

APRIL 2024 | VOLUME 29

AFRICA'S PULSE

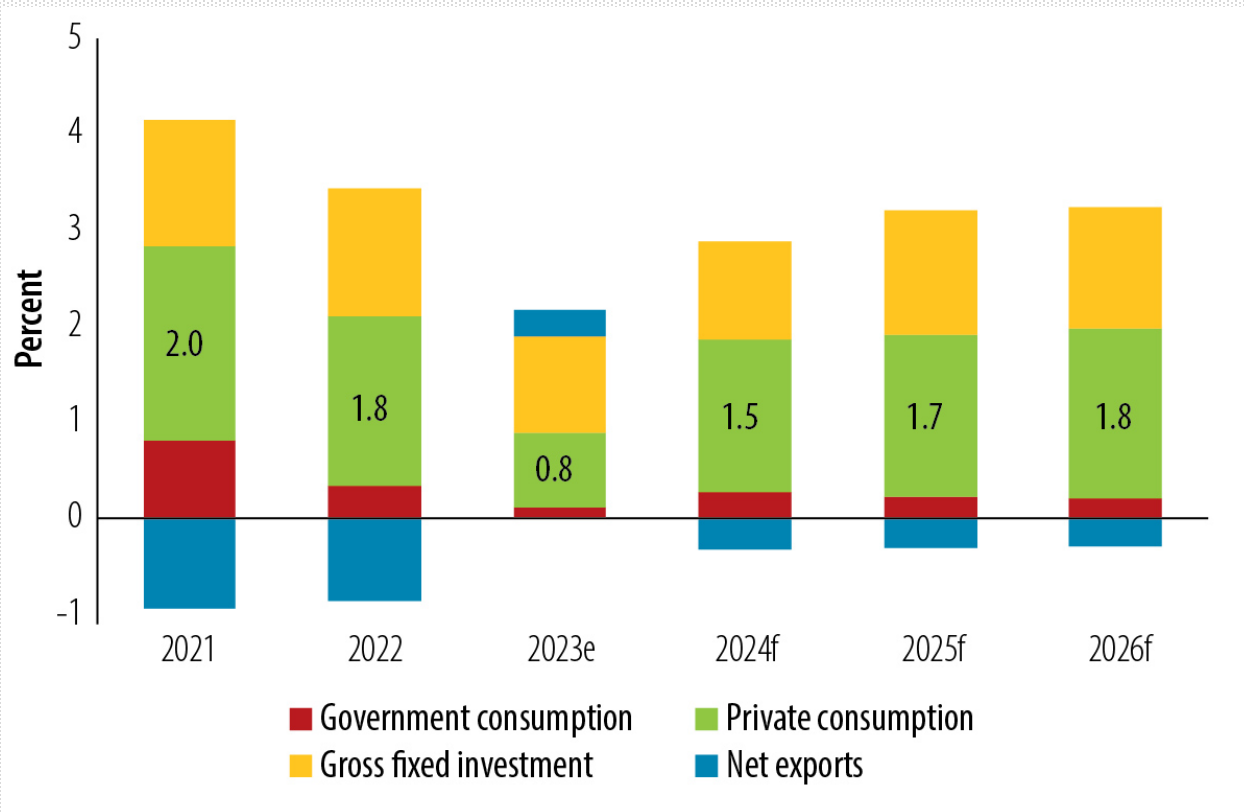
AN ANALYSIS OF ISSUES SHAPING AFRICA'S ECONOMIC FUTURE

**TACKLING INEQUALITY TO REVITALIZE
GROWTH AND REDUCE POVERTY IN AFRICA**

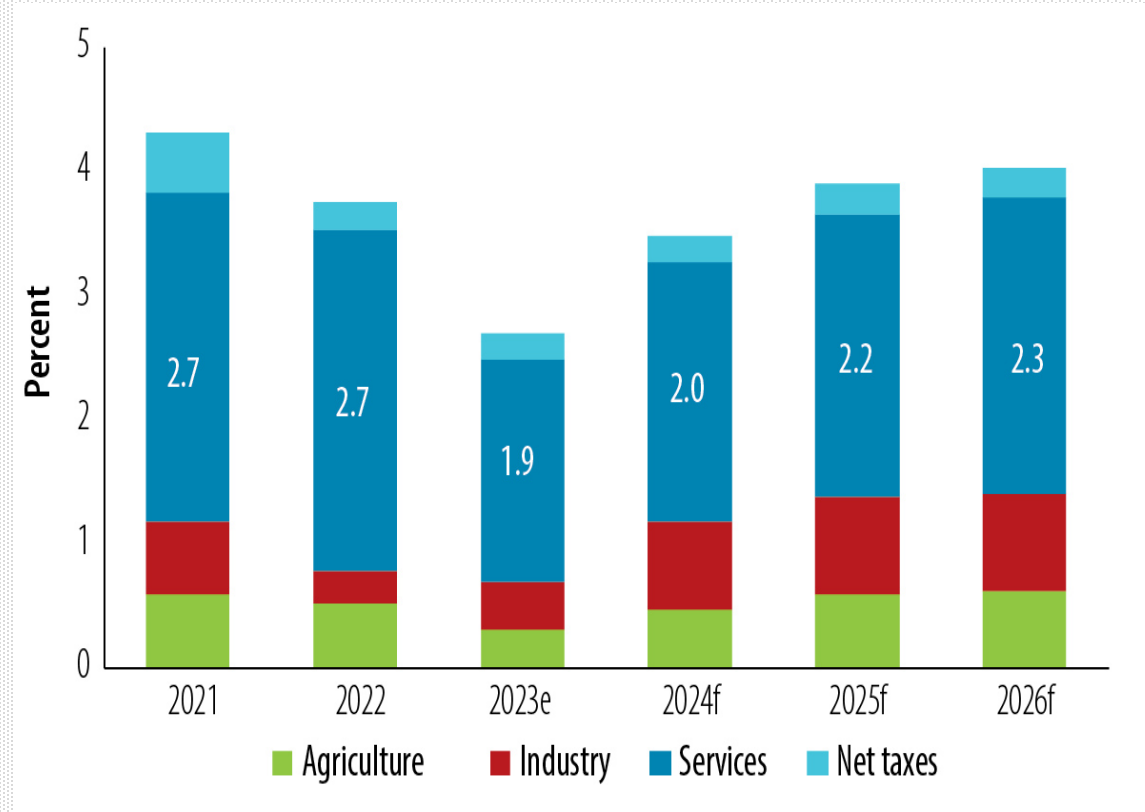
WORLD BANK TOKYO ONLINE MORNING SEMINAR (APRIL 26, 2024)
FROM THE OFFICE OF THE CHIEF ECONOMIST, AFRICA REGION

GROWTH REBOUND IS EXPECTED IN 2024-25, SUPPORTED BY CONSUMPTION

Contribution to GDP growth: Expenditure



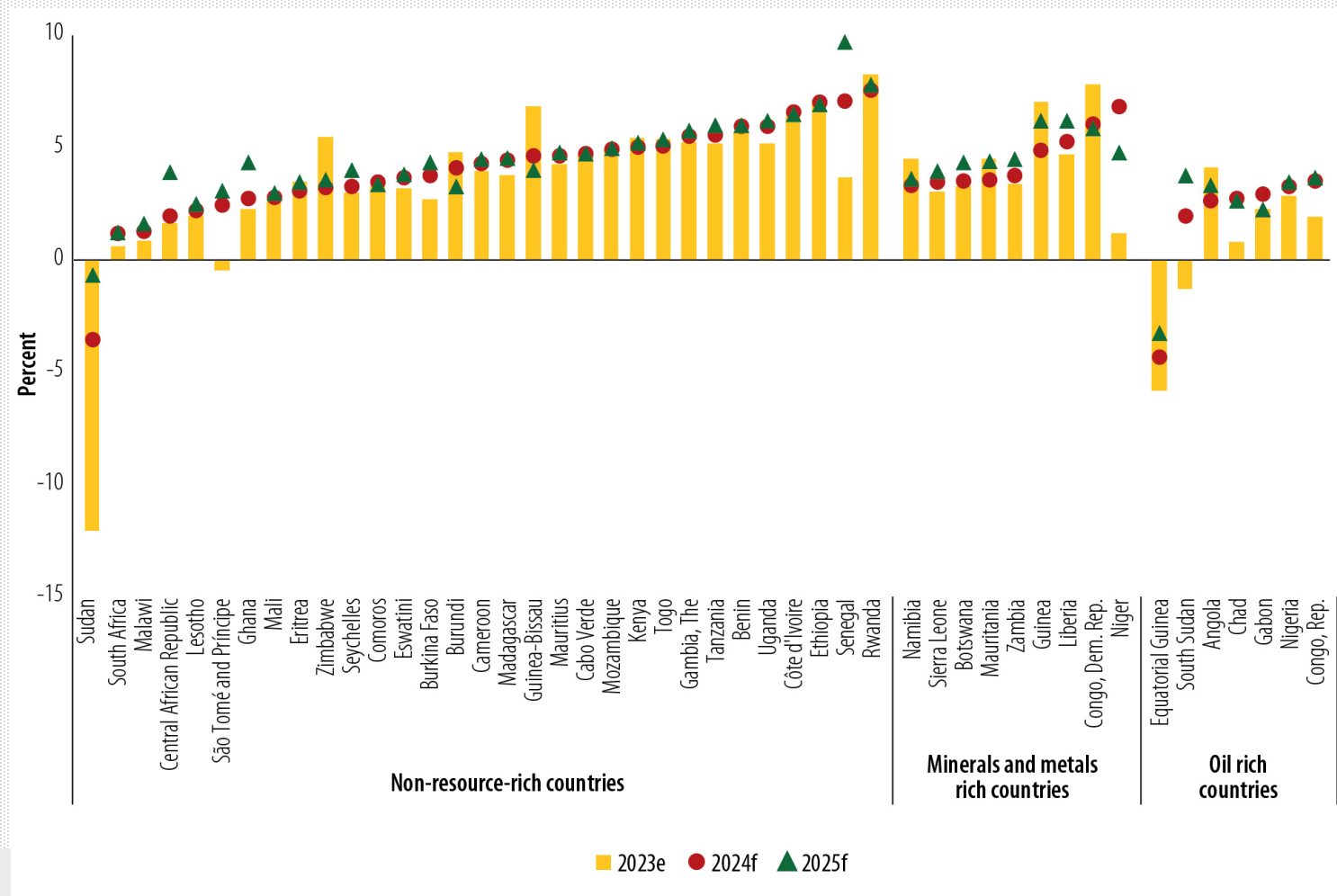
Contribution to GDP growth: Production



Source: World Bank staff estimates.

AND THE PACE OF RECOVERY IS EXPECTED TO DIFFER ACROSS COUNTRIES IN THE REGION

Growth across Sub-Saharan African Countries, 2023-25



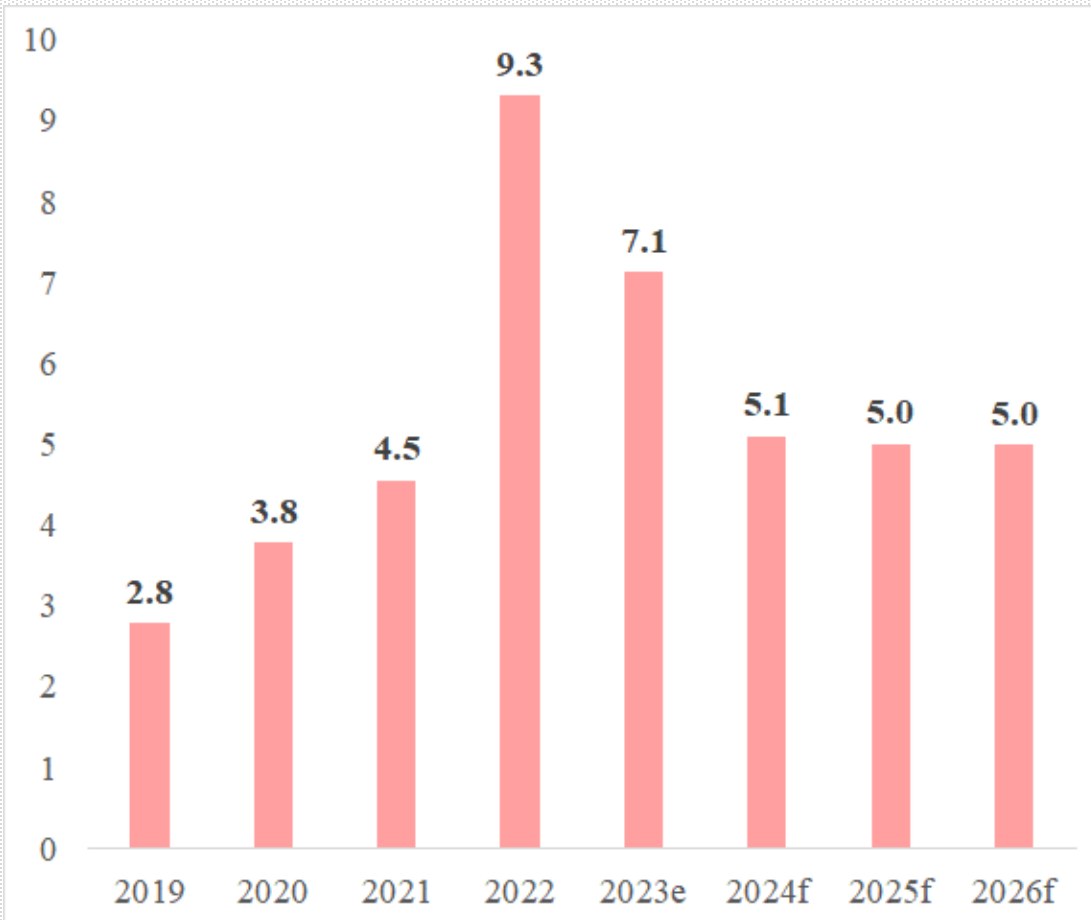
Source: World Bank Staff Projections

What's Driving the Growth Recovery: Enabling vs. Mitigating Factors

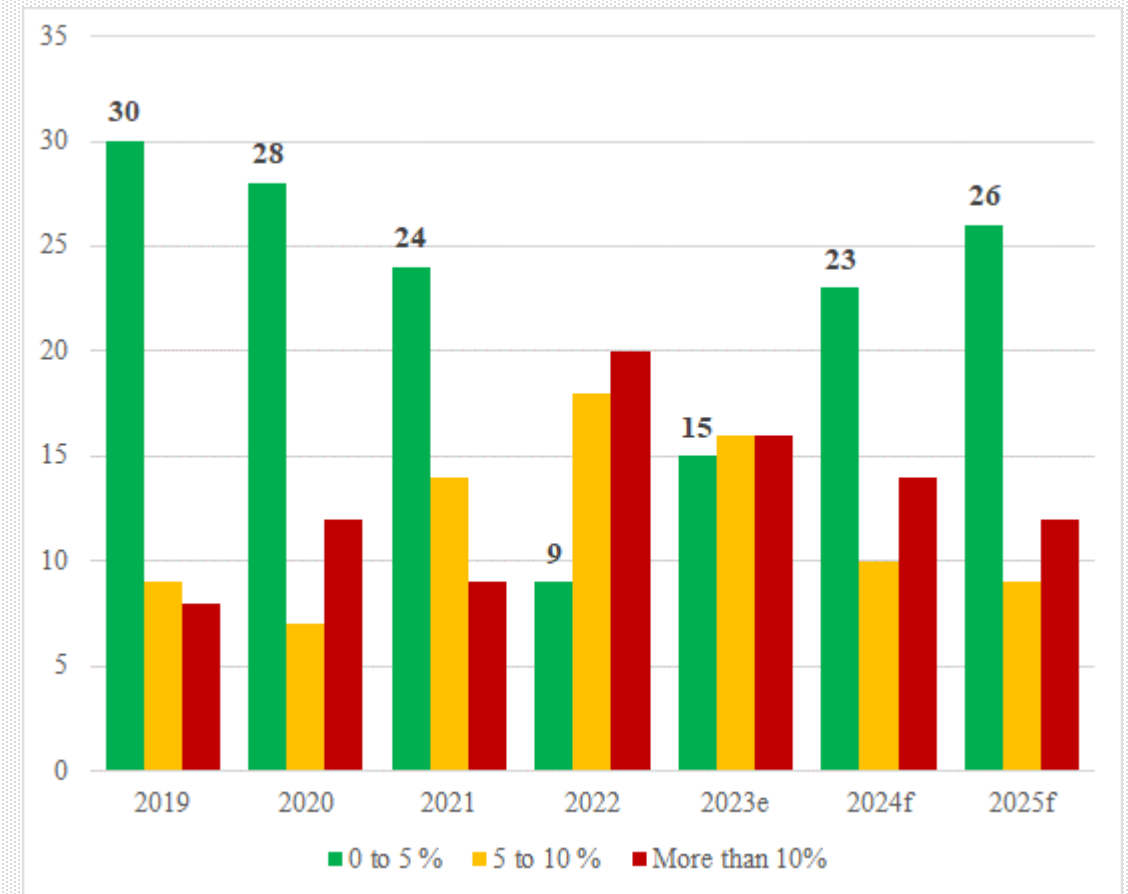


[1] INFLATION IS COOLING

Inflation in Sub-Saharan Africa (*median*)



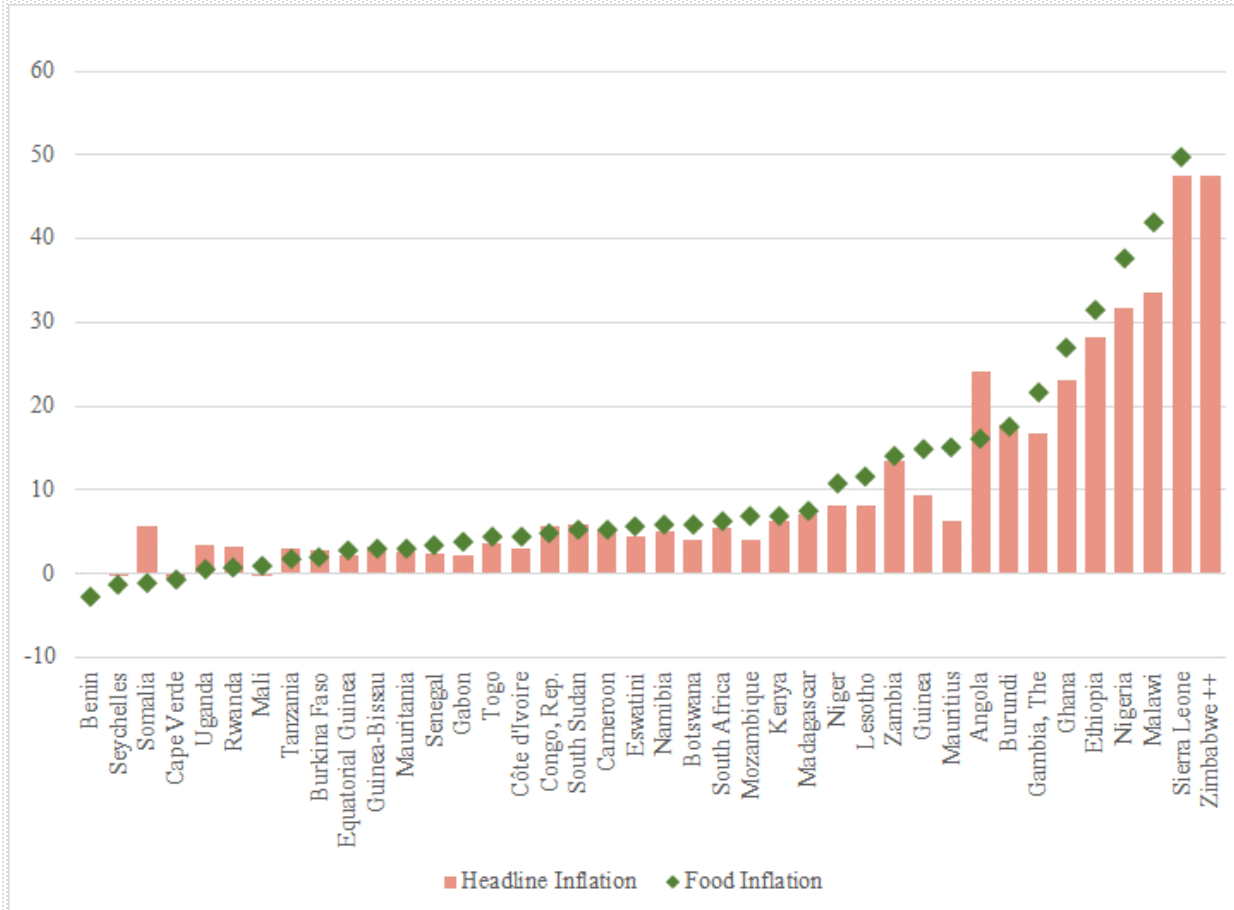
Countries in the region with low inflation



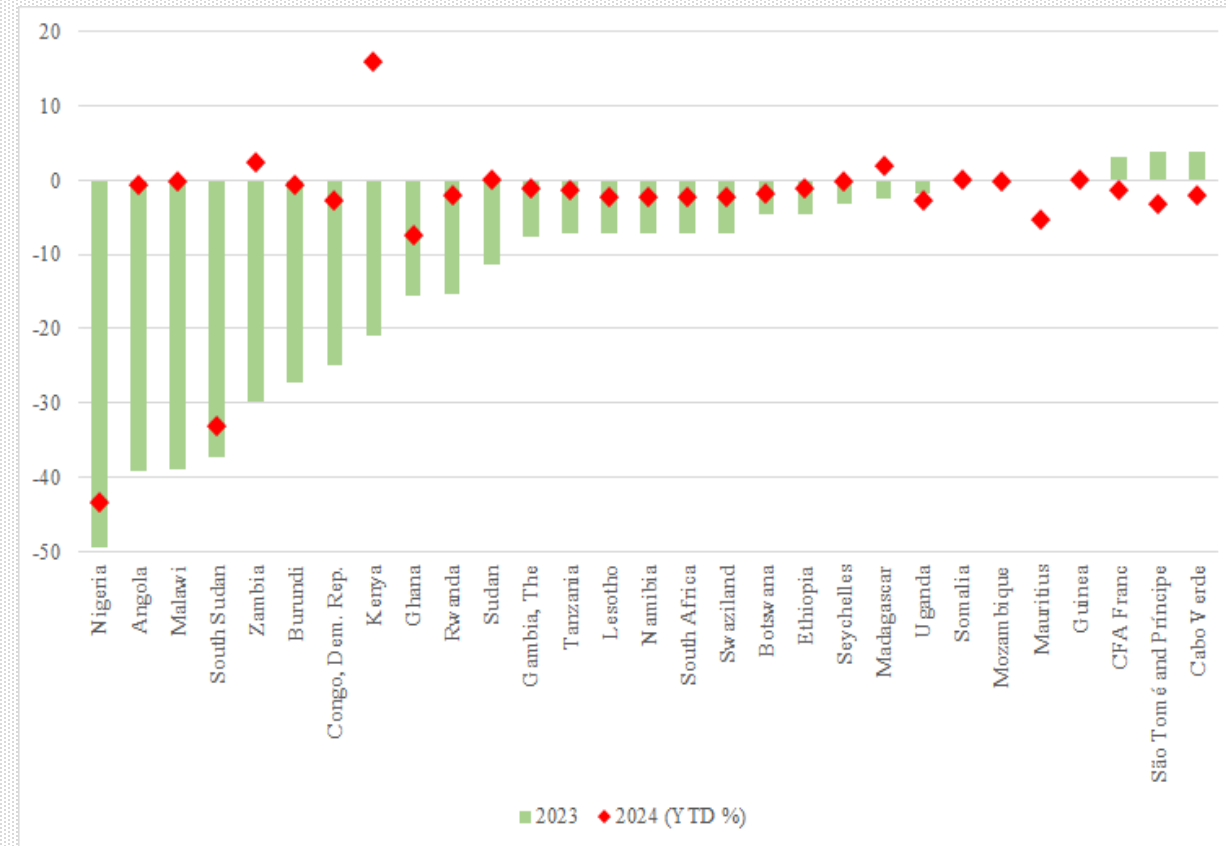
Source: World Bank staff estimates.

AMID STABILIZING FOOD PRICES AND CURRENCIES... WITH SOME EXCEPTIONS

Food inflation, February 2024 (% YoY)



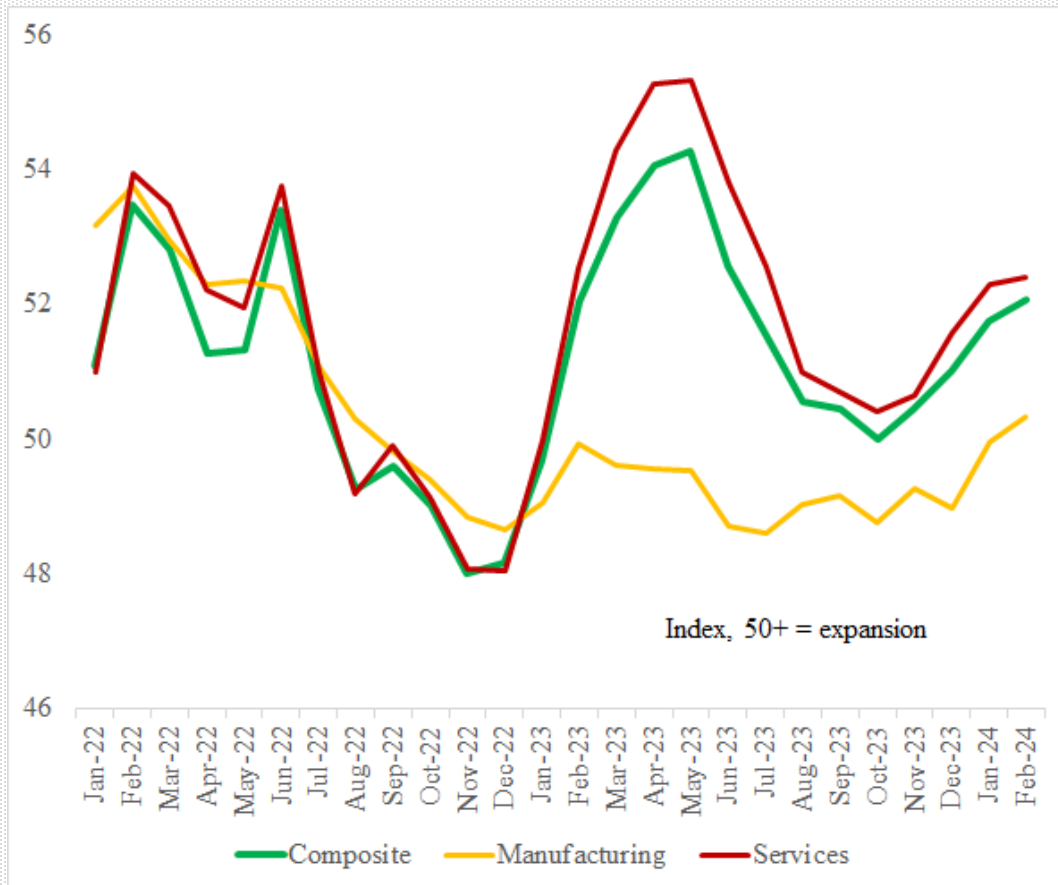
Exchange Rate Changes, 2023-4 (% year to date)



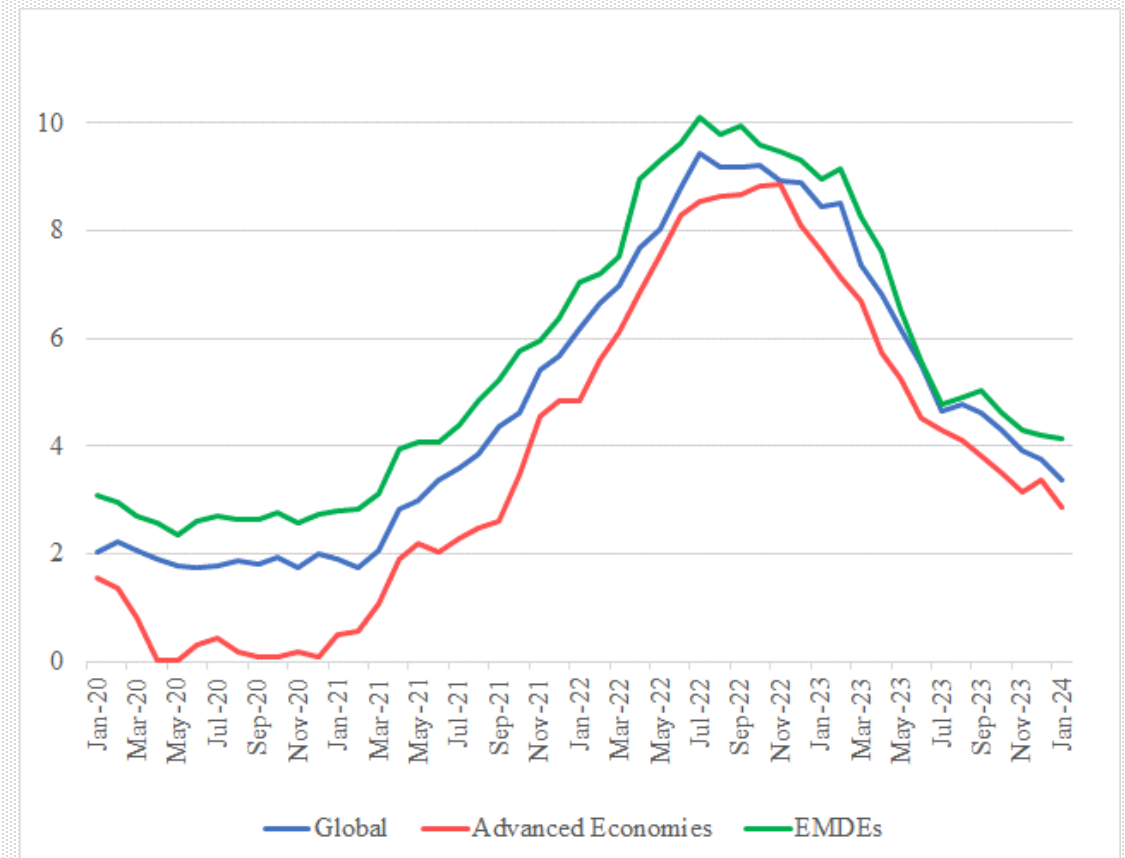
Source: Bloomberg, Haver Analytics

[2] OPTIMISM MAY BE RETURNING TO THE GLOBAL ECONOMY

Global Purchasing Managers' Index



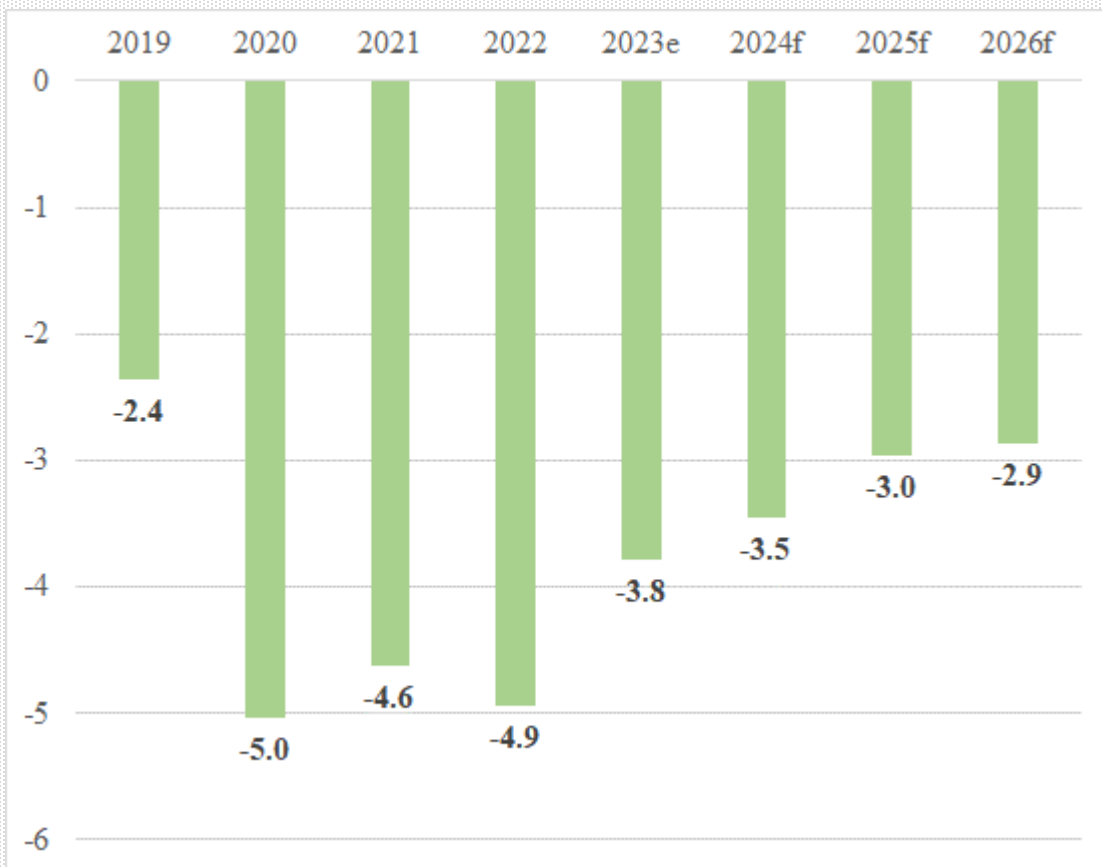
Global inflation (% YoY)



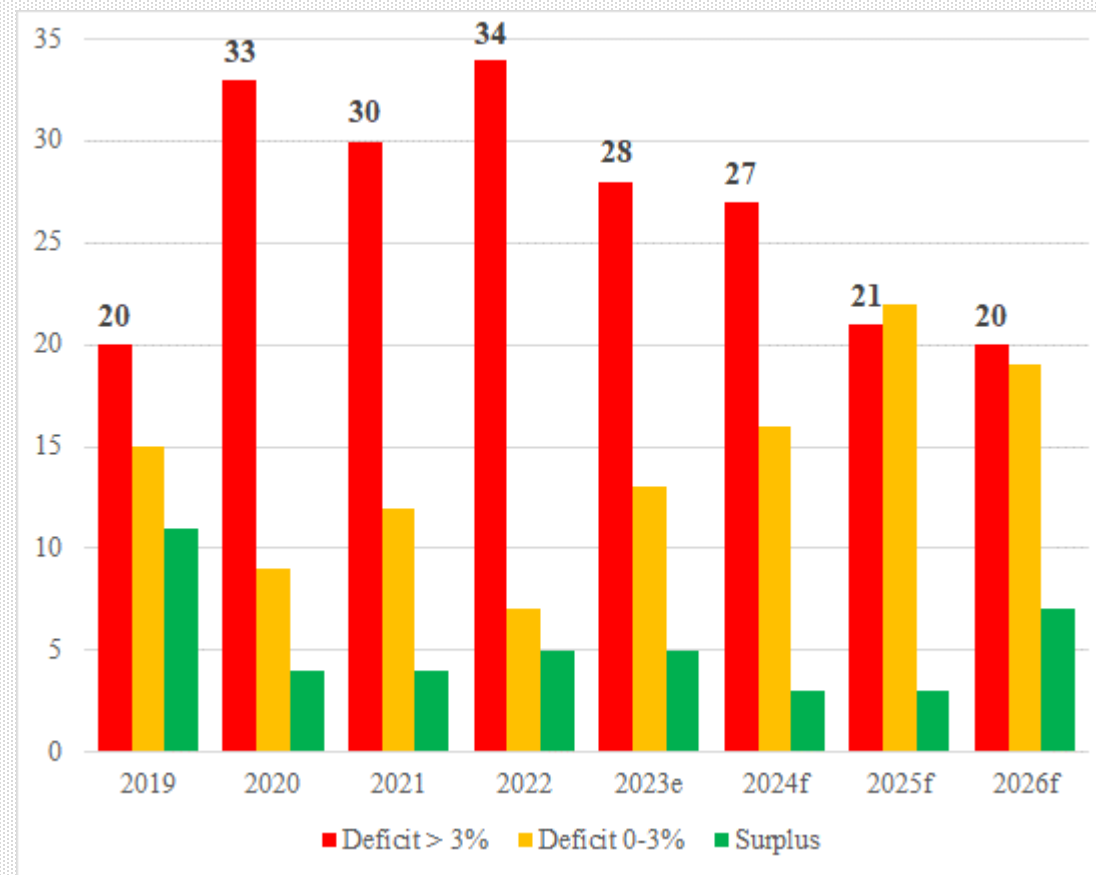
Source: Haver Analytics, World Bank.

[3] FISCAL DEFICITS ARE DECLINING BUT VERY SLOWLY

Fiscal Balance in SSA (% of GDP, median)



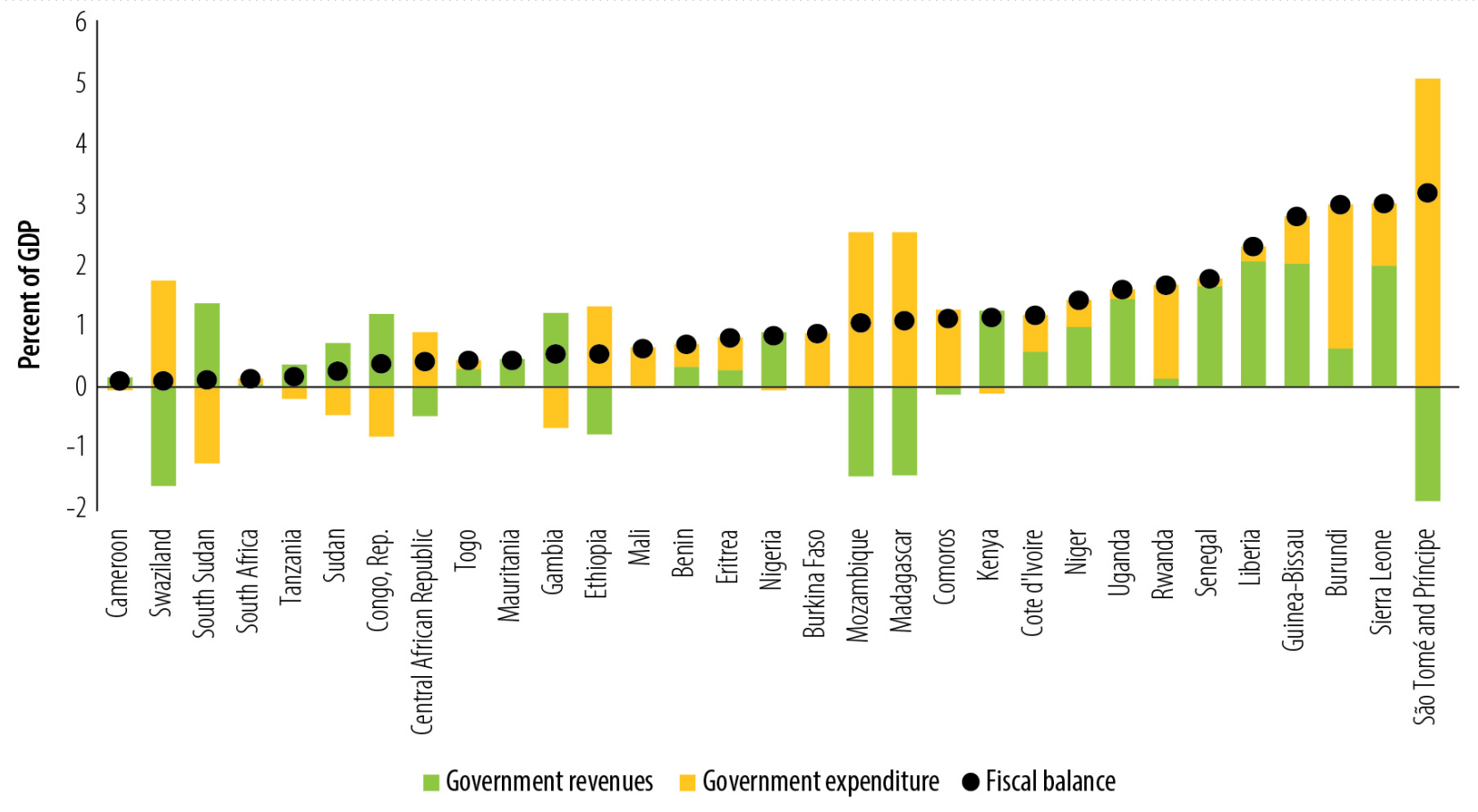
Fiscal Balance in SSA: Country Distribution



Source: World Bank staff estimates.

A MIX OF MEASURES BOOSTING REVENUES AND REINING IN SPENDING EXPLAINS IMPROVING FISCAL BALANCES

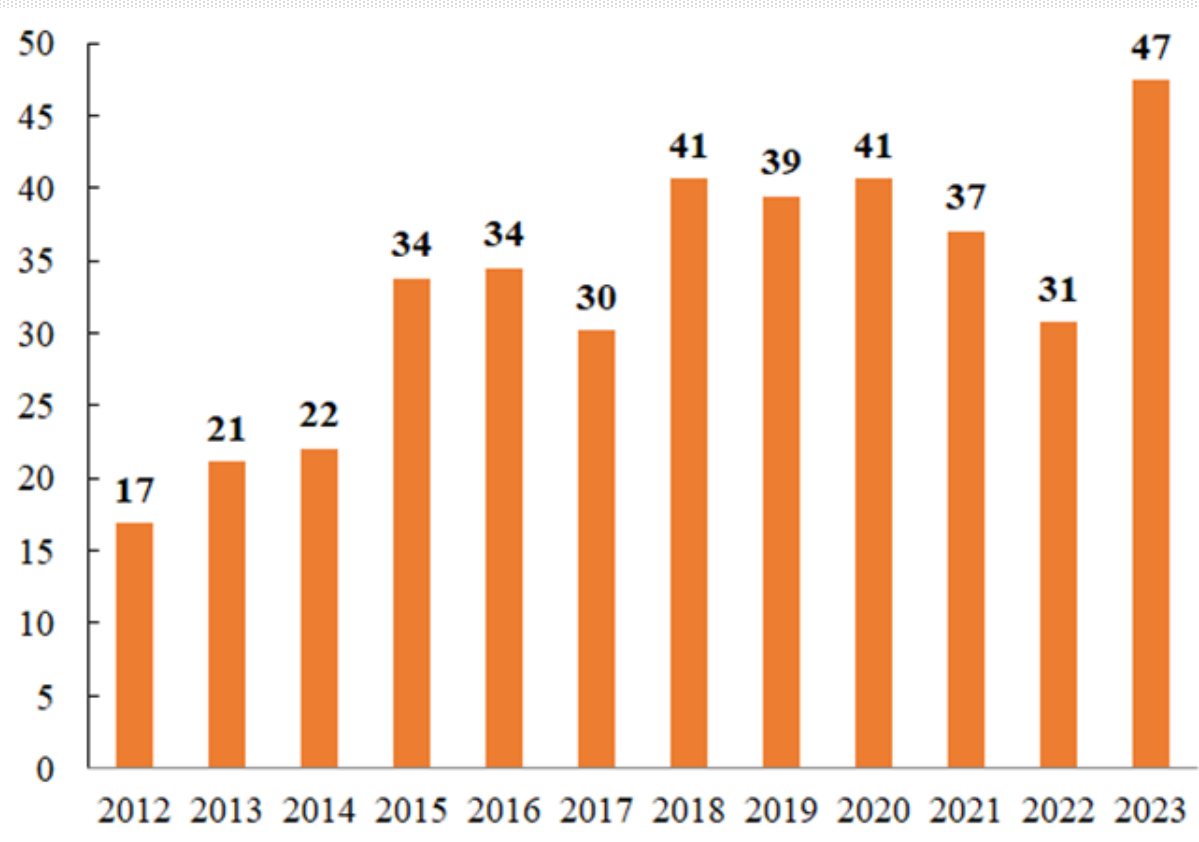
Sources of change in fiscal balance of Sub-Saharan African Countries



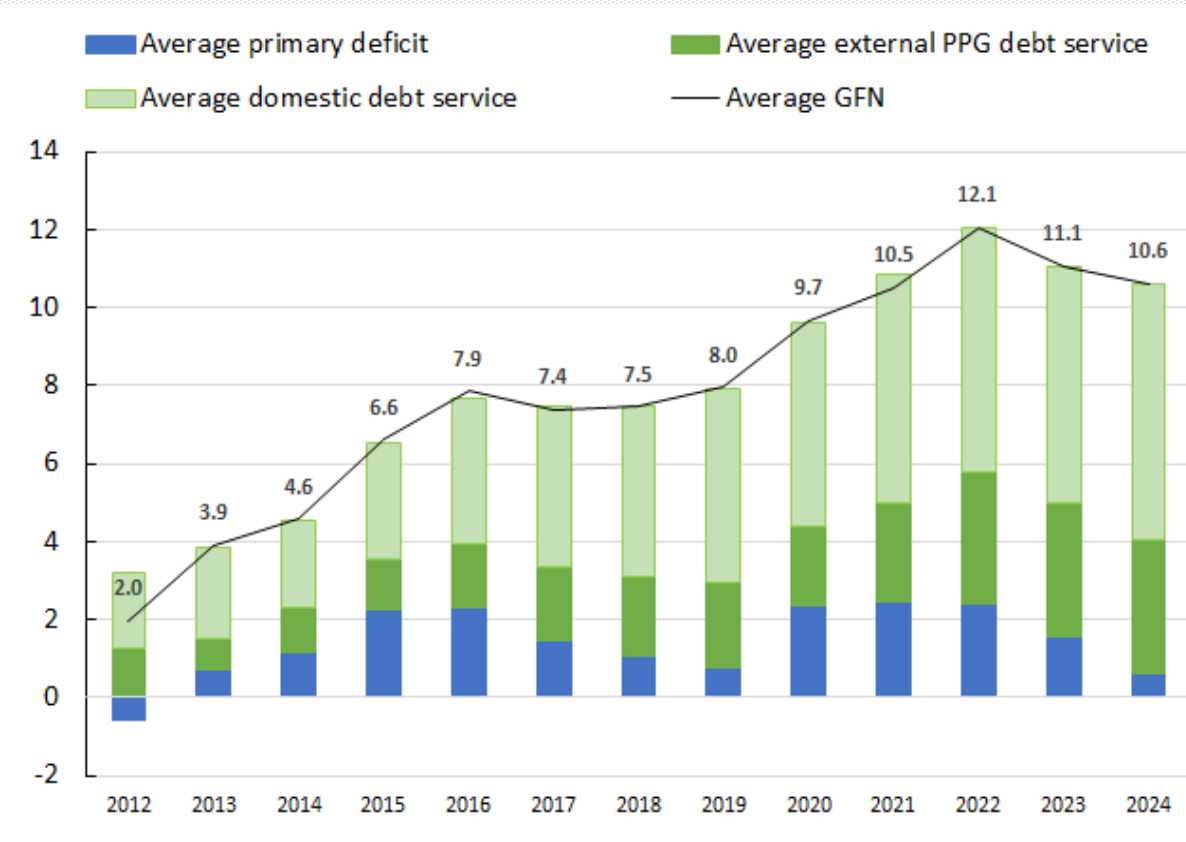
Source: World Bank Staff Projections

[4] RECOVERY REMAINS FRAGILE: DEBT SERVICE AND LIQUIDITY PRESSURES REMAIN SEVERE

Debt Service Burden (% of revenues)



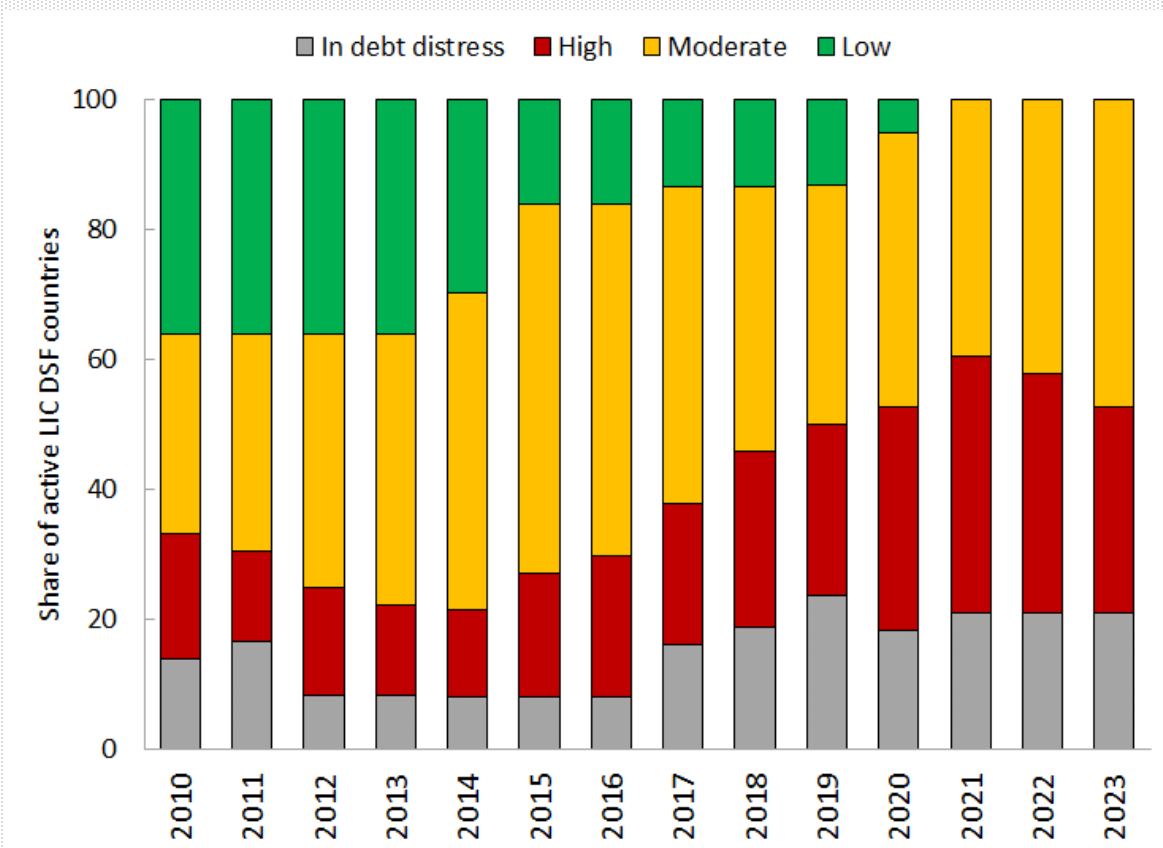
Gross Financing Needs (% of GDP, average)



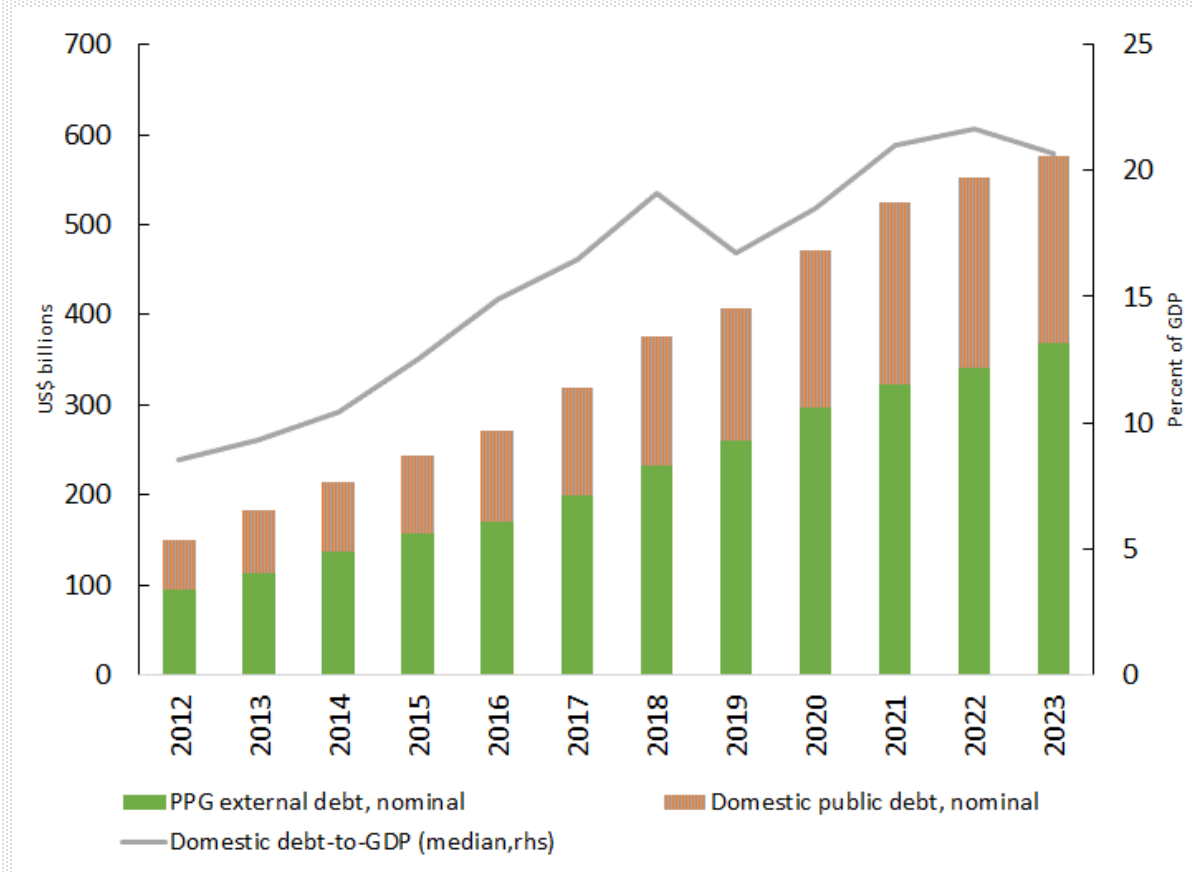
Source: World Bank staff estimates.

MANY LIC-DSF SSA COUNTRIES REMAIN IN HIGH RISK OF DEBT DISTRESS, RESORTING MORE TO DOMESTIC DEBT

External Risk of Debt Distress in SSA (%)



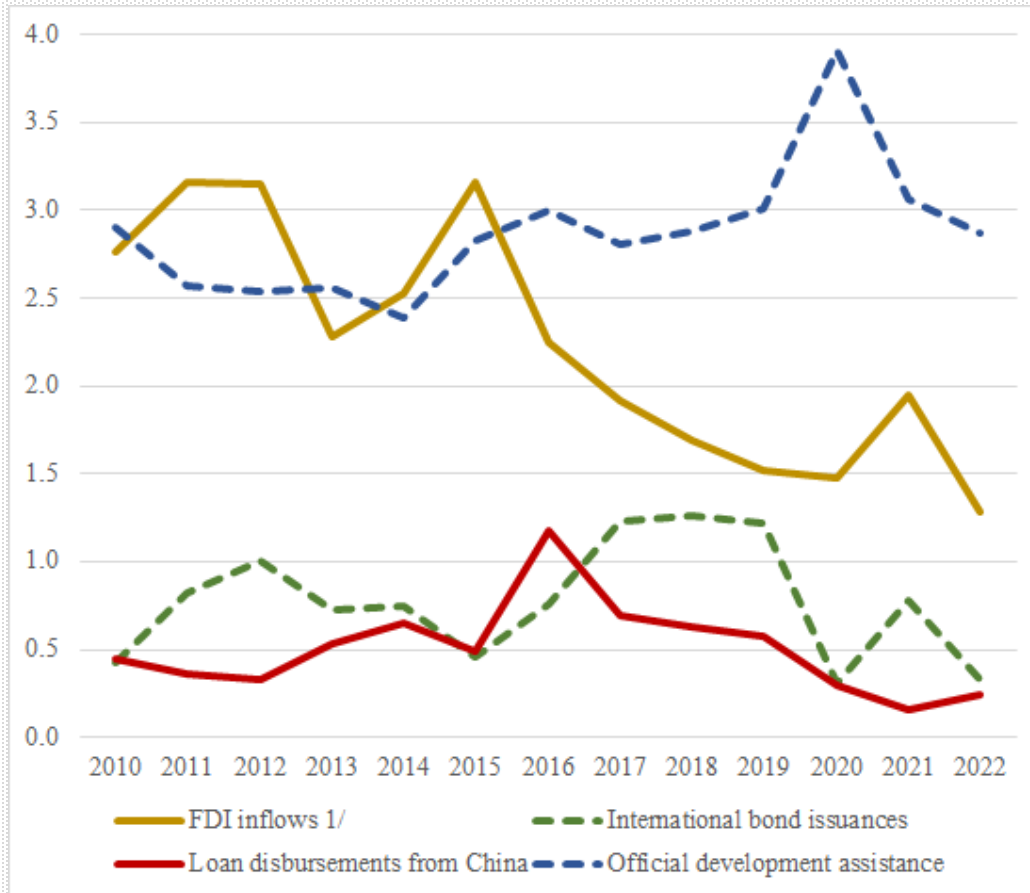
Debt Dynamics in LIC-DSF SSA Countries



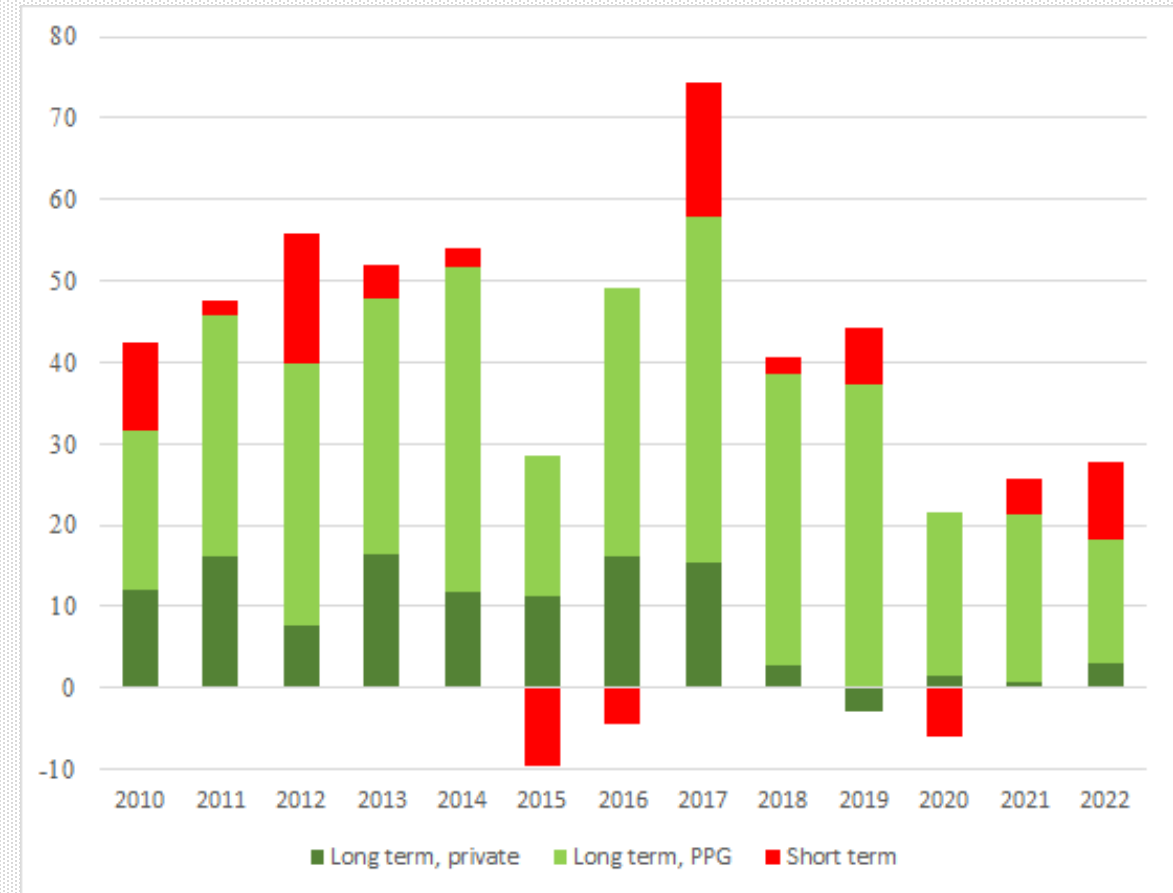
Source: World Bank staff estimates.

[5] FUNDING IS DRYING UP AND IT IS MORE EXPENSIVE

Sources of Financing in SSA (% GDP)



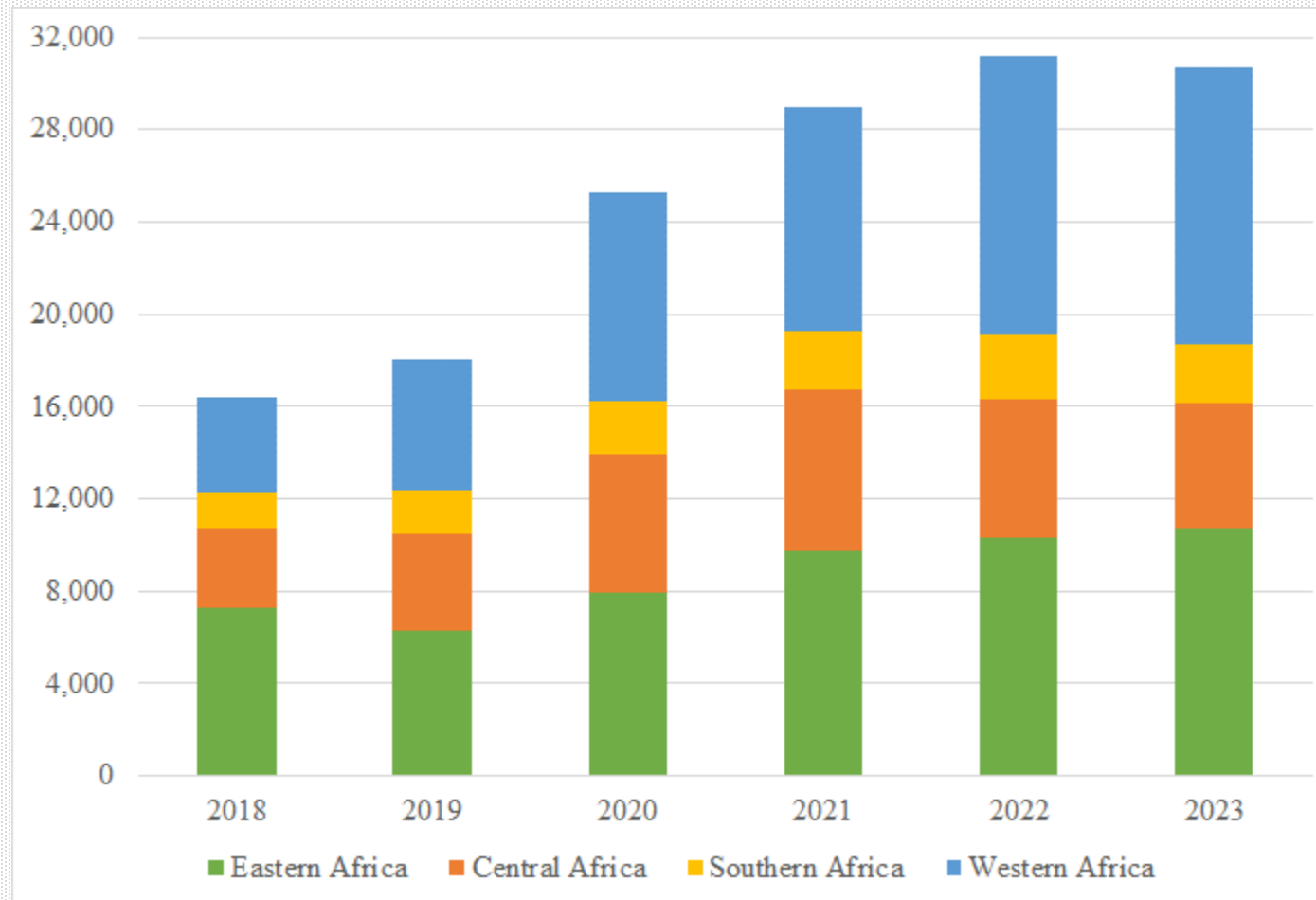
Net Debt Flows to SSA (US\$ billions)



Source: World Bank International Debt Statistics, OECD, UNCTAD

[6] CONFLICT AND VIOLENCE REMAINS ELEVATED

Conflict and Violence in Sub-Saharan Africa: By subregion (*number of events*)



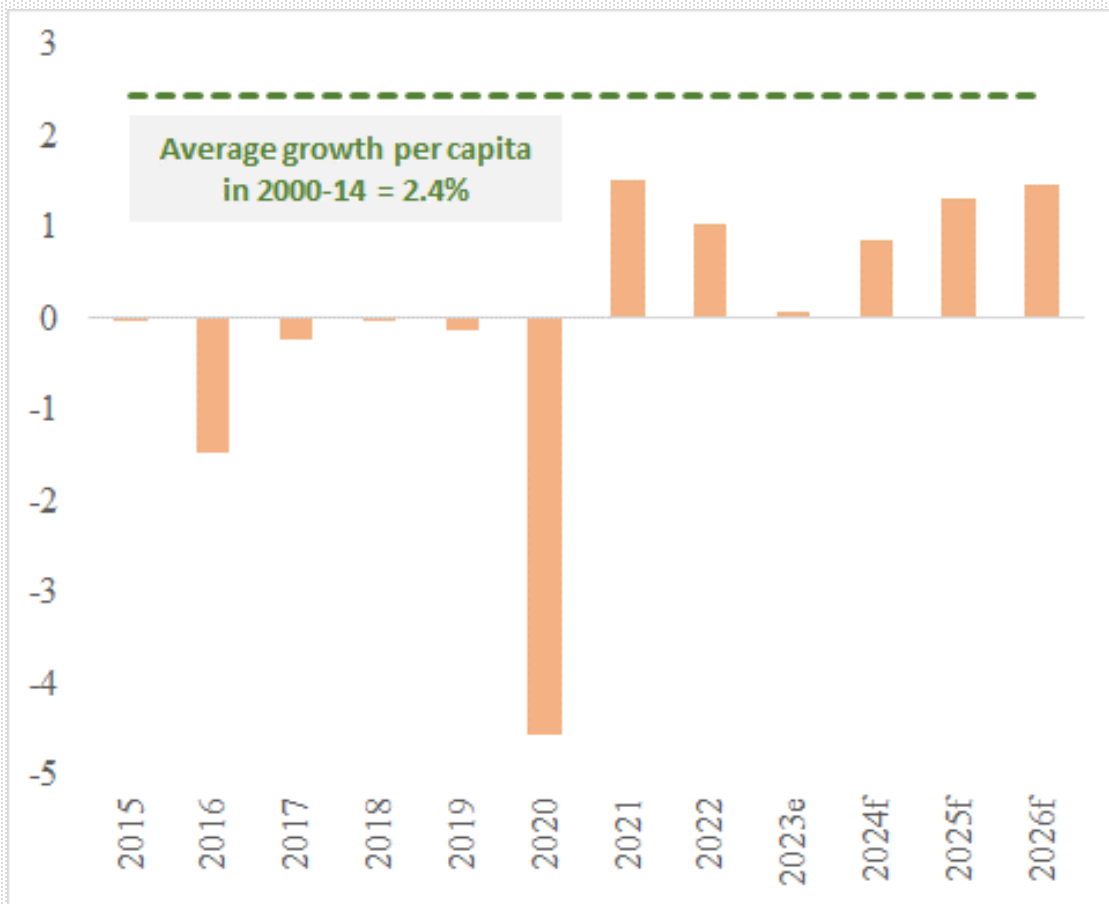
Source: ACLED data.

Tackling Structural Inequalities to Foster Growth and Reduce Extreme Poverty

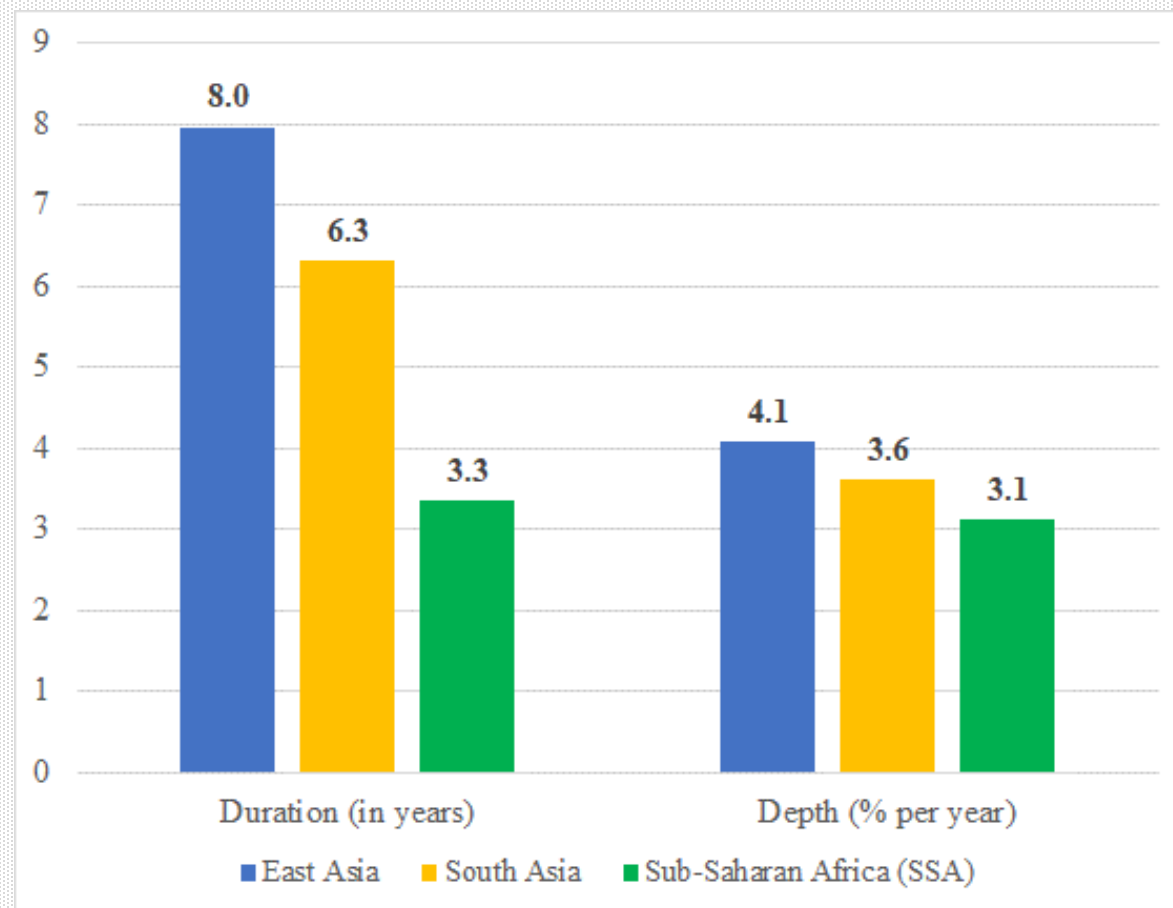


URGENCY TO REVITALIZE GROWTH AND SUSTAIN EXPANSIONS

GDP Growth per capita in Sub-Saharan Africa



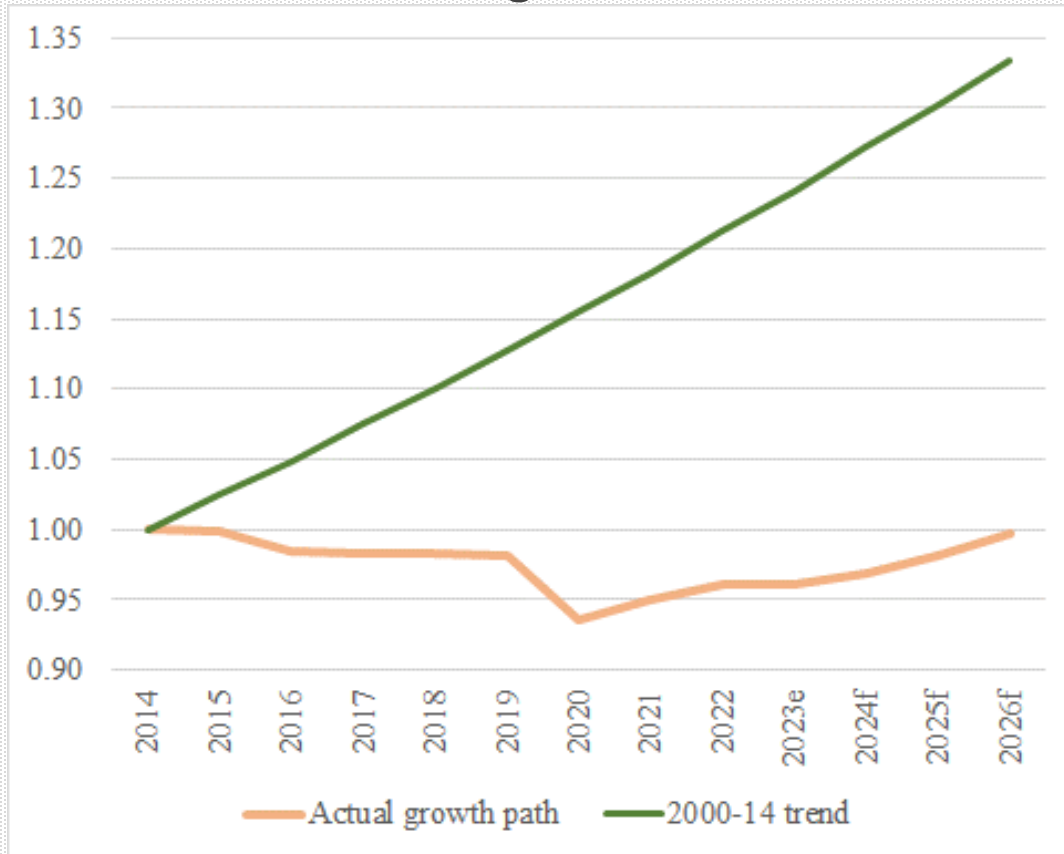
Shorter and weaker expansions



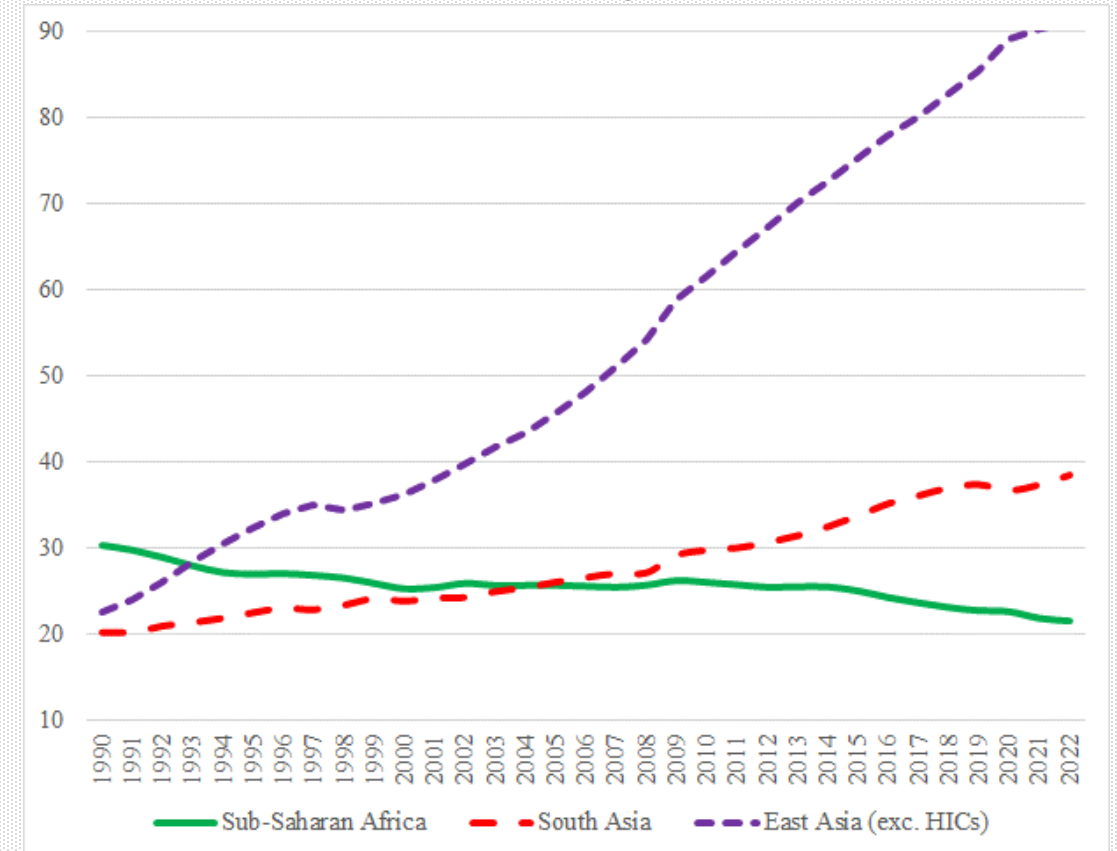
Source: World Bank staff estimates.

LOW AND UNSTABLE GROWTH LEADS TO INCOME LOSSES IN AFRICA AND DIVERGENCE WITH REST OF THE WORLD

Income per capita losses due to subdued growth



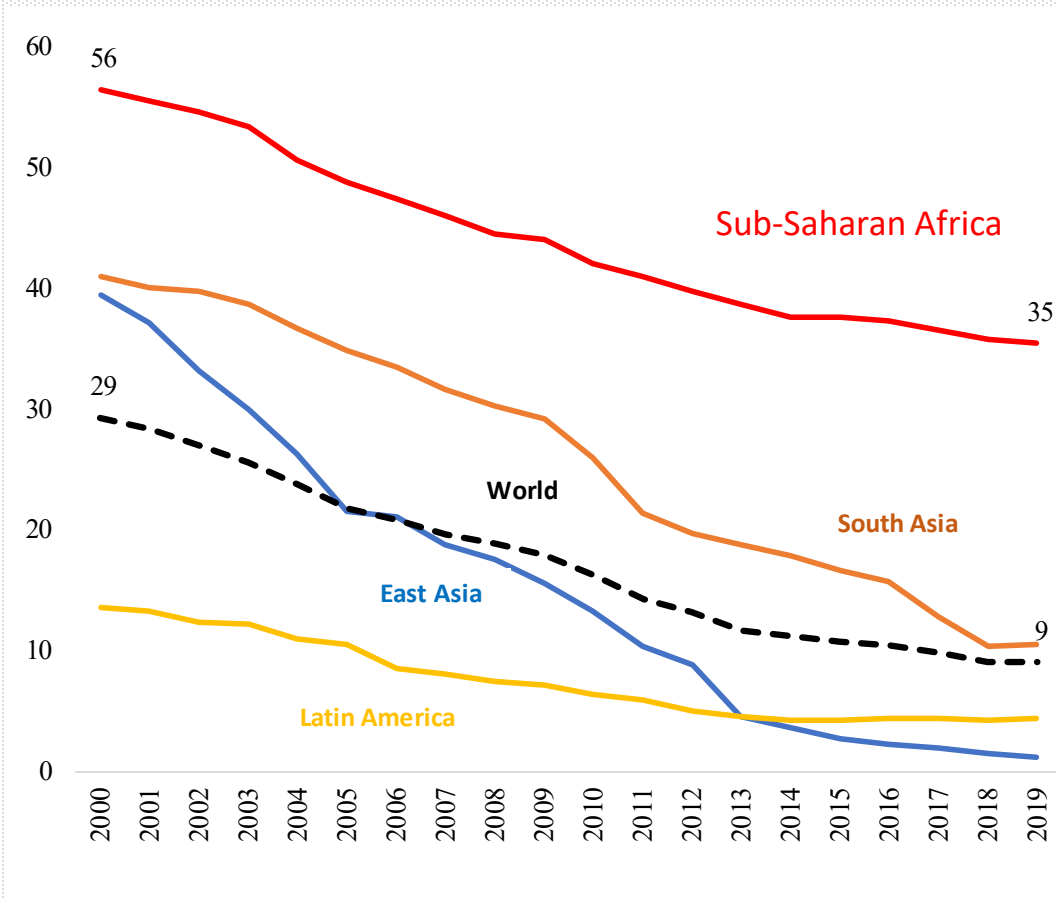
Relative GDP per capita of SSA, 1990-2022
(World average=100)



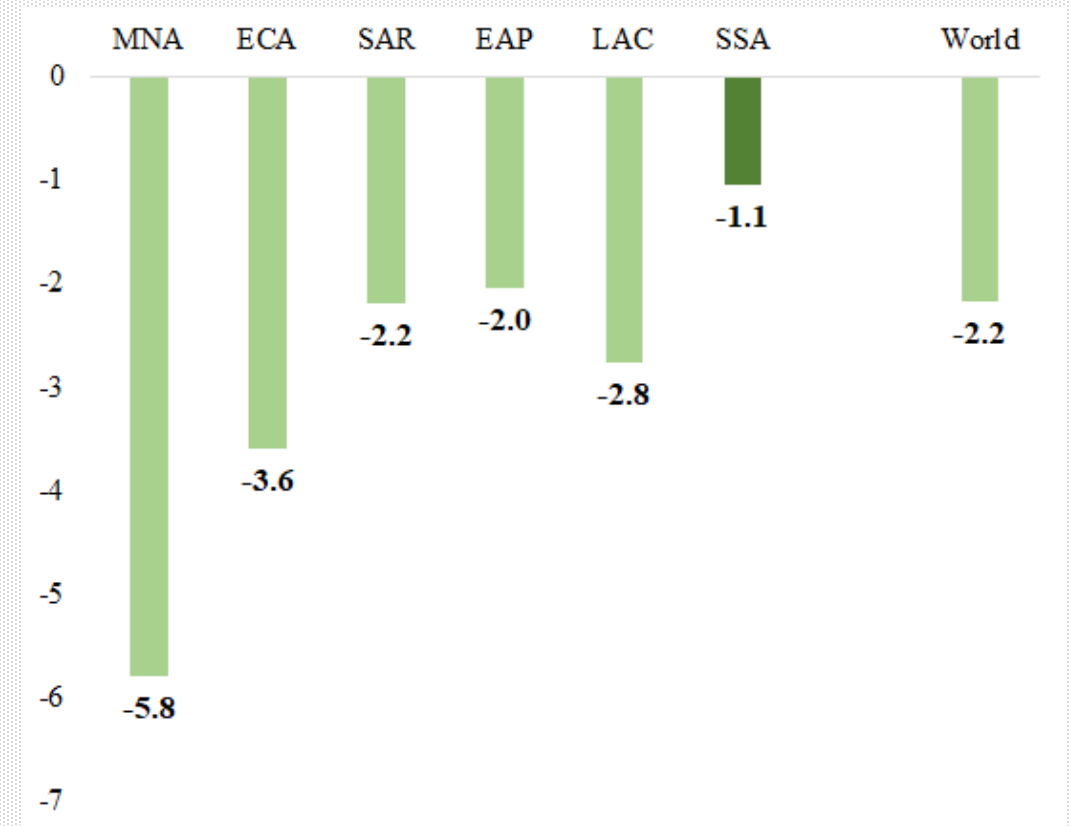
Source: Calderon, Dabalen and Qu (2024); Penn World Tables 10.01 (Feenstra et al. 2015).

AFRICA'S GROWTH HAS HAD LIMITED IMPACT ON POVERTY REDUCTION

Extreme Poverty Rate, 2000-2019



% Change in Poverty Rate for a 1% change in GDP per Capita

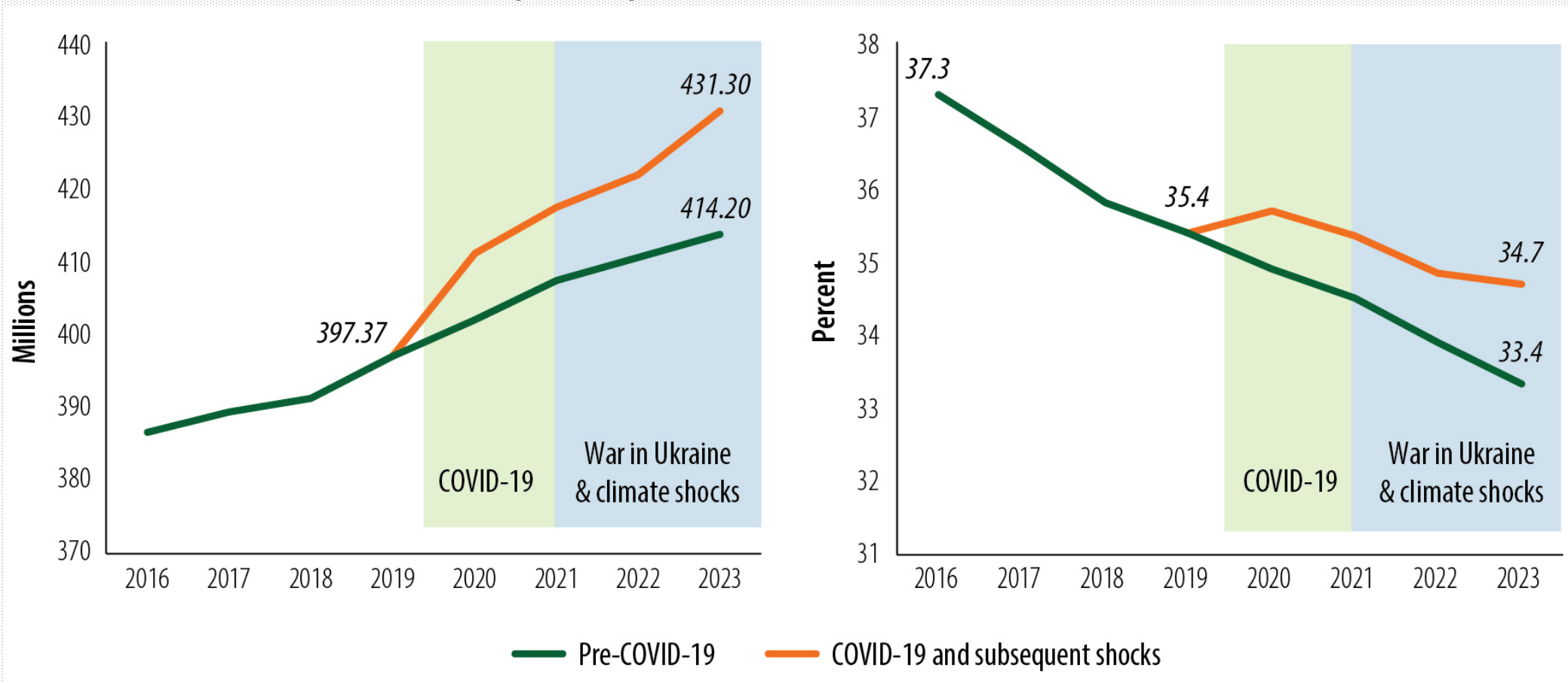


Source: (A) Poverty and Inequality Platform (October 2023); (B) Wu et al. (2024)

Note: Estimates based on poverty line \$ 2.15/day (2017 PPP)

AND THE PACE OF POVERTY REDUCTION HAS BEEN FURTHER DAMPENED BY THE PANDEMIC AND SUBSEQUENT SHOCKS

Extreme poverty in Sub-Saharan Africa since 2019



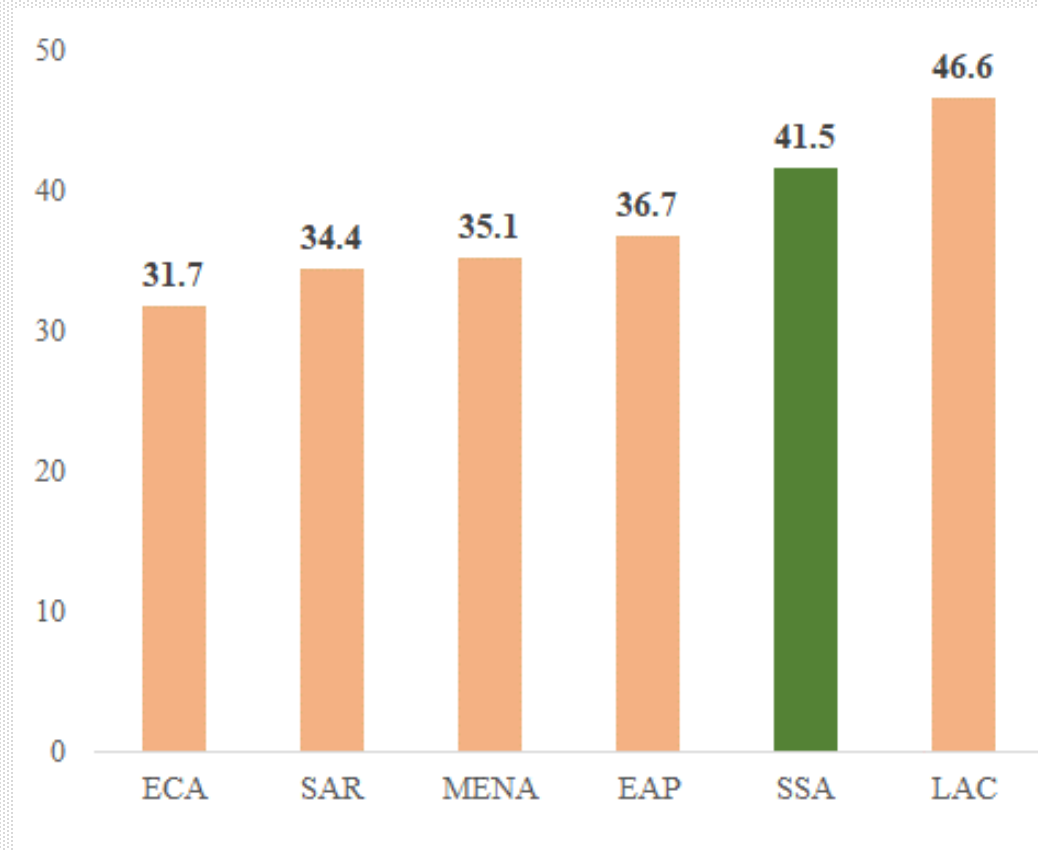
Sources: Calculations based on data from the World Bank Poverty and Inequality Platform (October 2023); Yonzan, Mahler, and Lakner 2023.

INEQUALITY IS HIGH IN SUB-SAHARAN AFRICA

Inequality in Consumption, Gini Index

Higher values of Gini indicate more unequal economies

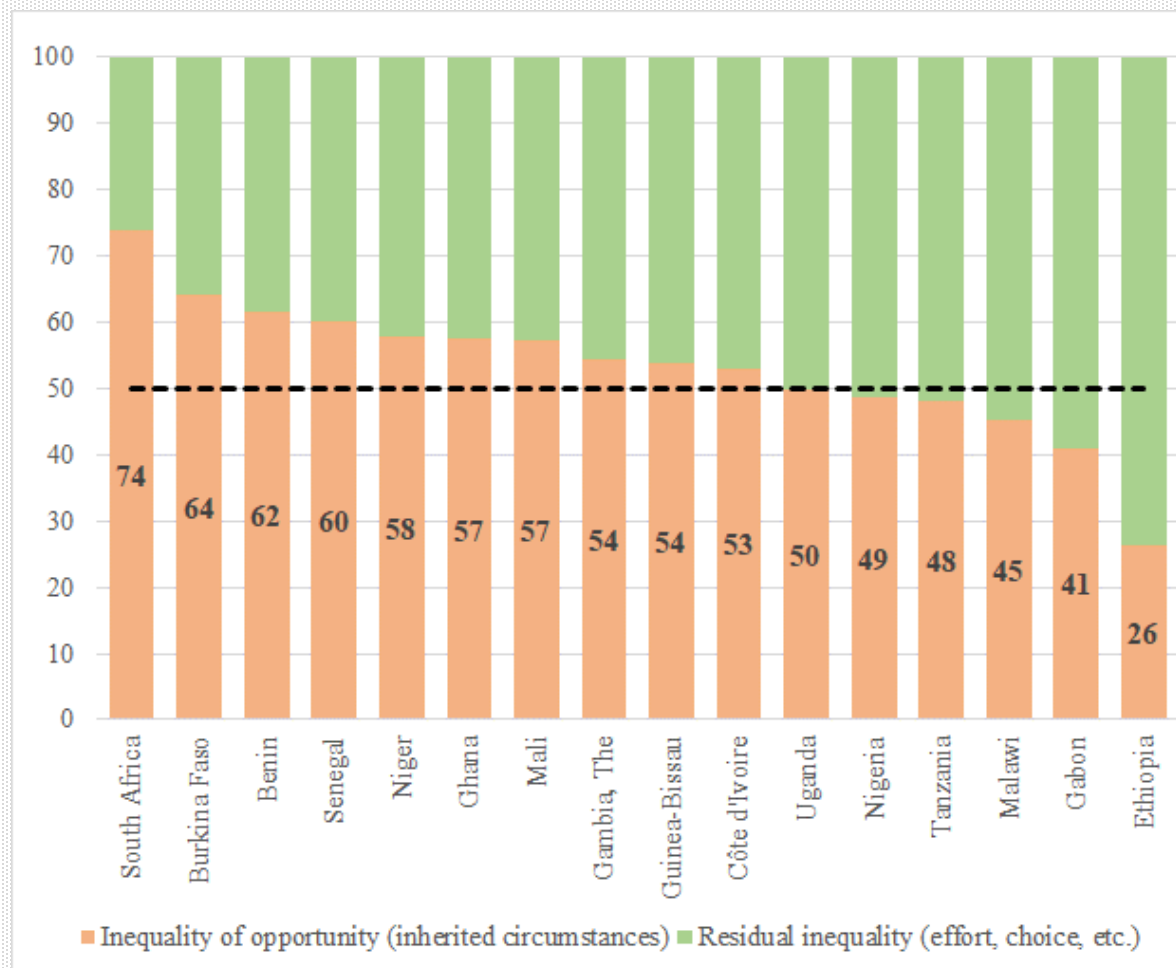
Lower values of Gini indicate less unequal economies



Source: Tabulations based on Poverty and Inequality Platform (October 2023), data circa 2011-2019

WITH STRUCTURAL BARRIERS AT THE ROOT

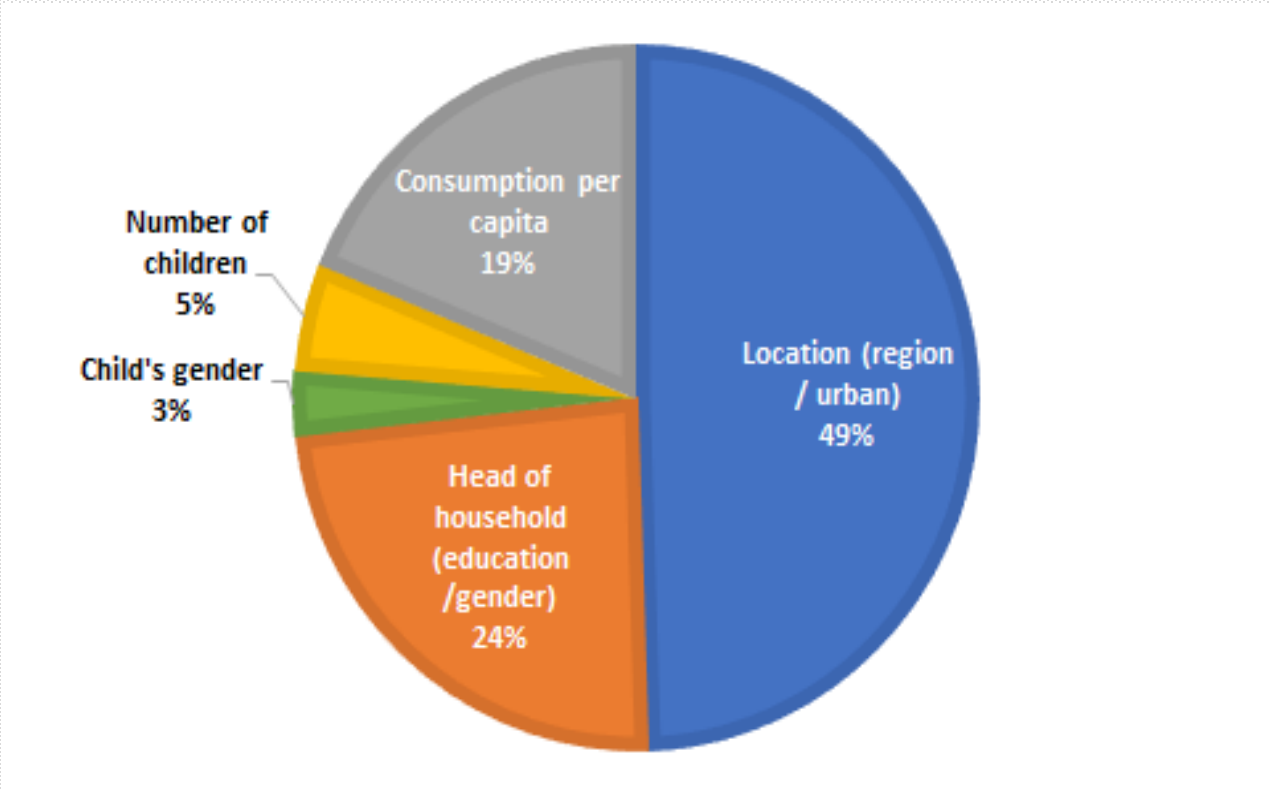
Share of Inequality of Opportunity in Total Inequality



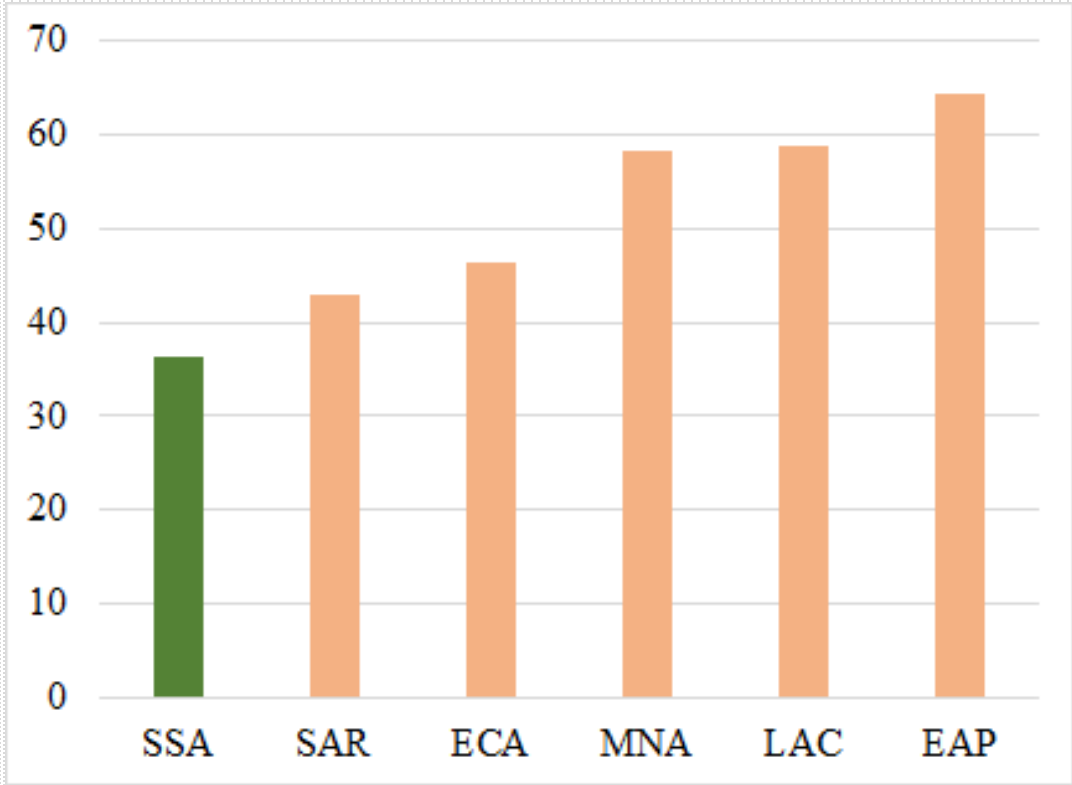
Source: World Bank staff estimates based on household budget surveys

1. CHILDREN'S OPPORTUNITIES ARE DRIVEN BY HOUSEHOLD CHARACTERISTICS

Factors restricting children's access to public services



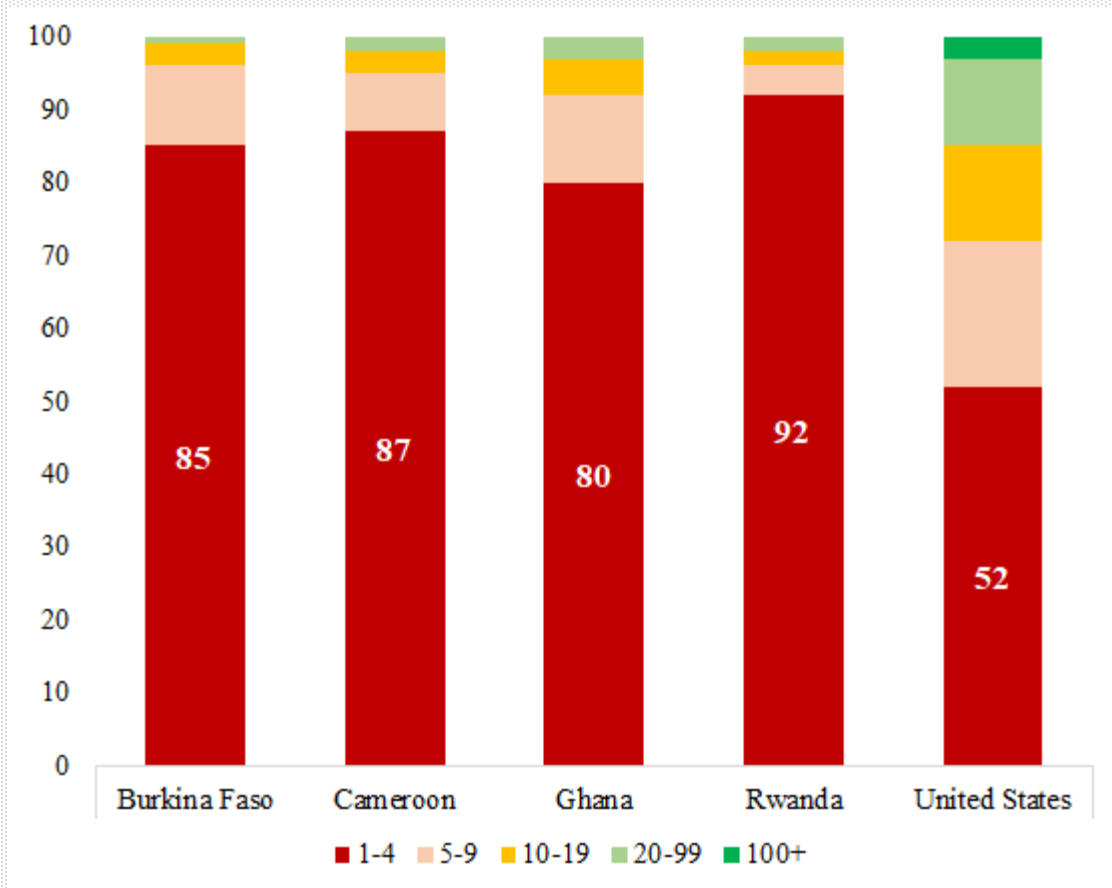
Share of 1980s cohort who surpassed parent's educational category (%)



Source: Global Monitoring Database, World Bank Staff Calculations

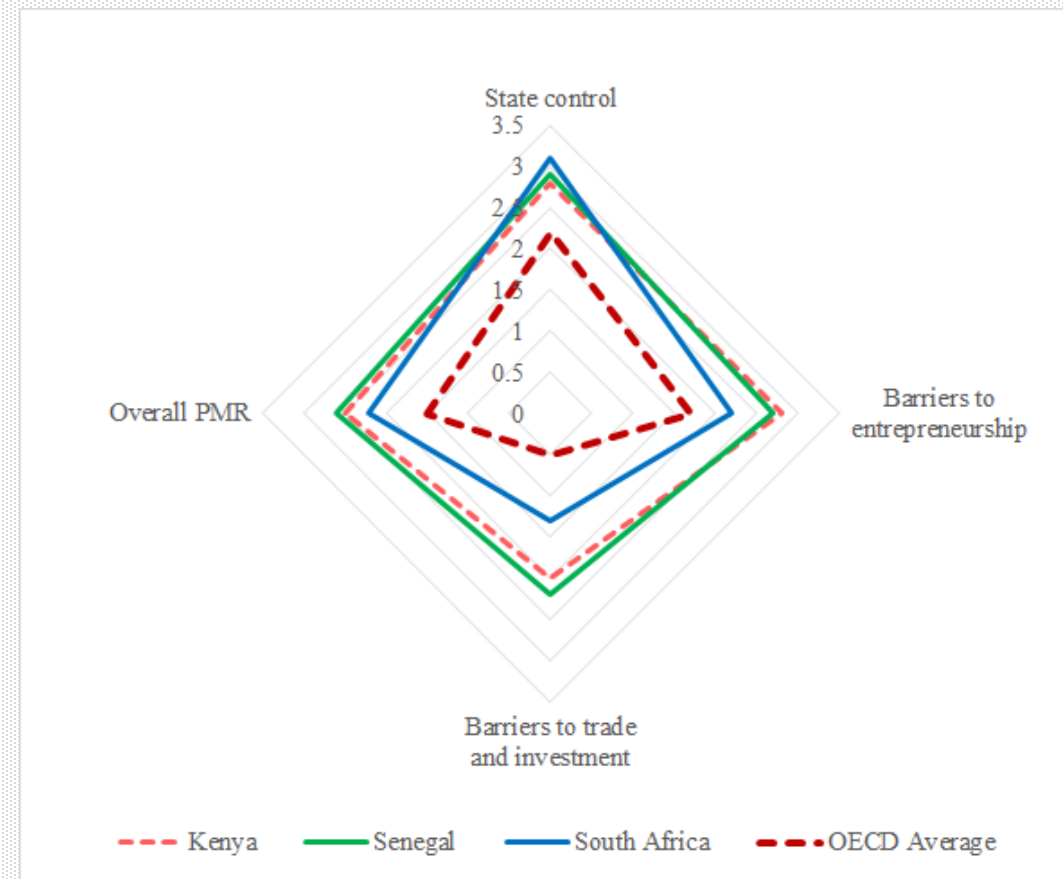
2. MARKET DISTORTIONS LEAD TO RESOURCE MISALLOCATION

Firm size distribution in SSA and the U.S.



Source: Abreha et al. (2023)

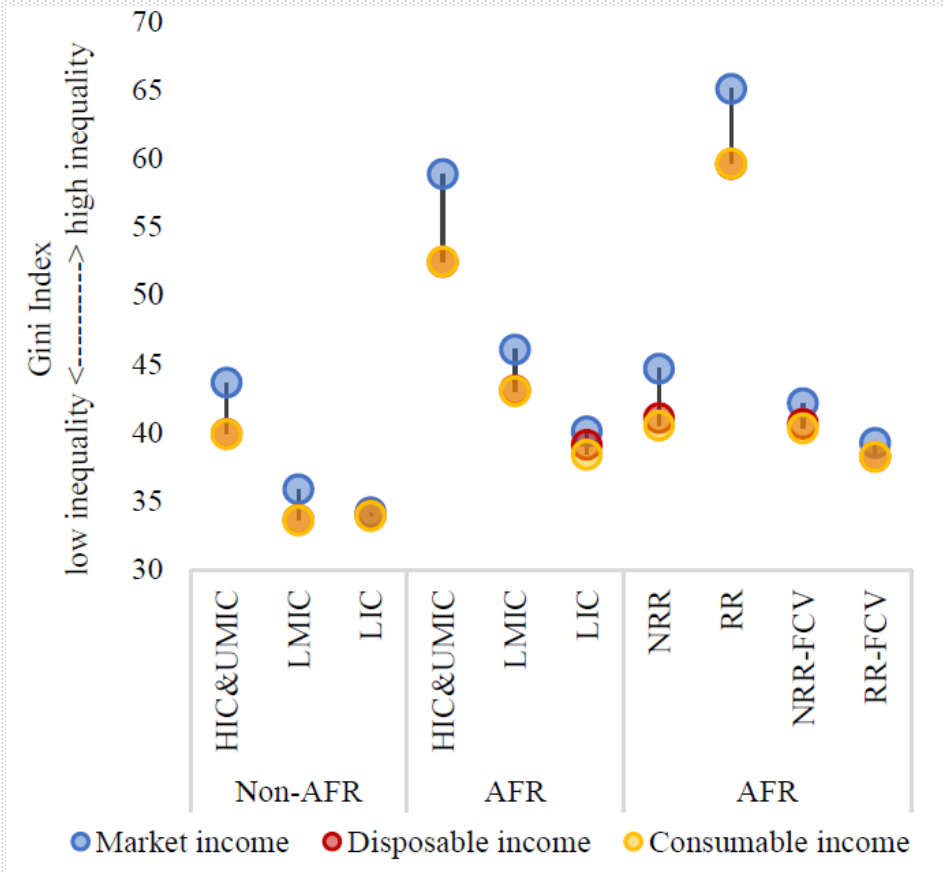
Product Market Regulations in SSA
(Higher means more restricted)



Source: OECD and WBG. Note: PMR=Product market regulation

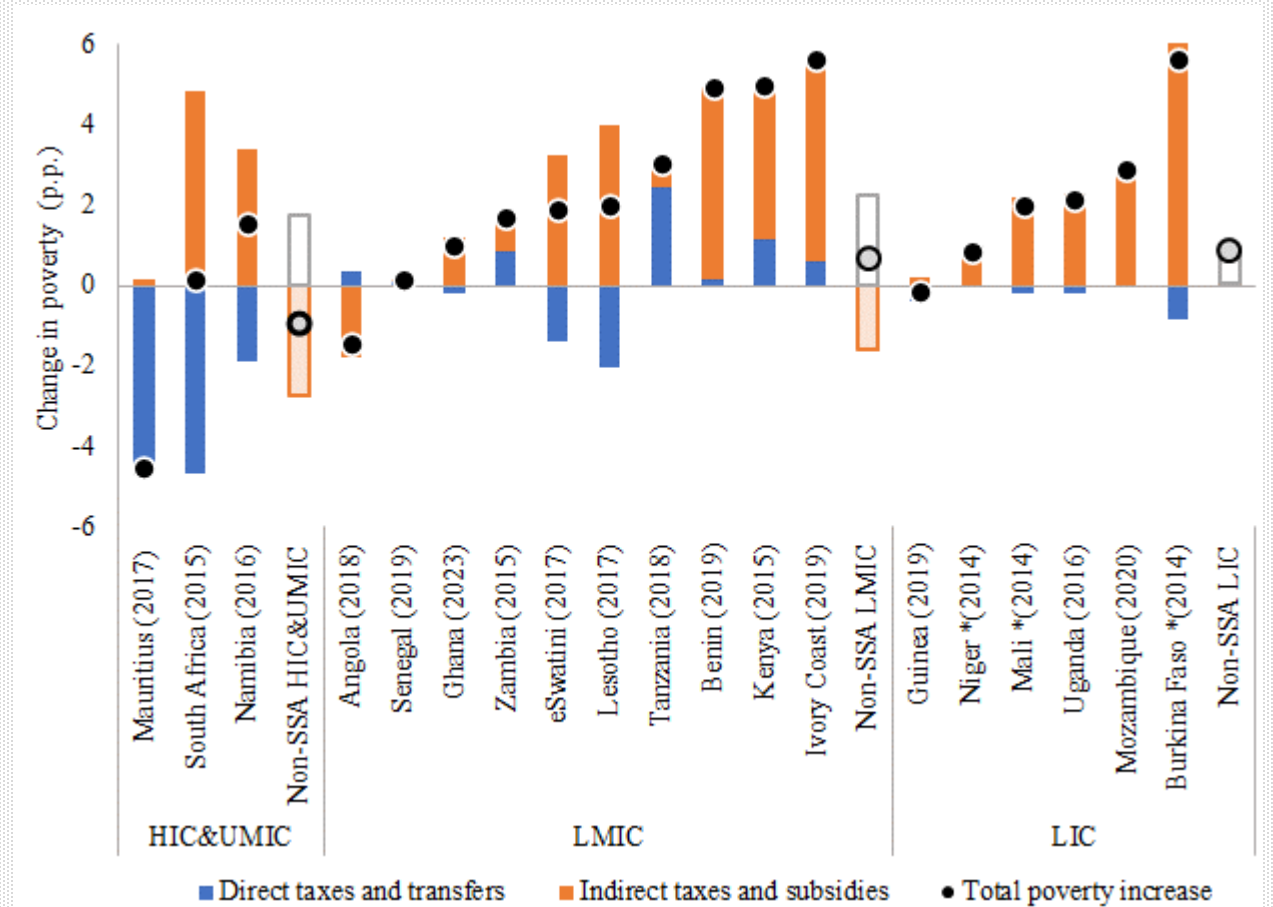
3. TAX POLICY REDUCES INEQUALITY BUT MAY NOT BE PRO-POOR

Fiscal Redistribution and Inequality



Source: World Bank staff estimates based on CEQ studies

Impact on taxes, transfers, and subsidies on Poverty



Source: World Bank staff estimates based on CEQ studies

REDUCE STRUCTURAL INEQUALITY TO REVITALIZE GROWTH



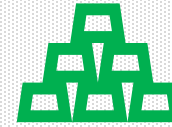
Restore Macro Stability

- Adhere to monetary and fiscal discipline (central bank independence, fiscal rules, fiscal councils)
- Implement measures to enhance transparency in budget planning and procurement
- Build technical capacity around debt management and transparency (reprofiling and restructuring, contingent liability management).



Promote Inter-Generational Mobility

- Invest in nutrition to reduce stunting in early childhood (school feeding program)
- Expand foundational learning (especially reading) and teacher training during basic schooling
- Focus access to services reform on under-served populations and regions.



Support Market Access

- Remove size-dependent distortions (firm size, talent misallocation)
- Improve justice service delivery
- Proactively engage with the private sector to encourage market access (AfCFTA implementation and transport corridors)



Ensure Fiscal Progressivity

- Utility reform (energy subsidies, water tariffs)
- Eliminate VAT exemptions and implement strict oversight of new tax expenditures.
- Coordinate and harmonize regional taxes
- Focus domestic revenue mobilization on high-net-worth individuals: income and property taxes



THANK YOU!