

Poverty, median incomes, and inequality in 2021: a diverging recovery¹

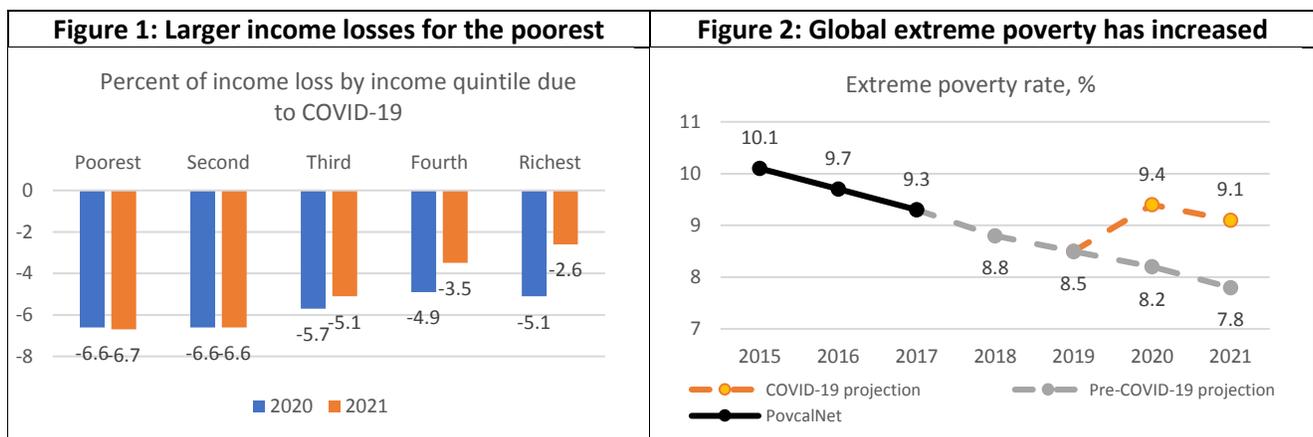
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Weak recovery in the world's poorest countries has resulted in persisting income losses among poor people, higher global poverty, and increasing inequality. Faltering growth in some middle-income countries has also contributed to large regional setbacks in poverty reduction.

The impact of the COVID-19 pandemic has been largest for the world's poorest. The impact of the crisis on the income² of the bottom 40 percent of the global income distribution has been more than twice as large as the impact on the top 40 percent. Average incomes of the bottom 40 percent in 2021 are 6.7 percent lower than pre-pandemic projections, compared to 2.8 percent lower for the top 40 percent. This large difference comes less from the initial impact of the crisis, and more from the fact that the incomes of the poorest 40 percent have not started to recover yet (indeed they worsened for the very poorest in 2021), whilst the top 40 percent has recovered more than 45 percent of their initial income loss (Figure 1).

As a result, there has been a substantial increase in global poverty, at all poverty lines. It is estimated that 97 million more people are living on less than \$1.90 a day in 2021 because of the pandemic (an increase in the \$1.90 poverty rate from 7.8 to 9.1 percent, Figure 2), and 163 million more are living on less than \$5.50 a day (an increase in the \$5.50 poverty rate from 40 to 42.1 percent). There is an increase in the number of poor people across all regions (Table 1).

Globally, 3-4 years of progress in reducing extreme poverty have been lost, but the losses have been much higher for some countries. Low-income countries have been set back by 8-9 years (Table 1). But extreme poverty in upper-middle-income countries has also rapidly increased. Progress in ending extreme poverty in these countries has been set back by 5-6 years. Estimates are not available for all regions, but those that are available highlight large setbacks in Sub-Saharan Africa and Latin America and the Caribbean. These are also the regions with the highest proportion of households reporting income losses in high frequency phone surveys. For example, 81 percent of households in Peru and 85 percent of households in Senegal reported income losses in the first months of the pandemic.

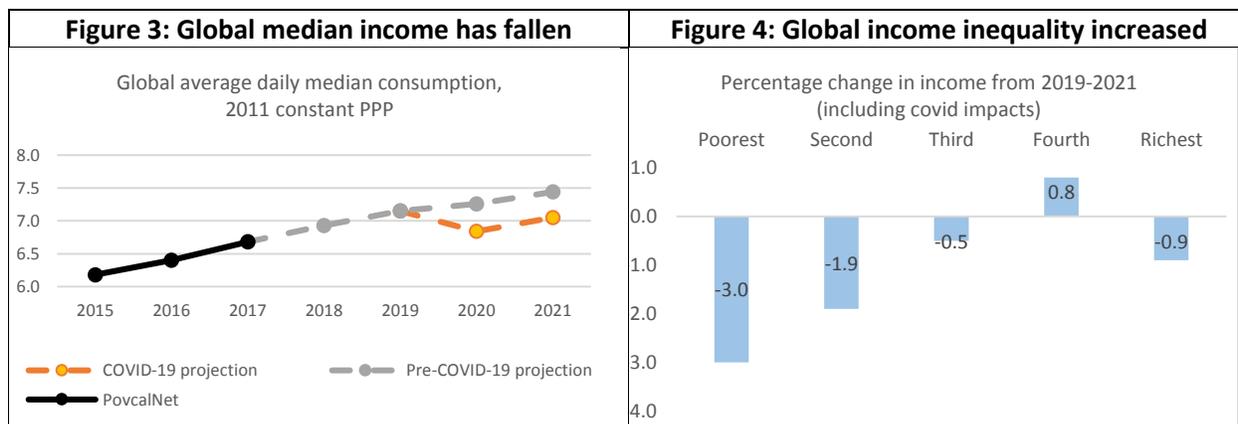


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² In many countries household welfare is measured using consumption not income. We use the term income throughout the note for ease of reference, but for many countries the data points reflect changes in consumption, not income. See [here](#) for more information on the latest global poverty projections and methods used. These are the basis for this note.

Households in the middle of the global income distribution have lost income. Pre-COVID-19 projections estimated global median incomes would grow from \$7.15 in 2019 to \$7.44 in 2021 (2011 constant PPP). Global median income is now projected to be \$7.05 in 2021, a 5 percent contraction from pre-COVID-19 estimates (Figure 3). Median incomes for low and lower-middle income countries are 6 and 8 percent lower than pre-pandemic estimates, compared to 3 percent for upper-middle and high-income countries (Table 2).

Global income inequality has increased, reversing recent trends of falling global inequality (Figure 4). The increase in inequality reflects the fact that the COVID-19 crisis worsened an already weak growth environment for the poorest countries. The average income of the bottom 40 percent fell by 2.2 percent, whilst the average income of the top 40 percent fell by 0.5 percent.



It is important to note that all estimates presented assume everyone in each country is impacted equally. The estimates use the latest household data for each country and update household income using GDP growth estimates, assuming that each person’s welfare grows (or contracts) by the same amount as GDP. This means that it is GDP growth differences between countries that drive the results.

Initial evidence from high frequency phone surveys in developing countries points to poorer households losing incomes and jobs at slightly higher rates than richer households which would exacerbate global poverty and inequality impacts further. This is because the pandemic hit vulnerable groups in developing countries – those with low education, informal employment in urban areas, and women – harder. Initial estimates of within-country differences show it is the urban poor who are particularly affected, which leads to larger impacts on inequality in urban areas. Although it is not possible to quantify the effect on global inequality yet, simulations that allow within country inequality to worsen by 1% result in additional 32 million households living on less than \$1.90 a day in 2021 and increase the gap between the income growth of the bottom and top 40 percent to 4 percent (from 2.7 percent).

Beyond the immediate distributional impact on incomes, evidence from high frequency surveys is pointing to a longer-run impact of the pandemic on inequality and social mobility. Those that lost income due to the pandemic have been almost twice as likely to run down assets or savings leaving them less able to cope with continued or recurrent income losses. They have also been [57 percent more likely to go a full day without eating](#) which carries serious long-term consequences for cognitive and physical development when experienced among children. It is estimated that COVID-19 could lead to an aggregate [loss of between 0.3 and 0.9 years of schooling](#) and poorer families are most impacted: in low and lower-middle income countries an urban child with college educated parents was [25 percentage points more likely to engage in learning activities](#) than a rural child with primary educated parents. These losses could widen already existing gaps in education between children born into different socioeconomic strata.

Evidence from past crises have also shown that job losses concentrated among vulnerable workers, including women, youth and those without college education, can affect their productivity and income growth even as economies revive. Moreover, the severe impacts seen for small and micro enterprises can lead to the erosion of entrepreneurial capital and jobs that can be hard to reverse. Early signs of such longer-term impacts would be an uneven recovery in jobs even as economic growth resumes, which would suggest that a rising tide is not lifting all boats equally. World Bank’s phone surveys suggest that this might be happening in at least some countries. In economies where policies were becoming less restrictive between July 2020 and January 2021, with jobs coming back, the employment gaps between groups produced by the initial impacts of the pandemic did not narrow significantly. For example, on average across 8 low- and middle-income countries, women had recovered 35 percent of employment lost, compared to 64 percent for men, even though the initial losses for women had been larger.

Accelerating economic recovery in low- and lower-middle income countries will be critical for mitigating the global impact on inequality. For this to occur, the supply of COVID-19 vaccines to these countries must be increased as their current low vaccination rates impede recovery of economic activity. Additionally, increasing fiscal space, such as through the IDA20 replenishment, and fair and efficient domestic resource mobilization will be needed to support investments required for inclusive growth.

To promote an equitable recovery that benefits all groups within countries, spending and policies that target women, low-skilled workers and urban informal sector workers are needed. This includes equalizing access to financial services and technology and investing in safety nets and social insurance. In addition, children and parents need to be supported through policies in their transition back to school. Making our societies resilient to future crises requires taking on structural inequalities today.

Table 1: Regional and income group estimates of poverty increases due to COVID-19 (nowcasts for 2021)

	Millions of new poor		Years of progress lost	
	\$1.90	\$5.50	\$1.90	\$5.50
Regions				
East Asia & Pacific	7	37	1-2	1-2
Europe & Central Asia	1	4	1	2-3
Latin America & Caribbean	2	12	6-7	5-6
Middle East & North Africa	8	14	*	*
Rest of the world	0	1	+	3-4
South Asia	50	82	-	-
Sub-Saharan Africa	29	15	2-3	6-7
Income Groups				
Low Income	22	9	8-9	2-3
Lower-Middle Income	69	119	4-5	2-3
Upper-Middle Income	6	34	5-6	3-4
High Income Countries	0	1	2-3	2-3
Global	97	163	3-4	2-3

*Notes: The table presents nowcasts for 2021 which rely on forecasts of GDP per capita growth to extrapolate surveys to 2021. *Poverty has been increasing in MNA, so these calculations do not make sense; - Not reported due to great uncertainty because of lack of data for India; + Poverty negligible.*

Table 2: Average daily median income, 2019-2021 (2011 constant USD)

	Latest data (2019)	Pre-covid projection for 2021	Current projection for 2021
A. Regions			
East Asia & Pacific	9.64	10.26	9.83
Europe & Central Asia	14.01	14.70	14.16
Latin America & Caribbean	10.84	10.82	10.20
Middle East & North Africa	6.13	6.22	5.86
Rest of the world	45.68	46.75	45.46
South Asia	-	-	-
Sub-Saharan Africa	2.55	2.37	2.26
B. Income Groups			
Low Income Countries	2.51	2.38	2.24
Lower-Middle Income Countries	4.08	4.11	3.8
Upper-Middle Income Countries	10.54	11.22	10.92
High Income Countries	41.6	43.41	42.2
C. Global			
	7.15	7.44	7.05

Notes: The table presents projections and nowcasts for 2021 which rely on forecasts of GDP per capita growth to extrapolate surveys to 2021. The table also presents the latest data for 2019, noting that the cells highlighted in grey are based on low population coverage; - Not reported due to great uncertainty because of lack of data for India