

Shared Prosperity and Inequality: Uneven Losses and an Uneven Recovery

Summary

One of the twin goals of the World Bank Group is to promote shared prosperity, which reflects the extent to which economic growth is inclusive. During the COVID-19 pandemic, large and unequal job and income losses were reported, contributing to concerns about reduced shared prosperity, as well as rising inequality within countries.

Data on shared prosperity for 11 countries in 2020 confirm the declines in income depicted in chapter 1. The average income of the bottom 40 percent of the population fell substantially in most countries. Changes in the income of the bottom 40 are very closely tied to changes in the median income, which also declined by 4 percent globally, with larger relative declines among low- and lower-middle-income countries. The impact of the pandemic stands in stark contrast to the overall positive progress in shared prosperity evident on the eve of the pandemic. Prepandemic growth was, overall, inclusive based on the estimates of shared prosperity for 2014–19. Sixty-five of 78 economies reported positive values (although there was wide variation in shared prosperity across regions and across countries within regions). Thus the pandemic-induced shock in 2020 came as a reversal for many countries.

This chapter draws on official data and projections to show that within countries, changes in inequality in 2020 were mixed. Higher rates of job and income losses among vulnerable households did not necessarily result in relatively larger income losses for the poorest in each country. Some countries saw inequality increase, but regardless of the direction, the estimated changes in inequality are small in magnitude in nearly all cases.

Of global concern, however, the global income Gini index rose by a little more than 0.5 points in 2020 and the recovery to date has also proceeded at different speeds. In 2021, it appeared to have stalled for the poorest countries. The incomes of the bottom 40 of the world income distribution are projected to have remained below precrisis levels in 2021. Meanwhile, those in the top 20 of the world income distribution had already recovered their losses by 2021 and continued to pull ahead in 2022.

Chapter 2 online annexes available at <http://hdl.handle.net/10986/37739>:

2A. Shared Prosperity Estimates by Economy; **2B.** Releases of Data for Shared Prosperity; **2C.** Mean and Median Income/Consumption, 2019–22; and **2D.** Bottom 40 Profiles.

Introduction

Promoting shared prosperity is one of the twin goals of the World Bank Group (the other is ending extreme poverty). Shared prosperity is defined as the annualized growth rate in average consumption or income of the poorest 40 percent of the population (“the bottom 40”). This indicator measures the extent to which economic growth is inclusive by focusing on household income or consumption growth among the population at the bottom of the income distribution rather than on those near the average or at the top. Specifically, growth in the average income of the bottom 40 is equal to growth in average income *plus* growth in the share of income that goes to the bottom 40 percent. This indicator is meaningful at the country level, but it can also be applied to global incomes to look at the bottom 40 percent of the world income distribution. Because this shared prosperity indicator monitors the progress of the bottom 40 and how the less well-off are able to benefit from the growth process, it is relevant even in higher-income countries, where extreme poverty is much lower.

Shared prosperity is calculated using two household surveys administered approximately five years apart. This greater data requirement results in country coverage smaller than that for extreme poverty, which requires only one survey. In this report, the latest Global Database of Shared Prosperity (GDSP) comprises selected surveys for circa 2014–19, supplemented with surveys from circa 2013–18 to compensate for falling data coverage. The exact survey years vary across countries: for example, the survey period covers 2016–20 for Argentina and Mexico and 2012–17 for the Arab Republic of Egypt and Mauritius. Box 2.1 describes in detail the country coverage of the database used to calculate shared prosperity. Because this period covers a

BOX 2.1

Data coverage: A growing challenge for measuring shared prosperity, particularly for poorer countries

The shared prosperity indicator is available for 91 of the world’s 218 economies. This is the same number of economies considered in *Poverty and Shared Prosperity 2020*, which examined shared prosperity circa 2012–17 (World Bank 2020, table B2.1.1). However, data coverage is more limited for circa 2014–19, and so this level of indicator coverage is attained only because the data from circa 2014–19 are supplemented with surveys from circa 2013–18 for countries that otherwise would not have data. With this addition, approximately 5.9 billion people in these economies are represented, or 76.9 percent of the world’s population in 2019. The Global Database of Shared Prosperity (GDSP) includes coverage of 85 percent or more populations residing in the Europe and Central Asia and Latin America and the Caribbean regions. Population coverage in the East Asia and Pacific region is nearly 96 percent. With India’s inclusion (chapter 1, box 1.2), the database now covers about 88 percent of South Asia’s population, or over 1.6 billion people.

Despite high representation of the global population, underrepresentation of the poorest and most vulnerable populations continues to be a challenge for monitoring shared prosperity. Compared with coverage in the 2020 report, population coverage in Sub-Saharan Africa has dropped by almost half, from 31 percent to 17 percent. Only nine of the 48 countries in Sub-Saharan Africa are represented in the database. Slightly less than half of the population of the Middle East and North Africa are covered, but only three of the 14 countries in the region. Coverage in fragile and conflict-affected economies remains a challenge because the database represents less than 9 percent of people living in such situations. Only five of 39 fragile and conflict-affected economies reported on shared prosperity in the latest period. By income class, about 12.9 percent of low-income country populations are included in the database, in stark contrast to the 76.5 percent and 92.7 percent of populations residing in lower-middle- and upper-middle-income countries, respectively. Of the 74 International Development Association (IDA) countries, 14 countries have shared prosperity data available, covering less than 30 percent of the corresponding population (table B2.1.1).

(continued)

BOX 2.1

Data coverage: A growing challenge for measuring shared prosperity, particularly for poorer countries (*continued*)

TABLE B2.1.1

Data coverage summary, shared prosperity, circa 2014–19

	Population				Number of economies			
	All economies (millions)	Economies with poverty rate (millions)	Economies with SP (millions)	Economies with SP (%)	All economies	Economies with poverty rate	Economies with SP	Economies with SP (%)
East Asia and Pacific	2,103.8	2,051.4	2,049.0	97.4	26	21	9	34.6
Europe and Central Asia	495.0	494.8	432.6	87.4	31	30	25	80.6
Latin America and the Caribbean	642.2	597.9	561.0	87.4	31	24	15	48.4
Middle East and North Africa	394.4	382.7	188.0	47.7	14	12	3	21.4
South Asia	1,835.8	1,797.7	1,605.5	87.5	8	7	4	50.0
Sub-Saharan Africa	1,107.0	1,102.1	187.8	17.0	48	46	9	18.8
Rest of the world	1,105.3	1,037.8	886.0	80.2	60	28	26	43.3
Fragile and conflict-affected	908.7	831.9	78.1	8.6	39	35	5	12.8
IDA and Blend	1,670.7	1,612.3	482.9	28.9	74	68	14	18.9
Low-income	647.9	580.7	83.3	12.9	27	24	4	14.8
Lower-middle-income	3,285.4	3,268.9	2,514.8	76.5	55	54	21	38.2
Upper-middle-income	2,510.8	2,477.1	2,327.2	92.7	55	48	28	50.9
High-income	1,210.8	1,137.8	984.5	81.3	80	42	38	47.5
Total	7,683.4	7,464.5	5,909.9	76.9	218	168	91	41.7

Sources: Data for 81 economies from World Bank, Global Database of Shared Prosperity (9th edition, circa 2014–19); data for 10 economies from the Global Database of Shared Prosperity (8th edition, circa 2013–18), <https://www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity>.

Note: Population data are from 2019. The list of International Development Association (IDA) countries and economies in fragile and conflict-affected situations is from fiscal year 2022. República Bolivariana de Venezuela is temporarily declassified in the World Bank's income classification due to pending national accounts statistics and not included in the breakdown by income group. "Economies with poverty rate" includes economies that reported poverty estimates in 2012 or later. Blend = IDA-eligible economies but also creditworthy for some borrowing from the International Bank for Reconstruction and Development; SP = shared prosperity.

span of time before the onset of COVID-19 for some countries, and including the COVID-19 years for other countries, the report separates the discussion of trends for those countries with only pre-COVID-19 data from that of countries with data collected in 2020. Online annex 2A provides details on the measurement of the shared prosperity indicator, as well as information on country-level data sets. Online annex 2B lists the number of countries from all releases of the GDSP.

Although shared prosperity indicates how the poorest in each country have fared in recent years, this measure alone does not reveal whether the progress (or setbacks) at the bottom of the distribution is the result of widespread growth benefiting all groups (or widespread contraction that has set back all groups) or whether it is the result of a shift in the distribution of economic gains toward the bottom 40 (Lakner et al. 2022). To distinguish between these possibilities, the shared prosperity premium (SPP) is defined as the difference between shared prosperity and the growth in the mean consumption or income of the population—that is, the growth rate of the share of the bottom 40.

The SPP is one of several ways of measuring changes in inequality. Later in this chapter, other measures of inequality and their change over time are also used. Because of the pandemic, relatively few countries have survey data available to assess how inequality may have changed over this period. Therefore, to better understand how inequality has fared during the pandemic, this analysis uses distribution-sensitive simulations for countries that lack postpandemic survey data.

Shared prosperity and inequality, 2014–19

Substantial gains were made in shared prosperity from 2014 to 2019, but they varied across regions

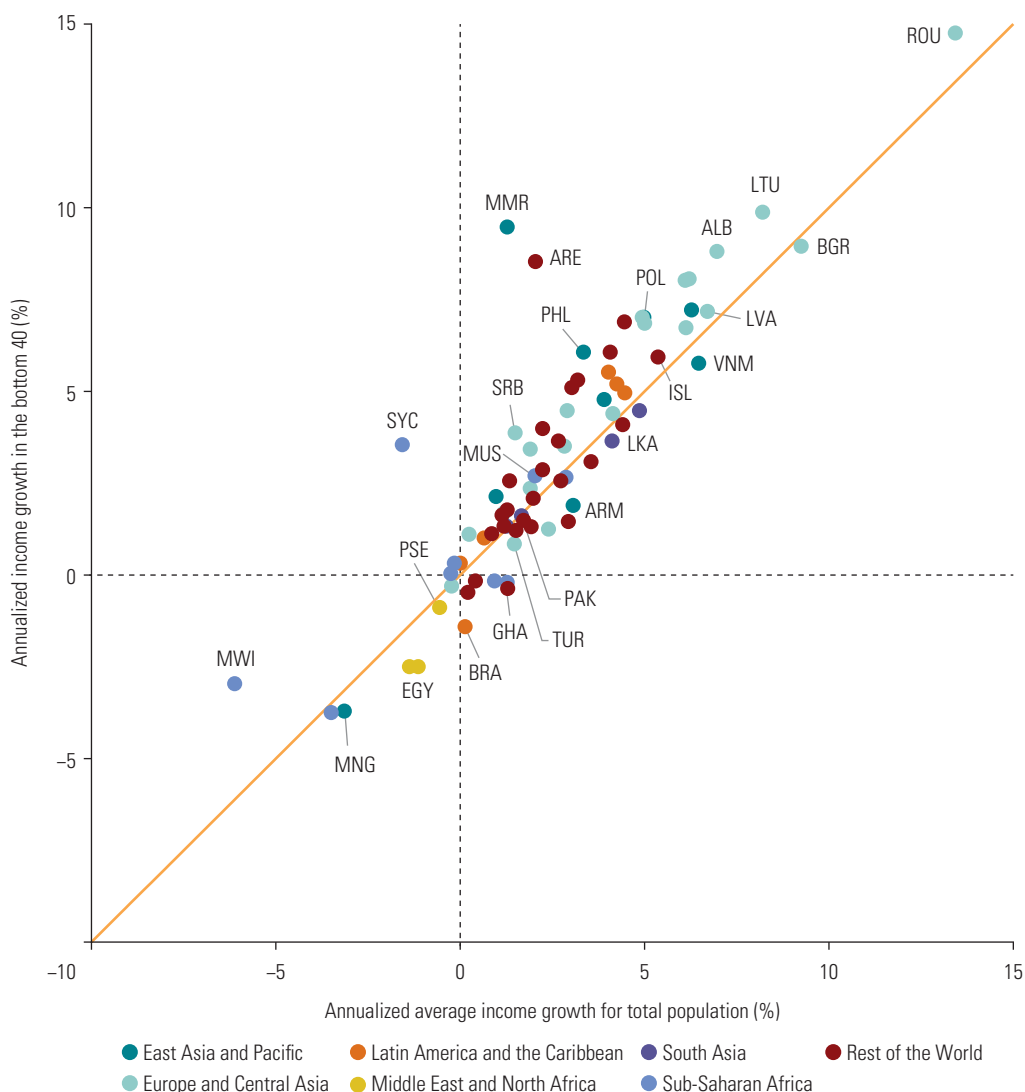
Substantial progress in shared prosperity occurred for the vast majority of economies measured during the latest shared prosperity period, circa 2014–19. Overall, shared prosperity was positive for 65 of 78 economies. Average shared prosperity—calculated as an unweighted average of annualized income growth rates of the bottom 40 across all countries—stands at 3.2 percent. This is a notable improvement over the results presented in the 2020 report, when the average growth rate was 2.3 percent. However, there was wide variation in the annualized income growth of the bottom 40 as shown in figure 2.1, which plots the annualized income growth of the bottom 40 and of the total population against each other. Twenty-three countries achieved shared prosperity rates of 5.0 percent or more.

Comparing shared prosperity with the growth rate of the entire population, which the SPP does, provides insights into how the benefits of growth are shared across the distribution. A positive SPP indicates faster growth among the bottom 40 than the entire population, implying that economic growth or redistributive policies have favored the poorer segments of the population. A negative SPP indicates that the growth rate of average incomes or consumption exceeded that of the bottom 40. Countries located above the 45-degree line in figure 2.1 have a positive SPP—that is, the incomes of the bottom 40 grew faster than the average. Although the database used in this analysis covers 91 economies, the shared prosperity estimates for 13 economies are discussed in the next section because their shared prosperity ends in 2020 and therefore captures the early stages of the pandemic, which saw steep declines in incomes.

Significant differences in shared prosperity can be seen across regions. The East Asia and Pacific and Europe and Central Asia regions recorded the highest shared prosperity, measuring 4.5 percent and 5.4 percent, on average, respectively. Shared prosperity was positive in almost all countries in both regions, with the exceptions of Kazakhstan and Mongolia. Meanwhile, shared prosperity was negative in all three countries that represent the Middle East and North Africa. Among countries in Sub-Saharan Africa, the performance was mixed, with four of the nine economies recording negative shared prosperity (figure 2.2). By income group, low-income countries (LICs) had the poorest performance, recording almost no change

FIGURE 2.1

From 2014 to 2019, the vast majority of economies made substantial progress in shared prosperity

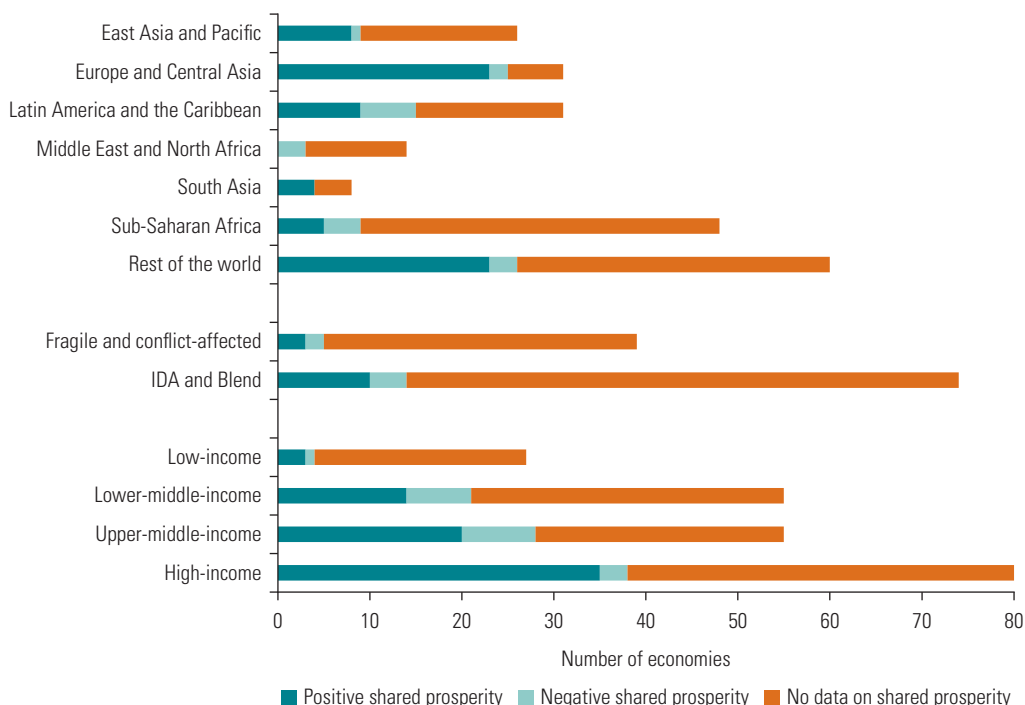


Sources: World Bank, Global Database of Shared Prosperity (9th edition, circa 2014–19, for 68 economies; 8th edition, circa 2013–18, for 10 economies), <https://www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity>.

Note: The figure shows the relationship between the annualized average income growth for the total population and the Shared Prosperity measure (annualized income growth in the bottom 40 percent of the income distribution), circa 2014–19 or circa 2013–18. A 45-degree line is shown for reference. The sample includes 78 economies; those with data collected in 2020 are not included. For a list of country codes, go to <https://www.iso.org/obp/ui/#search/code/>.

in shared prosperity. Upper-middle-income countries (UMICs) had the best performance, with an average bottom 40 income growth of 4.3 percent. Shared prosperity in lower-middle-income countries (LMICs) measured around 1.8 percent (table 2.1).

Globally, the SPP was positive in 48 countries, indicating relative gains among the bottom 40 percent. The average SPP across all countries was also positive but small at

FIGURE 2.2**Significant differences occurred in shared prosperity across regions and country income groups**

Sources: World Bank, Global Database of Shared Prosperity (9th edition, circa 2014–19, for 81 economies; 8th edition, circa 2013–18, for 10 economies), <https://www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity>.

Note: The figure shows the number of economies in each country group with positive (negative) shared prosperity, which indicates positive (negative) income growth of the bottom 40 percent, and with no data on shared prosperity. Blend = IDA-eligible economies but also creditworthy for some borrowing from the International Bank for Reconstruction and Development; IDA = International Development Association.

0.6 percentage points. At the regional level, the average SPP was highest in the East Asia and Pacific region, followed by Europe and Central Asia and Sub-Saharan Africa (table 2.1). However, there is wide variation across countries within these regions. In Sub-Saharan Africa, the SPP ranged from –1.5 percent in Ghana to 5.1 percent in the Seychelles. In the East Asia and Pacific region, the indicator was negative for three of the nine economies. China, the most populous country in the world, reported a shared prosperity rate of 7.2 percent and an SPP of 0.9 percent. The highest SPP was found in Myanmar—8.2 percent. Europe and Central Asia accounted for 18 of the 47 economies that recorded both a positive SPP and a positive shared prosperity indicator, meaning that their bottom 40 experienced positive and faster-than-average income growth. In the Europe and Central Asia region, only a handful of countries had a negative SPP.

The most worrisome trend is in countries with both negative shared prosperity and a negative SPP, suggesting that average incomes declined but that the less well-off were disproportionately affected. Globally, 12 countries fell in this group. In the Middle East and North Africa, the less well-off were disproportionately affected in all three countries for which shared prosperity data were available.

Median income is another indicator of interest, particularly for assessing the welfare of a “representative” individual in a country, and especially when the income distribution is skewed to the right with a long tail, as is typical with income. In the latest shared prosperity

TABLE 2.1**Summary, shared prosperity and shared prosperity premium, 78 economies**

	Number of economies					Simple average across economies			
	Number of economies with SP	SP > 0	Growth in median > 0	Growth in mean > 0	SPP > 0	Average SP (%)	Average SPP (pp)	Growth of the mean (%)	Growth of the median (%)
East Asia and Pacific	9	8	8	8	6	4.5	1.5	3.0	4.0
Europe and Central Asia	21	20	20	20	17	5.4	0.9	4.4	4.6
Latin America and the Caribbean	6	5	5	5	5	2.6	0.4	2.3	2.8
Middle East and North Africa	3	0	1	0	0	−2.0	−0.9	−1.0	−1.3
South Asia	4	4	4	4	1	2.8	−0.2	3.0	3.0
Sub-Saharan Africa	9	5	7	4	5	0.2	0.8	−0.5	0.5
Rest of the world	26	23	26	26	14	2.7	0.4	2.3	2.3
Fragile and conflict-affected	5	3	4	3	2	1.7	1.4	0.3	1.0
IDA and Blend	13	9	11	9	7	1.1	0.7	0.4	1.1
Low-income	4	3	3	1	3	0.0	0.9	−0.9	0.2
Lower-middle-income	18	11	14	13	6	1.8	0.3	1.5	1.9
Upper-middle-income	19	17	18	18	14	4.3	0.7	3.6	3.8
High-income	37	34	36	35	25	3.6	0.8	2.9	3.1
Total	78	65	71	67	48	3.2	0.6	2.5	2.9

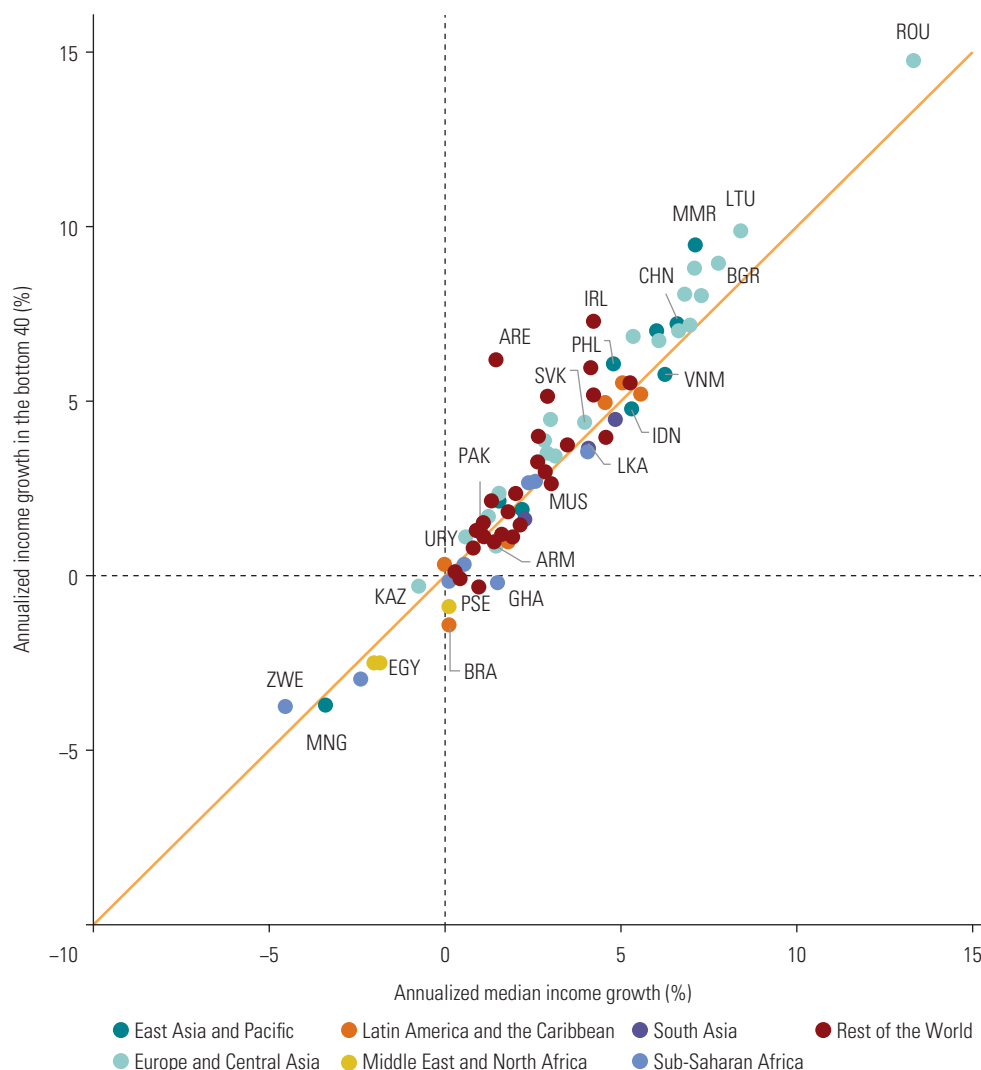
Sources: World Bank, Global Database of Shared Prosperity (9th edition, circa 2014–19, for 68 economies; 8th edition, circa 2013–18, for 10 economies), <https://www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity>.

Note: The table shows a summary for 78 economies, excluding those with data for 2020. Population data are from 2019. The list of International Development Association (IDA) countries and economies in fragile and conflict-affected situations is from fiscal year 2022. Blend = IDA-eligible economies but also creditworthy for some borrowing from the Bank for Reconstruction and Development; pp = percentage point; SP = shared prosperity; SPP = shared prosperity premium.

database, median income grew in 71 of 78 economies, at an average of 2.9 percent. Similar to shared prosperity, median income growth was highest in UMICs and lowest in LICs (table 2.1). In fact, the two measures of shared prosperity and median income growth are highly correlated, with a correlation coefficient of 0.97 (figure 2.3). Online annex 2C presents aggregated estimates of mean and median incomes during 2019–22, based on the nowcast methodology in chapter 1.

FIGURE 2.3

Median income growth and shared prosperity are highly correlated



Sources: World Bank, Global Database of Shared Prosperity (9th edition, circa 2014–19, for 68 economies; 8th edition, circa 2013–18, for 10 economies), <https://www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity>.

Note: The figure shows the relationship between annualized median income growth and the Shared Prosperity measure (annualized income growth in the bottom 40 percent of the income distribution), circa 2014–19 or circa 2013–18. A 45-degree line is shown for reference. The sample includes 78 economies; those with data collected in 2020 are not included. For a list of country codes, go to <https://www.iso.org/obp/ui/#search/code/>.

The characteristics of the people in the bottom 40 differ from those in the top 60 of the population (“top 60”). Figure 2D.1 in online annex 2D is a profile of the bottom 40 as an average across regions for economies that conducted a survey in 2014 or later. The figure reports the share of individuals in each group that belongs to the bottom 40. For example, over 40 percent of individuals ages 0–14 are in the bottom 40, indicating that this group is overrepresented in the bottom of the income distribution. Generally, those in the bottom 40 are likely to be younger and less educated and much more likely to live in a rural area. There are also some regional differences. Overall, the group of people age 64 and older is much less likely to be in the bottom 40, whereas the same group in South Asia is about as likely to be in the bottom 40 as in the top 60. Individuals without any formal education are most likely to be in the bottom 40 in Europe and Central Asia. By comparison, the gender distribution among the bottom 40 and the top 60 is fairly even: about 40 percent of both men and women belong to the bottom 40 in all regions.

Within-country inequality was mostly stable or declining prior to the pandemic

Poverty and Shared Prosperity 2016 examined long-term trends in inequality (World Bank 2016). The report pointed out the wide variation in within-country inequality but noted it narrowed in many countries between 1998 and 2013. Countries in Latin America and the Caribbean had achieved a significant reduction in inequality, although after a period of increase in the preceding decades. The average Gini coefficient declined during the same period in most regions except South Asia and the Middle East and North Africa, where data were also more limited. Although the Gini index is a widely recognized measure of inequality, it is less sensitive to changes in the top of the distribution. Such changes are also less accurately measured in standard household surveys, potentially underestimating inequality. Addressing these issues at the global level is difficult because of data limitations, and so they are only acknowledged here (see box 2.2 for details).

Consistent with overall positive progress in shared prosperity, within-country inequality measured by the Gini coefficient was as likely to fall as to increase in the years leading up to the pandemic. However, reductions in inequality were likely to be larger than increases (figure 2.4), particularly in the Latin America and the Caribbean, East Asia and Pacific, and Europe and Central Asia regions. Countries in the Middle East and North Africa were more

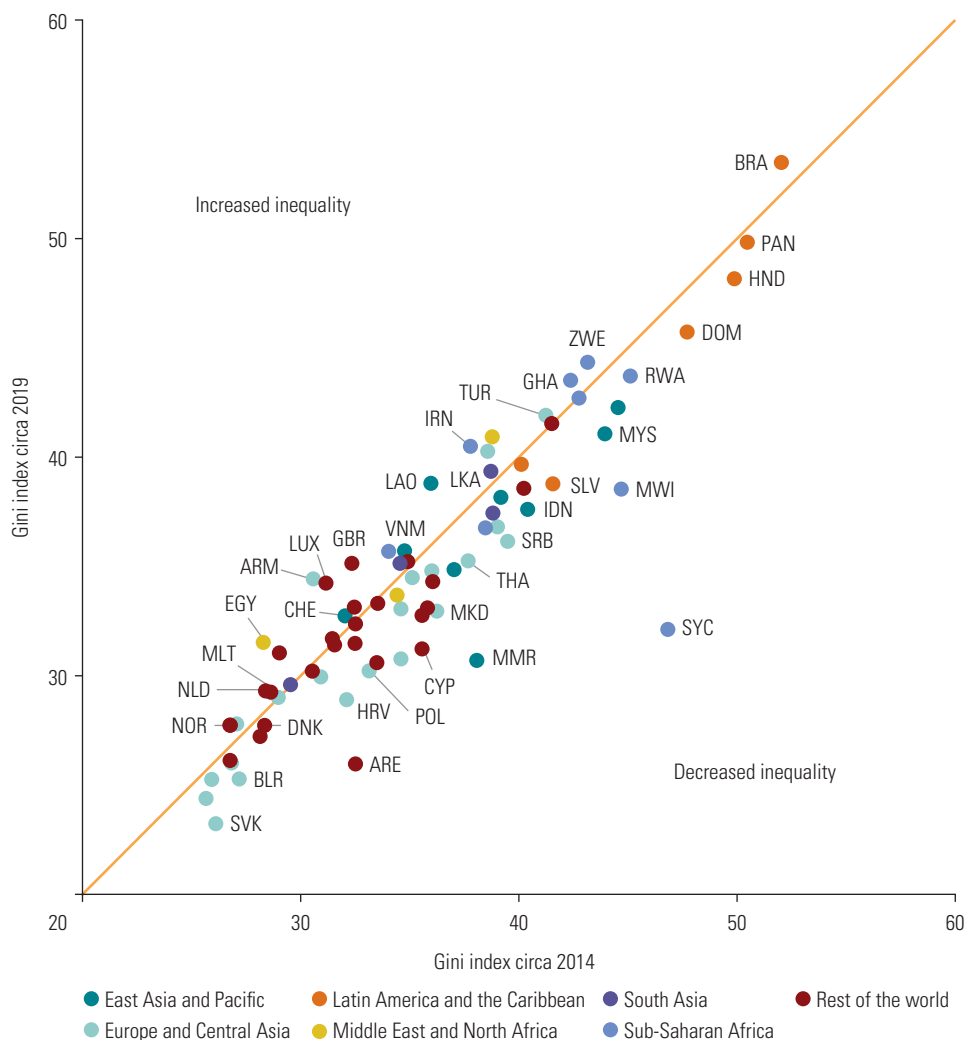
BOX 2.2

Inequality and top incomes

Survey-based measures of inequality are likely to be underestimated because the incomes of the richest are challenging to capture in household surveys. Possible reasons are underreporting of incomes, refusal to participate in a survey, and the low probability of top-earning households being sampled. Previous research has shown that the likelihood of responding to surveys is negatively correlated with income—see Korinek, Mistiaen, and Ravallion (2007) for the United States. To capture top incomes, some researchers have used administrative tax data, which provide a more accurate account of the incomes of the richest groups. For example, box 2.3 illustrates a case study from Poland, where top-corrected measures of income significantly raised inequality. *Poverty and Shared Prosperity 2016* revealed that the income share of the top 1 percent has risen much more quickly in France, Japan, and the United States since the 1970s if one uses more accurate measures of top incomes (World Bank 2016). However, tax record data are generally very limited in low-income countries and come with other concerns such as tax avoidance or evasion, low coverage of informal sectors, as well as limitations of taxable income as a basis for welfare comparisons (Ravallion 2021).

FIGURE 2.4

Within-country inequality was as likely to fall as to increase before the pandemic, but reductions in inequality were likely to be larger than increases



Source: World Bank, Poverty and Inequality Platform, <https://pip.worldbank.org>.

Note: The figure shows the relationship between the Gini index in the start and end years of the shared prosperity period (circa 2014 and circa 2019). The Gini index decreased (increased) in countries below (above) the 45-degree line. The sample includes 78 economies, those with data collected in 2020 are not included. For a list of country codes, go to <https://www.iso.org/obp/ui/#search/code/>.

likely to experience an increase in inequality, whereas it was either stable or declining in South Asia. Altogether, in a sample of 78 countries, 34 had falling inequality, compared with 13 with rising inequality. In 31 countries, the Gini index was essentially unchanged; it varied by less than 1 Gini point over time (table 2.2). Box 2.3 features a few country examples that highlight the diversity of experiences with shared prosperity in different settings.

TABLE 2.2

Within-country inequality tended to decrease but with variations across world regions, 2014–19

Region	Number of countries			Total number of countries	Mean Gini index	
	Gini index up	Gini index down	Gini index \pm		2014	2019
East Asia and Pacific	1	6	2	9	38.4	36.9
Europe and Central Asia	2	12	7	21	32.7	31.5
Latin America and the Caribbean	3	8	15	26	32.2	31.6
Middle East and North Africa	1	3	2	6	47.0	45.9
South Asia	2	0	1	3	33.8	35.4
Sub-Saharan Africa	0	1	3	4	35.4	35.4
Rest of the world	4	4	1	9	41.7	39.8

Source: World Bank, Poverty and Inequality Platform, <https://pip.worldbank.org>.

Note: The table shows data points for 78 economies, excluding those with data in 2020. Increases and decreases in the Gini index refer to changes greater than 1 Gini point. The mean Gini index is calculated as the unweighted average of country-level Gini coefficients. Years of measurement are the same as for shared prosperity.

BOX 2.3

Experiences on the ground with shared prosperity

Poland: Rapid economic rise, not evenly shared

Poland has made significant progress in reducing poverty and growing incomes of the bottom 40 of its population. Productivity improvements, a strong labor market, rising wages, and demographically based transfers that reached poorer households have contributed to the progress. However, survey-based measures provide contrasting results about the extent of the progress, depending on the treatment of top incomes, which are poorly captured in survey data. Studies suggest a significant rise after 2000 in the income share going to the richest 10 percent and rising wealth inequality. Bukowski and Novokmet (2021) estimate that the top decile of the income distribution captured 57 percent of estimated gross domestic product (GDP) growth during 1989–2015. Brzeziński, Myck, and Najsztub (2022) combine survey and tax return data to provide top-corrected measures of income inequality and find that the magnitude of this correction is two to three times higher than in other countries.

Romania: Top performer in shared prosperity through fiscal and other reforms

Between 2014 and 2019, the share of Romanians living on less than US\$5.50 a day at 2011 purchasing power parity (PPP) prices declined sharply, from 25.6 percent to 9.2 percent. Over the same period, the income growth rate of the bottom 40 surpassed the growth rate of the rest of the population. Most of this progress can be attributed to pro-poor fiscal and other reforms, such as reductions in the flat personal income tax (PIT) rate and value added taxes, an expansion of the PIT exemption coverage, and an increase in the minimum wage. However, over half of PIT relief benefited households at the top of the income distribution, and these reforms put additional pressure on the country's increasing fiscal deficits (Inchauste and Militaru 2018), calling the sustainability of these reforms into question. Meanwhile, a large share of the bottom 40 percent is overwhelmingly concentrated in low-productivity agriculture, disconnected from the drivers of the economy in the booming manufacturing, trade, and information communications and technology sectors.

China: Long-term inequality turnaround

Over the last 40 years, China has lifted over 800 million people out of extreme poverty, accounting for almost three-quarters of the reduction in global poverty since 1980. This reduction was mostly

(continued)

BOX 2.3**Experiences on the ground with shared prosperity (*continued*)**

driven by decades of sustained high economic growth, fueled by a massive shift of workers from low-productivity agriculture to higher-productivity industry and, more recently, services. And yet fast growth was accompanied with increasing inequality. The income-based Gini index rose from 30 in the mid-1980s to 49 in 2008. It then began to fall at the end of the 2000s, reaching 46 by 2015. This “great Chinese inequality turnaround” (Kanbur, Wang, and Zhang 2021) was brought about by a shift in public policies toward development of the western and northern regions, the end of agricultural taxation, the rise of social protection investments, and the increase in the minimum wage (Kanbur, Wang, and Zhang 2021). Ravallion and Chen (2021) argue, however, that because the moderation of inequality was driven by specific policies, peak inequality may still lie ahead unless mitigated by policy. Indeed, improvements in income inequality have stalled over the last five years: the Gini Index was still 46 in 2019.

Arab Republic of Egypt: Limited benefits of growth to many households, especially the bottom 40

Egypt’s gross per capita GDP growth averaged 1.1 percent per year between 2012 and 2017, but consumption declined at an average rate of –1.1 percent per year during this period, and –2.5 percent per year for the bottom 40 percent. The limited transmission of aggregate growth to household consumption growth reflects long-standing challenges for job creation. The labor market has struggled to absorb Egypt’s fast-growing labor force. The share of employed in the working-age population has been low and declining. Women and youth employment rates remain particularly low. In addition, growth has been based on employment opportunities created either in low-value-added sectors or in sectors that experienced a productivity decline while informal employment has also grown. The construction sector, a labor-intensive sector employing many informal workers, saw a boom in employment but low productivity growth. Overall, the economy has had little success in creating well-paying, productive jobs in the private sector.

Shared prosperity and inequality during COVID-19

As chapter 1 documents, the COVID-19 crisis had a profound impact on welfare around the world. This section uses data available for 2020 as well as earlier years to explore the impacts of the crisis on shared prosperity and across the income distribution. The household surveys of 13 economies cover either 2015–20 or 2016–20 and thus the early stages of the COVID-19 crisis. Eleven of these economies also have data for 2019, allowing an assessment of shared prosperity both immediately before and during the pandemic. In addition, high-frequency phone surveys (HFPS) collected information on who lost income and employment and who faced food insecurity over the crisis, providing additional data on the differential impacts of the pandemic on households. Finally, analysis of the official national labor force surveys available for some countries helps contextualize and corroborate information from other sources, including phone surveys, on how the crisis and recovery unfolded across different population groups during the pandemic.

Large income losses among the bottom 40 are recorded in the official data

Only a few countries have the data needed to produce estimates of shared prosperity over the 2019–20 period. This section turns to those countries.

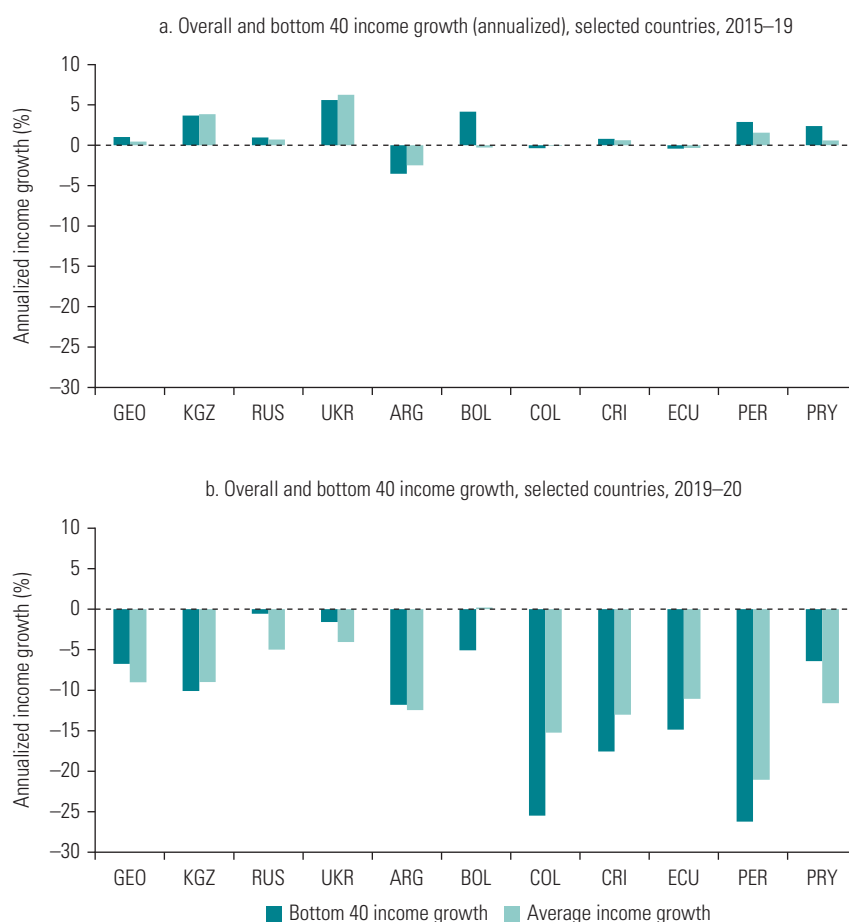
The 13 economies whose shared prosperity survey periods cover either 2015–20 or 2016–20 provide a first estimate of the impact of the COVID-19 crisis on shared prosperity. All of these countries are in Latin America and the Caribbean or Europe and Central Asia, and most conduct

annual surveys. To understand the impact of the crisis, estimates of the bottom 40 income growth in the latest shared prosperity period are disaggregated into income growth estimates for 2015–19 (or 2016–19 in the case of Argentina) and 2019–20 for the 11 countries that have annual survey data available. It is then possible to distinguish the COVID-19 impact from the prepandemic trends in shared prosperity.

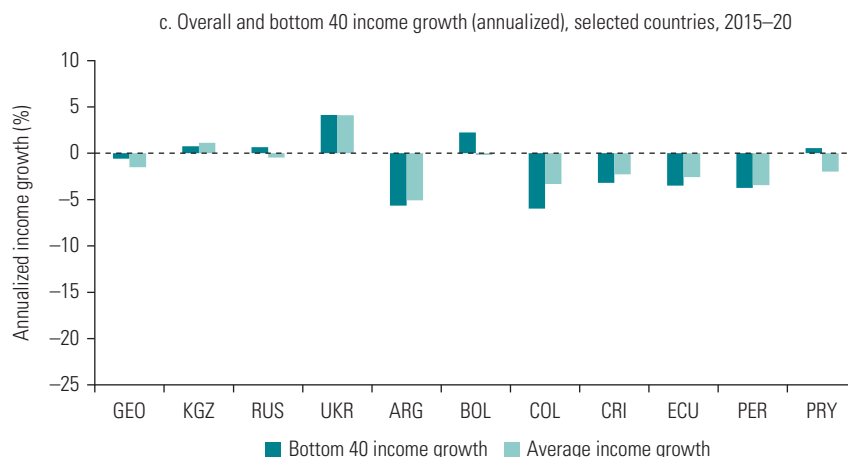
The comparison shows large income losses among the bottom 40 in these countries during the pandemic. Most of these countries experienced positive shared prosperity trends prior to the COVID-19 crisis (figure 2.5, panel a), only to see those trends followed by steep income losses between 2019 and 2020 (figure 2.5, panel b). In other words, the gains achieved between 2015 and 2019 were often more than offset by large income declines during the crisis. In the worst cases, the bottom 40 in Colombia and Peru lost about a quarter of their income between 2019 and 2020. In the hardest-hit countries—Colombia, Costa Rica, Ecuador, and Peru—the incomes of the bottom 40 declined by more than the average rate of contraction. This large one-year decline led to negative shared prosperity for 2015–20 (2016–20 for Argentina), the survey years captured in the shared prosperity database for these countries. Meanwhile, Bolivia and Paraguay were still able to record positive shared prosperity in 2015–20 because income losses in 2020 were not as dramatic as in these other countries (figure 2.5, panel c). For six of the

FIGURE 2.5

The pandemic led to large income losses among the bottom 40



(continued)

FIGURE 2.5**The pandemic led to large income losses among the bottom 40 (continued)**

Source: Original estimates based on household surveys for 2015, 2019, and 2020 for all countries except Argentina, which uses survey years 2016, 2019, and 2020.

Note: The figure compares the annualized average income growth in the bottom 40 percent and for the total population for 2015–19 (panel a), 2019–20 (panel b), and 2015–20 (panel c) in selected economies. For a list of country codes, go to <https://www.iso.org/obp/ui/#search/code/>.

countries studied, the SPP was negative in 2019–20. Together, the negative SPP and the negative shared prosperity indicator confirm that the pandemic hit the poorer populations harder in those countries.

Within countries, job and income losses differed across groups

Worldwide, employment is the main source of income for most households, especially the poorest. Although the previous section explored measured changes to the bottom 40 for 13 countries, analysis of pandemic-induced changes in employment is possible for a larger number of countries. Typically, labor force surveys enable granular analysis of employment changes over time, but relatively few such surveys were available for analysis in the immediate aftermath of the onset of the pandemic. Household phone surveys were conducted, however, in many settings during the pandemic and help to reveal the distributional impact of the crisis.

Because in-person household surveys were interrupted or suspended early in the pandemic, phone surveys emerged as one of the few sources of information on how impacts unfolded at the household level after onset of the pandemic. The World Bank conducted high-frequency phone surveys in 88 mostly low- and middle-income countries, and this section partly draws on this data to investigate welfare losses during the pandemic. Box 2.4 provides details on the design, implementation, and potential biases of these World Bank-supported surveys.

Phone surveys reveal large and sudden increases in the rates of reported job and income losses across countries early in the pandemic (see figure 2.6, as well as Bundervoet, Davalos, and Garcia 2021; Egger et al. 2021; Khamis et al. 2021). Across countries, less educated and female respondents reported larger initial losses in employment and a slow recovery (figure 2.6, panel b). The same was true for urban respondents—not traditionally among the poorest in most countries—reflecting the fact that urban workers were more often affected by mobility restrictions than rural workers.

BOX 2.4**High-frequency phone surveys**

To monitor the impact of the pandemic on households, the World Bank, often in partnership with national institutions, implemented or supported high-frequency phone surveys (HFPS) in 88 countries. The phone surveys were administered in all six World Bank regions, and the majority of countries were low- or middle-income. The questionnaires were based on a global core template and customized for each country. The first surveys were conducted between April and June 2020 in over half of the countries. In some cases, data collection continued into 2022. New modules, such as on attitudes toward vaccine, were added over time to respond to the rapidly evolving nature of the pandemic. Because the exact content of surveys differed by country and across survey waves, responses were carefully harmonized to construct an internationally comparable data set.

The April 2022 vintage of the harmonized data set includes indicators for up to 500,000 respondents from 323 phone survey waves in 88 countries. The indicators range from employment and income outcomes to food security, education, and access to basic services. Country-level indicators are published online on the interactive World Bank COVID-19 Household Monitoring Dashboard. The harmonized microdata set represents a combined population of 4.35 billion and is the basis for most of the analysis using phone surveys in this report.

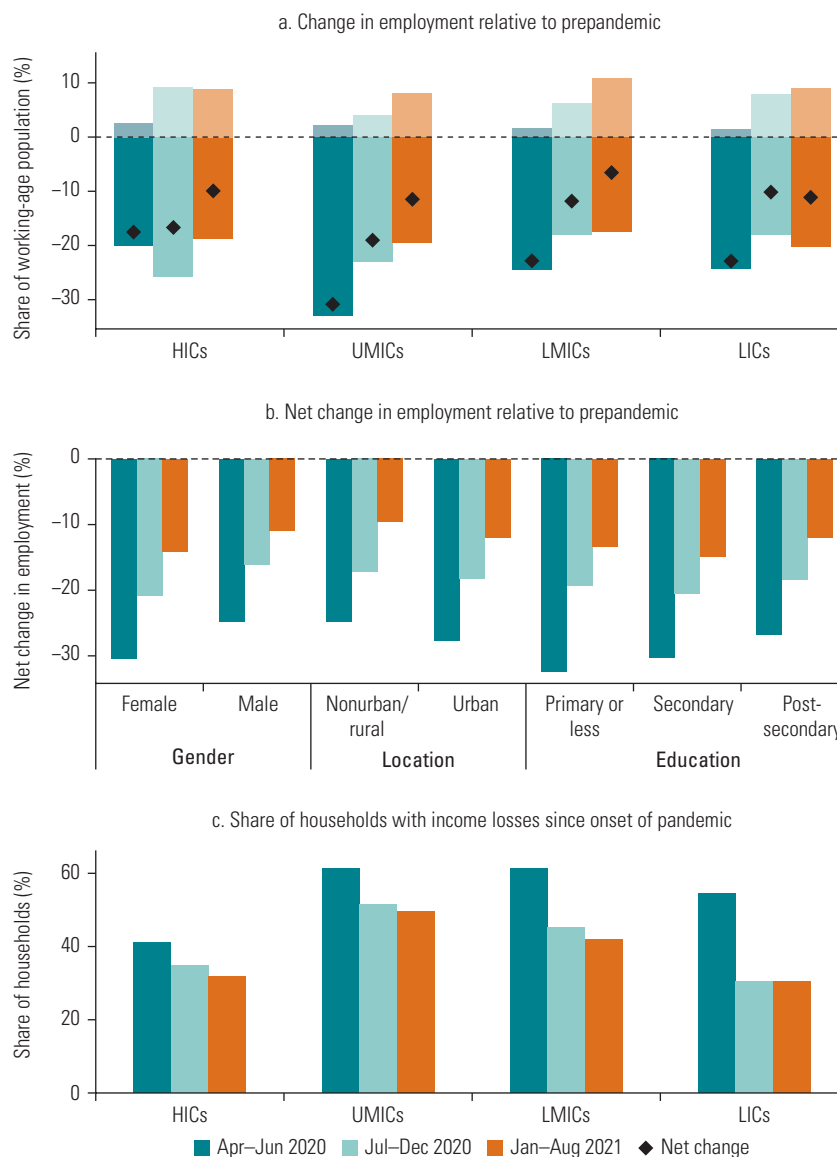
Phone surveys have the advantage of collecting data rapidly in a relatively cost-effective way. Although the surveys were designed to be nationally representative (using reweighting methods), several limitations arise because of the inherent nature of phone surveys in developing country settings. For example, the sample is representative of the phone-owning population in the country, potentially underrepresenting the poorest population. Furthermore, the survey results may be subject to sampling and selection biases. In most countries, surveys relied on either random digit dialing or used a subsample drawn from a nationally representative survey conducted before the pandemic. For the latter, the sampling frame was likely to overrepresent household heads and underrepresent members who are neither heads nor spouses. As a result, the representativeness of labor market outcomes may be affected by respondent selection within households because the surveys often collected information only about the respondent.

Kugler et al. (2021) investigate the magnitude of potential biases across different population groups by comparing the World Bank's harmonized HFPS database with household surveys in five countries. Using information on all household members, they find that these phone surveys overstate employment rates for the full population because they oversample household heads and produce greater bias for age comparisons of employment trends. However, phone surveys appear to track disparities and changes across gender, education, and urban/rural groups reasonably well. The authors find little evidence that differences in employment outcomes and trends between groups are affected by oversampling household heads. Nevertheless, the employment-related results from phone surveys and their interpretation should be distinguished from standard labor market indicators based on traditional labor force surveys because there are differences in sampling, framing of questions, and timing of surveys. When available, labor force survey data should take precedence over phone survey data to track nationally representative labor market outcomes.

a. World Bank, COVID-19 Household Monitoring Dashboard, <https://www.worldbank.org/en/data/interactive/2020/11/11/covid-19-high-frequency-monitoring-dashboard>. Indicators for some countries are not published due to issues of data access.

FIGURE 2.6

Employment and income losses arising from the pandemic were severe, with certain groups being hit harder



Source: Original estimates based on data from COVID-19 high-frequency phone surveys (HFPS).

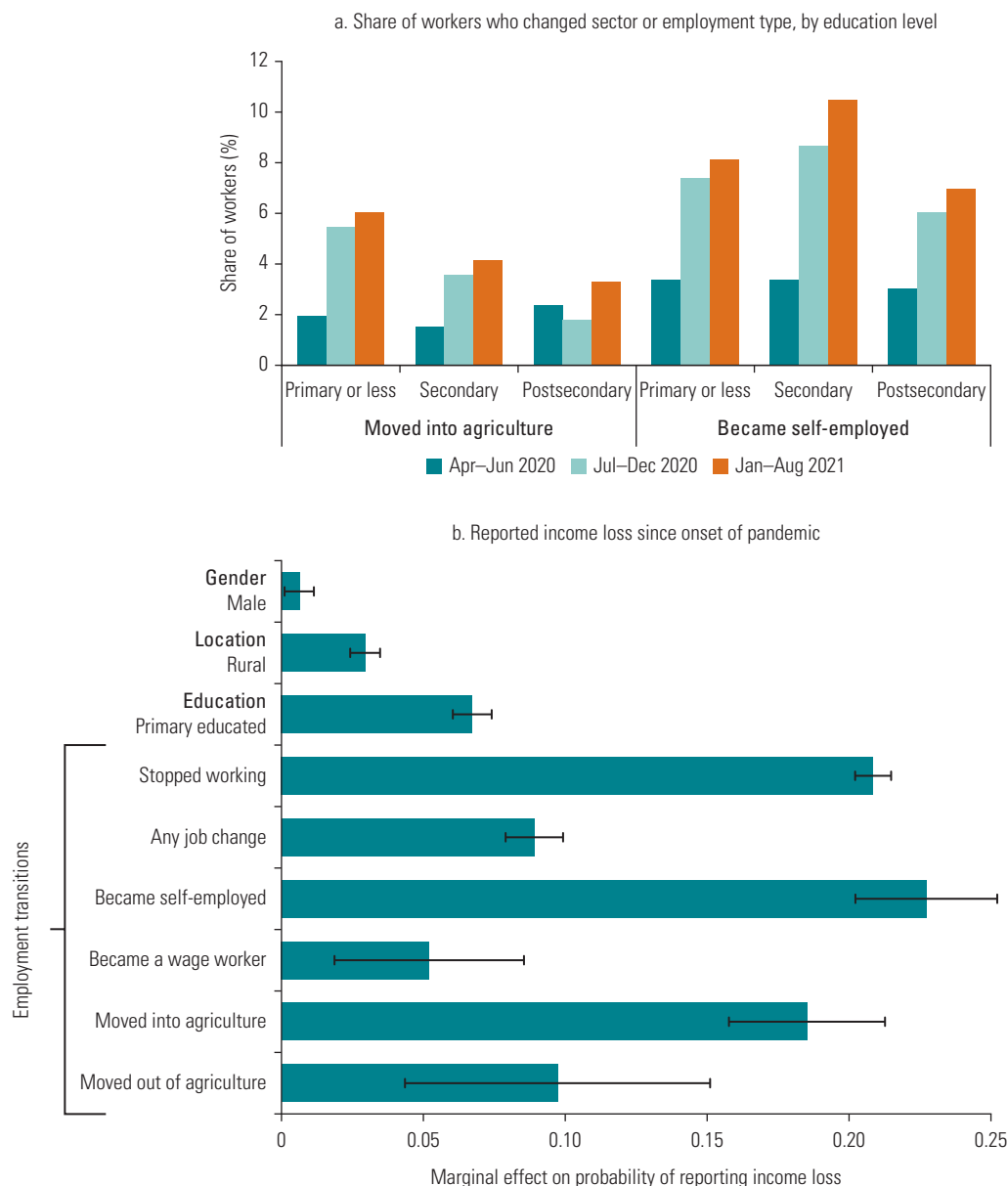
Note: Panel a shows the share of working-age population that started or stopped working, and the net change in employment relative to prepandemic levels during three periods of the crisis, aggregated by income category. The sample includes 44 economies with employment data from HFPS in multiple periods. Dark bars = stopped working; light bars = started working. Panel b shows the net change in employment relative to the prepandemic level during three periods of the crisis, by population characteristic. The sample includes 69 economies for gender, 66 for location, and 57 for education. Prepandemic employment in panels a and b is based on recall in HFPS. Panel c shows the share of households that reported total income decreased since the pandemic started during three periods of the crisis, aggregated by income category. The sample includes 22 economies with income loss data from HFPS in multiple periods. To account for the fact that the sample of economies with observations changes for each period, panels a and c display the predicted values from a regression with time dummies and economy fixed effects (taking the average of the economy fixed effects for each income category within each period). In all panels, economies are weighted equally. HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

In their study using HFPS data, Bundervoet, Davalos, and Garcia (2021) highlight that within countries the early impact of the pandemic was highly unequal across population groups. Kugler et al. (2021) examine the differential impacts across groups and find that gender gaps in work stoppage were mainly due to differences within sectors rather than across sectors and that the groups that suffered the brunt of the early job losses had partially recovered in 2020. Vulnerable groups were often more affected because the sectors in which they worked typically employed informal daily or temporary workers (Narayan et al. 2022; World Bank 2021). Kim et al. (2021), using phone survey data from East Asian countries, find that employment impacts were widespread across the income distribution when mobility restrictions were stringent, but that it was more difficult for poorer workers to regain employment once restrictions had been relaxed.

In line with job losses, the share of households who reported income losses since the start of the pandemic remained substantial, especially in low- and middle-income countries, where the share was estimated to exceed 40 percent through mid-2021 (figure 2.6, panel c). The fact that more households were reporting income losses than job losses may be attributable to the widespread informal employment in poorer countries, where labor market adjustments during downturns are more likely to occur on the intensive margin (hours or earnings) than the extensive margin (outright job losses).

Disproportionate impacts on vulnerable groups are also found in standard labor force surveys. A World Bank analysis of labor force survey data from 80 high- and middle-income countries confirms a large and heterogeneous employment shock across countries, with the largest drops observed in LMICs (World Bank 2022b). Employment declines were consistently larger among youth and low-skilled workers, while gender impacts were more mixed across countries. In analysis using more recent data, the International Labour Organization (ILO) finds that the gender gap in working hours remained wider in the first quarter of 2022 than before the pandemic in low- and middle-income countries, but it had fully recovered by 2021 in high-income countries (ILO 2022). In Türkiye, Aldan, Çıraklı, and Torun (2021) find lower employment and labor force participation across most population groups but larger effects among women and the less educated. In South Africa, Köhler et al. (2021) find that the impact of the pandemic on the informal sector was three times larger than on the formal sector. In Brazil, job losses were most common among the less educated, informal wage, and own-account workers, and among women, black, and young workers (World Bank 2022a).¹ By contrast, in Vietnam people with low education were less affected, possibly because they tend to work in the agriculture sector (Dang and Nguyen 2020). In India, national-level high-frequency panel data show that while employment for men had recovered by August 2020, for women it continued to be significantly lower than in the prepandemic period (Deshpande 2020). Finally, the Asian Development Bank (ADB) reports that young, female, less skilled workers suffered the brunt of the job losses in Indonesia, Malaysia, the Philippines, Thailand, and Vietnam in the second quarter of 2020 (ADB 2021).

There is also evidence that the crisis may have harmed the quality of jobs among those who were able to maintain employment. A high rate of employment transitions was reported in phone surveys, including moving from the nonagriculture to agriculture sector and changing employment type, from wage employment to self-employment. Over time, these transitions were most common among the less educated (figure 2.7, panel a) and likely suggest that job quality deteriorated for poorer workers because remuneration and other employment characteristics tend to be inferior among self-employed workers and jobs in agriculture. Switching to self-employment or agricultural activities was more strongly associated with income losses reported in phone surveys, compared with other types of employment transitions (figure 2.7, panel b). Finally, the transition from nonagriculture to agriculture sector jobs was, on average, more frequent among rural than urban households, implying that the transition was prompted mainly by workers in rural areas switching from nonfarm to farm activities rather than urban workers migrating back to rural areas to take up farming.

FIGURE 2.7**The pandemic likely harmed the quality of jobs among those who continued to work**

Source: Original estimates based on data from COVID-19 high-frequency phone surveys.

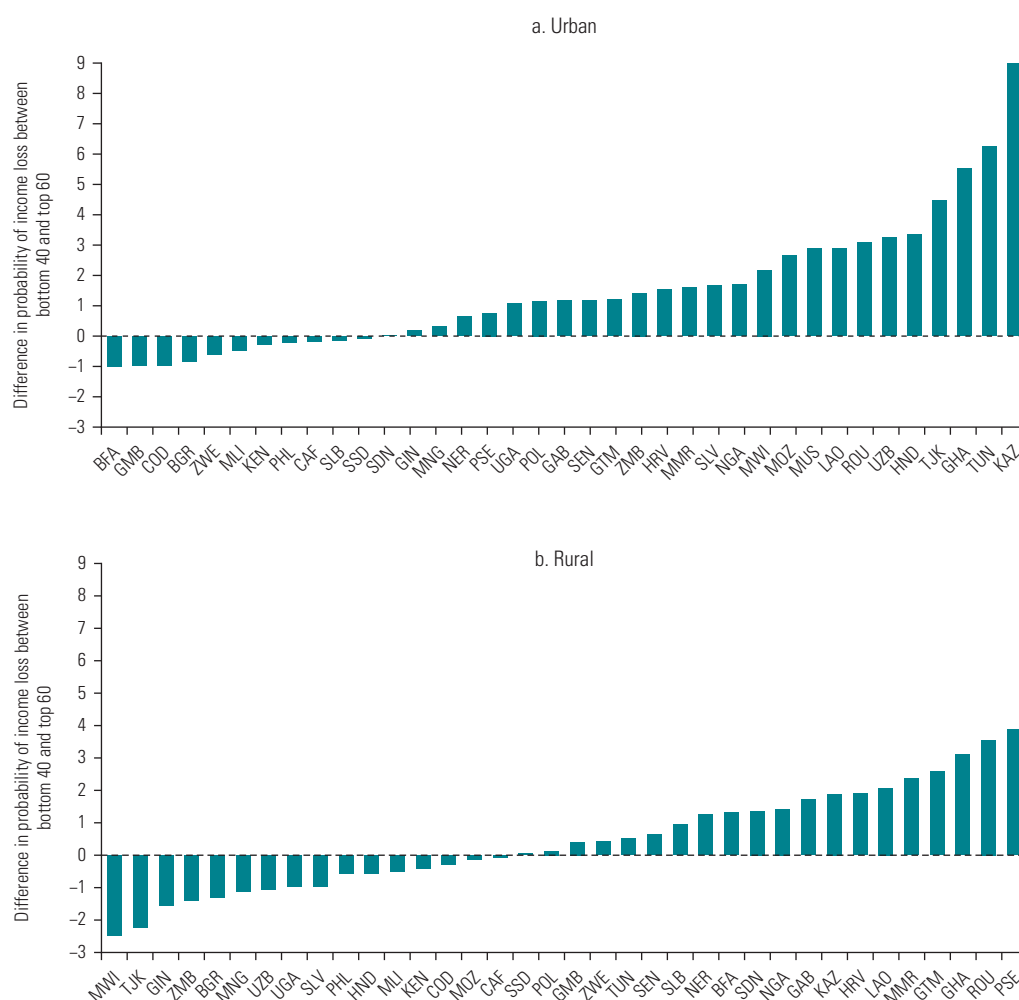
Note: Panel a shows the share of workers who moved into agriculture (from nonagriculture) and became self-employed (from wage work), by education level. The sample includes 51 economies for sectoral transitions (moved into agriculture) and 33 economies for employment type transitions (became self-employed). Panel b shows the estimated marginal effect of each population characteristic on the probability of reporting income loss using bivariate regressions, with 95 percent confidence intervals. The sample includes between 24 economies (employment type transitions) and 48 economies (gender and education). Economies are weighted equally in both panels.

Changes in inequality within countries are mixed

For countries with both HFPS and prepandemic consumption or income data, the analysis is extended to impute the probability of employment or income loss across the income distribution of each country. An estimate of the differential impact of the crisis across poor and rich households can be used, for example, to estimate the difference in the probability of losing employment for the bottom 40 percent of the population versus the top 60 percent. The distributional impacts have varied across countries—in over two-thirds of countries, income losses were likely greater for the bottom 40 than the top 60 in urban areas, reflecting the findings from the previous section that showed that vulnerable workers were often more affected by the pandemic. However, the sample of countries shown in figure 2.8 is evenly split on whether income

FIGURE 2.8

In selected countries, the probability of income loss was greater for the bottom 40 than the top 60, especially in urban areas



Source: Updated estimates based on Yonzan et al. 2022. <https://blogs.worldbank.org/opendata/impact-covid-19-poverty-and-inequality-evidence-phone-surveys>.

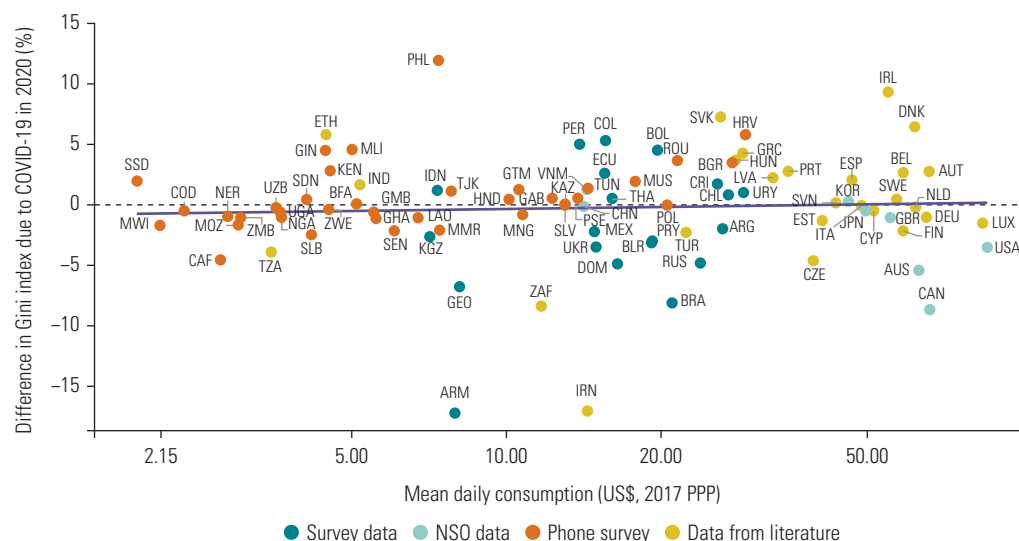
Note: The figure shows the difference in the share of households in the bottom 40 and top 60 percent of the income distribution that experienced income losses for selected economies, in urban (panel a) and rural (panel b) locations. A positive difference indicates that proportionately more households in the bottom 40 lost incomes during the pandemic. For a list of country codes, go to <https://www.iso.org/obp/ui/#search/code/>.

losses were greater for the bottom 40 or the top 60 in rural areas. Urban households are often better off than rural households, so on aggregate it is not always the case that those that suffered income losses were among the poorest households. When information on income losses is combined with GDP data to estimate the distribution of pandemic period income shocks (see section of chapter 1 on nowcasting), the estimates serve as one source of information to investigate changes in within-country inequality.

From this exercise emerges no clear pattern across countries in changes in within-country inequality during the pandemic. In figure 2.9, the percentage change in the Gini index in 2020 is plotted against the log of mean daily consumption across countries. Countries are only included in this figure when the Gini index is available from estimates based on actual survey data, tabulated income statistics from national statistical offices, imputed values based on data from household surveys and phone surveys, or estimates from the literature. As the figure shows, not only are the results mixed, but the magnitude of change also tends to be small in most cases. The finding that richer countries more likely experienced a decline in inequality in 2020 is consistent with other studies in the literature such as that by Clark, D'Ambrosio, and Lepinteur (2020), which estimates declines in inequality in five European countries. These declines are likely a result of the fiscal response introduced to counteract the anticipated pandemic-related income losses. Some of the largest projected changes in inequality were seen among middle-income countries such as Brazil. The poorest countries were less likely to experience a meaningful decrease in inequality. The largest increase in the Gini index was observed in the Philippines, while the largest decrease occurred in Armenia (figure 2.9).² Ultimately, the net impact of the

FIGURE 2.9

Projected changes in the Gini index show no clear pattern across countries with different income levels, with increases and decreases equally likely



Source: Mahler, Yonzan, and Lakner, forthcoming.

Note: The figure shows the percentage difference in Gini index due to COVID-19 in 2020, with countries ordered by daily mean income or consumption per capita in 2019 on the horizontal axis. The pandemic-induced difference in Gini index is calculated as the difference between the nowcast with the pandemic and the nowcast without the pandemic. The sample includes countries with estimates based on actual survey data, tabulated income data from national statistical offices (NSOs), data from phone surveys, or data from the literature. PPP = purchasing power parity. For a list of country codes, go to <https://www.iso.org/obp/ui/#search/code/>.

crisis on poverty and well-being would depend on where in the distribution the people most affected are located and the capacity of a country to implement fiscal mitigation measures, such as emergency cash transfers.

Global inequality

The year 2020 saw a reversal in the prepandemic trend of declining global income inequality

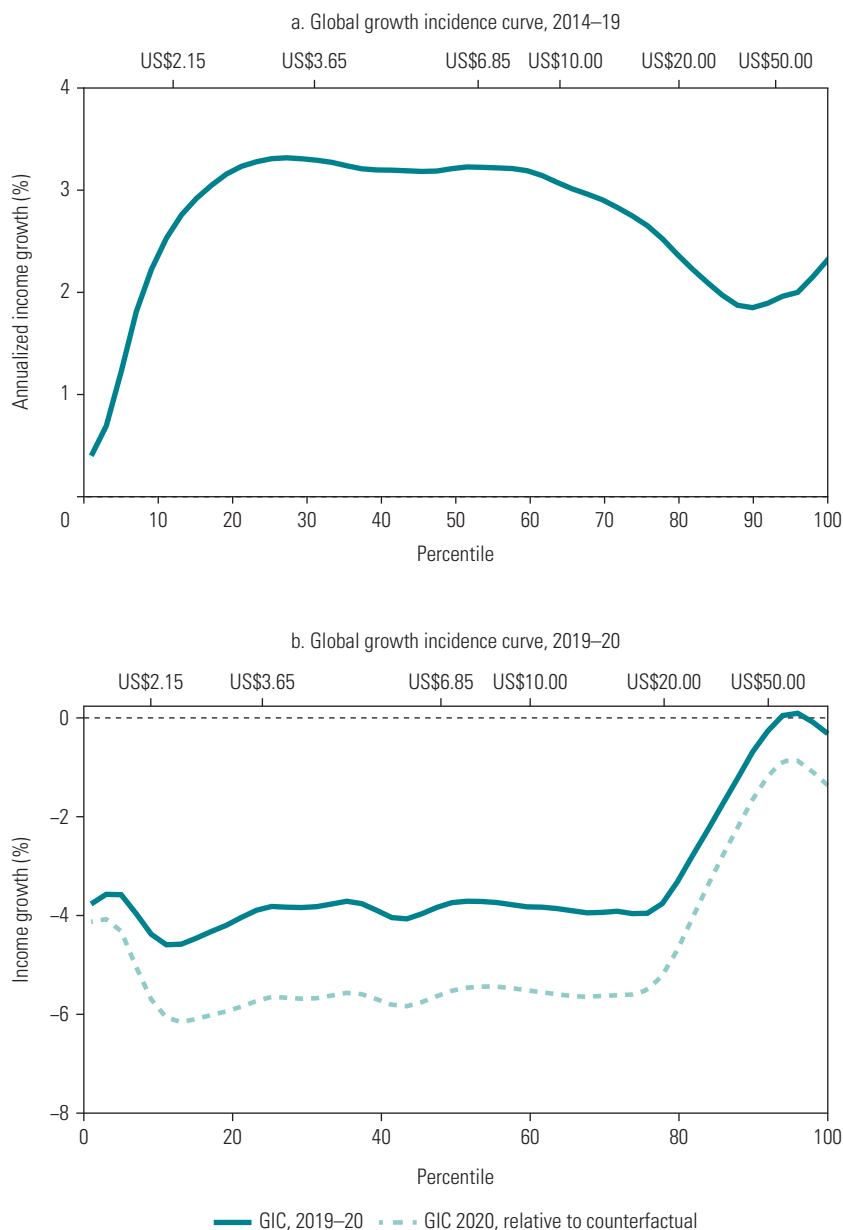
Global inequality was trending downward on the eve of the COVID-19 pandemic. When global inequality is decomposed into components of between-country inequality (the differences in mean incomes across countries) and within-country inequality (the differences in incomes within a country), the decline in global inequality over the last decades was primarily due to a convergence in mean incomes across countries.³ China played a particularly large role in this decline because the fall in global income inequality is mainly attributed to the country's rapid economic growth, which lifted over a billion of its people from the bottom toward the median of the global income distribution (Lakner and Milanovic 2013). As a result, the global Gini index dropped by about half a point every year between 2003 and 2013.⁴ The steep decline in global inequality over the last two decades mostly reflects the strong income growth of the global middle class. Indeed, income growth between 2003 and 2013 was consistently strong for those around the median (Lakner and Milanovic 2013; Milanovic 2021). As depicted in figure 2.10, panel a, the decline in global inequality continued in a similar fashion between 2014 and 2019, and income growth was stronger among those roughly between the 20th and 60th percentiles, compared with those in the richer percentiles.

To assess the impact of the pandemic on global inequality, the country income distributions for 2020 that appeared earlier in this chapter and are described in box 1.3 in chapter 1 are extended to 2021 and 2022 for 168 countries using per capita GDP growth rates from national accounts and an assumption of distribution neutrality within countries. These country-level estimates are then compiled to estimate changes in the global income distribution and thus global income inequality. Meanwhile, household survey data are more readily available in the period after 1990, and so to understand global inequality in the period before 1990 the lined-up country income distributions in 1990 are extrapolated backward using GDP growth rates from the World Bank's World Development Indicators⁵ and Bolt and van Zanden (2020)—see chapter 1 for details. This “backcasting” exercise keeps the distribution of welfare within a country constant—that is, inequality within a country is held fixed at the level observed in 1990. As a result, the global inequality estimates reported in figure 2.11 account for only the between-country portion of inequality over the 1950–89 period and again in 2021 and 2022, whereas they account for both within-country and between-country inequality from 1990 to 2020 (inclusive).

The results of this exercise suggest that the COVID-19 pandemic appears to have caused the largest single-year increase in global inequality since World War II. Findings from the simulated global income distribution suggest that the global Gini index increased by a little more than 0.5 points during the pandemic, from a 2019 value of 62.0 to an estimated 62.6 in 2020 (figure 2.11). This reversal of the global inequality trend is historical and particularly striking in view of the continual decline in global income inequality over the last two decades, most notably in the 2000s. The increase in global inequality is also reflected in the global growth incidence curve (GIC) for 2019–20, which finds income losses for almost all percentiles, but greater losses among poorer than richer percentiles, amounting to a reversal of global inequality trends (figure 2.10, panel b). The GIC in figure 2.10, panel a, indicates larger income growth at the middle of the global income distribution over the 2014–19 period and thus a catch-up of the middle relative to the top. By contrast, panel b suggests larger income losses for the middle and bottom of the global income distribution compared with the top for 2020, suggesting greater income dispersion.

FIGURE 2.10

The decline in global inequality before the pandemic reflects the strong income growth of the global middle class, whereas those in the bottom and the middle lost the most during the pandemic

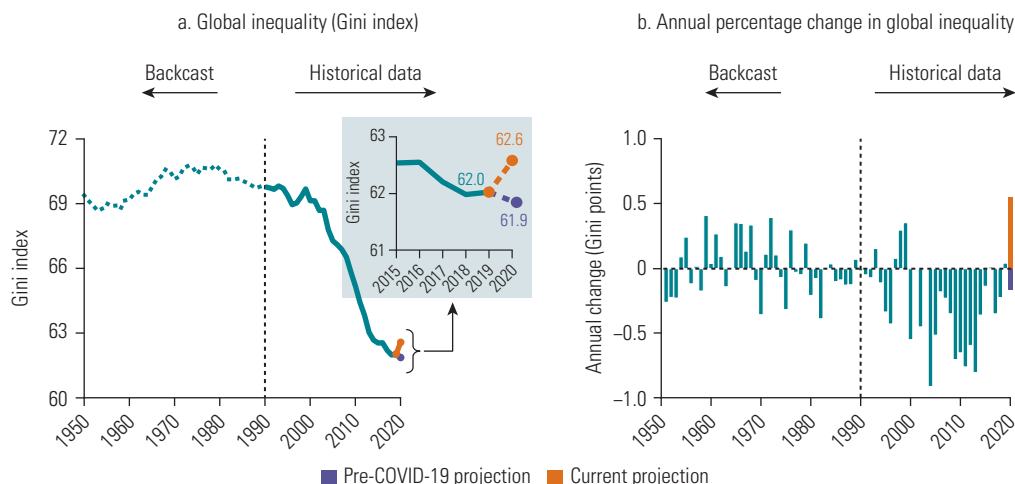


Sources: Mahler, Yonzan, and Lakner, forthcoming; World Bank, Poverty and Inequality Platform (PIP), <https://pip.worldbank.org>.

Note: Panel a shows the annualized income growth for each percentile across the income distribution for 2014–19. In panel b, “GIC, 2019–20” indicates the change in income for each percentile between 2019 and 2020. “GIC 2020, relative to counterfactual” indicates the shortfall in income in 2020 compared with a pre-COVID-19 projection for the same year. GIC = growth incidence curve.

FIGURE 2.11

The pandemic caused the largest increase in global inequality since World War II, after a steady decline over the past two decades



Sources: Original estimates based on Mahler, Yonzan, and Lakner, forthcoming; World Bank, Global Economic Prospects database, <https://databank.worldbank.org/source/global-economic-prospects>; World Bank, Poverty and Inequality Platform (PIP), <https://pip.worldbank.org>.
Note: The figure shows the global Gini index (panel a) and the annual change in Gini points (panel b) from 1950 to 2020. "Historical data" for the period 1990–2019 is from the PIP. "Backcast" estimates are extrapolated backward from the 1990 lineup using GDP growth in national accounts. National accounts data before 1990 are from the World Development Indicators, the World Economic Outlook, and Bolt and van Zanden (2020). "Current projection" uses the nowcast methodology outlined in box 1.3 in chapter 1 and a variety of data sources to project the latest 2019 lined-up estimate to 2020. "Pre-COVID-19 projection" extrapolates the 2019 lineup to 2020 using per capita GDP growth forecasts from the January 2020 *Global Economic Prospects*.

Widening between-country inequality drove the increase in global inequality

The increase in global inequality was not driven by increasing inequality within countries. In fact, as the previous sections have shown, in many countries inequality decreased in 2020. Instead, it was driven by differences between countries in the impact of the pandemic on the average incomes of each country. Figure 2.12 shows that the increase in global inequality was driven by between-country changes, and, in fact, would have been even larger had reductions in inequality in many countries not offset some of the increase.

Countries with large populations and incomes well above or well below the global median are more likely to exert a disproportionate influence on changes to global inequality when they experience large negative shocks to income. For example, although China has a large population, since average incomes are close to the global median, the negative shock in China contributed little to the change in global inequality in 2020 (figure 2.12). Nigeria and the Democratic Republic of Congo, two large economies well below the global median, also had little impact on the change in global inequality because the economic contraction they experienced was relatively mild (figure 2.12). The influence of large countries on the change in global inequality is more easily illustrated using global GICs, which are well suited to examining growth in average incomes by income percentile over time. Consider counterfactual scenarios in which the

FIGURE 2.12

An increase in between-country inequality was mainly responsible for the reversal in global inequality



Source: Mahler, Yonzan, and Lakner, forthcoming.

Note: The figure shows the difference in global inequality in 2020 due to COVID-19 that can be attributed to within- and between-country differences for the global distribution and the sample excluding China, India, or Nigeria and the Democratic Republic of Congo. The gap in inequality is calculated as the difference between the inequality estimated with and without the pandemic.

population of China or India or Nigeria and the Democratic Republic of Congo was affected to the same degree as the global average for each income percentile. The global distribution of the income shock from the COVID-19 crisis would have been roughly the same in the China and the Nigeria and Democratic Republic of Congo counterfactual scenarios but smaller for lower global income quintiles in the case of the India counterfactual scenario (figure 2.13). In the India counterfactual scenario, it is the fourth quintile that experiences a slightly larger shock than other quintiles as opposed to the roughly equal and large shock felt by the bottom four quintiles in the actual global GIC. The finding that between-country inequality widened during the COVID-19 crisis and that a substantial part of this widening was due to India's falling incomes is consistent with other literature (Deaton 2021).

Global inequality may remain higher after 2020

In 2020, the impact of the pandemic on the incomes of the bottom 40 percent of the global income distribution was more than twice as large as the impact on the top 40 percent. Average incomes of the bottom 40 percent in 2020 were about 4 percent lower than in 2019, compared with less than 2 percent lower for the top 40 percent. Median incomes fell by 4 percent.

The recovery since 2020 has not fully offset this increase. Since the large pandemic-induced shock in 2020, there has been a substantial recovery across the global distribution, even for the poorest. The bottom 20 percent of the global distribution lost an average of 4 percent of their incomes in 2020 compared with 2019, but the level of losses has narrowed significantly since then, mostly due to a swift and large growth rebound in India. However, the poorest 20 percent globally have not fully recovered their income losses, while the top 20 percent globally have already more

FIGURE 2.13

The increase in between country inequality was driven by larger countries with large income shocks



Source: Mahler, Yonzan, and Lakner, forthcoming.

Note: The figure shows the global growth incidence curve for 2020 relative to the pre-pandemic distribution (see figure 2.10) and the counterfactual global growth incidence curve if China, India or Nigeria and the Democratic Republic of Congo had experienced a per capita GDP shock equivalent to the average shock in other countries. GIC = growth incidence curve.

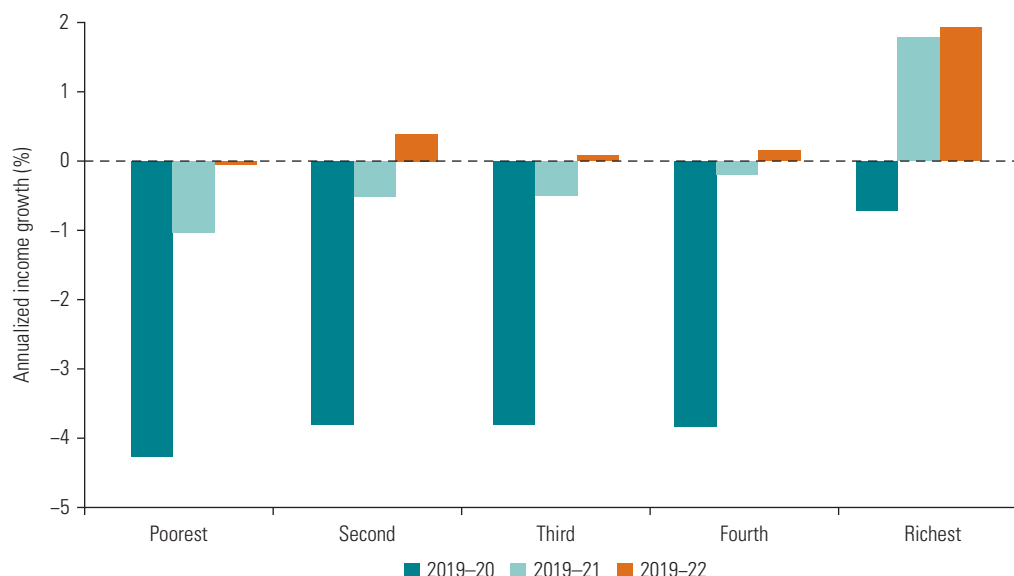
than recovered their initial income loss in 2021. The recovery in incomes is projected to continue at a sluggish pace in 2022 for the poorer populations, while the top 20 percent pull further ahead (figure 2.14).

Although the within-country increases in inequality have not been as bad as initial expectations during the early days of the pandemic, income losses have been large and widespread, and some groups have been more affected than others. The rise in global income inequality after decades of progress is a notable consequence of the COVID-19 crisis. Also of note, the recovery has been uneven across countries, and so the incomes of all but the global top 20 are projected to remain at or below precrisis levels through 2022. This pattern of partial recovery is related, in part, to the fiscal policies in place before the pandemic and the policies enacted in response to it. The role of fiscal policy in mitigating the pandemic shock and fostering recovery is further taken up in part 2 of this report, which also discusses how countries can be better prepared to effectively respond to future crises.

The recovery in 2022 was further hampered by a rapidly unfolding food price crisis. The bottom 40 generally spend a larger share of their budget on food, and estimates indicate that they could face higher inflation than the top 60 (Artuc et al. 2022), which may hurt shared prosperity in the short run. The longer-term impact is difficult to determine, however, and may, in fact, be favorable for many of the poor and bottom 40, particularly for those households that are engaged in the agriculture sector (see box 1.4 in chapter 1).

FIGURE 2.14

The bottom 40 suffered a larger shock from the pandemic and is recovering more slowly than the top 60



Source: Mahler, Yonzan, and Lakner, forthcoming.

Note: The figure shows the annualized income growth in each income quintile, for 2019-20, 2019-21, and 2019-22.

Notes

1. Despite a large negative labor market shock, well-targeted fiscal support mitigated the impact of the crisis on poverty in both South Africa and Brazil.
2. A comparison of changes in the Gini index based on actual surveys and phone survey-based projections for 13 countries finds that the latter tends to underestimate actual changes in inequality, but even the survey-based estimates turned out to be quite small in magnitude.
3. The decomposition is carried out using the Theil Index, which can be additively decomposed into a between- and within-group component.
4. Three different concepts of global inequality are used in the literature in discussions of global inequality. Concept 1, intercountry inequality, measures inequality between countries' unweighted mean incomes and is typically used in studies of income convergence across countries. Concept 2 measures inequality among countries by weighting them according to their populations. Each person is assigned

the per capita income of the country of residence. Within-country inequality is ignored in this case. Concept 3, global interpersonal inequality, measures inequality of all individual incomes in the world (Milanovic 2006). The third concept best fits the purpose of the analysis described in this report.

5. World Bank, World Development Indicators (database), <https://databank.worldbank.org/source/world-development-indicators>.

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