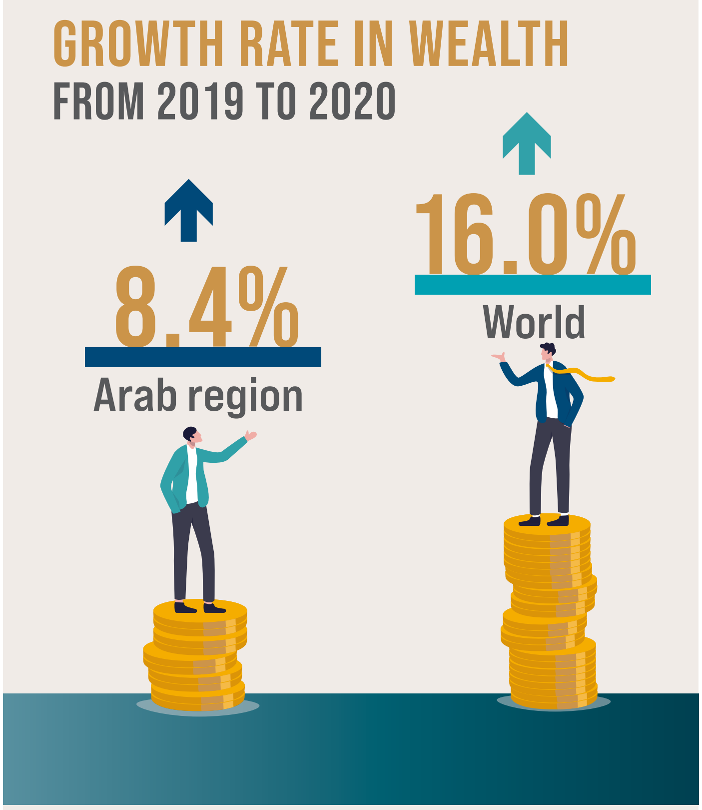
Rising wealth inequality in the Arab region amid COVID-19

E/ESCWA/CL2.GPID/2022/POLICY BRIEF.2

Background

Since the onset of COVID-19, the Arab region has become relatively poorer compared to other regions. Growth of regional wealth has been underwhelming by global standards. At the end of 2020, the region had $6.4 trillion in net wealth in private hands, a timid 8.4 per cent increase over the $5.9 trillion in mid-2019.[1] By comparison, global wealth increased by 16.0 per cent during the same period.

1 For the purposes of the present brief, the Arab region is defined as consisting of the following countries: Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, the Sudan, the Syrian Arab Republic, Tunisia, United Arab Emirates and Yemen. Data are notably missing for the State of Palestine and Somalia.

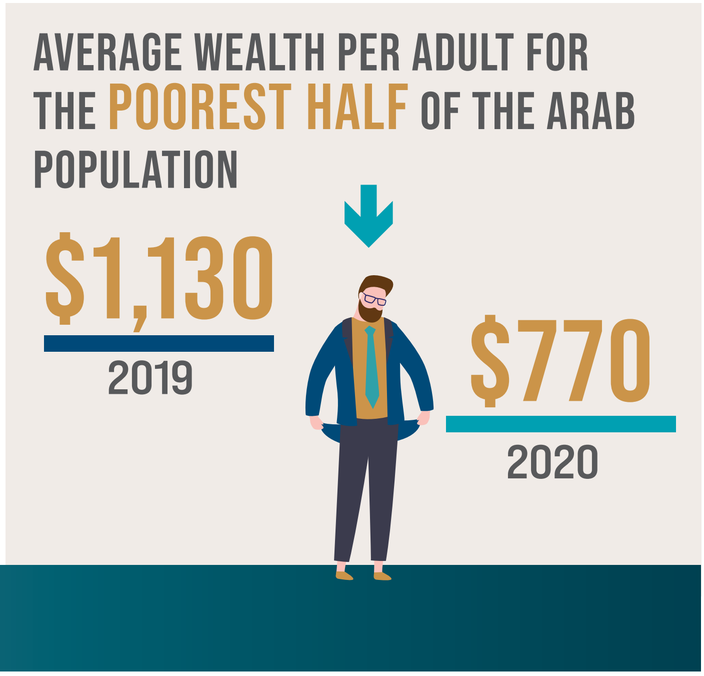


While the region hosted 4.9 per cent of the world's population, the region's wealth represented only 1.5 per cent ($6.4 of $418 trillion) of global wealth, a further decline from 1.6 per cent ($5.9 of $361 trillion) as of 2019.

Most economic groups in the region have seen their holdings eroded, even as the region's richest residents have improved their lot. Wealth inequality in the region increased dramatically. The wealthiest 1 and 10 per cent of the region's population gained control over 45 per cent and 81 per cent of the region's net wealth, respectively, a major jump from 37 per cent and 75 per cent pre-pandemic. This growth in regional inequality was higher than that observed globally. While the Arab region's Gini index of inequality leaped from 0.828 to 0.874, the global figure barely inched up from 0.885 to 0.889.

In 2020, the region had more – and richer – millionaires. These so-called 'high net worth individuals' held on average $2.79 million each, or a comfortable 20 per cent over the $2.33 million held in 2019. Jointly, they controlled $1.85 trillion of regional wealth, 44 per cent higher than the $1.28 trillion controlled in mid-2019. One reason is that the region's millionaires in 2020 numbered 662,000, 21 per cent more than the 549,000 estimated in mid-2019. In fact, millionaires made up 1 to 3 per cent of the population in Bahrain, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates.

On the lower end of the wealth scale, significant erosion of wealth occurred. The typical person in the region saw a decline in their wealth on the order of 28 per cent, $2,500 at the end of 2020 compared to $3,500 in mid-2019. This means that, the typical resident lost or dis-saved more than a quarter of their wealth –in nominal terms – over the course of the first year of the pandemic. Among the poorest one-half of the Arab population, people's wealth fell by a third, from $1,130 to just $770.



Wealth inequality trends

Half of the countries with the highest increases in wealth inequality worldwide are Arab countries (in descending order: Bahrain, Kuwait, Libya, Algeria, the United Arab Emirates, Mauritania, Yemen, Oman). In 2019, only two countries (Lebanon, Saudi Arabia) were among the top 20 most unequal countries worldwide. In 2020, **this number increased to reach 6 countries** (Bahrain, the United Arab Emirates, Yemen, Saudi Arabia, Oman, Kuwai

These results present a worrying picture of the state and trends in the distribution of wealth across the Arab region. Economic trends witnessed in the region during the pandemic have not been pro-poor or pro-development, and have led to exacerbated inequality. Meanwhile, Governments' responses have been insufficient and ineffective. The burdens of the pandemic have thus been largely carried by the poor.

Policy recommendations

The sheer degree of concentration of the region's wealth in the hands of just a few percent of its population should by itself be a wake-up call for a renewed regional and national policy dialogue on inclusive growth strategies, and for policy action.

ESCWA calls for an integrated policy approach, based on a portfolio of complementary measures.

1. **Social protection and relief efforts remain crucial measures toward mitigating inequality.** During crises, the rich can retain their assets to a larger extent compared to the poor who tend to sell a large part of their assets to support their consumption in the absence of adequate or effective social protection policies. This explains the widening disparities between the rich and the poor, where the wealth and holdings of the poor contract in contrast with the rich. This calls for revising fiscal support systems to mitigate potential rises in poverty and minimize the disproportionate impacts on the different population segments. Public procurement programmes and employment guarantee schemes are examples of actions to be undertaken by Governments in middle and high-income Arab countries.

2. **More effective tax reforms are needed to introduce and expand crucial social programmes.** Since tax buoyancy in the region is low relative to other world regions with similar income per capita, there is potential for the implementation of a socially advantageous transfer scheme. High debt and widening deficits in Arab countries also make tax reforms an urgency. Efforts to mobilize revenues have largely relied on regressive indirect taxation or broadening of the tax base. Most tax reforms across the region do not target wealth, and tend to burden the poor and the middle class more than the richest segments of population.

3. Tax authorities should implement inspection and enforcement mechanisms to support pro-poor fiscal reforms with a focus on mitigating poor compliance. The issues of tax evasion and exclusion of illicit assets and offshore holdings must be tackled. A key entry point is to require all individuals to file tax returns, thus producing estimates of taxable wealth. This would improve poverty targeting since ministries of finance, social affairs and other related domains could target individuals' accumulated wealth, not only income streams. These measures should help policymakers secure fiscal space to support the rising social and economic costs of an enduring multifaceted crisis, while keeping public budgets undented.

4. Lastly, the effective implementation of fiscal reforms is contingent on laying the foundations of solid governance, which should be accompanied by wide social dialogue, since fiscal reforms are never a purely technical matter. It is easy to introduce a progressive fiscal policy scheme, but its ultimate success depends on the strength of existing governance systems, including trust in the public sector, institutional effectiveness and sound accountability frameworks.

Figure 1. Gini index, 2010–2020 trend

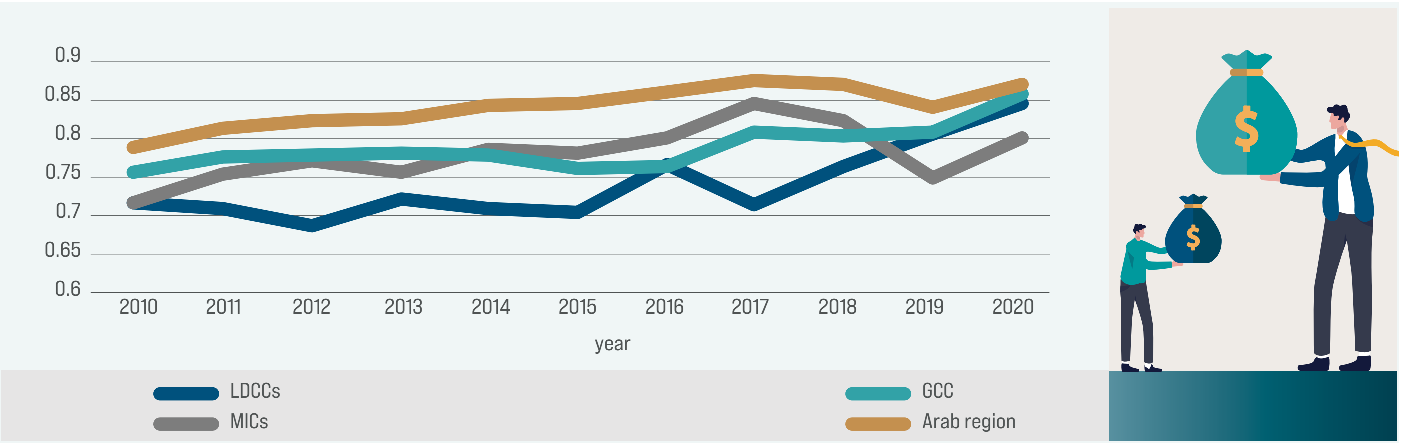
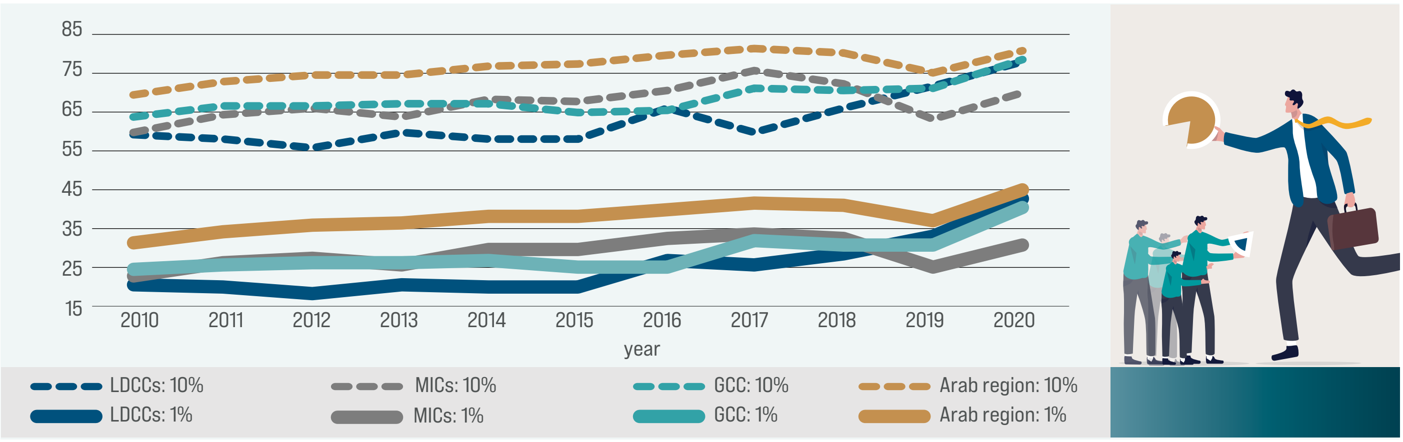


Figure 2. Top wealth shares, 2010–2020 trend (Percentage)



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