have increased since the pandemic. The post-pandemic recovery boosted labour demand, but structural factors, such as late labour market entry by the young, changing skills requirements and obstacles to the recruitment of migrants, contribute to persistent shortages and impact the wider economy. Lowering the effective tax rate on labour income could reduce disincentives to higher working hours and to moving from part-time to full-time employment. Adapting the workplace to an ageing population and adjusting early retirement schemes could help to extend working lives. Targeting the tenth grade to students with greater learning needs, reducing student allowances and introducing an income-contingent loan system for master's students could also encourage faster entry into the labour market. There is room to increase the recruitment of foreign-born workers, as well as improving their integration. The demographic, digital and green transitions will transform jobs and skills requirements, demanding an agile education and training system throughout the working life. Encouraging vocational education and training, notably by facilitating mobility between vocational and academic tracks, would ensure strong skills in areas where workers are lacking.

Maliszewska, Maryla, and Deborah Elisabeth Winkler. 2024.

"Leveraging Trade for More and Better Jobs." Prosperity Insight Series, World Bank Group, Washington, DC.

Trade exposure is traditionally seen as key to job creation and poverty reduction, but its efficacy is questioned amid global labor market upheavals and protectionist trends. Drawing on six underlying studies, this report uses disaggregated data from 1995 to 2019 to explore the nuanced impact or trade on jobs. Specifically, it investigates the impact of trade exposure on job creation, labor earnings, productivity, and job quality across countries with varying income levels. It finds that trade exposure, particularly in exports and global value chains, correlates with increased employment, especially in manufacturing where it is also associated with higher female workforce participation. Higher trade exposure is associated

with increased labor earnings, with wage inequality decreasing in low- and middle-income countries due to global value chain integration. Labor productivity improves with export growth, especially benefiting unskilled workers in low-tech manufacturing and agriculture in developing countries. Job quality is also enhanced with more exports, transitioning to salaried employment positions and higher value-added activities outside of production. However, the report notes that trade exposure does not significantly boost job numbers or reduce earnings inequality in low-income countries. It also finds that the positive effects of trade on employment, earnings, and productivity have diminished following the global financial crisis of 2007. These findings Offer insights into future job and trade policy strategies.

Nguimkeu, Pierre, and Cedric Okou. 2024.

"Can Mobile Technologies Enhance Productivity? A Structural Model and Evidence from Benin Food Suppliers." IMF Working Paper 24/163, International Monetary Fund, Washington, DC.

This paper analyzes the drivers of digital technologies adoption and how it affects the productivity of small scale businesses in Africa. We use data collected from two semi-rural markets in Benin, where grains and legumes are key staple foods and one-third of the population has internet access. We develop a structural model to rationalize digital technologies adoption—defined as the use of mobile broadband internet connection through smartphones—as well as usage patterns and outcomes observed in the data. The model's implications are empirically tested using both reduced-form and structural maximum likelihood estimations. We find that younger, wealthier, more educated grains and legumes suppliers and those closely surrounded by other users are more likely to adopt digital technologies. Adopters perform 4-5 more business transactions each month than non-adopters on average, suggesting that digital technologies adoption could raise the monthly frequency and amounts of trades by up to 50%. Most adopters are women, but their productivity gains are lower than their male counterparts. Counterfactual policy simulations with the estimated model suggest that upgrading the broadband internet quality yields the largest improvement in adoption rate and productivity gains, while reducing its cost for a given connection quality only has a moderate effect. Improving access to credit only increases the adoption rate of constrained suppliers.

OECD. 2024.

"OECD Employment Outlook 2024: The Net-Zero Transition and the Labour Market," OECD Publishing, Paris.

The OECD Employment Outlook looks at the latest labour market developments and prospects in OECD member countries. This edition also assesses the impact of the transition to net-zero emissions by 2050 on the labour market and the jobs of millions of workers. While total employment will not change much, many jobs will be lost in the shrinking high-emission industries, while many others will be created in the expanding low-emission activities.

Oh, Joonseok, and Anna Rogantini Picco. 2024.

"Macro Uncertainty, Unemployment Risk, and Consumption Dynamics." ECB Working Paper 2971, European Central Bank, Frankfurt am Main.

Households' income heterogeneity is important to explain consumption dynamics in response to aggregate macro uncertainty: an increase in uncertainty generates a consumption drop that is stronger for income poorer households. At the same time, labor markets are strongly responsive to macro uncertainty as the unemployment rate and the job separation rate rise, while the job finding rate falls. A heterogeneous agent New Keynesian model with search and matching frictions in the labor market can account for these empirical findings. The mechanism at play is a feedback loop between income poorer households who, being subject to higher unemployment risk, contract consumption more in response to heightened uncertainty, and firms that post fewer vacancies following a drop in demand.

Pasricha, Mehr, Vaishnavi Thakur, and Debarati Ghosh. 2024.

"The Future of Work, Artificial Intelligence, and Digital Government: Policy Perspectives for Asia." ADBI Policy Brief 2024-20 (September).

The future of work in Asia is evolving toward increased flexibility, greater digital integration, improved scope for continuous learning, and a focus on employee well-being. The transformation in the nature of work opens avenues for policy makers to be at the forefront in enabling a digital revamp of traditional service delivery frameworks that can cater to the citizenry and allow greater participation. Digital public infrastructure in particular can address large-scale societal challenges,

improve quality of life, stimulate economic growth, enhance social inclusion, and enable data-driven decision making. Governments should implement comprehensive lifelong learning initiatives, including online e-learning platforms, upskilling programs, and professional development incentives, to enhance the capabilities of public employees as well as the citizenry. Governments should invest in fostering a proactive research culture within public institutions. This involves dedicating resources to study emerging economic trends, model future labor markets, and innovate with technological advancements. A motivated, efficient, and future-ready civil service can be encouraged by integrating incentives that reward both the achievement of specific outcomes and the pursuit of professional growth.

Sever, Can. 2024.

"Conflicts and Growth: The R&D Channel." IMF Working Paper 24/098, International Monetary Fund, Washington, DC.

Violent conflicts are typically associated with a long-lasting drag on economic output, yet establishing causality based on macro-data remains as a challenge. This study attempts to build causality in the conflict-growth nexus by exploiting within-country variation across industries' technological intensity. It identifies a channel through which conflicts can impact growth, i.e., by hindering R&D activities. The analysis is based on industry-level data from two-digit manufacturing industries for a large sample of countries over the last four decades. The results show that conflicts lead to a decline in labor productivity growth, particularly in industries with higher technological intensity. The estimated magnitude of the differential effect of conflicts on labor productivity growth in high-tech industries is large. Moreover, the additional labor productivity loss in those industries in the years of conflicts does not seem to be offset in the post-conflict period neither. The findings offer insight into the observed patterns of durable declines in income in the aftermath of conflicts, considering the role of technological progress and innovation in long-term economic growth.

Yaya, Aminou. 2024.

"Productive Capacities, Economic Vulnerability and Growth Volatility in Sub-Saharan Africa." IMF Working Paper 24/169, International Monetary Fund, Washington, DC.

Sub-Saharan Africa (SSA) countries, like most developing countries, face major challenges to achieve strong, sustainable, and inclusive growth with the view to reduce significantly persistent poverty and inequality. Many of these challenges results from a high level of economic vulnerability due to simultaneous shocks, notably the Covid-19 pandemic, climate change and the multiplicity of armed conflicts. Hence the need to study policies and means of strengthening economic resilience to shocks. This paper analyzes the effects of productive capacities on the volatility of economic growth in SSA countries when faced with significant vulnerability. The study covers the period 2000-2018 for 43 SSA countries. Using Generalized Method of Moments (GMM), the results show that economic vulnerability contributes to growth volatility in SSA. However, this effect varies according to the performance of productive capacities. Countries with high productive capacities have greater opportunities to mitigate the effect of economic vulnerability on growth volatility. Some specific dimensions of productive capacities (Institutions, ICT) seem to matter more than others. The results of this study provide important recommendations to policy makers.

FRIDAY, October 25, 2024
1:45 PM - 2:45 PM, HQ1 Atrium HQ1-1-700

Monetary Policy in a Shock-Prone World

Sponsored by the IMF's Monetary and Capital Markets Department and Research Department

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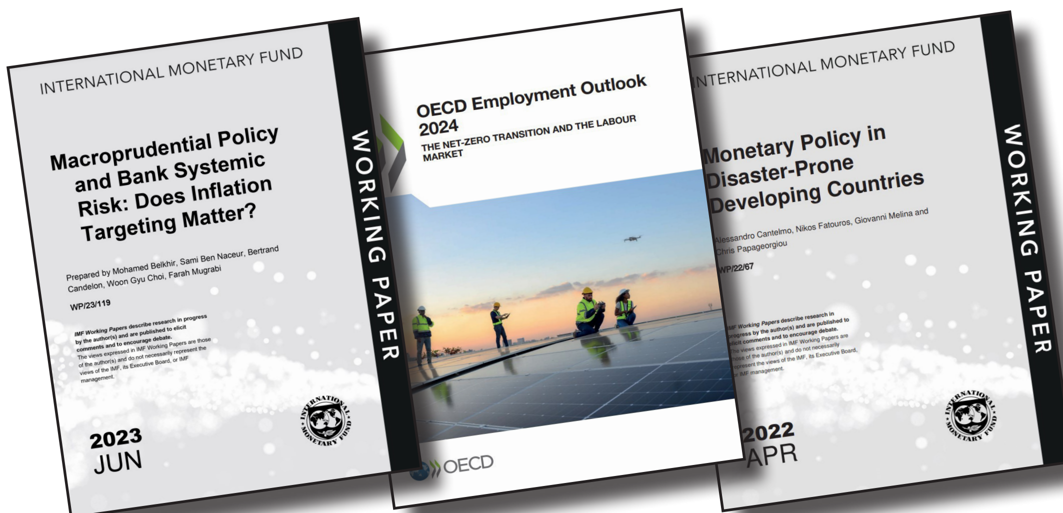
As inflation steadily declines from its multi-decade highs, many central banks around the globe have pivoted towards the easing phase of monetary policy following a historic global tightening. However, with geoeconomic fragmentation deepening and the global climate transition reaching a critical juncture, the economic environment has become significantly more susceptible to shocks, making it more difficult to navigate. In this context, a wave of upcoming central bank framework reviews presents a valuable opportunity to incorporate lessons learned over the past four years. This panel will explore the major risks facing monetary policy in this volatile landscape, examine the implications for central bank framework reviews, and share insights on the evolving monetary policy toolkit.



Abidi, Nordine, Mehdi El Herradi, Boriana Yontcheva, and Ananta Dua. 2024.

"The Nexus of Climate and Monetary Policy: Evidence from the Middle East and Central Asia." IMF Working Paper 24/090, International Monetary Fund, Washington, DC.

This paper investigates the effects of climate shocks on inflation and monetary policy in the Middle East and Central Asia (ME&CA) region. We first introduce a theoretical model to understand the impact of climate risks on headline and food inflation. In particular, the model shows how climate shocks could affect the path of policy rates through food prices. We then use local projections to estimate the impact of climate shocks on headline and food inflation. The results show that price stability is more easily achievable under positive climate conditions. Overall, our findings shed new light on the importance of considering climate-related supply shocks when designing monetary policy, particularly in countries where food makes up a significant part of the CPI-basket.

Baglioni, Angelo. 2024.

"Monetary Policy Implementation: Which 'New Normal'?" *Journal of International Money and Finance* 141 (2024).

This article provides a simple model of monetary policy implementation, analyzing both the interest rate steering (IRS) and the quantitative easing (QE) policies. The model shows that the "floor system", introduced with QE policies, is preferable to the traditional "corridor system", for two reasons. First, it endows central banks with one more degree of freedom, since the interest rate and the balance sheet policies become two independent instruments. Second, it enhances the ability of central banks to keep the money market rates in line with their target level. This second prediction is confirmed by an empirical analysis of the money market in the euro area. Therefore, in the "new normal" monetary policy should be implemented by steering the level of interest rates within a floor system, instead of relying on the corridor system used in the old IRS framework.

Barrett, Philip, and Josef Platzer. 2024.

"Has the Transmission of US Monetary Policy Changed Since 2022?" IMF Working Paper 24/129, International Monetary Fund, Washington, DC.

Activity and inflation responded slowly to the Federal Reserve's rate hikes in 2022. Was this because the transmission of monetary policy had changed? Or did other shocks offset tighter policy? We use pre-pandemic data to estimate a VAR with monetary policy shocks identified from high-frequency data, and use it as a filter to back out the sequence of monetary policy shocks consistent with data since 2022. We compare these implied shocks to the actual shocks and find the difference statistically significant during February-July 2022. These differences imply that monetary transmission was around 25 percent weaker than normal. Our method accounts for other shocks, allowing them to change to match the post-COVID covariance of the data produces similar results but in a shorter period. We decompose changes in the uncertainty of our estimate and find that colinearity of shocks is generally more important than uncertainty over model parameters. We extend our analysis to central bank information shocks and find Federal Reserve communication was less powerful than usual during 2021.

Belkhir, Mohamed, Sami Ben Naceur, Bertrand Candelon, Woon Gyu Choi, and Farah Mugrabi. 2023.

"Macroprudential Policy and Bank Systemic Risk: Does Inflation Targeting Matter?" IMF Working Paper 23/119, International Monetary Fund, Washington, DC.

This paper investigates macroprudential policy effects on bank systemic risk and the role of inflation targeting in such effects. Using bank-level data for 45 countries comprising various monetary and exchange rate regimes, our regime-dependent dynamic panel regression results point to complementarities between monetary and macroprudential policies. We find that the tightening of most macroprudential tools—including DSTI and LTV limits, and capital requirements—reduces bank systemic risk further under inflation targeting. Our findings lend credence to the view that inflation targeting strengthens macroprudential policy roles in mitigating financial stability risks.

Beyer, Robert C. M., Ruo Chen, Florian Misch, Claire Li, Ezgi O. Ozturk, and Lev Ratnovski. 2024.

"Monetary Policy Pass-Through to Interest Rates: Stylized Facts from 30 European Countries." IMF Working Paper 24/009, International Monetary Fund, Washington, DC.

The extent to which changes in monetary policy

rates lead to changes in loan and deposit rates for households and firms, referred to as 'pass-through', is an important ingredient of monetary policy transmission to output and prices. Using data on seven different bank interest rates in 30 European countries, different approaches, and the full sample as well as a subsample of euro area countries, we show that a) the pass-through in the post-pandemic hiking cycle has been heterogenous across countries and types of interest rates; b) the pass-through has generally been weaker and slower, except for rates of non-financial corporation loans and time deposits in euro area countries; c) differences in pass-through over time and across countries for most deposit rates are correlated with financial sector concentration, liquidity, and loan opportunities, and d) the effects of pass-through to outstanding mortgage rates on monetary transmission on prices and output are heterogenous across countries.

Billi, Roberto, Jordi Galí, and Anton Nakov. 2024.

"Optimal Monetary Policy with r*<0." *Journal of Monetary Economics* 142 (2024).

We study the optimal monetary policy problem in a New Keynesian economy with a zero lower bound (ZLB) on the nominal interest rate, when the steady state natural rate (r*) becomes permanently negative. We show that the optimal policy aims to approach gradually a new steady state with positive average inflation. Around that steady state, the optimal policy implies well defined (second-best) paths for inflation and output in response to shocks to the natural rate. Under plausible calibrations, the optimal policy implies that the nominal rate remains at its ZLB most of the time. Despite the latter feature, the central bank can implement the optimal outcome as a unique equilibrium by means of an appropriate nonlinear interest rate rule. In order to establish that result, we derive sufficient conditions for local determinacy in a general model with endogenous regime switches.

Bolhuis, A. Marijn, Jakree Koosakul, and Neil Shenai. 2024.

"Fiscal R-Star: Fiscal-Monetary Tensions and Implications for Policy." IMF Working Paper 24/174, International Monetary Fund, Washington, DC.

Since the Global Financial Crisis, fiscal policy in advanced economies has become more "active" – that is, increasingly unresponsive to rising debt levels. This paper explores tensions between active fiscal and monetary policies by introducing the concept of "fiscal r-star," which is the real interest rate required to stabilize debt levels when the primary balance is set exogenously, output is growing at potential, and inflation is at target. It is proposed that the difference between monetary r-star and fiscal r-star—referred to as the "fiscal monetary gap"—is a proxy for fiscal-monetary policy tensions. An analysis of over 140 years of data from 16 advanced economies shows that larger fiscal-monetary gaps are associated with rising debt levels, higher inflation, financial repression, lower real returns on bonds and cash, with elevated risks of future debt, inflation, currency, housing, and systemic crises. Current estimates indicate that fiscal-monetary tensions are at historic highs. Given the tepid growth outlook, growth-enhancing reforms and fiscal consolidation, among other policy adjustments, may be needed to attenuate fiscal-monetary tensions over time.

Cantelmo, Alessandro, Nikos Fatouros, Giovanni Melina, and Chris Papageorgiou. 2022.

"Monetary Policy in Disaster-Prone Developing Countries." IMF Working Paper 22/67, International Monetary Fund, Washington, DC.

This paper analyzes monetary policy regimes in emerging and developing economies where climate-related natural disasters are major macroeconomic shocks. A narrative analysis of IMF reports published around the occurrence of natural disasters documents their impact on important macroeconomic variables and monetary policy responses. While countries with at least some degree of monetary policy independence typically react by tightening the monetary policy stance, in a sizable number of cases monetary policy was accommodated. Given the lack of consensus on best practices in these circumstances, a small open-economy New-Keynesian model with disaster shocks is leveraged to evaluate welfare under alternative monetary policy rules. Results suggest that responding to inflation to an extent sufficient to keep inflation expectations anchored, while allowing temporary deviations from its target is the welfare maximizing policy. Alternative regimes such as strict inflation targeting, exchange rate pegs, or Taylor rules explicitly responding to economic activity, or the exchange rate would be welfare-detrimental.

Checo, Ariadne, Francesco Grigoli, and Damiano Sandri. 2024.

"Monetary Policy Transmission in Emerging Markets: Proverbial Concerns, Novel Evidence." BIS Working Paper 1170, Bank for International Settlements, Basel.

Proverbial concerns remain about the effectiveness of monetary policy in emerging markets. The empirical evidence is scarce due to challenges in identifying monetary policy shocks. In this paper, we construct new monetary policy shocks using analysts' forecasts of policy rate decisions. Crucial for identification, analysts can update forecasts up to the policy meeting to incorporate any information relevant to the policy rate decision. Using these shocks, we show that monetary transmission wields considerable traction on financial and macroeconomic conditions in emerging markets. Monetary tightening lifts bond yields, curbs real activity, reduces inflation, and impacts leveraged firms more strongly.

Chen, Ruo, Vincenzo Guzzo, Fazurin Jamaludin, Adil Mohommad, Ritong Qu, and Yueshu Zhao. 2024.

"Bank Profitability in Europe: Not Here to Stay." IMF Working Paper 24/142, International Monetary Fund, Washington, DC.

Slower passthrough of policy interest rate hikes to deposit rates relative to their loan rates has led to sharply wider bank net interest margins. Combined with resilient asset quality, wider net interest margins supported record profits for European banks in 2023. Drawing on historical data from the balance sheets and income statements of over 2,500 European banks, this paper shows that abnormally high profits are expected to fade soon as interest income will decline, once policy rates start being lowered, while higher impairment costs historically have weighed on profits with a lag. Moreover, a number of structural factors that have eroded the performance of European banks in the past two decades have largely remained unaddressed and will continue being a drag on profits and capital. Therefore, policymakers should encourage banks to preserve capital buffers and build resilience to future shocks, while exercising caution when considering taxes on profits or other measures that could divert potential sources of capital from banks.

Cook, Lisa D. 2024.

"Common Inflation and Monetary Policy Challenges across Countries." Speech at the Australian Conference of Economists 2024, Adelaide, July 10.

Engler, Philipp, Gianluigi Ferrucci, Pawel Zabczyk, and Tianxiao Zheng. 2024.

"ECB Spillovers to Emerging Europe: The Past and Current Experience." IMF Working Paper 24/170, International Monetary Fund, Washington, DC.

We provide new evidence on the spillover effects of ECB monetary policy shocks to emerging European economies, using a combination of empirical methods and model-based simulations and focusing on spillovers from interest rate and balance sheet policies implemented by the ECB. We consider an event study set around the ECB policy announcement in June 2022 and also use local projections to estimate regional spillovers in a panel of 16 Emerging European countries spanning 1999 to 2022. Identifying ECB monetary policy shocks as the unexplained component of changes in the three-month Euribor futures rate, we find that ECB monetary policy tightening induces more than one-for-one changes in government bond yields in Emerging Europe, as well as sizable increases in sovereign spreads, domestic currency depreciations, and significantly lower output. Model simulations using a two-country DSGE calibrated to the euro area and its Eastern European neighbors reveal that a conventional tightening, achieved through interest rate increases, provides a more favorable inflation-output trade-off compared to balance sheet tightenings. The extent of spillovers from quantitative tightening depends on the speed of balance sheet reduction, and it is larger under a fixed exchange rate regime.

Ha, Jongrim, Haiqin Liu, and John Rogers. 2023.

"Capital Controls in Emerging and Developing Economies and the Transmission of U.S. Monetary Policy." Policy Research Working Papers 10582, World Bank, Washington, DC.

Emerging markets and developing economies (EMDEs) exhibit significantly greater volatility in asset returns than advanced economies. The commonalities in these returns (and flows) across countries are particularly strong for EMDEs. If these occur independently of the exchange rate regime and if these global financial cycle effects are furthermore independent of countries' financial openness, the result is Obstfeld (2022)'s

"Lemma": countries can do nothing to decouple from the global financial cycle. Under the prevalent view that U.S. monetary policy is the key driver of the global financial cycle, countries then inherit U.S. monetary policy no matter what they do on exchange rates or capital control policies. Using structural vector autoregression models for 78 countries over 1995–2019, as well as different methods of identifying U.S. monetary policy shocks from the literature, this paper tests the proposition that countries with less open capital accounts exhibit systematically smaller responses to U.S. monetary policy shocks than low capital control countries. This paper also considers the role of other institutional features such as exchange rate regimes and foreign exchange interventions in explaining cross-country differences in the responses to the shocks. The empirical results suggest that more stringent capital controls exhibit smaller responses of interest rates and exchange rates to U.S. monetary policy shocks and that this result holds more firmly for EMDEs than advanced economies. In contrast, the analysis finds only weak evidence that the degree of exchange rate flexibility affects U.S. spillovers to foreign interest rates and exchange rates.

International Monetary Fund (IMF). 2024.

***World Economic Outlook*. Washington, DC, October.**

Lagarde, Christine, and Luis de Guindos. 2024.

"Monetary Policy Statement." Speech delivered at Press Conference, European Central Bank, Frankfurt am Main, September 12.

Lane, Philip R. 2024.

"The Effectiveness and Transmission of Monetary Policy in the Euro Area." Speech delivered at the Federal Reserve Bank of Kansas City Economic Symposium to the panel on "Reassessing the Effectiveness and Transmission of Monetary Policy," Jackson Hole, August 24.

Lutz, Flora. 2023.

"Optimal Monetary and Macroprudential Policies under Fire-Sale Externalities." IMF Working Paper 23/51, International Monetary Fund, Washington, DC.

I provide an integrated analysis of monetary and macroprudential policies in a model economy featuring a financial friction and a nominal wage rigidity. In this set-up, the monetary authority faces a trade-off between macroeconomic and financial stability: While expansionary counter-cyclical monetary policy prevents involuntary unemployment, it also amplifies an inefficient reallocation of capital across sectors. The main contribution of the analysis is threefold: First it highlights a novel channel through which monetary policy can impact financial stability. Second, it shows that, by itself, monetary policy can significantly mitigate the wedge between the constrained efficient and the competitive allocation. Third, regardless of the availability of macroprudential tools, stabilizing demand is usually not optimal for monetary policy.

Medeiros, Marcelo C., Erik Christian Montes Schütte, and Tobias Skipper Soussi. 2022.

"Global Inflation: Implications for Forecasting and Monetary Policy." SSRN.

This paper considers inflation forecasting for a vast panel of countries. We combine the information from common factors driving global and country-specific inflation to build different models. We also rely on new advances in the Machine Learning literature. We show that random forests and neural networks are very competitive models, and their superiority, although stable across most of the time period considered, increases during recessions. We also show that it is easier to forecast countries with more developed economies. The forecasting gains seem to be partially explained by the degree of trade openness and inflation volatility within a year. Our results have two significant implications for monetary policy. First, our forecasts can serve as inflation expectations for countries where survey data are unavailable. Second, we shed some light on the links between inflation from different countries, facilitating the study of the transmission of monetary shocks.

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