Global Economic Prospects

HIGHLIGHTS from Special Focus 2.1:

Growth in Low-Income Countries: Evolution, Prospects, and Policies

Key Points

- *The number of low-income countries (LICs) has almost halved from 64 in 2001 to 34 in 2019.*
- *Rapid growth was supported by debt relief initiatives, the commodity price boom of 2001-11, receding conflicts, investment in human and physical capital, improved policy frameworks, and strong recoveries from deep recessions in transition economies during the 1990s.*
- *Prospects for today's LICs to progress to middle-income status appear more challenging, due to a greater incidence of fragility, a heavy reliance on agriculture, and the fact that many are land-locked among poorer neighbors, limiting the scope of involvement in global trade*
- *Coordinated and multi-pronged policy efforts are required to address these challenges.*

Factors supporting LIC growth since 2001. Growth in the 64 LICs in 2001 was supported by several cyclical and structural factors. Cyclical factors included the 2001-11 commodity price boom and strong rebounds in economies that transitioned from centrally planned to market-based economies. Structural factors included the MDRI and HIPC debt relief initiatives, receding conflicts in Africa, greater trade integration, increased investment in human and physical capital, and improved business climates and policy frameworks (Figure A, B).

Almost half of the 2001 LICs reached MIC income levels. The number of low-income countries (LICs) has almost halved from 64 in 2001 to 34 in 2019. The LICs of 2001 that became middle-income countries (MICs) benefited somewhat more from the cyclical and structural growth drivers than those that remained LICs. On average, the 2001 LICs that became MICs had stronger policy frameworks, better governance and business environments, better-developed infrastructure, larger improvements in human capital, and more fiscal resources (Figure C). The 2001 LICs that became MICs also had a geographical advantage, as less than one-third were landlocked and tended to neighbor larger, more developed economies.

Dim prospects for further LIC progression to MIC. Per capita incomes in today's LICs are further below the middle-income threshold than were the incomes of the LICs of 2001 that subsequently became MICs. Most of today's LICs are fragile, compared to one-third of 2001 LICs that turned MICs (Figure D). Those that are not fragile, face a geographical disadvantage, as more than half of them landlocked, mostly among other LICs or countries with per capita incomes just above middle-income thresholds. Today's LICs rely heavily on agriculture, making them vulnerable to extreme weather events (Figure E). Prospects for commodity demand are also weakening as growth in China—the largest source of commodity demand—slows and shifts towards less resource-intensive sectors.

Poverty and policy implications. Today's LICs have poverty rates in excess of 40 percent, and per capita growth is expected to fall well short of the 8 percent needed to reach the Sustainable Development Goal (SDG) of reducing global extreme poverty to 3 percent by 2030 (Figure F). Policy efforts will need to be coordinated and multi-pronged to boost both domestic and external drivers of LIC growth.

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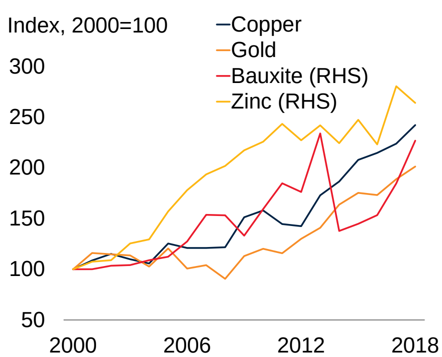
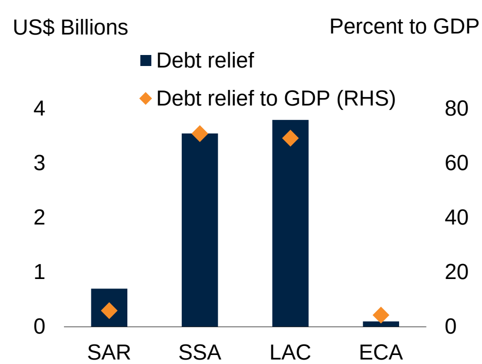
Figure. Growth in Low-Income Countries: Evolution, Prospects, and Policies

Booming commodity prices supported resource production and large investments in mineral exploration among LICs of 2001.Debt relief initiatives helped put public finances on a sounder footing. Investments in human capital have contributed to higher secondary school enrollment rates, with even stronger improvements in the LICs that became MICs. More than half of today's LICs are affected by fragility, conflict, and violence. They are also heavily dependent on agriculture, which makes them vulnerable to extreme weather events. Per capita growth in today's LICs is expected to fall well short of the 8 per cent per year needed until 2030 to reach the SDG of reducing global extreme poverty to 3 percent.

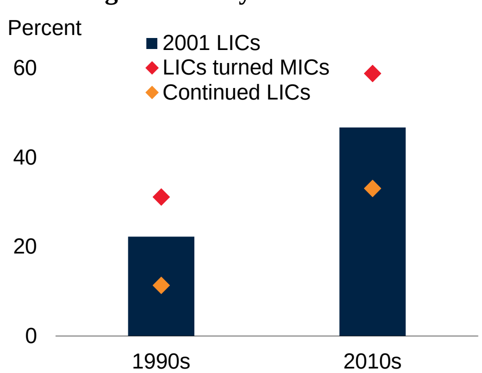
A. Resource production in LICs of 2001



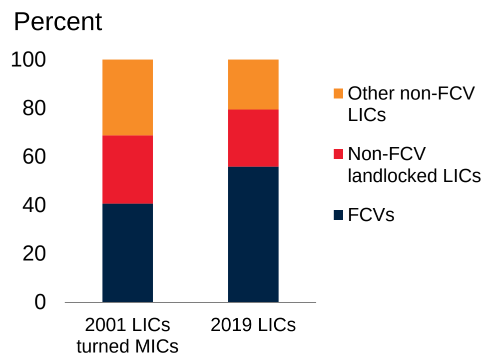
B. MDRI and HIPC relief in LICs of 2001



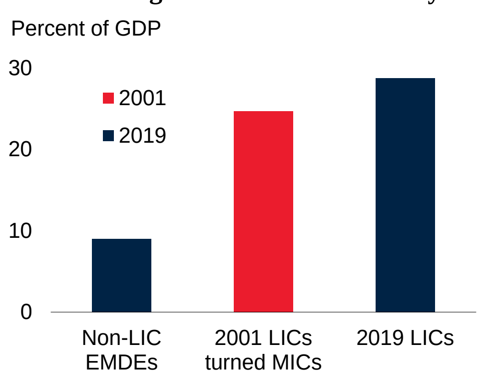
C. Average secondary-school enrollment rates



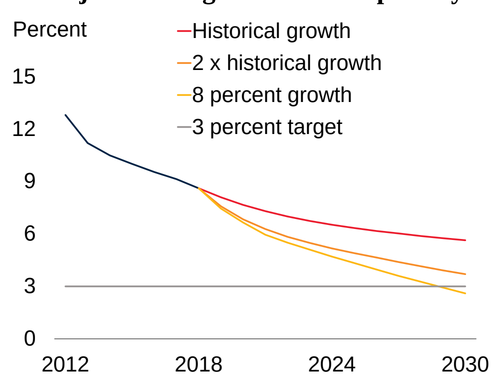
D. LICs affected by fragility, conflict, and violence



E. Share of agriculture in the economy



F. Projections of global extreme poverty



Sources: International Monetary Fund, World Bank, World Bureau of Metal Statistics, World Development Indicators.
Notes: LICs = low-income countries.
B. Committed debt relief under the assumption of full participation of creditors. Bars represent average debt relief per region in US$ billions for all HIPC and MDRI LICs. Diamonds reflect average debt relief per region relative to countries' GDP.
C. 2010s includes data up to 2017. 2001 LICs, "LICs turned MICs", and "Continued LICs", include 55, 26, and 29 countries, respectively.
D. Bars for 2001 "LICs turned MICs" reflect shares in 2001, bars for 2019 LICs reflect latest shares. Due to data limitations, official FCV country classifications for 2001 are not available. This share is based on the World Bank FCV country classification of the 2005/06 fiscal year that has been amended to include countries that had the presence of UN peace-keeping missions between 1999 and 2001.
E. Unweighted averages.
F. Data based on global real per capita growth. 8 percent growth assumes average annual growth in per capita incomes of 6 percent for all countries, but that incomes of the bottom 40 percent of the distribution grow at 8 percent, while those in the top 60 percent grow at 4.7 percent.