Global Economic Prospects

HIGHLIGHTS FOR SPECIAL FEATURE ON LOW INCOME COUNTRIES: GRADUATION, RECENT DEVELOPMENTS AND PROSPECTS[1]
***Global Economic Prospects*, January 2015**

- The number of low income countries has almost halved since 2001, following the graduation of mainly metal exporting and transition economies to "middle-income" status.
- Today's low-income countries are predominantly agriculture based, small, and fragile.
- In contrast to middle-income countries, economic activity in low-income countries strengthened in 2014. The near term outlook remains positive.

The number of countries classified as low-income has fallen to 34, currently, from 65 in 2001. In roughly half of the countries that attained middle-income status over this period, graduation followed new discoveries or intensified exploitation of metal and oil reserves in Sub-Saharan Africa and East Asia. Another five, mostly in Europe and Central Asia, saw per capita incomes fall sharply in the 1990s during deep "transition" recessions, but subsequently rebounded. In several other countries, graduation followed the implementation of structural and political reforms.

Graduated countries are experiencing faster, more stable, growth. Growth has accelerated markedly in graduating countries while output volatility has fallen sharply coinciding with a decline in the frequency of growth collapses that undermined poverty reduction in earlier decades.

Today's low income countries are mainly small, heavily reliant on agriculture and remittances. Three-quarters are in Sub-Saharan Africa, where challenging climatic conditions at times strain activity in predominantly subsistence economies. On average, agriculture accounts for about 25 percent of GDP in low-income countries. In many cases, exports are dominated by agricultural commodities, especially coffee and tea. Many low-income countries are also heavily dependent on remittances to support consumption and investment. On average, remittances accounted for almost 6 percent of GDP in low-income countries in 2013, much more than FDI.

Fragile[2] **low income countries are struggling**. In some (Guinea, Liberia, and Sierra Leone) lack of adequate public health care services has facilitated the spread of Ebola. This has taken a heavy

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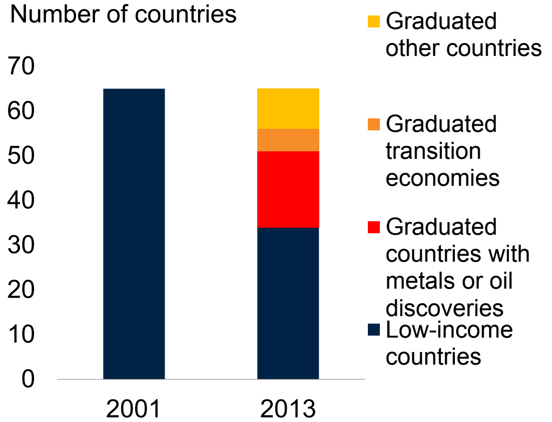
[1] This essay was produced by Franszíska Ohnsorge and Tehmina Shaukat Khan.
[2] Fragile states are defined according to the Harmonized List of Fragile Situations, and comprise countries whose World Bank Country Policy and Institutional Assessment (CPIA) score is 3.2 or less, or where UN and/or other peacekeeping forces have been present for the past three years. Of the 34 countries currently classified as low-income, 16 are also categorized as fragile.

human toll, disrupted activity and trade, and shaved 1-3 percentage points off growth. Most fragile countries remain heavily reliant upon foreign aid to finance critical government spending.

Growth remained robust in 2014, but macroeconomic imbalances are emerging in some countries. Activity in low-income countries has been supported by robust domestic demand, underpinned by investment, good harvests, and robust remittances. This has offset headwinds from a terms-of-trade deterioration due to soft commodity prices. A number of countries have taken advantage of benign international financing conditions to issue sovereign bonds in international markets. However, growing import demand has contributed to widening current account deficits in about one-third of low-income countries while fiscal deficits are sizable in some.

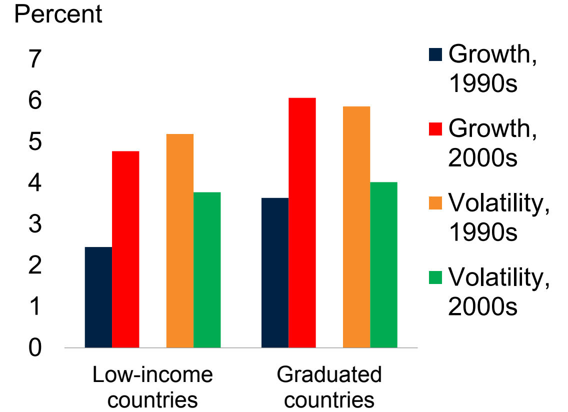
The near term outlook is positive. Growth on aggregate is expected to remain robust, around 6 percent, in 2015-17. Some fragile states should see increased growth in 2015-17 as the Ebola epidemic abates, security improves, and peacebuilding efforts progress. Soft commodity prices (especially for oil exporters) and weak Euro Area (a key trading partner for West Africa) are expected to hold back growth in many low-income countries, although these headwinds should be mitigated by strong government consumption and investment growth. Resource discoveries in East Africa should support growth there.

Figure 1: Low-income countries, 2001 and 2013[3]



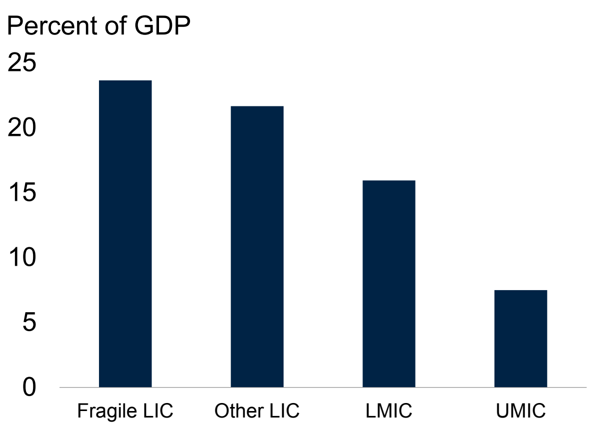
Source: World Bank.

Figure 2: GDP growth and volatility



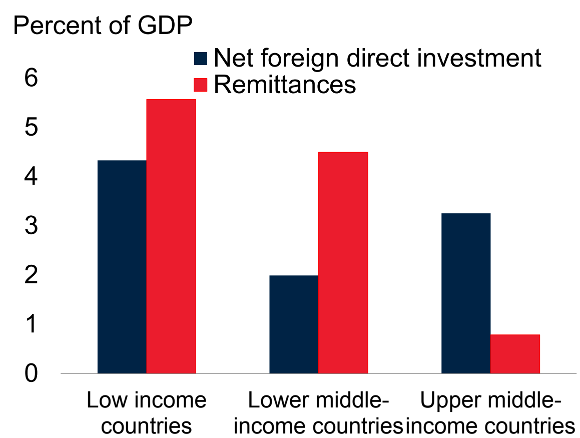
Source: World Bank and World Development Indicators.
Note: Growth calculated as average for the respective period. Volatility refers to the standard deviation of GDP growth from 2000 till 2010.

Figure 3: Low and middle income countries: share of agriculture in output, 2012



Source: World Bank.
Note: LIC, LMIC, and UMIC stands for low-income countries, lower-middle-income countries, and upper-middle-income countries, respectively.

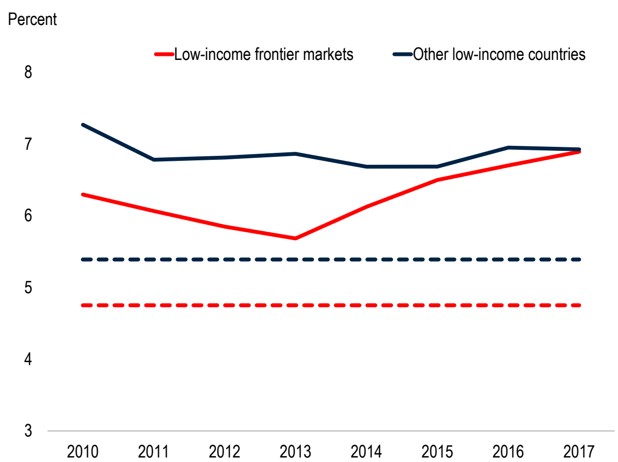
Figure 4: Low and middle income countries: remittances, 2013



Source: World Bank and World Development Indicators

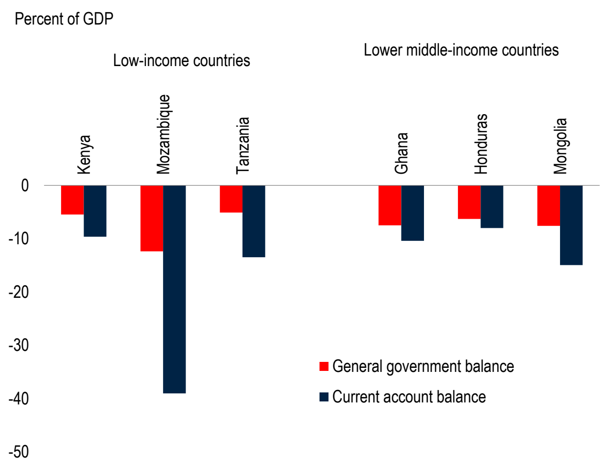
[3] Graduated countries with new discoveries or exploitation of metals, oil, or gas resources are Angola, Azerbaijan, Cameroon, Republic of Congo, Equatorial Guinea, Ghana, Indonesia, Lao PDR, Lesotho, Mauritania, Mongolia, Nigeria, Sudan, Timor-Leste, Republic of Yemen, Uzbekistan, and Zambia. Graduated transition economies without metals or oil resources are Armenia, Georgia, Kyrgyz Republic, Moldova, and Ukraine. Other graduated countries are Bhutan, Côte d'Ivoire, India, Nicaragua, Pakistan, Senegal, Vietnam, and Solomon Islands. The countries that have remained low income include Afghanistan, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Eritrea, Ethiopia, The Gambia, Guinea, Guinea-Bissau, Haiti, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Myanmar, Nepal, Niger, Rwanda, Sierra Leone, Somalia, Tajikistan, Tanzania, Togo, Uganda, Zimbabwe, and Democratic People's Republic of Korea

Figure 5: Low-income countries: GDP growth



Source: World Bank.
Note: Dashed lines indicate 1990-2009 average.

Figure 6: Fiscal and current account balance of select LICs, 2014



Source: World Bank and World Development Indicators
Note: Selected non-fragile low- and lower-middle-income frontier markets for which both current account and fiscal deficits exceed 5 percent of GDP