

# **Macroeconomic Stability, Inclusive Growth and Poverty Reduction: emerging challenges in a post-2015 development agenda**

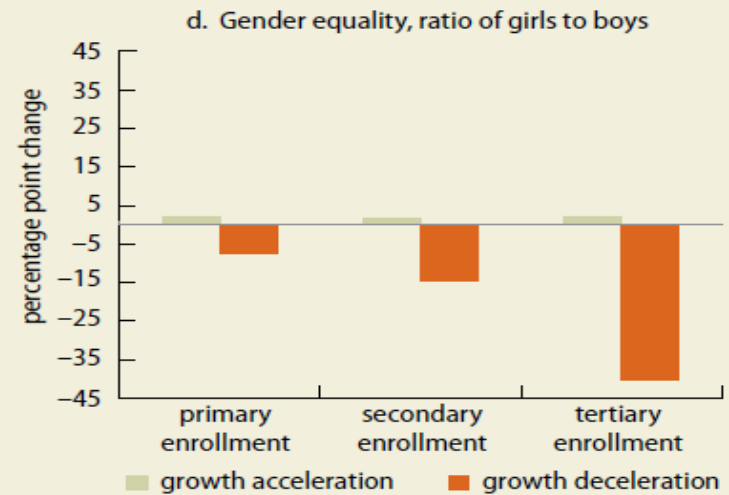
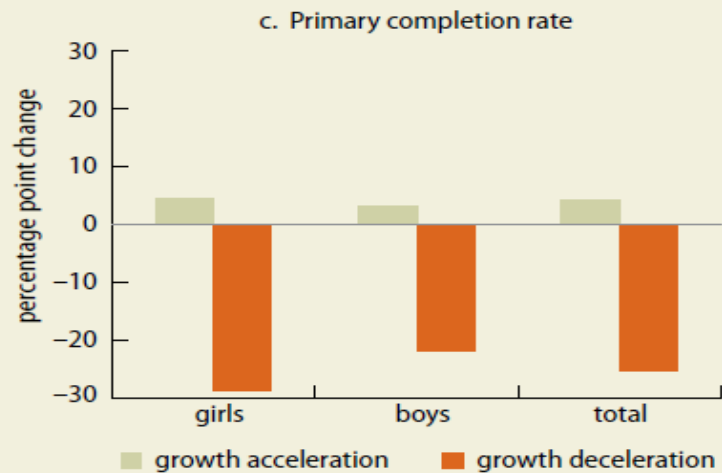
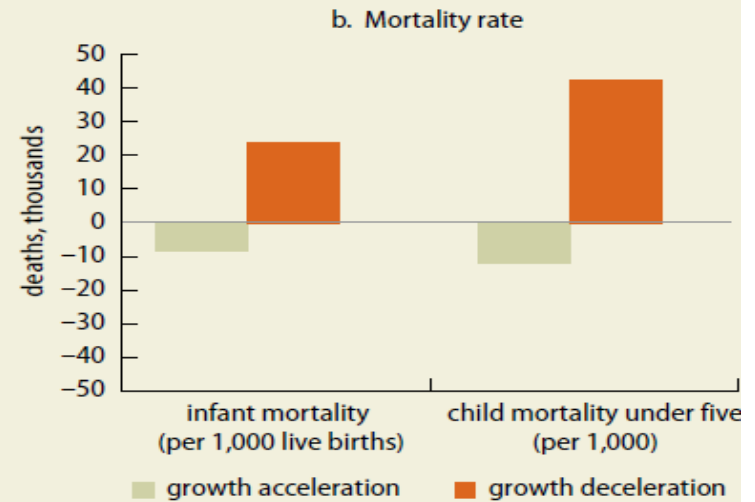
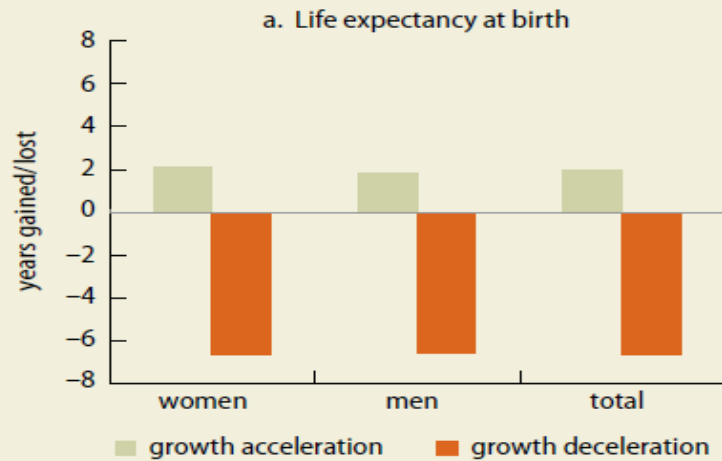
Presentation by  
Gilles Alfandari, World Bank

EGM for the Advancement of the Post-2015  
UN Development Agenda, New York  
February 29, 2012

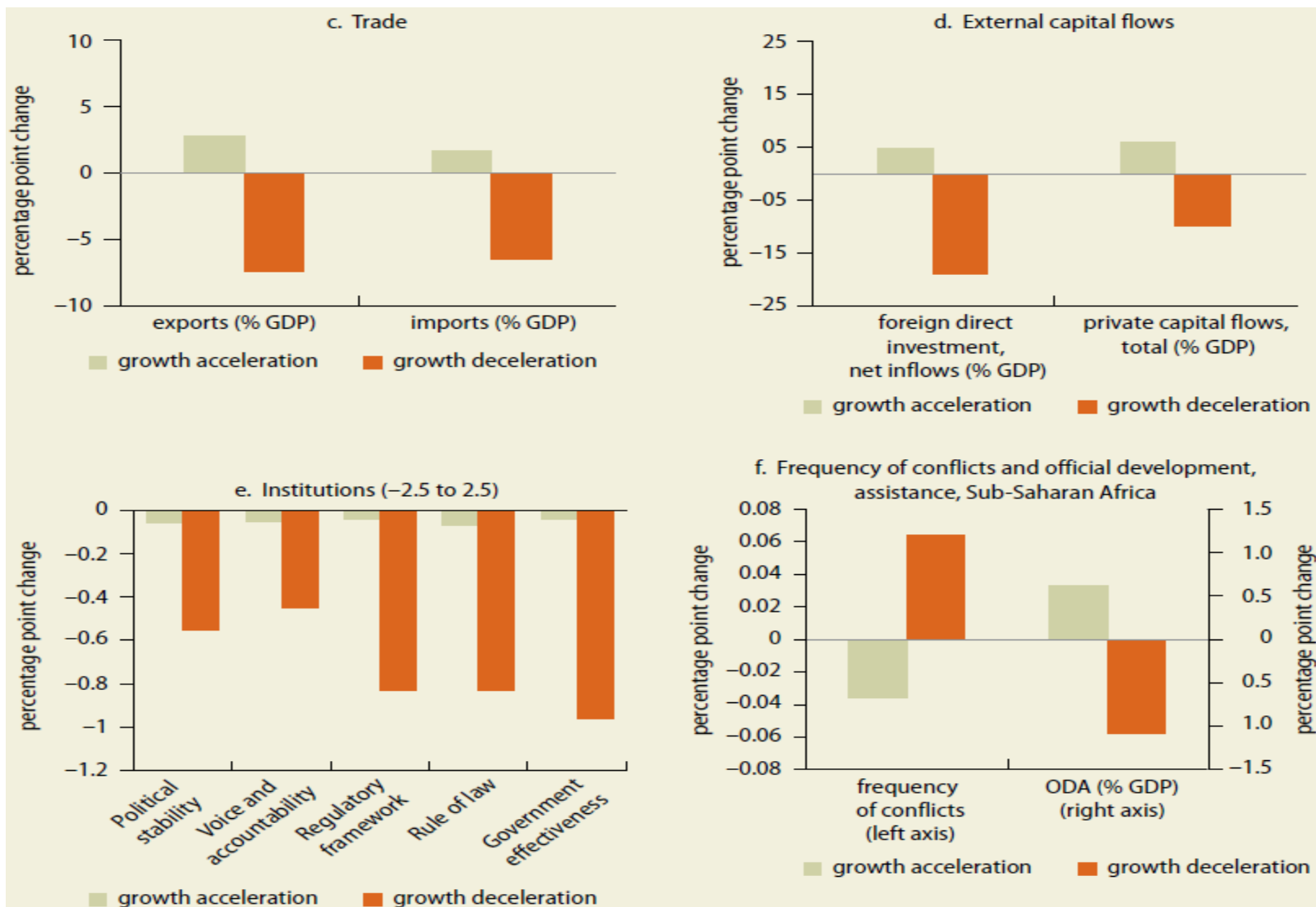
**1. Can the link between the global and the national levels help create policy space for developing countries?**

## **2. Priorities for the post-2015 agenda**

# Economic growth is critical to attain the MDGs

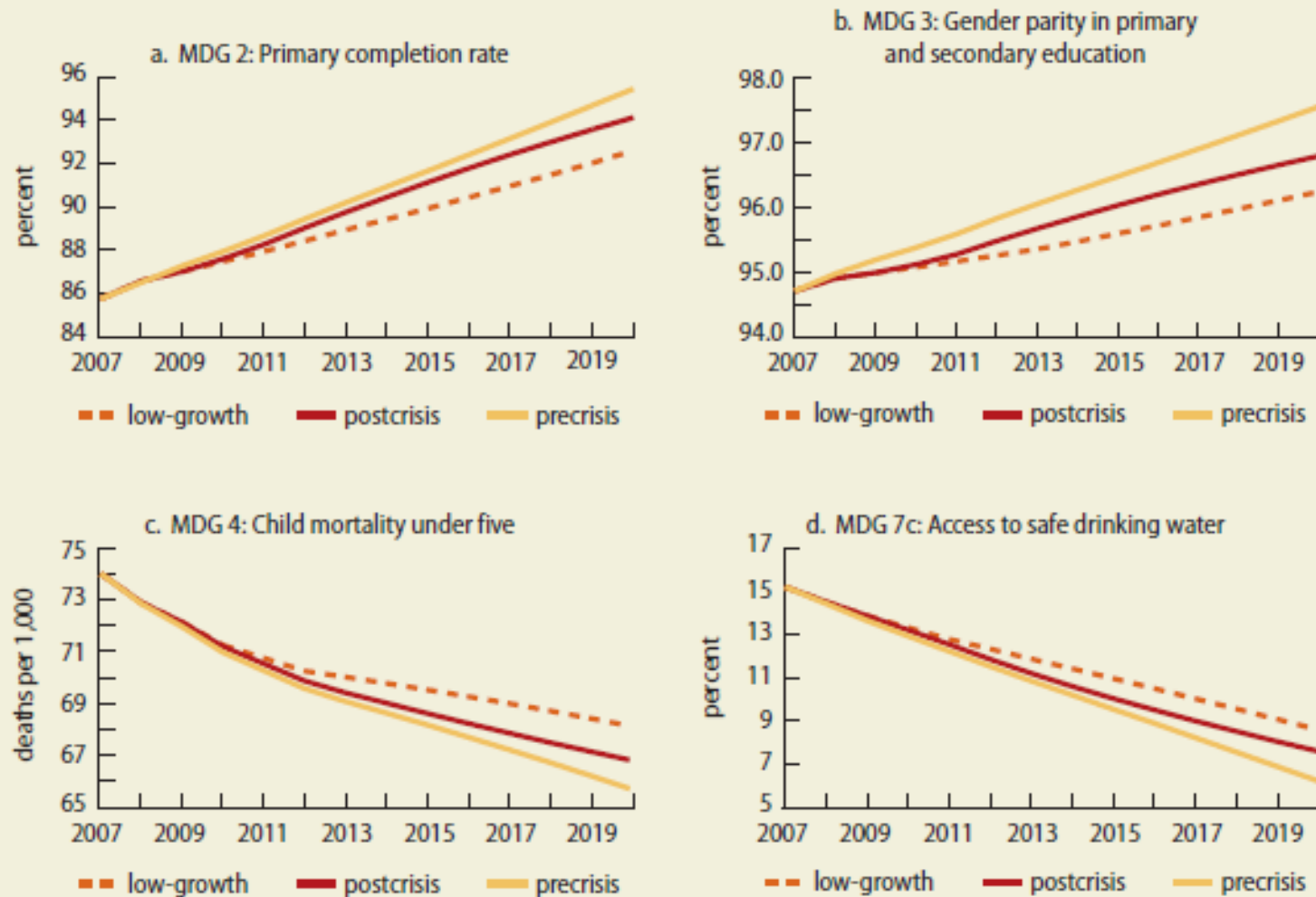


# Economic and policy environment tumbles during downswings



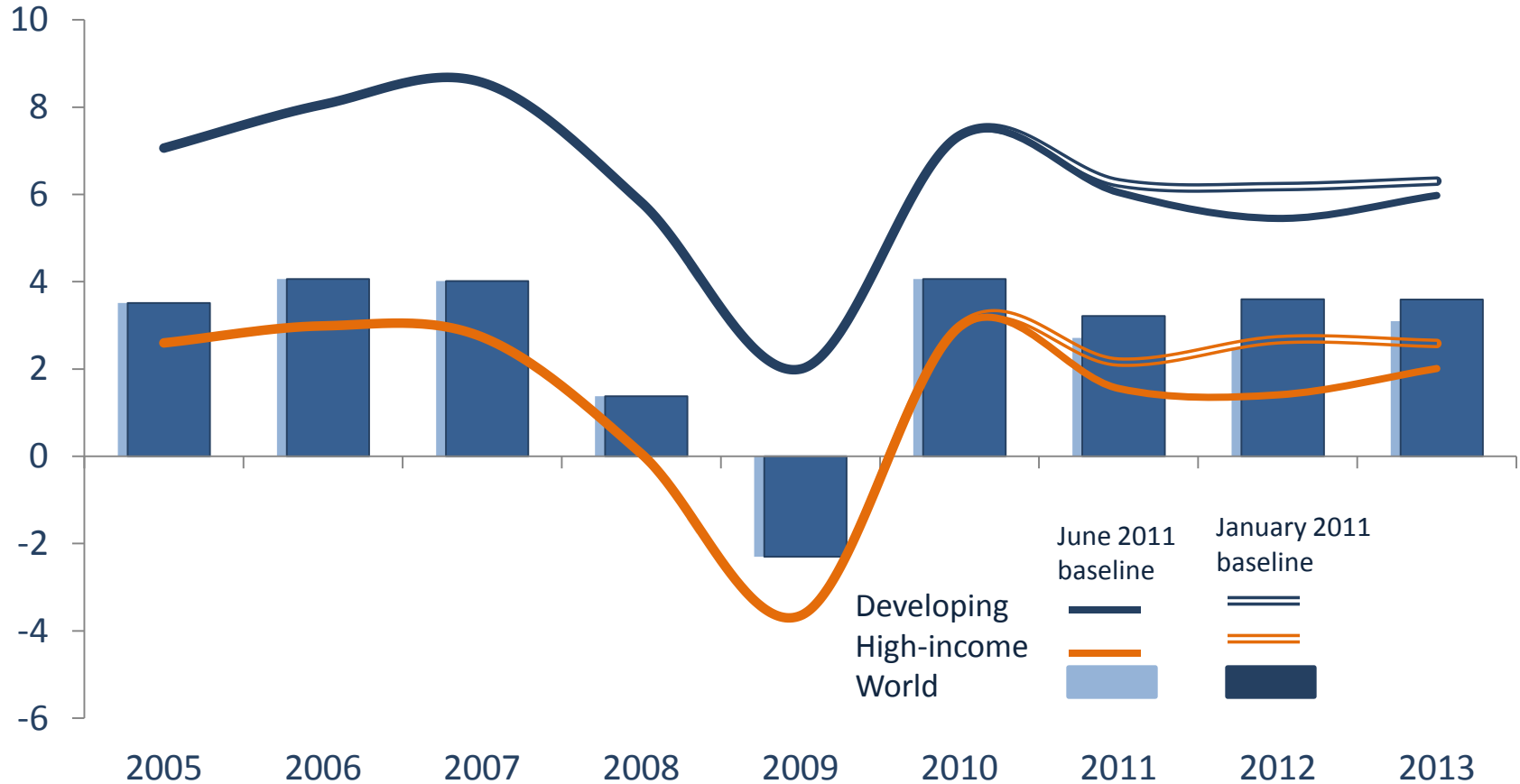
# MDG prospects depend on global macroeconomic developments

**FIGURE 3** The long-run effect of slower growth on selected MDGs is worrisome



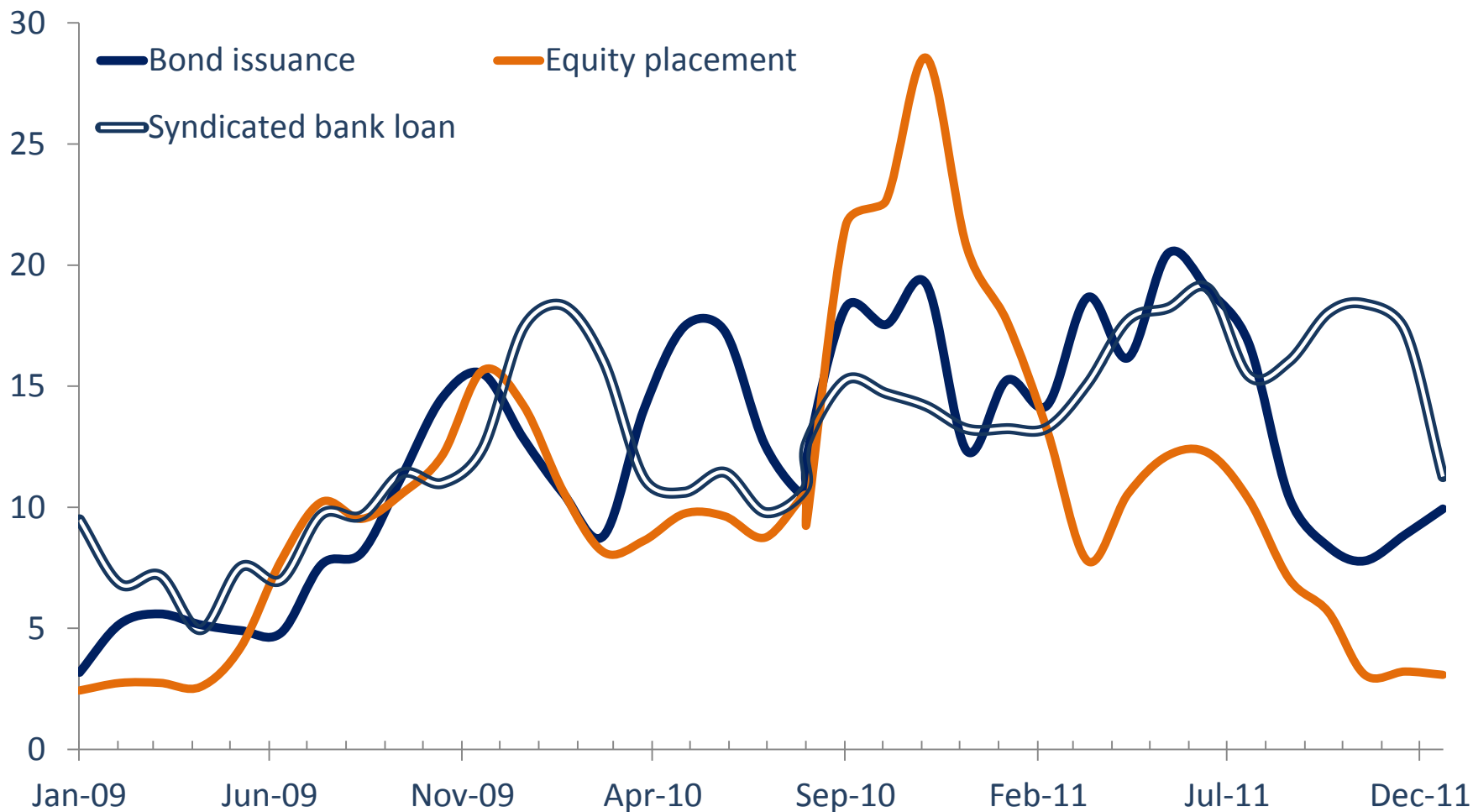
# These developments are not good: Growth forecasts have been downgraded repeatedly since January 2011

Projected growth



# Gross capital flows to developing countries down 50 percent in second half of 2011

3-month moving average (\$ billion)



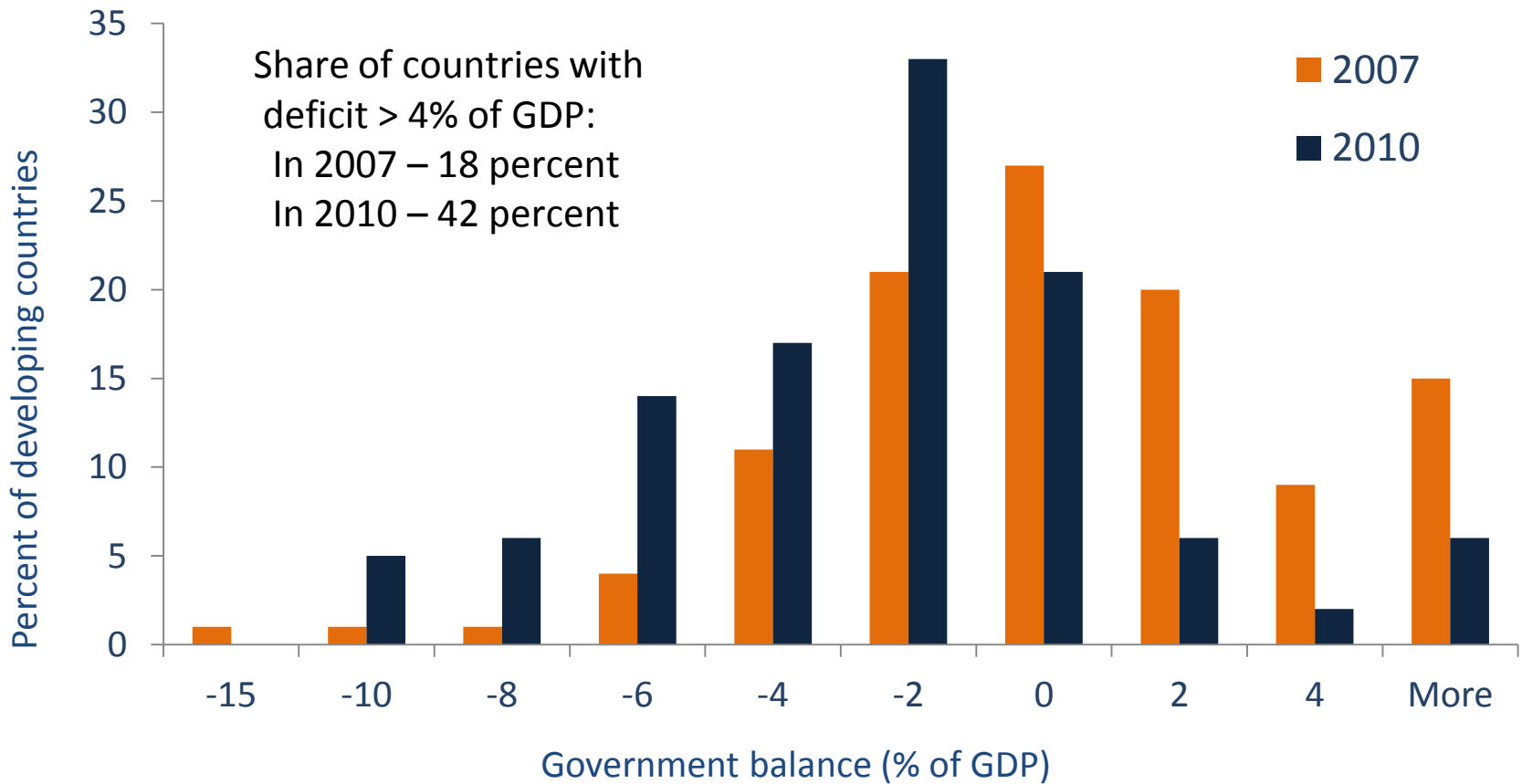
Source: World Bank, Global Economic Prospects, 2012A.



# Developing countries are more vulnerable to a renewed crisis than in 2008

- Turmoil since August has affected financial conditions in developing countries and economic activity worldwide
- Policy response constrained by limited policy buffers, with reduced fiscal space and maturing debt, for active countercyclical policies
- Countries with large amounts of ST and maturing LT debt should seek to refinance early to limit effects of a potential freezing of capital markets (impact from bank deleveraging in high-income world).
- Countries should stress-test their banking systems, especially if credit has grown rapidly in recent years or they are heavily reliant on wholesale financing.
- Commodity exporters could be hurt by collapse in commodity prices.
- Other exporters are facing weaker export demand
- Remittance dependent countries may also be vulnerable
- Natural Disasters, particularly in East Asia Pacific: >70% of world's natural disasters; 13 of the 30 most climate affected countries.
- Much more serious consequences could be envisaged, if financial-sector solvency is affected or a market-induced credit event occurs. It could potentially be as significant as in 2008/09.

# Fiscal deficits have risen sharply in many developing countries



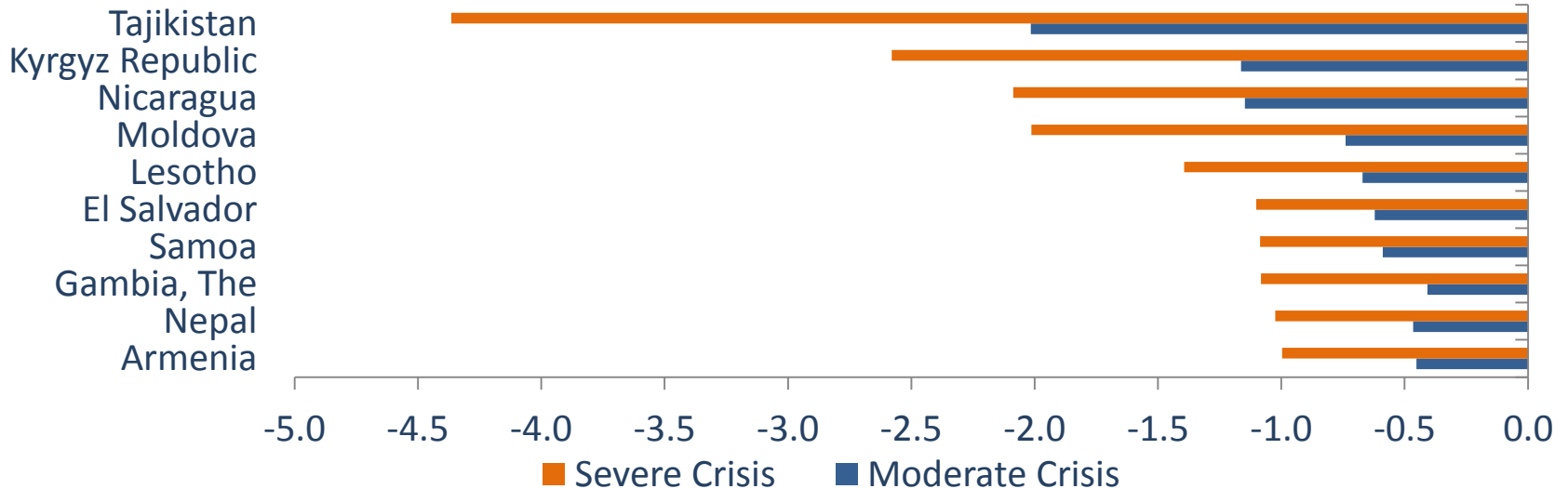
Source: World Bank DEC Prospects Group

# Remittances could fall by more than 6% if situation in the Eurozone deteriorates

Percent change in remittances (from baseline)

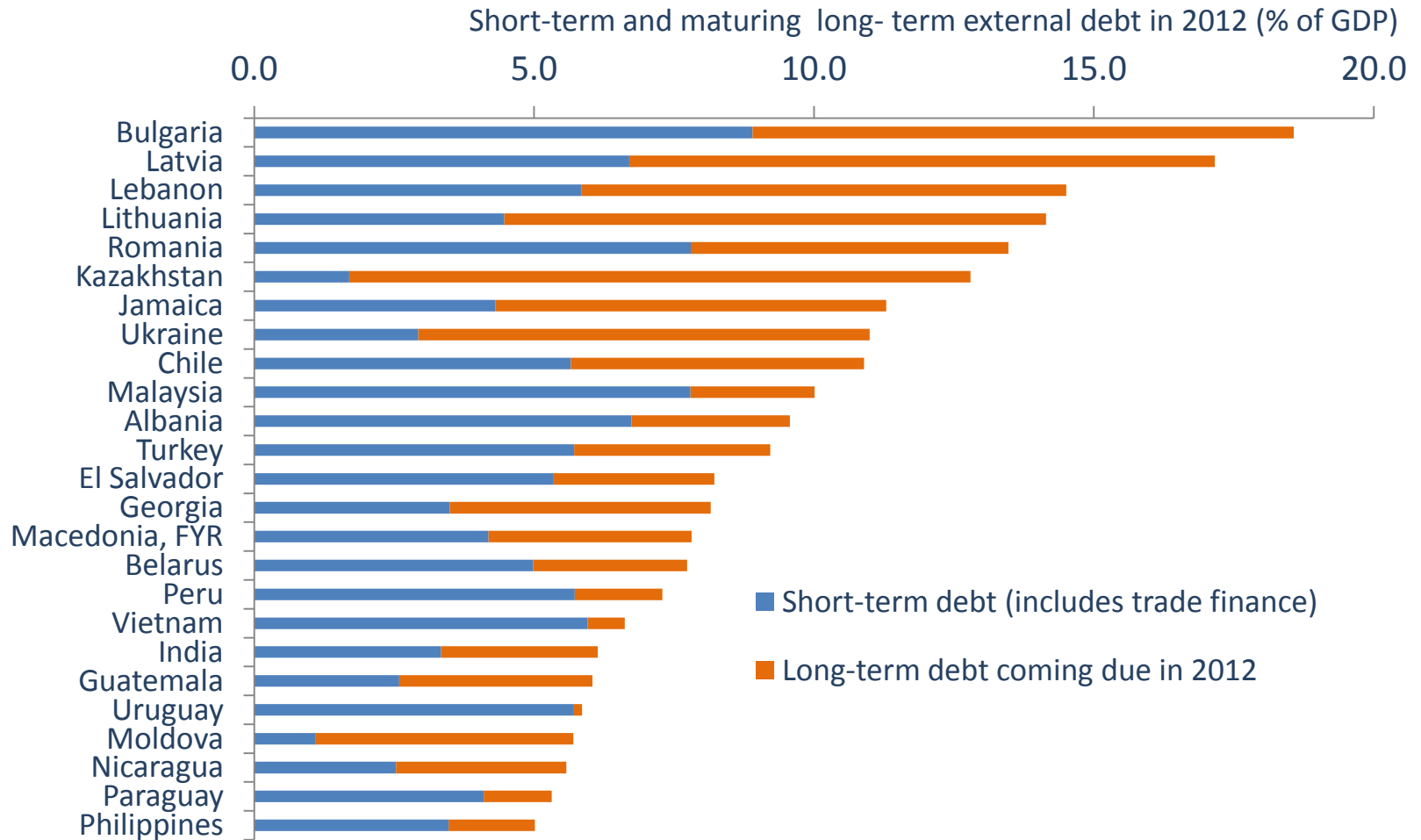


Change in remittances (from baseline), % of GDP



Source: World Bank, Global Economic Prospects, 2012A.

# High levels of external short- or maturing long-term debt place countries at risk



# Should we be concerned about debt or growth?

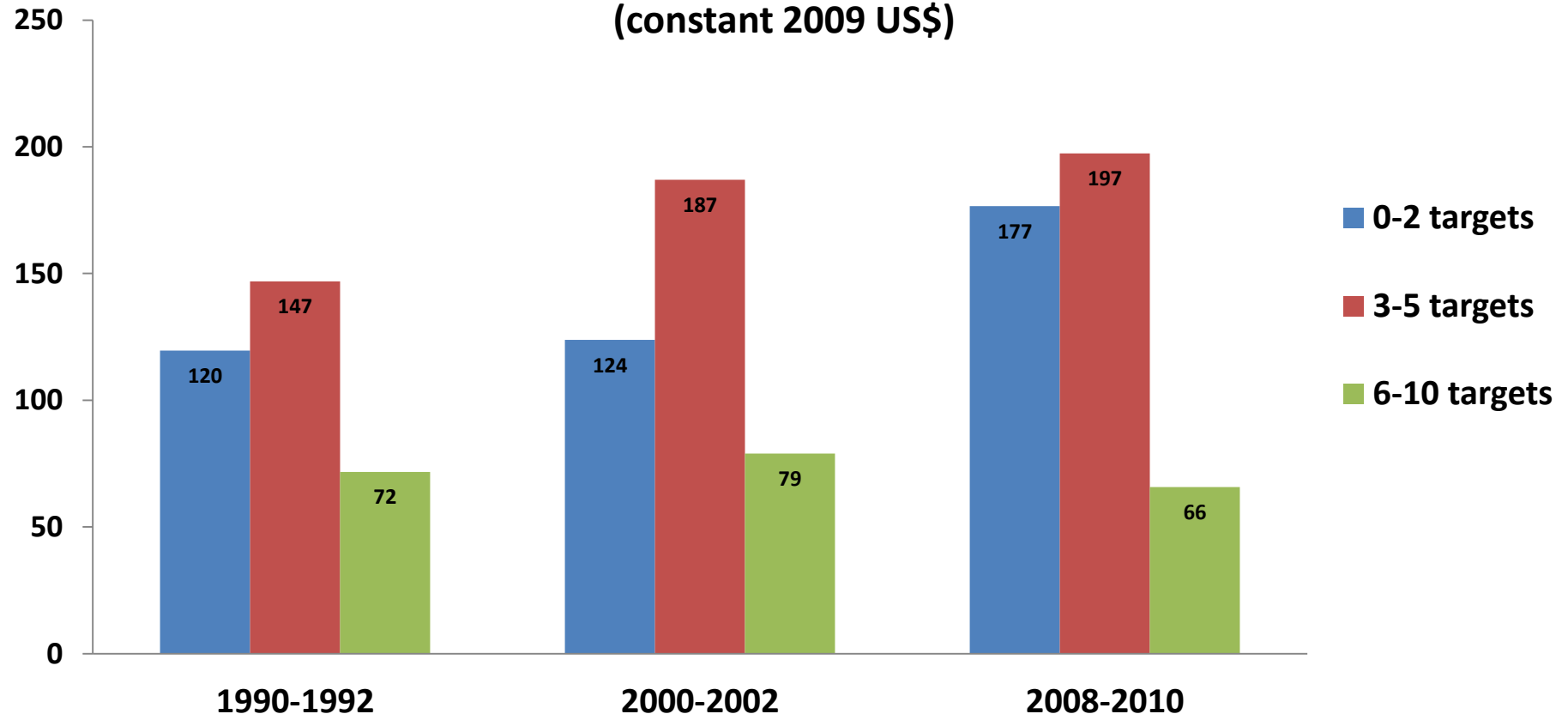
- **Moderate debt and limited budget deficits** improve welfare and enhance growth.
  - Investment-savings intermediation (private).
  - Provision of public goods and countercyclical policies (public).
  - Managing volatility of incomes, sales, and revenues.
- **Excessive debt and large budget imbalances** hamper growth and threaten financial stability.
  - Higher interest rates and cost of capital.
  - Increase taxation to repay debt.
  - Less fiscal space for countercyclical policies.
  - Vulnerability to macro shocks.

## Some better news:

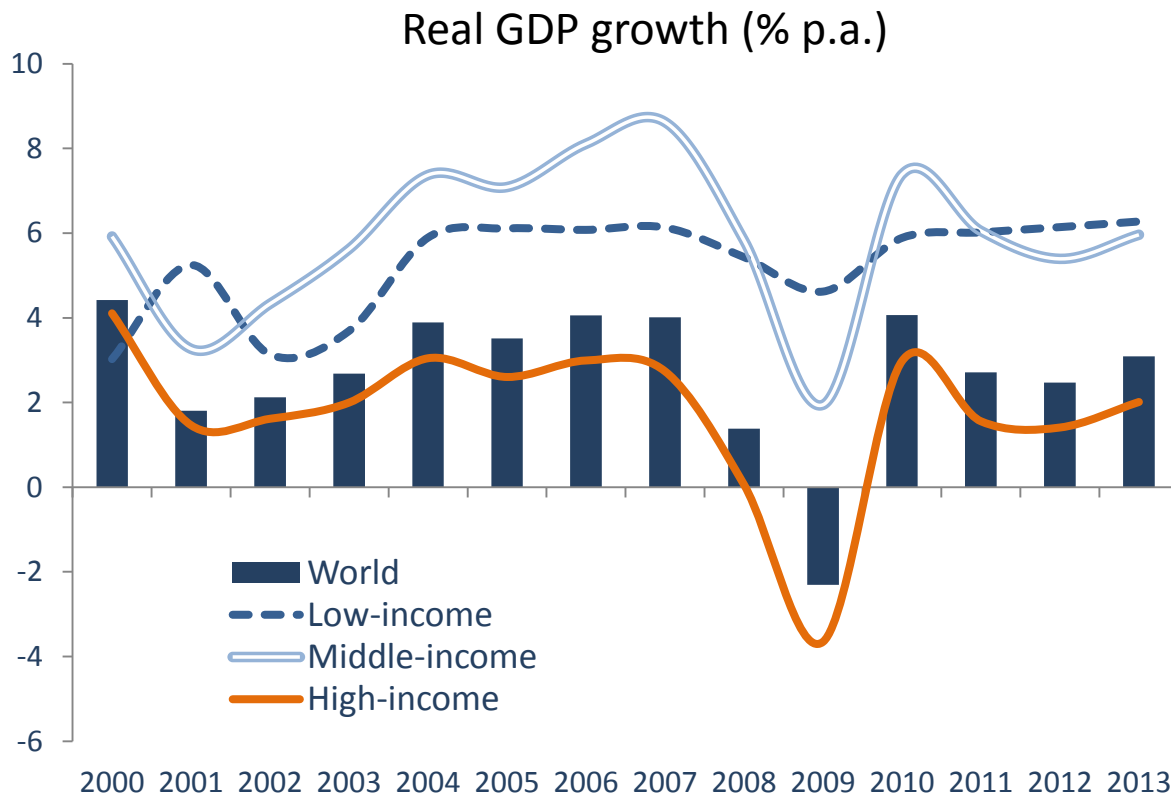
ODA increased by a real 6.3% to \$127.3 billion in 2010 (0.32% of GNI)

ODA targeting has continued to improve, with more disbursements to countries furthest from the MDGs

Net ODA received per capita by number of targets achieved or on track  
(constant 2009 US\$)



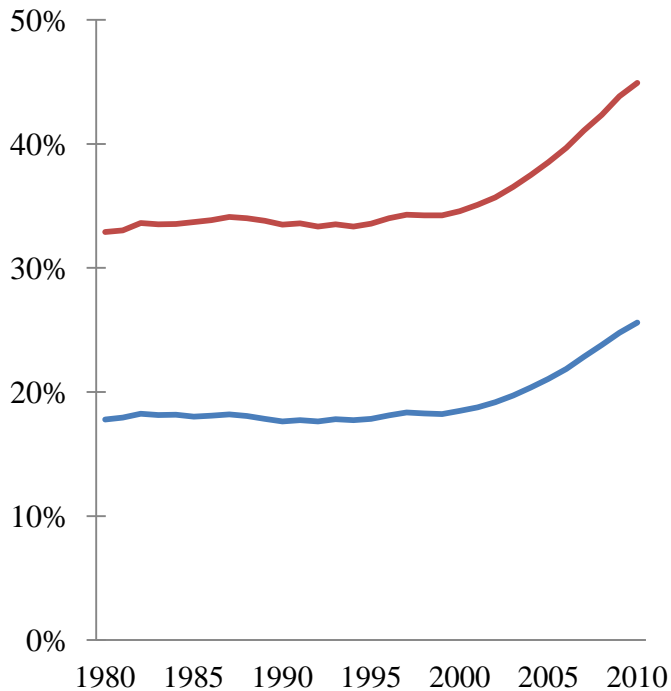
# low-income countries have decoupled from advanced economies (but no cyclical decoupling for emerging economies)



Source: WDI; World Bank staff projections

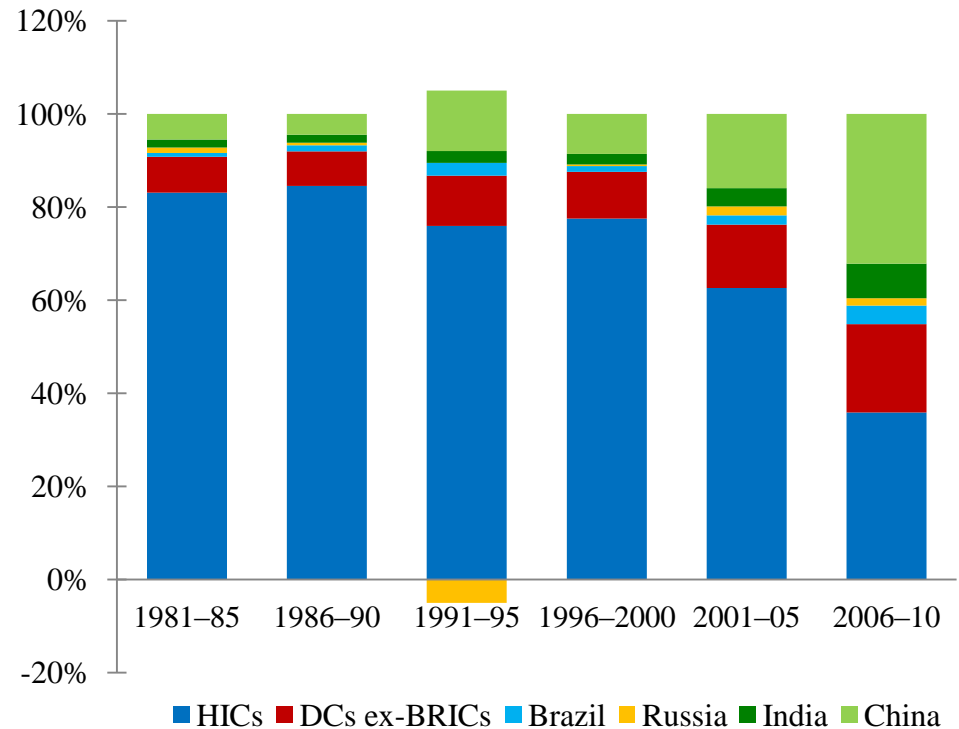
# Emerging economies are driving global growth – in an increasingly multipolar world economy

Developing countries' share in world GDP



— at market exchange rates — at PPP

Developing countries' contribution to growth in world GDP

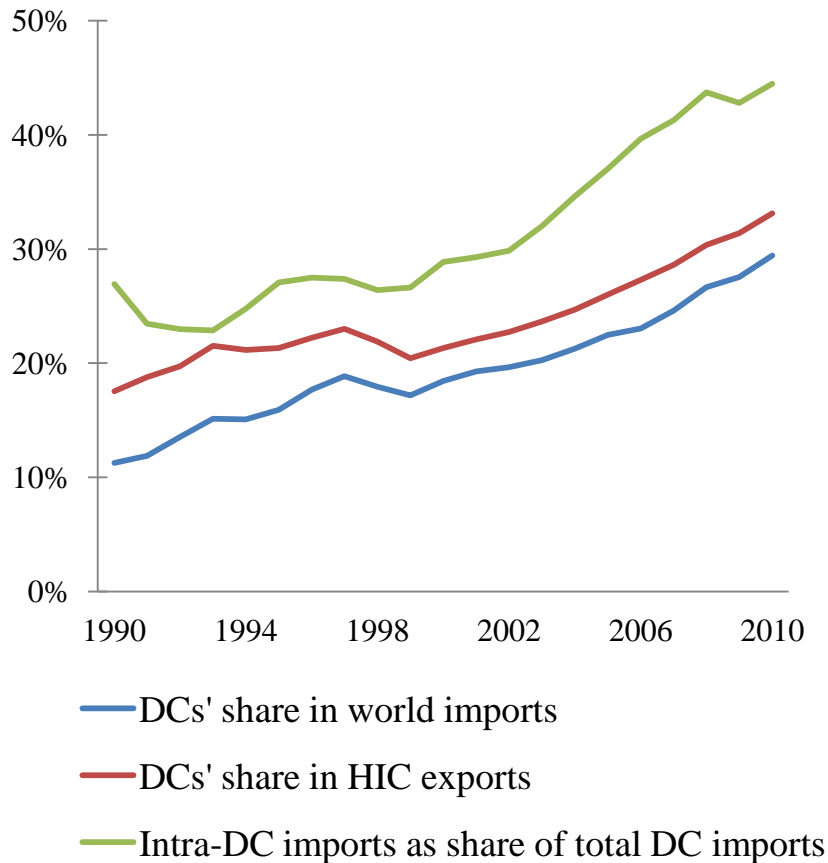


At market exchange rates

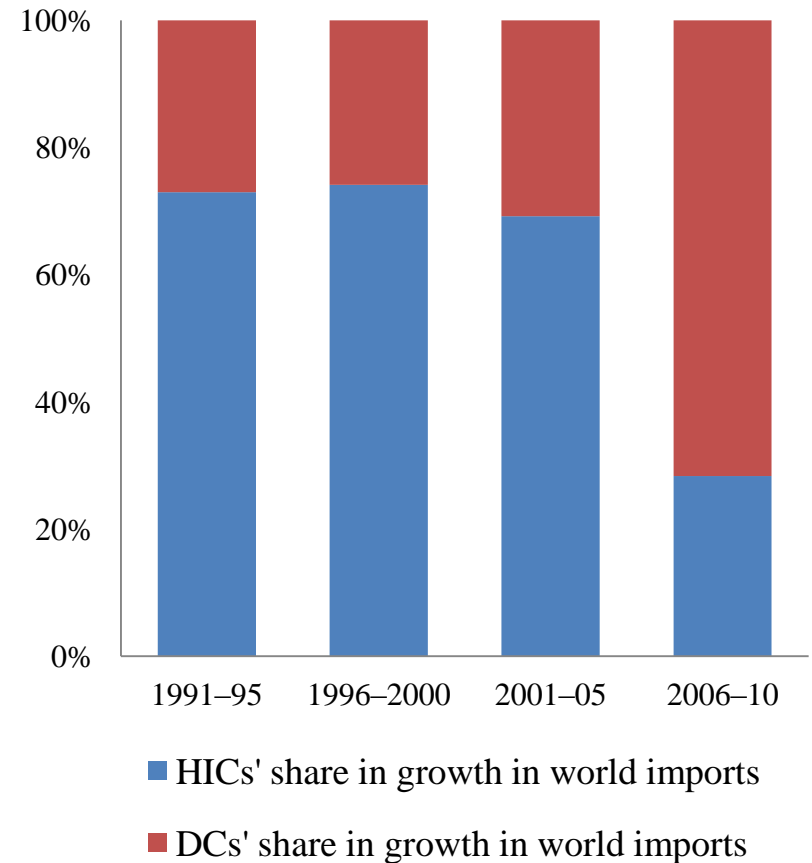


# ... and are driving world trade

## Developing countries' share in world and South-South trade



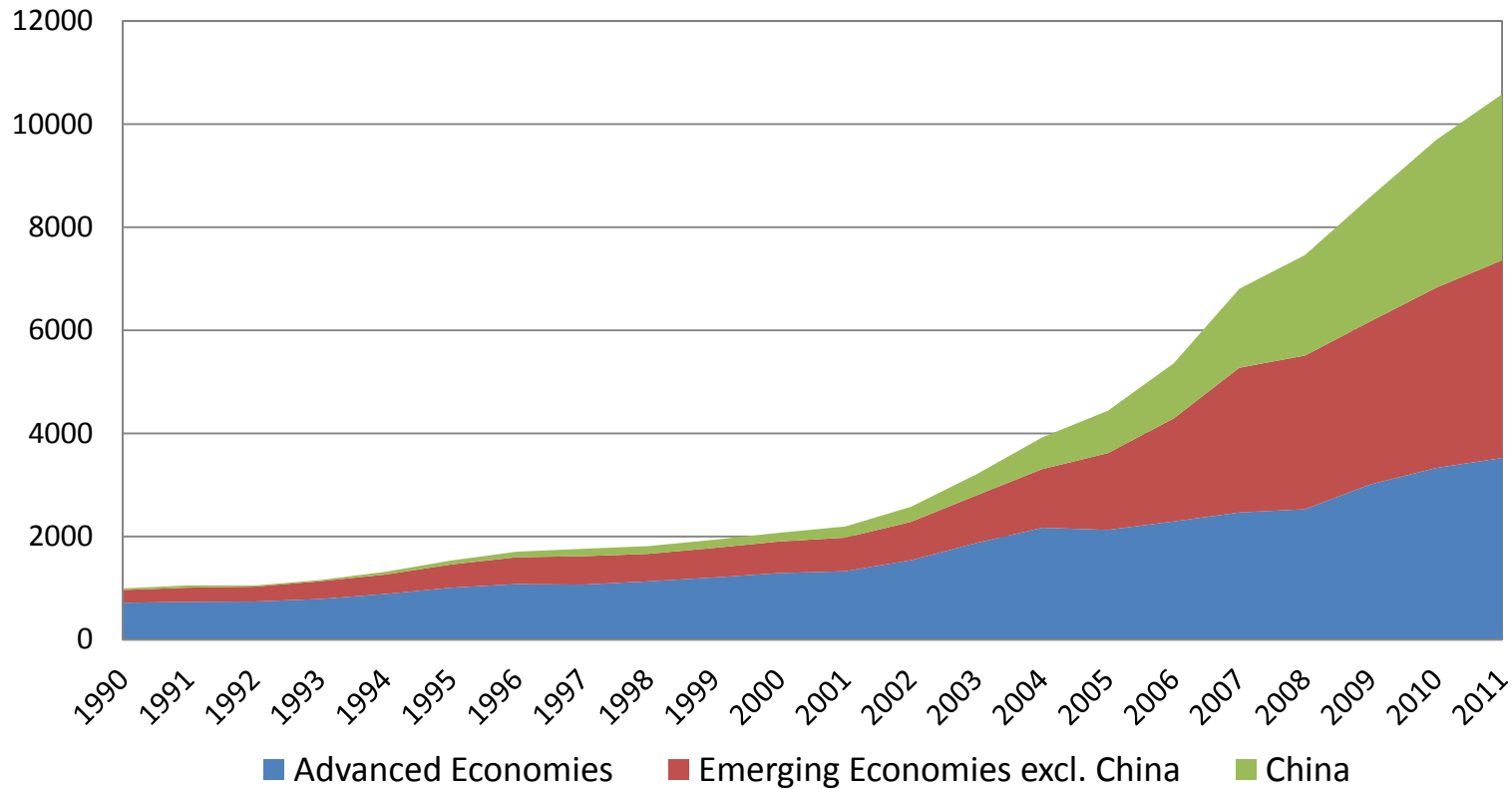
## Developing countries' contribution to growth in world trade



Source: World Bank WITS, IMF DOTS

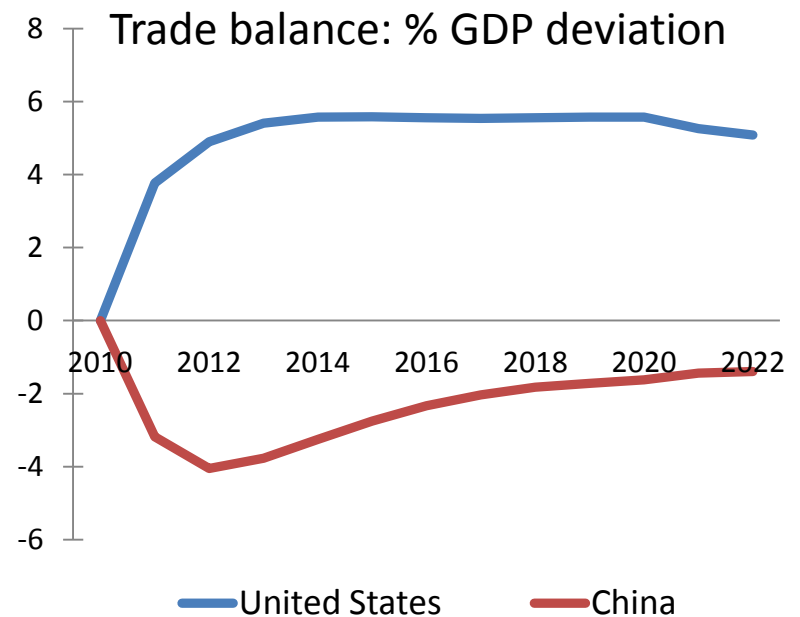
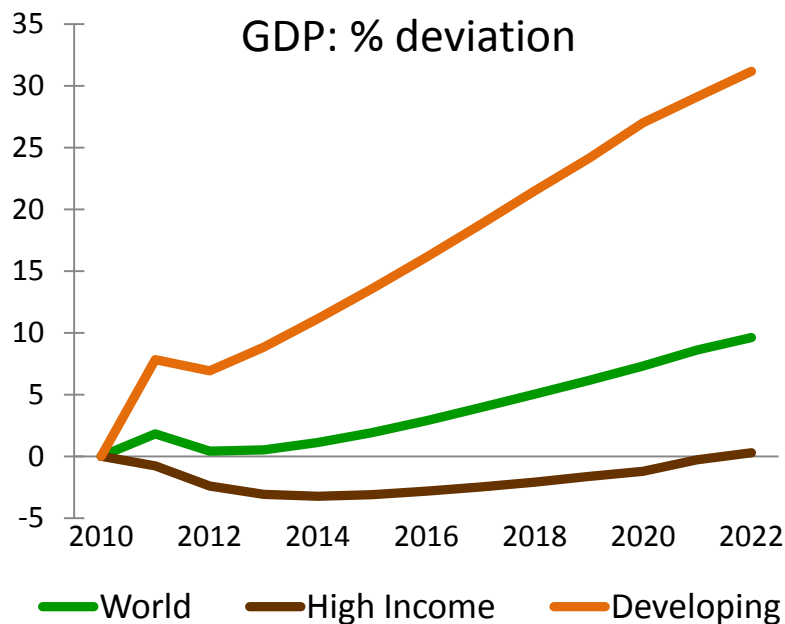
# Emerging economies now hold two-thirds of total international reserves

**International Reserves**  
(in billions of US dollars)



# Channeling more global savings to investment in developing countries would raise global growth and reduce imbalances

Scenario showing potential gains from fiscal consolidation in advanced economies and redirection of global savings to investment in infrastructure in developing countries



Source: Simulations with G-cubed model. All results are expressed as percent deviations from baseline.

# What is inclusive growth?

**A more comprehensive characterization of growth and its distribution points up major underlying development challenges**

**Low private investment**

**High out-migration of youth**

**Regional disparities in growth**

**Persistent unemployment for mid-skilled workers**

**Ethnic poverty disparities**

**Rising inequalities**

# Why inclusive growth?

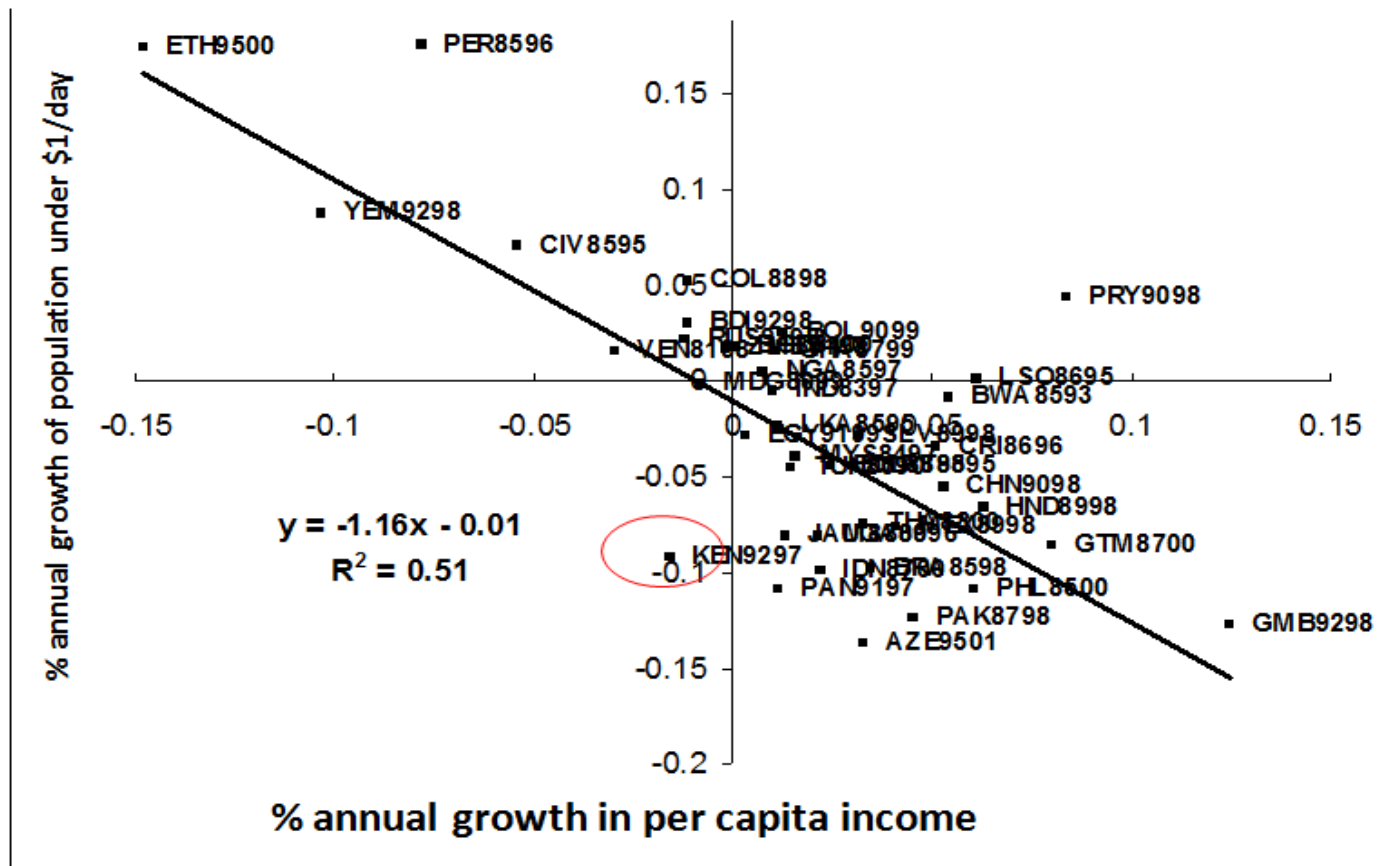
- It moves the focus beyond the *pace* of economic growth to the *pattern* of growth
- It involves *both* overall economic growth and some metric of distribution
- It moves from ex-post **redistribution** to a focus on the ex-ante distribution of production potential
- The **proceeds from economic growth** (from the accumulation of productive assets to their utilization in productive processes to the benefits received in the process) be shared throughout the population

# Growth-Poverty & Inequality linkages

Poverty reduction and redistribution are not spontaneous by-products of growth

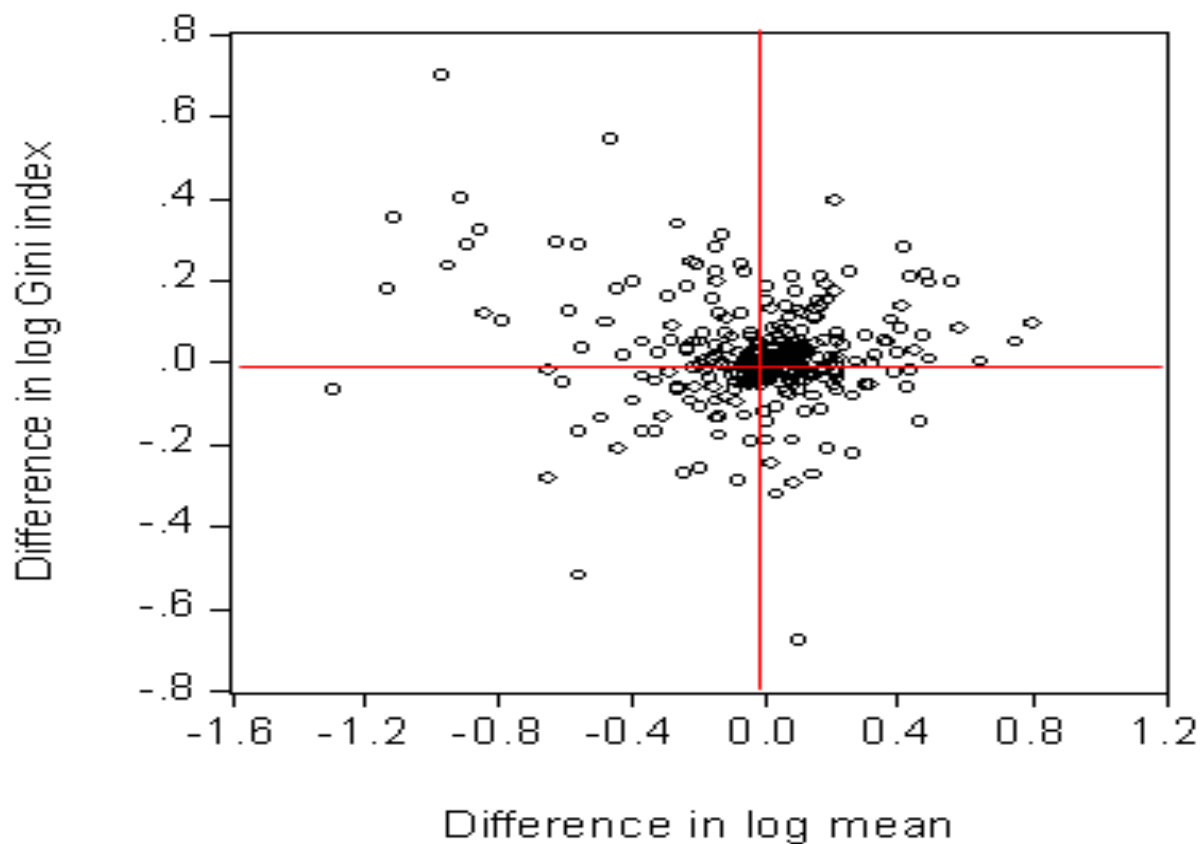
Corrections of macroeconomic imbalances or improvements in macroeconomic policies and governance might not be sufficient to address poverty

# While rapid growth is necessary for substantial poverty reduction, there is considerable variation in the poverty impact of growth...



Source: Kraay (2006)

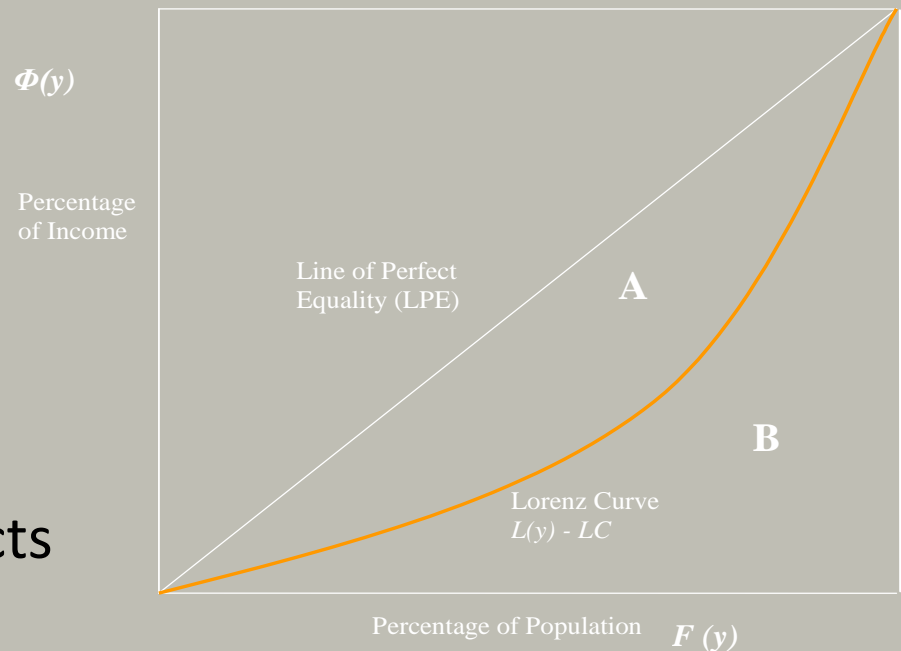
# And there is little to no correlation between rates of economic growth and changes in inequality





# Root causes of poverty and in inequality are country specific

- Increasing awareness that inequality – not just poverty – can fuel social tensions, impeding growth
- But the ways in which inequality impacts growth are country-specific
- The dynamics of inequality are by no means inevitable, depending upon
  - Endowment effects
  - Price effects
  - Occupational choice effects

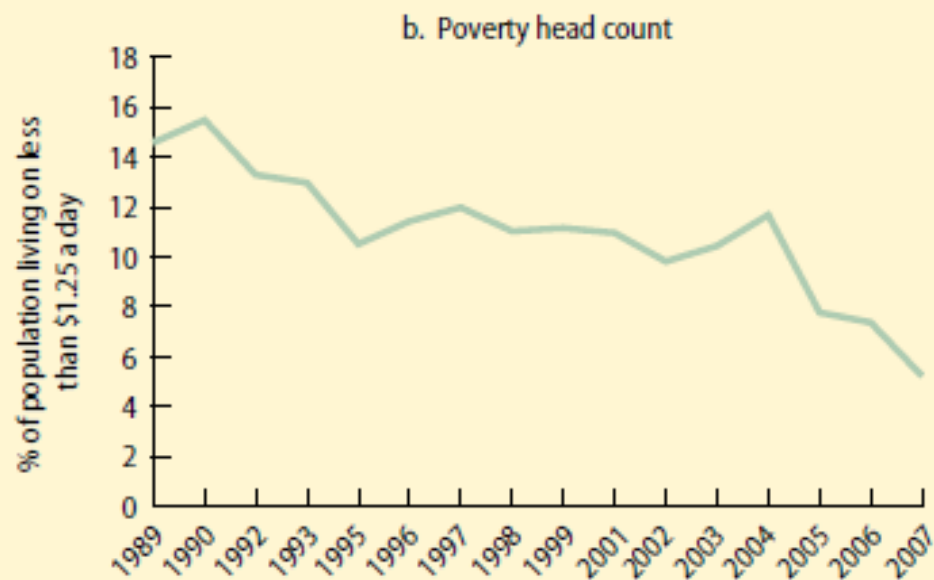
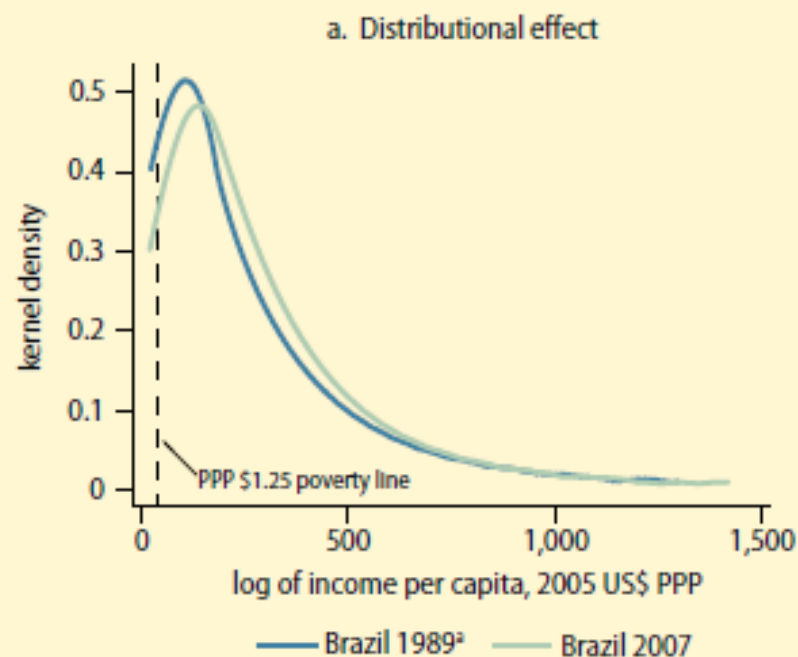


# Policy prescriptions are country-specific as well

For example, lessons from Brazil show that:

- (i) more pro-poor social policies can sustain poverty reduction, even in low-growth environment
- (ii) sensible macroeconomic and trade policies need not hurt the poor

## Reduction of income inequality has significant effects on poverty in Brazil

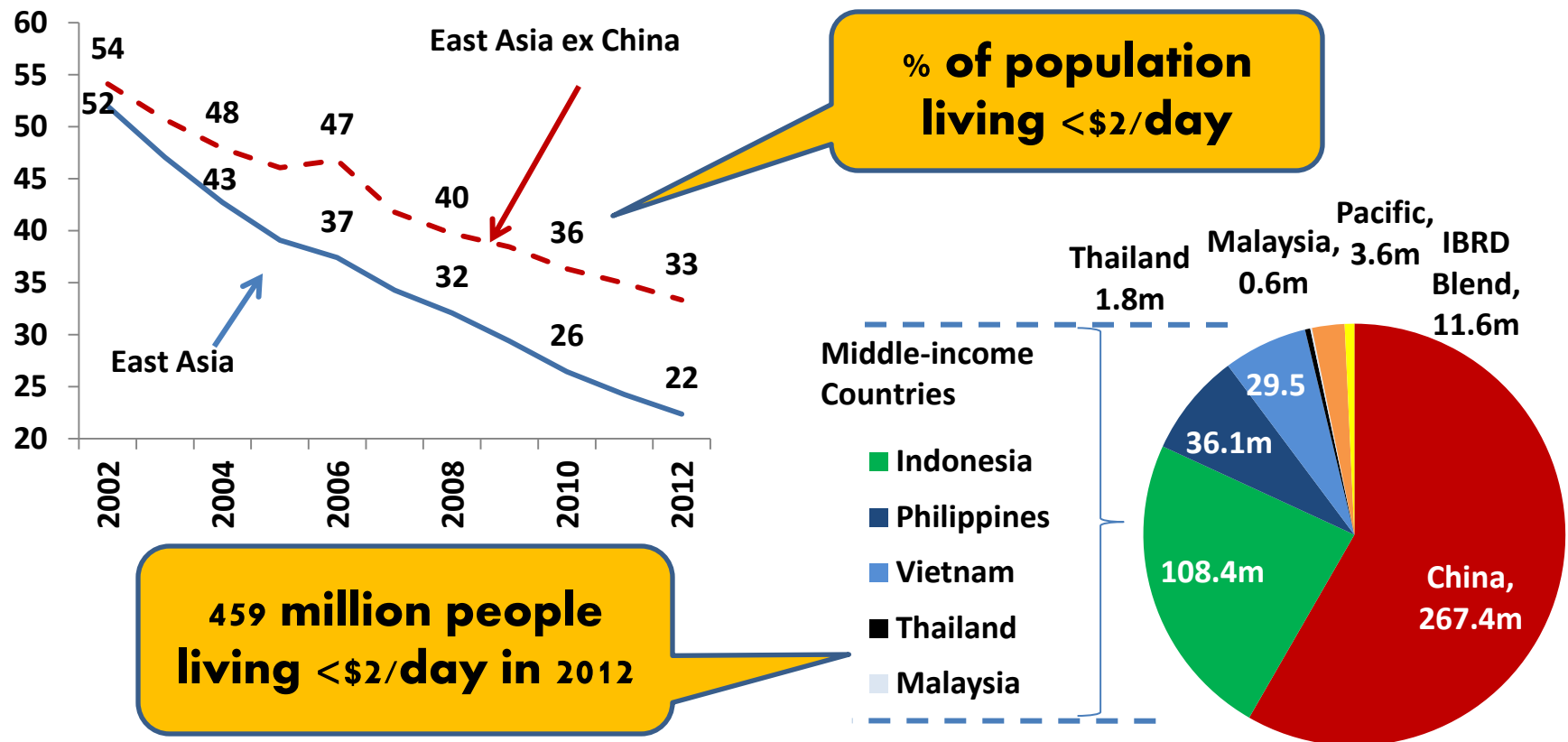


Source: World Bank staff calculations based on PovcalNet database.

a. Brazil 1989 is a projection of the structure of income distribution in 1989 with the average income in 2007.

# In East Asia, continued gains in poverty reduction are at stake

as more than 450m people still live on <\$2/day



Source: World Bank.

# ... addressing regional development challenges, here too, is country specific

## Upper MICs

- Value chain
- Skills and innovation
- Social safety nets
- Public Sector Performance

## China

- Improving social safety nets
- Rebalancing growth
- Green Growth/natural resource management
- Adjusting to expanded world role

## Pacific Island & Small States

- Small state and isolation challenges
- Economic reform and business climate
- Managing natural resources sustainably

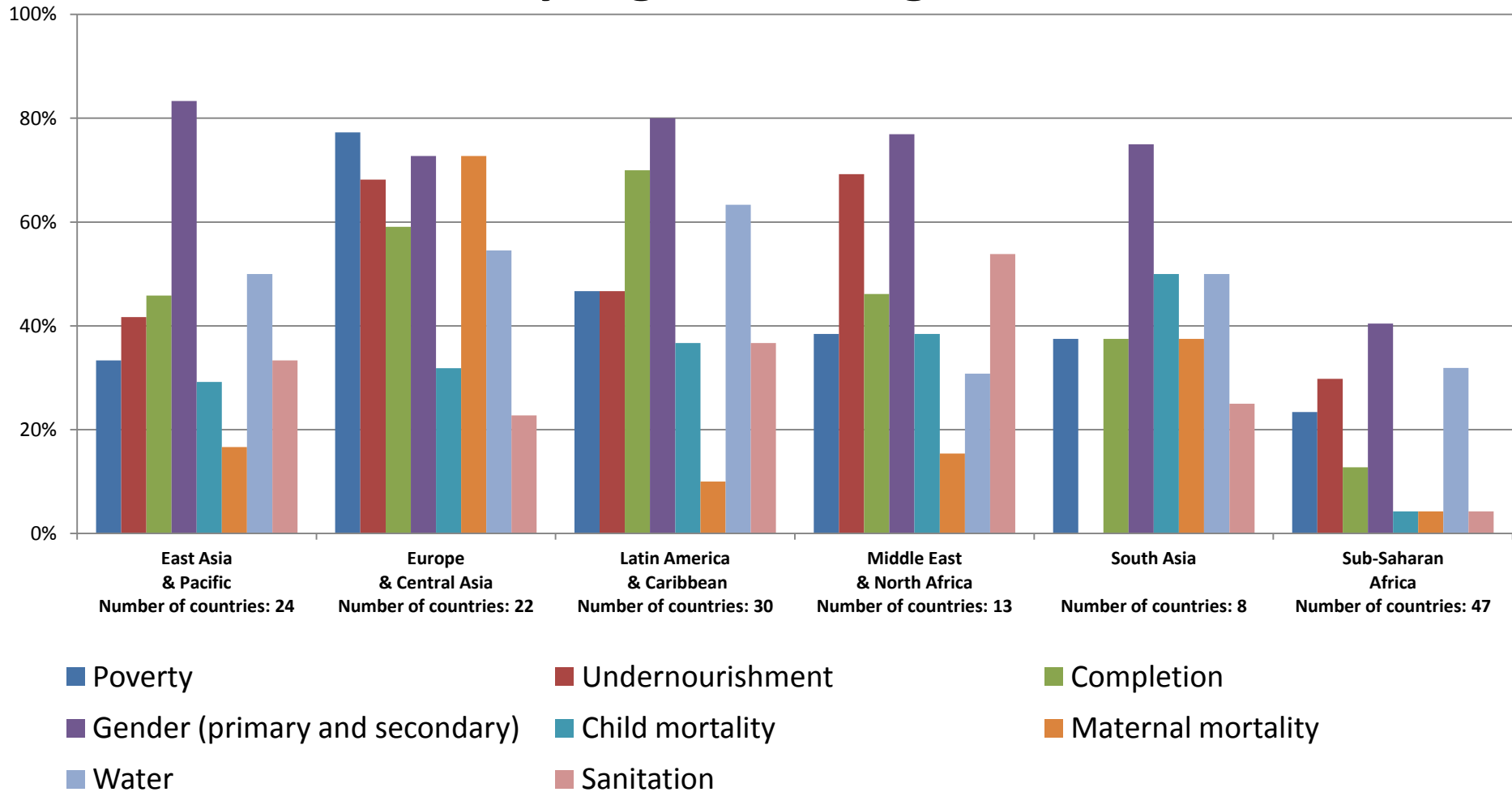
## Lower MICs and LICs

- Progress on MDGs and skills
- Business climate
- Sustainable natural resources management
- Fiscal Management and Service Delivery

1) Upper MICs include Indonesia, Philippines, Thailand and Malaysia 2) Lower MICs are Mongolia and Vietnam; 3) LICs include Cambodia and Laos

# Sub-Saharan Africa is distinctively behind targets on its MDGs

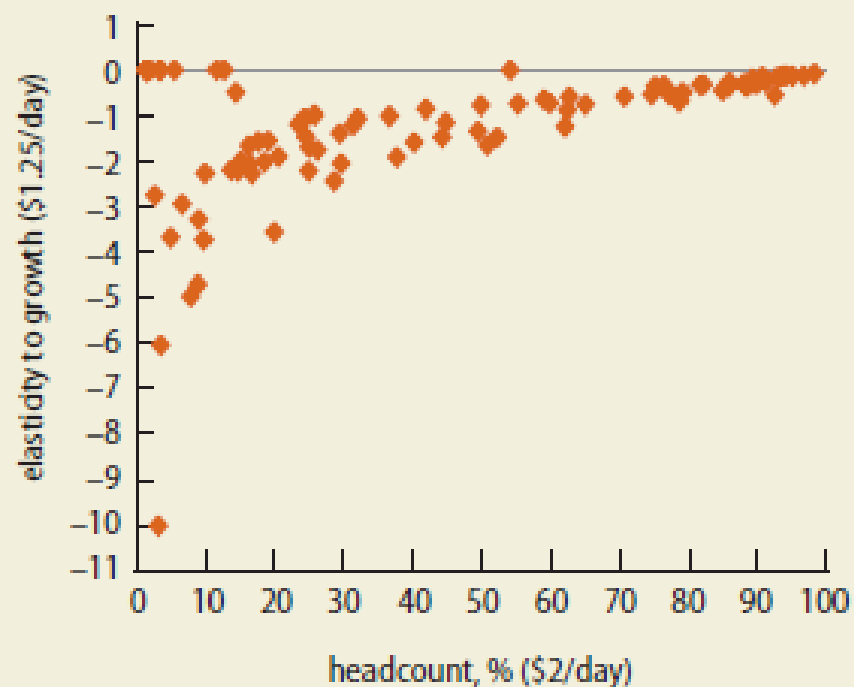
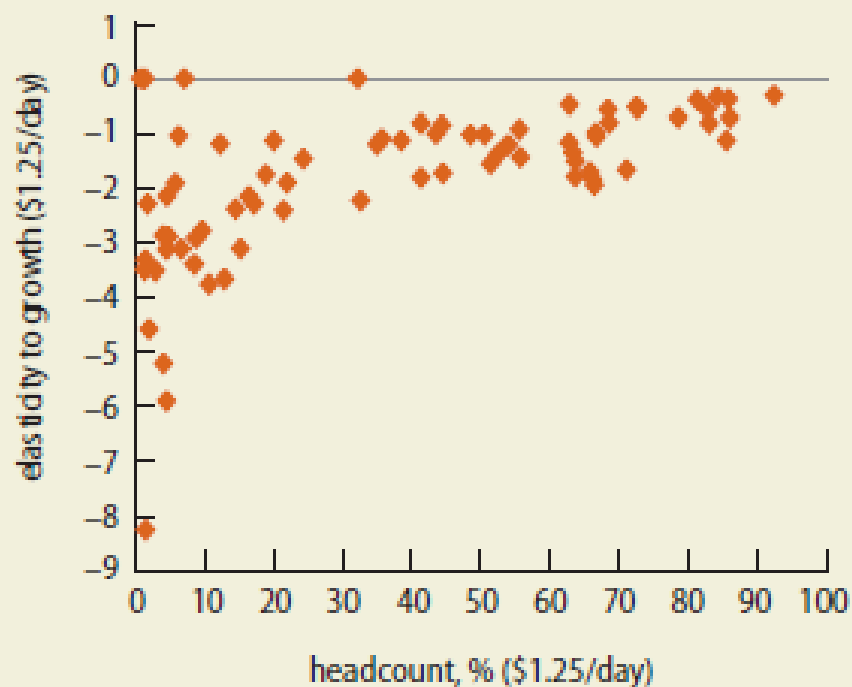
## % of countries by region on target to achieve MDGs



## Initial conditions matter

Higher growth is needed when the initial poverty rate is high

**FIGURE 1.17** Poverty responds less to growth when the initial poverty rate is high



Source: Staff calculations from PovcalNet, the World Bank.

Note: There are data or observation issues especially when the poverty rate is low; see text for details.

# Reducing poverty is more difficult in Sub-Saharan Africa

Depth of poverty or its incidence is also higher in poorer countries

**TABLE 1.1** Poverty reduction is more difficult in poor countries

Country group	Median growth elasticity of poverty with respect to poverty line		Median poverty headcount at initial year with respect to poverty line (%)	
	\$1.25 a day	\$2.00 a day	\$1.25 a day	\$2.00 a day
Low-income countries	-1.01	-0.53	66.02	85.77
Fragile states	-0.81	-0.54	51.46	74.99
Lower-middle-income countries	-1.65	-0.88	15.11	29.54
Upper-middle-income countries	-1.04	-1.41	3.60	11.32

Source: World Bank staff calculations from PovcalNet.

Note: The values in the table are the medians of  $\{\ln(H_2/H_1)/\ln(M_2/M_1)\}$  in each category.




**TABLE 1.2** Poverty reduction is several times more difficult in Sub-Saharan Africa

Region	Median growth elasticity of poverty with respect to poverty line		Median poverty headcount at initial year with respect to poverty line (%)	
	\$1.25 a day	\$2.00 a day	\$1.25 a day	\$2.00 a day
East Asia and Pacific	-1.43	-0.79	48.6	77.9
Europe and Central Asia	-2.00	-1.12	3.7	10.2
Latin America and the Caribbean	-2.03	-1.44	8.8	20.9
Middle East and North Africa	-2.89	-2.06	4.6	19.6
South Asia	-1.05	-0.48	66.5	88.1
Sub-Saharan Africa	-0.76	-0.36	66.0	83.9
Total	-1.18	-0.81	18.4	39.4

Source: World Bank staff calculations from PovcalNet.

Note: The values in the table are the medians of  $\{\ln(H_2/H_1)/\ln(M_2/M_1)\}$  in each category.

## Conclusion: Achieving the MDGs

-  **Rapid pace of growth is necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of the large part of the country's labor force**
-  **Low income and other developing countries need to rebuild buffers so as to guard against future shocks.**
-  **Structural reforms adapted to the country context and initial conditions can more directly address development challenges – this country-based model should be given more prominence in the post-2015 development agenda**





***THANK YOU***

# References

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