

HIGHLIGHTS from Chapter 4:

Impact of COVID-19 on Global Income Inequality

Key Points

- *The COVID-19 pandemic has raised global income inequality, partly reversing the decline that was achieved over the previous two decades.*
- *Weak recoveries in emerging market and developing economies (EMDEs) are increasing between-country income inequality.*
- *Within-country income inequality is estimated to have increased somewhat in EMDEs because of severe job and income losses among lower-income population groups.*
- *Rising inflation and pandemic-related disruptions to education may further increase within-country inequality in the longer run.*
- *Reversing the increase in global income inequality requires a comprehensive set of national policy measures, underpinned by support from the global community.*

Considerable increase in between-country income inequality. The pandemic is estimated to have raised between-country income inequality as a result of the lagging economic recovery in EMDEs compared with advanced economies (Figure 1). This would return between-country inequality to the levels of the early 2010s.

Modest increase in within-country income inequality. The pandemic is estimated to have increased within-country income inequality somewhat in EMDEs. For a sample of 34 EMDEs, income inequality as measured by the Gini coefficient is estimated to have increased in 2020 by a modest 0.3 points. Income inequality increases of comparable or higher magnitudes for the EMDE sample last occurred in the 1990s. That said, the magnitude of the increase induced by the pandemic is relatively small—comparable to an annual average decline in within-country income inequality in the preceding two decades in this EMDE sample. The increase in within-country inequality reflected severe job and income losses among low-skilled workers, low-income households, informal workers, and women. This increase follows a decline in within-country income inequality in most EMDEs over the previous two decades.

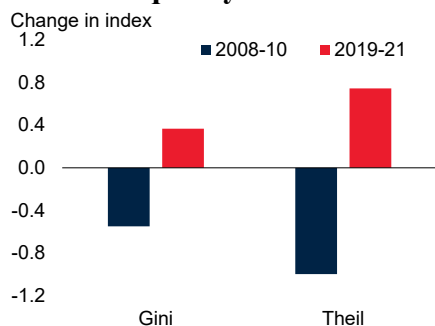
Risks of lasting increase in within-country inequality. The increase in within-country inequality caused by the pandemic may become entrenched as pandemic-induced disruptions to education and the disproportionate adverse effects on low-income households may worsen intergenerational mobility. In addition, high inflation and surging public debt levels may hamper countries' ability to support vulnerable groups and facilitate recovery and sustainable growth.

Comprehensive policy effort to lower income inequality. A comprehensive strategy is needed to steer the global economy onto a more inclusive development path. Such a strategy needs to include measures to reduce both between-country and within-country inequality through national reforms and with support from the global community. This involves a rapid global rollout of vaccination and productivity-enhancing reforms in EMDEs to lower between-country inequality; fiscal support targeted at vulnerable population groups and measures to broaden access to education, health care, digital services and infrastructure; and assistance from the global community to resolve debt overhangs and to ensure an open and rules-based global trade and investment climate that nurtures faster productivity growth in EMDEs.

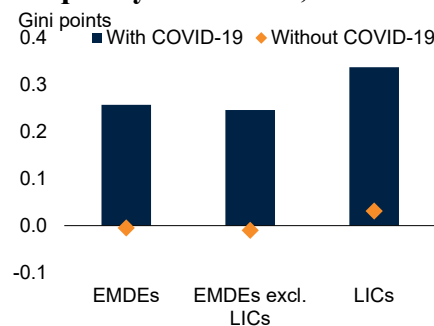
Figure 1. Impact of COVID-19 on global income inequality

Global income inequality is likely to have increased as a result of the COVID-19 pandemic. The lagging recoveries in emerging market and developing economies (EMDEs) is increasing between-country income inequality to the levels of the early 2010s. Extreme poverty rate increased in EMDEs during the pandemic, especially in low-income countries. Within-country income inequality increased somewhat in EMDEs as a result of severe income and job losses among lower-income households, informal workers, workers without college education, and women. The disruptions to education as a result of the pandemic may reduce intergenerational mobility for low-income households, further exacerbating within-country inequality in the longer run.

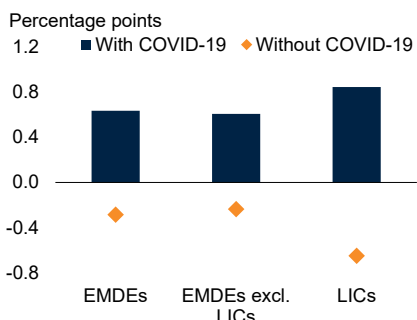
A. Change in global between-country income inequality



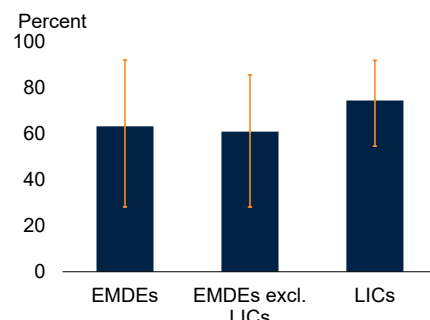
B. Change in within-country income inequality in EMDEs, 2019-20



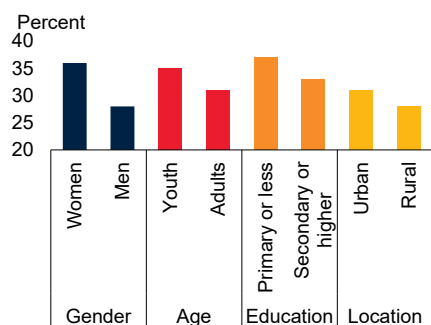
C. Change in extreme poverty in EMDEs, 2019-20



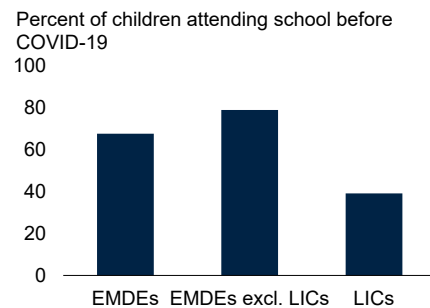
D. Average share of households reporting income losses in EMDEs, 2020



E. Work stoppages in EMDEs, by demographic group, 2020



F. Children engaged in education during school closures in EMDEs, 2020



Global Economic Prospects

Sources: Kugler et al. (2021); Narayan et al. (forthcoming); World Bank.

Note: EMDEs = emerging market and developing economies; LICs = low-income countries.

A. The figure shows annualized changes in the between-country Gini and Theil indices in 2008-10 and 2019-21. The calculations are based on a strongly balanced panel of 176 countries. The Gini index is on 0-100 scale. The Theil generalized entropy GE (1) index and the Gini index are computed using GDP per capita, purchasing power parity-adjusted (constant 2017 international dollars), based on the World Bank's World Development Indicators and growth estimates.

B. The figure shows the difference between the estimated average change in the Gini index in the COVID-19 scenario and the no-pandemic counterfactual scenario. The simulations estimate the changes in the income distribution of households in 2020 against a counterfactual 2020 income distribution that assumes the last pre-pandemic sectoral output growth forecast for 2020. The sample includes 34 countries. The simulations are based on country-specific sectoral growth projections and Harmonized High-Frequency Phone Surveys data as of July 2021.

C. The figure shows the difference between the estimated average change in extreme poverty rate in the COVID-19 scenario and the no-pandemic counterfactual scenario. The simulations estimate the changes in the income distribution of households in 2020 against a counterfactual 2020 income distribution that assumes the last pre-pandemic sectoral output growth forecast for 2020. The sample includes 34 countries. The simulations are based on country-specific sectoral growth projections and Harmonized High-Frequency Phone Surveys data as of July 2021.

D. Calculations based on the Harmonized High-Frequency Phone Surveys data from the COVID-19 Household Monitoring Dashboard for wave 1 in 2020. Simple averages. Sample consists of 36 EMDEs, including 6 LICs. Orange whiskers indicate the maximum and the minimum values.

E. Calculations based on the Harmonized High-Frequency Phone Surveys data from the COVID-19 Household Monitoring Dashboard for wave 1 in 2020. Simple averages. Youth is defined as 18-24 years and adults as older than 25.

F. Calculations based on the Harmonized High-Frequency Phone Surveys data from the COVID-19 Household Monitoring Dashboard for wave 1 in 2020. Response to survey question about children engaged in any education activities since school closures (percent of household with school age children who attended school before the pandemic), by income group (simple averages). Sample consists of 49 EMDEs, including 14 LICs.