Macroeconomics of Inclusive Growth

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Macroeconomics of Inclusive Growth

Victor Lledó and Rodrigo Garcia-Verdu
February 2011
Outline of Presentation

1. Definition and Rationale of Inclusive Growth
2. How Inclusive has Growth Been in Mozambique?
3. Inclusive Growth Strategies
4. Policies and Institutions for Inclusive Growth
5. Conclusion and Next Steps
Inclusive growth is defined as growth that is sustained over several years, is broad-based across economic sectors, and creates productive employment opportunities for the majority of the country’s population.

**Elements of Economic Growth**
- Macroeconomic stability:
  - Moderate fiscal and current account deficits
  - Low debt to GDP ratio
  - Low and stable inflation
  - Adequate level of reserves
- High investment and savings rates
- Openness to trade
- Enforcement of property rights
- Good governance
- Declining population growth rate

**Elements of Inclusive Growth**
- High growth rates for several years
- Sustained growth accelerations
- Avoid growth collapses
- Structural transformation:
  - Output and export diversification
  - Broad-based productive employment
  - Significant reduction in poverty
  - Propitious business environment
  - Efficient natural resource management
  - Equality of opportunity through basic education, health and infrastructure

How long should growth be sustained for? All countries considered by the Growth Commission as successful cases of Inclusive Development have sustained high growth rates for at least three decades.

The growth rate of real GDP in Mozambique over the period 1995-2010 has been the second highest among non-oil exporting countries in the Sub-Saharan Africa region.

Despite Mozambique’s impressive performance over the past two decades, growth still needs to be sustained for several more years, and be broader and more diverse.

Source: Clément and Peiris (2008), Post-Stabilization Economics in Sub-Saharan Africa: Lessons from Mozambique, IMF.
How Inclusive has Growth Been in Mozambique?

- Growth also needs to be accelerated to counter a declining downward trend of potential output growth.

How Inclusive has Growth Been in Mozambique?

- Unlike other successful cases, Mozambique growth takeoff has not been accompanied by significant export or economic diversification. In fact the export base has become more concentrated.

![Export Concentration Index](chart.png)

Source: UNCTAD-STAT, United Nations Conference on Trade and Development (UNCTAD).
How Inclusive has Growth Been in Mozambique?

- Critically, growth in Mozambique has been less pro-poor than in other successful countries, and such pro-poor characteristics appear to be declining over time.

Elasticity of headcount poverty rate with respect to growth in real GDP per capita

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>Elasticity</th>
<th>Poverty Line</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mozambique (1996/07-2002/03)</td>
<td>0.11</td>
<td>2.50 dollars per day</td>
<td></td>
</tr>
<tr>
<td>Botswana (1986-1994)</td>
<td>0.26</td>
<td>1.25 dollars per day</td>
<td></td>
</tr>
<tr>
<td>Vietnam (1993-2006)</td>
<td>0.74</td>
<td>2.50 dollars per day</td>
<td></td>
</tr>
<tr>
<td>Uganda (1989-2005)</td>
<td>0.24</td>
<td>1.25 dollars per day</td>
<td></td>
</tr>
<tr>
<td>China (1993-2005)</td>
<td>0.77</td>
<td>2.50 dollars per day</td>
<td></td>
</tr>
</tbody>
</table>

Elasticity of Mozambique's national poverty line headcount poverty rate with respect to growth in real GDP per capita

<table>
<thead>
<tr>
<th>Period</th>
<th>Elasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996/07-2002/03</td>
<td>0.86</td>
</tr>
<tr>
<td>1996/97-2008/09</td>
<td>0.44</td>
</tr>
<tr>
<td>2002/03-2008/09</td>
<td>0.04</td>
</tr>
</tbody>
</table>

Source: Own estimates based on data from the World Development Indicators 2010. World Bank.
How Inclusive has Growth Been in Mozambique?

- The growth incidence curve for Mozambique also confirms that growth was not pro-poor between 2002/03 and 2008/09.
- Households in the first three deciles experienced negative growth in expenditure per capita, while others benefited from positive growth.

Sources: own estimates using ADePT based on data from IOF 2008-09 and IAF 2002-03.
How Inclusive has Growth Been in Mozambique?

- In contrast, China is an example of a sustained growth country that registered a pattern of highly pro-poor growth between 1993 and 1996.

**Growth Incidence Curve for China: 1993-1996**

Brazil is one of the countries which has registered the most progressive or pro-poor growth pattern, with the poorest households experiencing a growth rate of income per capita nearly 6 times higher than the richest households.

Inclusive Growth Strategies

Elements
- Sustained Growth
- Structural Transformation
- Productive Employment
- Equality of Opportunities
- Significant poverty reduction.

Opportunities
- Sea Access, Neighbors
- Mineral Wealth
- Skills
- Inequality

Strategies
- Key
  - Foster a competitive and diversified export base
  - Boost production and productivity in labor intensive sectors
- Supporting
  - Improve management of natural resources
  - Strengthen social cohesion

Policies
- Fiscal Policy, including to address poverty and inequality.
- Monetary Policy
- Exchange Rate Policy
- Trade Policy
- Structural Reforms
In all these endeavors, Mozambique should preserve one of its key assets: Macroeconomic stability

**Preserving Macroeconomic Stability – Key Policies**

- Pursue prudent fiscal policy that preserves debt sustainability and raise country's long-term growth factors.
- Create fiscal space through revenue effort and prudent borrowing to help finance well-targeted spending.
- Pursue prudent monetary policy to keep inflation low.
- Inflation hurts the poor
- Monitor, but do NOT manage, the Real Effective Exchange Rate (REER)

**Element**

- Avoid growth decelerations through bad policies
Policies and Institutions for Inclusive Growth

Key Strategies

**Opportunities**
Sea Access, Proximity to South Africa

- Foster a competitive and diversified export base
- Boost production and productivity in labor-intensive sectors

**Policies and Institutions**

- Step up public investment to remove infrastructure and skills gaps → Growth, Transformation, Employment
- Accelerate regulatory reforms to improve the business environment → Growth, Transformation, Employment, Equality
- Promote financial inclusion → Growth, Employment, Equality
- Optimize market access and regional integration → Growth, Transformation, Employment

Mozambique: Seminar on Growth, Economic Transformation, and Job Creation
Policies and Institutions for Inclusive Growth
Public Investment

Mozambique’s public investment is falling behind the curve


Mozambique: Seminar on Growth, Economic Transformation, and Job Creation
Diversification into light manufacturing and other labor intensive industries in Mozambique hampered by high indirect costs in the form of burdensome regulations …

Cost structure, firm-level average, by country


Mozambique: Seminar on Growth, Economic Transformation, and Job Creation
... and one of the highest rates of financial exclusion among SADC countries

### FinScope Survey Results:
**Comparative Access to Finance in African Countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Banked</th>
<th>Other Formal</th>
<th>Informal</th>
<th>Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mozambique</td>
<td>12</td>
<td>1</td>
<td>9</td>
<td>78</td>
</tr>
<tr>
<td>Uganda</td>
<td>18</td>
<td>3</td>
<td>17</td>
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</tr>
<tr>
<td>Zambia</td>
<td>15</td>
<td>12</td>
<td>11</td>
<td>61</td>
</tr>
<tr>
<td>Malawi</td>
<td>19</td>
<td>7</td>
<td>19</td>
<td>55</td>
</tr>
<tr>
<td>Tanzania</td>
<td>9</td>
<td>2</td>
<td>35</td>
<td>54</td>
</tr>
<tr>
<td>Nigeria</td>
<td>21</td>
<td>2</td>
<td>24</td>
<td>53</td>
</tr>
<tr>
<td>Namibia</td>
<td>14</td>
<td>7</td>
<td>45</td>
<td>52</td>
</tr>
<tr>
<td>Rwanda</td>
<td>14</td>
<td>7</td>
<td>26</td>
<td>52</td>
</tr>
<tr>
<td>Botswana</td>
<td>17</td>
<td>2</td>
<td>44</td>
<td>46</td>
</tr>
<tr>
<td>Kenya</td>
<td>17</td>
<td>2</td>
<td>38</td>
<td>43</td>
</tr>
<tr>
<td>South Africa</td>
<td>17</td>
<td>2</td>
<td>63</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Mozambique Fin Scope.
Uganda constitutes a very relevant case study for Mozambique of successful economic diversification:

- Both countries started their growth takeoffs around the same time after emerging from a protracted civil war.
- Uganda has a more disadvantageous initial condition than Mozambique, since it is landlocked, yet it has been a more aggressive economic reformer.


Mozambique: Seminar on Growth, Economic Transformation, and Job Creation
Policies and Institutions for Inclusive Growth Managing Natural Resources Well

Opportunities/Constraints
Mineral wealth

Improve the management of natural resources

Policies and Institutions
- Appropriate resource taxation systems, model contracts
- Transparent budgets
- Stabilization Funds
- Sovereign Wealth Funds
- Enhance the monetary policy framework and operations and monitor, but do not manage, the exchange rate

Element
- Avoid growth decelerations through bad policies and institutions
  - Finance growth accelerations

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Policies and Institutions for Inclusive Growth
Managing Natural Resources in Botswana

**Recovery of resource rent and taxes by state from mining in Botswana, 1980 to 2005**

- Mineral Rents
- Mineral Taxes

**Growth of real, per capita wealth and GDP in Botswana and Namibia, 1980 to 2005**

(1980 = 1.00)

- Bots. real per capita wealth
- Bots. real per capita GDP
- Namibia real per capita wealth
- Namibia real per capita GDP


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Policies and Institutions for Inclusive Growth
Managing Natural Resources in Botswana

- Manage fluctuations in revenues from natural resources rents through the use of stabilization funds and rules for smoothing public expenditure
  - Government created three funds - the Domestic Development Fund, the Revenue Stabilization Fund, and the Public Debt Service Fund - which have allowed it to avoid the boom-bust cycles in commodity prices

- Transform revenue from natural resources into sustained economic growth by effectively reinvesting in additional productive capacity, including education, training, health, and infrastructure
  - Government limits current expenditure and debt payment and devotes close to 40% of government revenues allocated to infrastructure and human capital expenditures

- Fair price for mineral resource use
  - Government has been able to form stable, long-lasting partnerships with mining companies, leaving company management in the hands of private sector firms. It has effectively negotiated equity and business shares, instead of outright nationalization, and increased its share of equity and revenue
Policies and Institutions for Inclusive Growth

Strengthening Social Cohesion

Opportunities/Challenges
Income inequality, unemployment

Strengthening social cohesion

Policies and Institutions
- Implement sustainable and well-targeted social safety nets
- Preserve macroeconomic stability

Element
- Avoid growth decelerations though conflict
Conclusions and Next Steps – Thanks!

- Mozambique growth needs to become more inclusive to reinvigorate the poverty reduction process.

- The country’s strong track record of macroeconomic stability needs to be preserved.
  - It has provided the country with a sound base for economic development
    - Scaling up public investment in infrastructure is feasible
  - Preserving macroeconomic stability will create a framework for private sector activity

- A more inclusive growth strategy could rest on two key pillars:
  - Fostering a competitive and diversified export base
  - Boost production and productivity in labor intensive sectors
    - Catch up with faster reformers in Africa and worldwide

- Inclusive growth strategies should be supported by policies and institutions that strengthen natural resource management and social cohesion.