

# Wealth distribution and poverty impact of COVID-19 in Lebanon



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# Wealth distribution and poverty impact of COVID-19 in Lebanon



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# Introduction

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High poverty rates coupled with a high concentration of wealth in the Arab region have highlighted the need for stronger shared responsibility and civil solidarity by the public, the private sector and the State to lift the downtrodden out of poverty. A recent study by the Economic and Social Commission for Western Asia (ESCWA) made projections of poverty rates and the costs of closing poverty gaps in 14 Arab countries under several scenarios with regard to COVID-19 and economic growth.<sup>1</sup> Another ESCWA study investigated the concentration of wealth across the Arab region and juxtaposed it with the scale and incidence of poverty,<sup>2</sup> so as to assess the scope for fiscal redistribution from the wealthiest 10 per cent to the poor.

The present paper reiterates these key results of those regional studies, which assumed a baseline GDP per capita growth scenario of -13 per cent for Lebanon based on the 14 April 2020 forecast of the United Nations Department of Economic and Social Affairs (DESA), and applied a lower poverty cutoff of \$8.5 per day (in 2011 PPP dollars). The present paper provides updated results tailored to the current situation in Lebanon, based on an alternative growth scenario and a higher delineation of poverty using the value of the upper national poverty line of \$14 per day (2011\$PPP).

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<sup>1</sup> ESCWA, 2020a.

<sup>2</sup> ESCWA, 2020b.



# Background

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The Lebanese economy has been on a downward spiral since 2017. While some of this contraction is captured by 2018 consumption-distribution data provided by PovcalNet, the most important developments have occurred since September 2019. In that month the Lebanese pound (LBP) to United States dollar (USD) market exchange rate began deviating from the official pegged rate of 1,500 LBP/USD. The market exchange rate reached 2,200 LBP in January 2020, and 8,500 LBP in June 2020.

In October 2019, Lebanon started experiencing challenges related to heightened political instability and public demonstrations. These demonstrations continued until January 2020, and resulted in closures of businesses, public institutions and roads. The demonstrations subsided only with the election of the new Government in January 2020, and the launch of the COVID-19 lockdown measures in February and March 2020.

The effects of the COVID-19 pandemic started being felt in Lebanon in February 2020, as travel and shipping from/to East Asia and southern Europe became restricted. Economic lockdown in Lebanon was imposed in March 2020 starting with public institutions, but it was extended within weeks to all establishments and public spaces. National borders and airports were closed from March to June 2020, severely disrupting the import of raw materials and basic goods, and the inflow of foreign currency. During the lockdown, the market exchange rate rose from roughly 2,300 LBP/USD to 4,200 LBP/USD. The internal lockdown lasted for approximately 2.5 months, directly affecting people's immediate consumption and capacity for income generation, and their longer-term consumption and income through multiplier effects.

Accordingly, DESA has projected that GDP per capita in PPP USD fell by 1.2 per cent in 2019 and by 12.8 per cent in 2020, before rebounding to 2.3 per cent in 2021.<sup>3</sup> These growth estimates drive the poverty headcount ratio estimated under the lower poverty line of \$8.5 per day to 12.7 per cent in 2020, which is more than a 50 per cent rise above the 2019 baseline poverty headcount ratio of 8 per cent. Under this growth scenario, the headcount poverty ratio using the upper national poverty line of \$14 per day also jumps to 35 per cent in 2020 from its 27 per cent baseline in 2019.

In the first half of 2020, several developments took place in Lebanon, especially with regard to factors affecting mean consumption expenditure, that highlight the need to revise these growth assumptions and projections. The following section reviews elements affecting headcount poverty and the poverty gap in Lebanon in 2020, and proposes adjustments to develop a more realistic scenario.

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<sup>3</sup> ESCWA, 2020a.



# I. Methodology: main assumptions

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## A. Change in real consumption expenditure per capita

ESCWA projections are based on the fact that Lebanon is experiencing the impact of three overlapping and reinforcing growth shocks. Firstly, a longer-term growth recession has dragged on since 2012 as a result of an exhausted growth regime, a burst real estate bubble, the Syrian crisis, and a gradual decline in tourism receipts and private investment from Gulf Cooperation Council (GCC) countries, which have added pressure on the balance of payments. Secondly, since September 2019, the deteriorating economic situation has brought domestic political instability to a head, adding pressure on the fixed peg exchange rate mechanism and, in turn, on bank dollar reserves. Thirdly, COVID-19 induced a GDP shock owing to lockdown measures and the consequent slowdown in aggregate demand.

To understand the impact of these shocks, it is important to settle on a welfare aggregate. GDP per capita does not translate one-to-one into personal or household income, which does not translate one-to-one into consumption. Conventional wisdom is that households smooth their consumption stream across the business and life cycle, and the change in consumption is lower and lags behind the change in income. However, the recent economic experience in Lebanon casts doubt on households' ability to smooth their consumption, and makes it likely that consumption will dive over the coming months.

Firstly, as highlighted above, the triple economic shock is not expected to be followed by a recovery. Lebanese households have experienced a series of ever deeper income shocks, and the end of this decline has not yet been reached. For this reason, households are bracing for further income corrections and hold off propping up their short-term consumption.

Secondly, owing to informal capital controls imposed by country's financial institutions, many households cannot access their savings to smooth their consumption. Access to credit is also constrained. Given the restrictions on exchanging money inflows, remittances are expected to decrease. The most deprived households experience asset depletion by selling their non-essentials at a discount so as to afford essentials. Their long-term earning capacity is further hindered by the depreciation of their remaining stock of productive assets. As the crisis deepens, households' capacity to cope becomes more and more restricted.

Thirdly, following a decline in imports, a cut in production owing to COVID-19 and the currency devaluation, households are facing a price shock. However, the computation of a consistent poverty line in local currency depends on the price of the basket of goods and services consumed by poor and vulnerable groups (such as fuel, rent and bread). Thus far, the prices of these staple goods have experienced more limited price hikes than the jumps in the exchange rate (though this may change soon). A reasonable assumption is that the value of the poverty line in local currency may have

jumped by 50 per cent by mid-year 2020, consistent with the Lebanese Central Administration of Statistics' estimate of a 50 per cent rise in the consumer price index from December 2019 to May 2020 (from 115.5 to 172.1).<sup>4</sup>

These shifts are not reflected in the value of the poverty line, since we are applying international dollars with fixed purchasing power parity set to US\$ in 2011. Projecting poverty using the POVCAL simulator requires both an estimate of the poverty line in real terms, and an estimate of the real change in incomes and consumption expenditure. The latter is harder to assess. Even in nominal terms, most Lebanese have seen their wages and salaries drop while others may have lost their income completely owing to business closures. However, some employees earning in local currency may have negotiated a raise to offset rising inflation, while the few earning in United States dollars have seen their real income significantly increase as a result of the dollar appreciation. Deriving the net impact without conducting a survey would entail a large degree of speculation. A conservative assumption is that average income has remained constant in nominal terms for the majority of the employed population.

The next step is to translate these assumptions into a shock on real consumption expenditure. Using the baseline-grouped data related to the distribution of expenditure, available on the World Bank's PovcalNet and its simulator, the two main assumptions of a constant mean income per capita in local currency and a jump in the value of the poverty line in local currency by 50 per cent translate into headcount poverty rates that are equivalent to those produced by a real decline in mean consumption expenditure (2011\$PPP) of one third, with the poverty line in 2011 PPP unchanged, over the same period from 2019 to 2020.

Consequently, even in a moderate poverty-impact scenario with a conservative measure of devaluation, household consumption expenditure per capita is projected to fall by a third in real terms. The present paper adopts this assumption, noting that it is a conservative assumption given that many Lebanese might have witnessed both a fall in nominal income and rise in prices at the same time.

## B. Income distribution

Economic growth, and economic contraction, have distributional impacts that need to be taken into account. Poverty impacts are a function of changes in the level of consumption and in the degree of spread of the consumption distribution. These growth-induced distributional effects are on top of other changes owing to factors beyond growth, such as the effects of structural market changes or fiscal policy provisions.

Two methodological remarks related to the distributional impact of the pandemic are noteworthy. Firstly, because of idiosyncratic developments in the Lebanese economy, we assume a weak unequalizing underlying trend in consumption distribution, whereby the anticipated structural problems in the Lebanese economy will lead to a small (1 per cent) increase in the Gini coefficient of inequality, from 31.8 in 2019 to 32.1 in 2020. One reason is that households at the top of the

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<sup>4</sup> Table CPI\_2007\_2019, Central Administration of Statistics, Lebanese Republic Presidency of Council of Ministers, June 2020.

consumption distribution are more likely to be sheltered from domestic developments through their secure contract jobs, or earnings and assets in foreign currencies. Households at the bottom are much more exposed to income and price shocks, as they lack safety nets or promptly fall through them.

Secondly, the degree of inequality and its gradual increase clearly affect poverty, and these effects are expected to be particularly large for households at the bottom. We use PovcalNet estimates of the headcount poverty–Gini elasticity, which are 1.3 for the \$14/day (upper poverty) line, and a much higher 5.9 for the \$8.5/day (lower poverty) line. Upper poverty has a near unit-elastic relationship with inequality, while lower poverty is highly sensitive to inequality. We adopt these estimates in our projections of the baseline poverty rate.

### C. Wealth losses

The top wealth decile is projected to have lost 40 per cent of its wealth in 2020 as a result of the banking crisis. This is a conservative estimate given the current restrictions on access to financial wealth, and the expected drop in the value of high-end land, real estate property and oil, which are significantly represented in the portfolio of the wealthiest nationals. This decline is significantly larger than the region-wide estimate of an 8 per cent drop in wealth on the heels of the COVID-19 outbreak and a drop in oil prices.

### D. Projection window

Poverty is a stock variable that changes from month to month. Our COVID-19 projections are for May 2020, the most recent month for which we have inflation figures reported by the Central Administration of Statistics. The aim is to represent the conditions on the ground throughout the year, assuming that situation in May 2020 continues to represent the state of affairs for the entire year on which our yearlong estimates are based.



## II. Results

### A. Wealth polarization

Wealth differences across the Arab region are remarkable. Of the region's total personal wealth of \$5.8 trillion (as at October 2019), 76 per cent, or \$4.4 trillion, is estimated to be held by the wealthiest 10 per cent of adults. The wealthiest 10 per cent largely hail from Gulf Cooperation Council (GCC) countries, while the poorest half are mainly from their conflict-stricken and low-income neighbours, including the Sudan, the Syrian Arab Republic and Yemen (table 1 and figures 1-2). Income distributions of different country groups are not aligned and fall on different parts of the regional Lorenz curve, which shows the cumulative wealth shares at various percentiles of the regional adult population (figure 3).

**Table 1. Billionaires and adult population shares in the Arab region**

Country	Forbes billionaire real wealth 2019, # [2019\$bil.]	Forbes billionaire real wealth 2020, # [2020\$bil.]	Real wealth per adult 2019 (2019\$)	Adults ('000)	Gini (%)	Adults among region's poorest 46% ('000 [%])	Share of countries' adults appearing among region's poorest 46% (%)	Adults among region's richest 10% ('000 [%])	Share of countries' adults appearing among region's richest 10% (%)
Algeria	1 [3.7]	1 [4.2]	9,348	26,983	74.9	14,368.5 [13.0]	53.3	1,113.0 [4.6]	4.2
Bahrain			87,108	1,219	74.7	117.3 [0.1]	9.6	441.9 [1.8]	36.3
Comoros			5,155	423	78.3	297.7 [0.3]	70.4	7.9 [0.03]	1.9
Djibouti			2,936	583	72.9	453.3 [0.4]	77.8	3.6 [0.02]	0.6
Egypt	6 [15.8]	6 [16.8]	15,395	58,309	75.6	24,562.7 [22.3]	42.1	4,446.1 [18.5]	7.6
Iraq			16,540	19,788	63.3	4,551.2 [4.1]	23.0	1,706.7 [7.1]	8.6
Jordan			26,475	5,512	69.6	1,164.4 [1.1]	21.1	819.9 [3.4]	14.9
Kuwait	1 [1.4]	1 [1.3]	131,269	3,086	76.3	227.6 [0.2]	7.4	1,357.8 [5.7]	44.0
Lebanon	7 [13.4]	6 [10.2]	55,226	4,205*	81.9	1,124.8 [1.0]	26.8	893.6 [3.7]	21.3
Libya			19,473	4,169	65.9	943.2 [0.8]	22.6	448.2 [1.9]	10.8
Mauritania			2,397	2,310	68.1	1,839.3 [1.7]	79.6	8.7 [0.04]	0.4
Morocco	2 [3.8]	1 [1.0]	12,929	23,613	76.6	11,304.7 [10.2]	47.9	1,475.8 [6.1]	6.3
Oman	2 [4.3]	1 [2.1]	43,291	3,608	78.6	911.0 [0.8]	25.3	708.1 [2.9]	19.6
Qatar	1 [1.6]	1 [1.2]	147,745	2,223	63.3	16.7 [0.0]	0.8	1,419.9 [5.9]	63.9
Saudi Arabia	10 [43.9]	10 [44.8]	67,032	23,208	83.4	6,121.1 [5.5]	26.4	5,337.8 [22.2]	23.0
Sudan			534	20,474	68.7	19,859.8 [18.0]	97.0	0.0 [0.00]	0.0

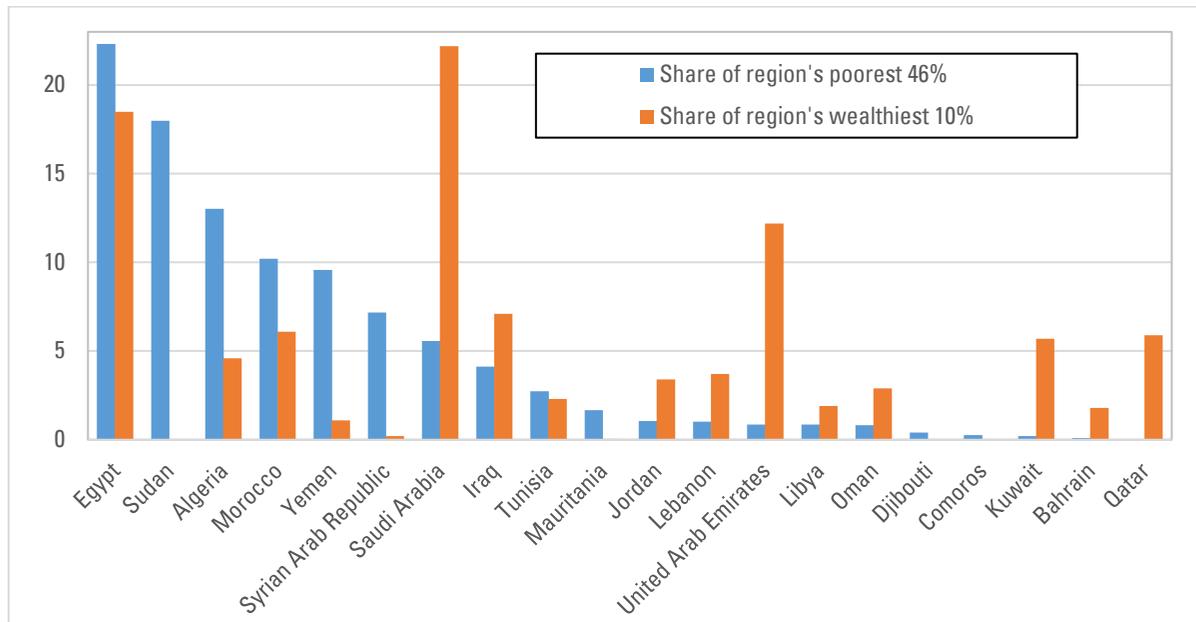
Country	Forbes billionaire real wealth 2019, # [2019\$bil.]	Forbes billionaire real wealth 2020, # [2020\$bil.]	Real wealth per adult 2019 (2019\$)	Adults ('000)	Gini (%)	Adults among region's poorest 46% ('000 [%])	Share of countries' adults appearing among region's poorest 46% (%)	Adults among region's richest 10% ('000 [%])	Share of countries' adults appearing among region's richest 10% (%)
Syrian Arab Republic			2,179	9,664	69.9	7,936.6 [7.2]	82.1	36.2 [0.2]	0.4
Tunisia			13,853	8,111	70.5	3,021.3 [2.7]	37.3	557.6 [2.3]	6.9
United Arab Emirates	7 [19.7]	4 [10.5]	117,060	7,874	79.6	954.7 [0.9]	12.1	2,942.9 [12.2]	37.4
Yemen			4,926	14,580	79.8	10,588.7 [9.6]	72.6	273.4 [1.1]	1.9
Total	37 [107.6]	31 [92.1]	24,759	239,942	83.9	110,390.3	46.0	23,999	10.0

**Source:** ESCWA analysis of Forbes (2019), Credit Suisse Research Institute (2019), and World Bank data.

**Notes:** The State of Palestine is missing in the 2019 Forbes and Credit Suisse data. The bottom 46 per cent is selected as a yardstick for the population holding as much wealth as the Arab region's 37 billionaires in 2019.

\* This figure includes Lebanese nationals, but also refugees and expatriates residing in Lebanon, as per the Credit Suisse methodology. The figure is kept to preserve comparability with the rest of the Arab region.

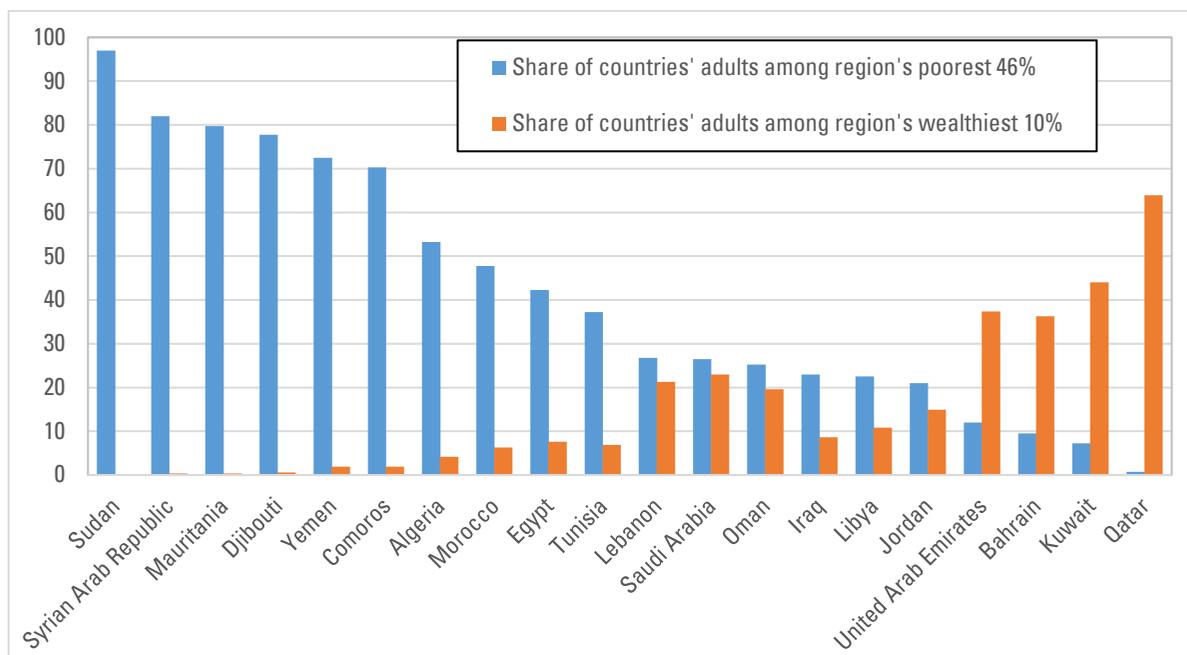
**Figure 1. Countries' share among the region's wealthiest 10 per cent and poorest 46 per cent of adults**



**Source:** ESCWA imputation based on Credit Suisse (2019) data.

**Notes:** Countries are sorted by their share among the region's wealthiest 10 per cent of adults in a descending order. The bottom 46 per cent is selected as a yardstick for the population holding as much wealth as the Arab region's 37 billionaires in 2019.

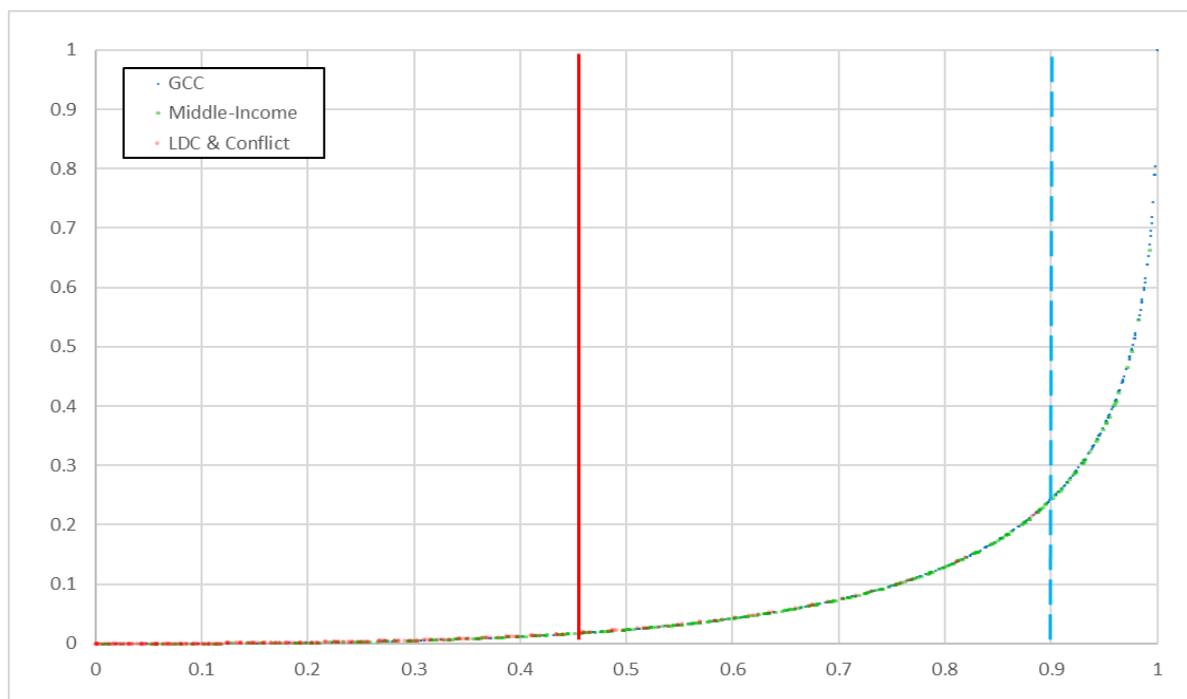
**Figure 2.** Share of Arab countries' adults among wealthiest 10 per cent and poorest 46 per cent



**Source:** ESCWA imputation based on Credit Suisse (2019) data.

**Notes:** Countries are sorted by the share of their adults among the region's wealthiest 10 per cent of adults in descending order. The bottom 46 per cent is selected as a yardstick for the population holding as much wealth as the Arab region's 37 billionaires in 2019.

**Figure 3.** Arab region's Lorenz curve: LDCs and conflict-affected countries, MICs and GCC countries



**Source:** ESCWA imputation using log-normal (bottom 99.5 per cent) and Pareto (top 0.5 per cent) parametric distributions, based on Credit Suisse (2019) data.

**Notes:** The vertical solid red line demarcates the bottom 46 per cent of the region's adult population. The dashed blue line demarcates the top 10 per cent. The bottom 46 per cent is selected as a yardstick for the population holding as much wealth as the Arab region's 37 billionaires in 2019.

The silver lining is that the top wealth decile can be tapped to fund poverty eradication. Billionaires' wealth alone, at \$92 billion, is more than double the annual budget needed to close the poverty gap across the Arab region: \$38.6 billion pre-COVID-19 and \$45.1 billion post-COVID-19, using lower national poverty lines. The wealthiest 10 per cent of adults would barely feel the cost of closing the regional poverty gap.

In the seven Arab middle-income countries (MICs), the total wealth of the top deciles is estimated at \$1.3 trillion in 2020. The cost of closing the poverty gaps was \$12.9 billion in 2019, and \$15.6 billion in 2020 given the impact of COVID-19, as projected in April 2020. Consequently, by introducing a solidarity fund in the seven MICs, provided there was perfect targeting of the poor, the sum required to close their poverty gaps would be on average 1 per cent pre COVID-19 and 1.3 per cent post COVID-19 of top decile wealth (table 2).

**Table 2. Countries' cost of closing the poverty gap: lower national poverty lines**

Country	Mean wealth of top national decile, 2019 (2019\$)	Adults in the top national decile, 2019 ('000)	Top decile wealth in 2019 (2019 \$million)	Top decile wealth in 2020 (current \$million)	Cost of poverty gap in 2019 (current \$million)	Cost of poverty gap in 2020 (current \$million)	Solidarity tax on top decile needed to cover poverty gap, 2019	Solidarity tax on top decile needed to cover poverty gap, 2020
Algeria	60,342	2,698	162,821	149,795	362	468	0.2%	0.3%
Egypt	99,771	5,831	581,755	535,214	10,330	10,655	1.8%	2.0%
Iraq	93,705	1,979	185,423	170,590	1,735	2,431	0.9%	1.4%
Jordan	163,214	551	89,964	82,766	816	1,031	0.9%	1.2%
Lebanon	360,069	421*	151,409	90,845	283	838	0.2%	0.9%
Morocco	84,181	2,361	198,777	182,874	120	180	0.1%	0.1%
Tunisia	86,227	811	69,939	64,344	584	752	0.8%	1.2%
MICs	98,285	14,652	1,440,087	1,276,429	14,230	16,355	1.0%	1.3%
Comoros	33,734	42	1,427	1,313	211	226	14.8%	17.2%
Djibouti	18,685	58	1,089	1,002	49	50	4.5%	5.0%
Mauritania	14,521	231	3,354	3,086	529	609	15.8%	19.7%
Sudan	3,258	2,047	6,670	6,137	8,559	10,197	128.3%	166.2%
Syrian Arab Republic	13,477	966	13,024	11,982	7,365	8,015	56.5%	66.9%
Yemen	32,270	1,458	47,050	43,286	8,951	10,391	19.0%	24.0%
LDCs	15,117	4,803	72,615	66,806	25,665	29,489	35.3%	44.1%
Total	77,752	19,456	1,512,702	1,343,235	39,895	45,845	2.6%	3.4%

**Source:** ESCWA estimates based on PovcalNet, using most recent reported lower national poverty lines and World Bank population projections from the World Development Indicators.

**Notes:** The State of Palestine, with the cost of closing the poverty gap at \$1.7 billion in 2019 and \$2 billion in 2020, is missing in the Credit Suisse (2019) data, so the solidarity tax cannot be computed.

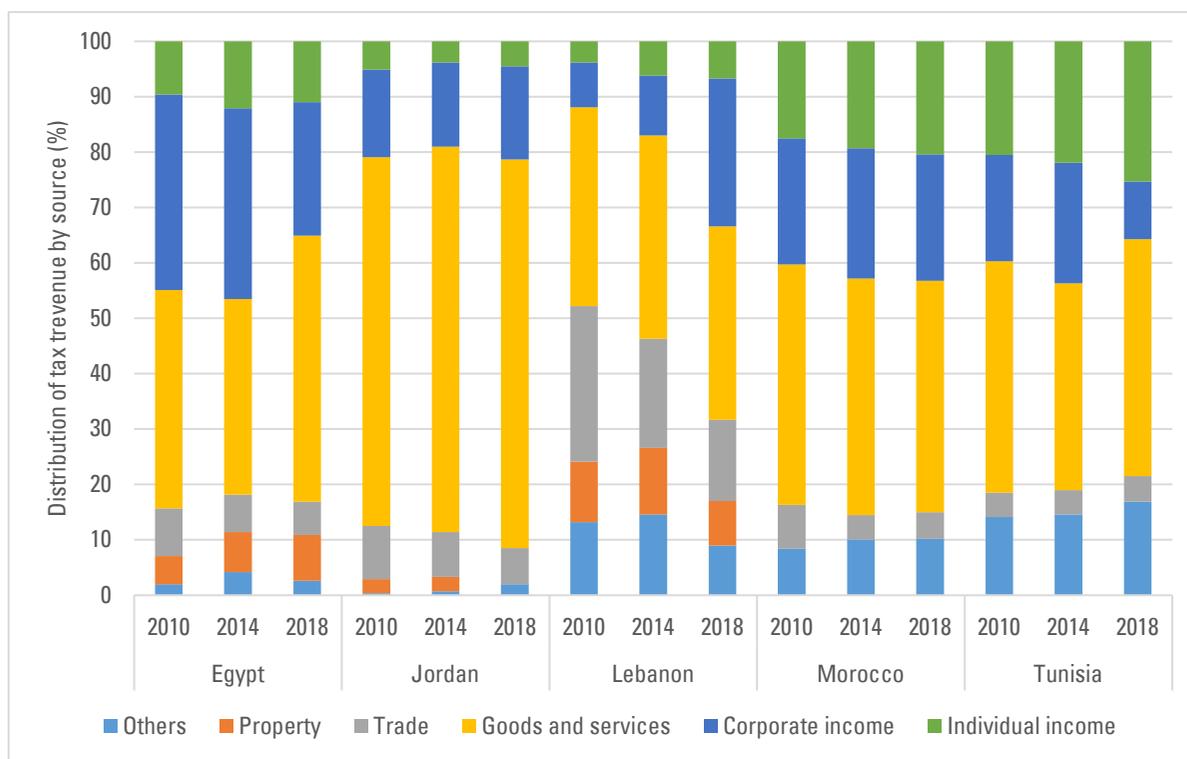
\* This figure consists of Lebanese nationals, but also expatriates and possibly even refugees residing in Lebanon, as per the Credit Suisse methodology. The figure is kept to preserve comparability with the rest of the region.

The results for Lebanon are particularly stark. Lebanon has one of the most unequal wealth distributions in the region and the world, ranking twentieth globally with a wealth Gini coefficient of 81.9 per cent, and among the highest concentration of billionaires per capita (seven billionaires per assumed 4.8 million Lebanese-national population in 2019). Lebanese billionaires jointly owned \$13.4 billion in 2019 (\$10.2 billion in March 2020), of the \$232.2 billion estimated personal wealth in the country. This billionaire wealth is equivalent to the wealth of the bottom 62.4 per cent of all adults in Lebanon.

In 2019, the top 10 per cent of adults owned 70.6 per cent, or \$151.4 billion, of all personal wealth in the country. Top-decile individuals held on average \$360,000, compared to the median wealth of \$9,144, or the average wealth among the bottom 50 per cent of all adults at \$3,200.

Figure 4 shows the full imputed wealth density functions for Lebanon and comparator economies, namely Jordan, Tunisia and a group of GCC countries. Figure 4 confirms that the distribution of Lebanon is highly unequal, with high density mass at the bottom (like Tunisia, but unlike Jordan or GCC countries) but also a heavy right tail (like GCC countries, but unlike Jordan or Tunisia).

Figure 4. Wealth density curves: Lebanon, Jordan, Tunisia and GCC countries



Source: ESCWA imputation based on Credit Suisse (2019) data.

Notes: The density plot for GCC countries is weighted by national population (Epanechnikov kernel, bandwidth 30). GCC countries include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The vertical line is drawn at the median wealth level in Lebanon.

## B. Poverty projections

To assess the prospect of poverty reduction in Lebanon, we project the headcount and depth of poverty both pre- and post-COVID-19, under alternative growth scenarios and under alternative delineations of poverty. This is done by applying prospective growth rates and poverty-Gini elasticities to pre-COVID-19 poverty statistics.

In the conservative growth scenario, based on 14 April 2020 United Nations growth forecasts comparable to the baseline results for other Arab countries, the Lebanese poverty headcount rate using the lower poverty line of \$8.5 per day is estimated at 12.7 per cent in 2020, a rise of nearly 5 percentage points from 2019. Using the same growth assumption, and the upper poverty line of \$14, the headcount poverty rate rises from nearly 28 per cent in 2019 to 35 per cent in 2020.

Using the more realistic growth assumptions discussed in the previous section, and based on the \$14/day poverty line, the headcount poverty rate jumps from 28 per cent in 2019 to 55.3 per cent in 2020. The corresponding increase in the case of the \$8.5 per day poverty line is from 8.2 per cent to 23.2 per cent. This brings the total number of poor among the Lebanese population to 1.1 million and 2.7 million in 2020, for both the lower and the upper poverty lines, respectively. The latter is an increase of over 1.4 million poor from the reference (pre-COVID-19) growth scenario. The equivalent rise in the number of extreme poor is 0.8 million in 2020 (table 3 and table 4).

**Table 3. Main results for Lebanon using the lower poverty line (\$8.5/day 2011\$PPP)**

	2010	2018	2019	2020	2021
Projected headcount poverty ratio (%)	6.3	7.8	8.2	23.4	21.4
Reference headcount poverty ratio (%)	6.3	7.8	8.2	7.8	6.7
Projected number of poor (thousands)	313.8	378.3	397.3	1,127.6	1,018.3
Reference number of poor (thousands)	313.8	378.3	397.3	374.4	317.9
Additional number of poor (thousands)	0.0	0.0	0.0	753.2	700.4

**Source:** ESCWA estimates based on PovcalNet using most recent reported national poverty lines and World Bank population projections from the World Development Indicators.

**Table 4. Main results for Lebanon using the upper poverty line (\$14/day 2011\$PPP)**

	2010	2018	2019	2020	2021
Projected headcount poverty ratio (%)	22.1	27.1	28.0	55.3	51.7
Reference headcount poverty ratio (%)	22.1	27.1	28.0	27.3	25.2
Projected number of poor (thousands)	1,094.0	1,314.4	1,361.1	2,668.6	2,465.6
Reference number of poor (thousands)	1,094.0	1,314.4	1,361.1	1,315.6	1,203.7
Additional number of poor (thousands)	0.0	0.0	0.0	1,353.0	1,261.8

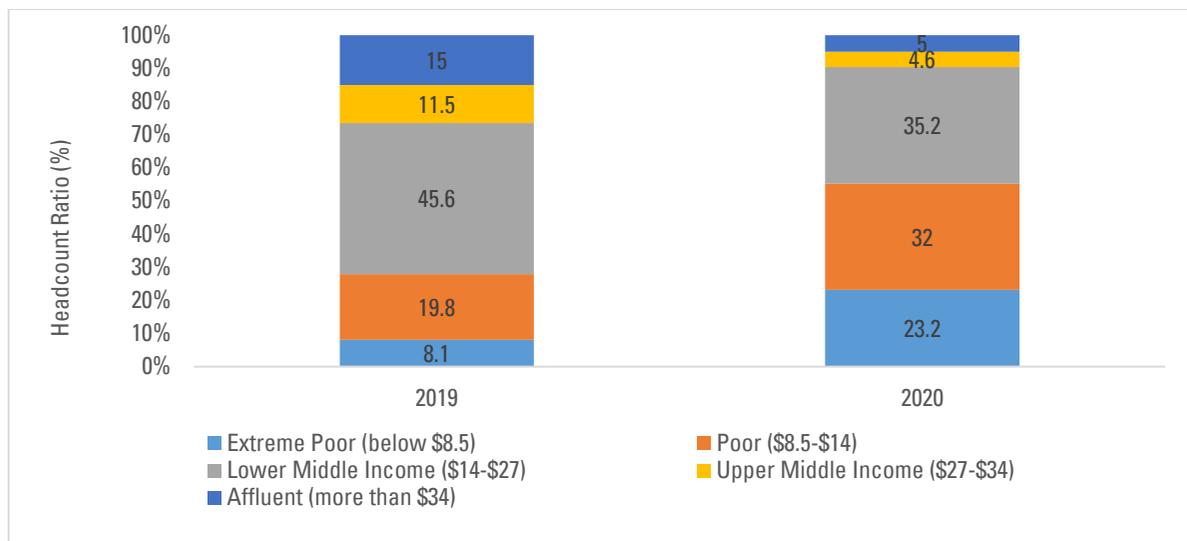
**Source:** ESCWA estimates based on PovcalNet using most recent reported national poverty lines and World Bank population projections from the World Development Indicators.

Consequently, the estimated cost of closing the poverty gap in 2020 is \$838 million and \$3,266 million for the lower and upper poverty lines, respectively. Implementing a solidarity transfer of 0.9 per cent and 3.6 per cent of top-decile wealth, respectively, would close these poverty gaps in 2020. In 2019, by contrast, the required rate would have been 0.2 per cent and 1 per cent, respectively.

### C. Implications on middle-income status and the middle class

The above results reveal a major challenge for Lebanon to retain its predominantly middle-income population status. If we take the thresholds for extreme poverty being below \$8.5 per day, poverty being between \$8.5 and \$14 per day (which can also be viewed as a proxy for vulnerability to extreme poverty) and add to them two additional thresholds for the lower middle-income group (earning between \$14 and \$27 per day) and upper middle-income group (earning between \$27 and \$34 per day),<sup>5</sup> the impact of the crisis reveals a striking shift. The middle-income groups have contracted from over 57 per cent of the population in 2019 to less than 40 per cent in 2020 (figure 5). The real challenge facing Lebanon is that these two groups, which represent the bulk of the country’s human capital, will have no choice but to emigrate. The resulting impact on the size and diversity of the Lebanese middle class could be devastating. Another indication of the magnitude of the economic shock is that the affluent group, which earns more than \$34 per day, has also declined significantly from 15 to 5 per cent of the population. A fair conclusion is that few have been spared the negative consequences of the triple shock.

**Figure 5. Headcount ratio (%) for poor, middle, and affluent income categories, 2019 and 2020**



**Source:** ESCWA estimates based on PovcalNet using most recent reported national poverty lines of 2012 and ESCWA (2014).

<sup>5</sup> ESCWA, 2014.



### III. Conclusions and policy implications

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Based on World Bank data and using the PPP value of the upper national poverty line in 2012 of \$14 per day, the poverty headcount in Lebanon was 1.9 million (27.1 per cent) in 2018. This rate increases slightly to 27.7 per cent in 2019 when applying a per capita growth decline of 1 per cent, and to 35 per cent in 2020 when applying the negative GDP growth shock of 13 per cent forecasted by the United Nations in April 2020.<sup>6</sup> Based on a scenario that takes into account more recent economic developments in Lebanon, we suggest a real decline in consumption per capita of one third in 2020 compared with its 2019 level, consistent with the inflation rate of 50 per cent reported by the Central Administration of Statistics from December 2019 to May 2020. In this case, the poverty headcount using the upper poverty line rises to an estimated 55 per cent in 2020. The cost of closing the poverty gap is estimated at \$3.2 billion. Combined with an assumed 40 per cent average decline in wealth holdings among the top decile, the corresponding top-decile wealth transfer required to close the moderate poverty gap is 3.6 per cent. The analogous figures for the lower poverty line are a headcount poverty rate of 23.4 per cent and a transfer rate of 0.9 per cent in 2020.

The expected consequences of the triple shocks of 2019-2020 on middle-income and middle-class professionals are such that Lebanon ceases to be a predominantly middle-income society by its own national definitions of poverty and vulnerability. This is in addition to the humanitarian crisis affecting those at the bottom of the socioeconomic ladder.

Given this prognosis, we lay out a number of policy responses that can help Lebanon exit this dire state. The most vital policy response to the humanitarian and economic crisis in Lebanon is to bolster food and health security and social protection. This should be achieved by ensuring adequate access to food and medication, and generally extending access to food aid, health services, unemployment benefits and cash, including remittances and bank withdrawals.

Financing fiscal and in-kind programmes is the second most crucial policy response. In addition to requesting assistance from international donors and calling for the establishment of a regional solidarity fund, Lebanon should mobilize its own substantial resources. A fair and progressive system of shared responsibility, supported by political will and strong institutional capacity, can go far towards solving the country's humanitarian crisis and closing the poverty gap.

ESCWA advocates for a solidarity fund to mitigate the expected rise in poverty as a result of the COVID-19 pandemic. This remedial policy action is necessary, and quite feasible. In 2020, even with an anticipated 40 per cent negative wealth shock from 2019, taxing the top wealth decile at the rate of 0.9 per cent would alleviate poverty according to the extreme poverty line, while a 3.6 per cent rate would alleviate moderate poverty.

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<sup>6</sup> <https://data.worldbank.org/indicator/SI.POV.LMIC.GP?locations=LB>.

Nonetheless, the road to recovery is rocky and given the magnitude of the overlapping shocks. Resolving this crisis will require the country to transform quickly and adopt various coping mechanisms. Firstly, it requires shared responsibility and societal solidarity that cut across all income groups and social classes. With solidarity in place, especially between the wealthiest top decile and the poor, the bulk of the poverty impact can be absorbed.

Secondly, macroeconomic stability in Lebanon must be restored by enacting economic governance reforms, limiting rent-seeking activities, and enhancing transparency and accountability. One practical way to improve transparency is requiring all citizens and residents to file income tax returns, even if not all actually pay tax – an approach encouraged recently in many developing countries such as India. More transparency on income and wealth would also allow ministries of finance, social affairs and related institutions to improve poverty targeting practices.

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