Protecting and Transforming Social Spending for Inclusive Recoveries

Financing Social Spending in Lower- and Middle-Income Countries during COVID-19: Monthly Update #3

June 2021

This brief is the third monthly update of the Social Spending Monitor publication series, which aim to shed light on social spending during the COVID-19 era.

Each monthly update links to the accompanying dataset, which provides details of the financial response to COVID-19 by country. The analysis in this brief is based on data from the following low- and middle-income countries: Albania; Algeria; Armenia; Bosnia and Herzegovina; Burkina Faso; Chad; Colombia; Cuba; Eritrea; Ethiopia; Gambia; Georgia; Guinea; Jordan; Lesotho; Mali; Morocco; Paraguay; Philippines; Rwanda; Solomon Islands; Suriname; Tonga; Tunisia; Uganda; Vanuatu; Viet Nam; and Venezuela (Bolivarian Republic).

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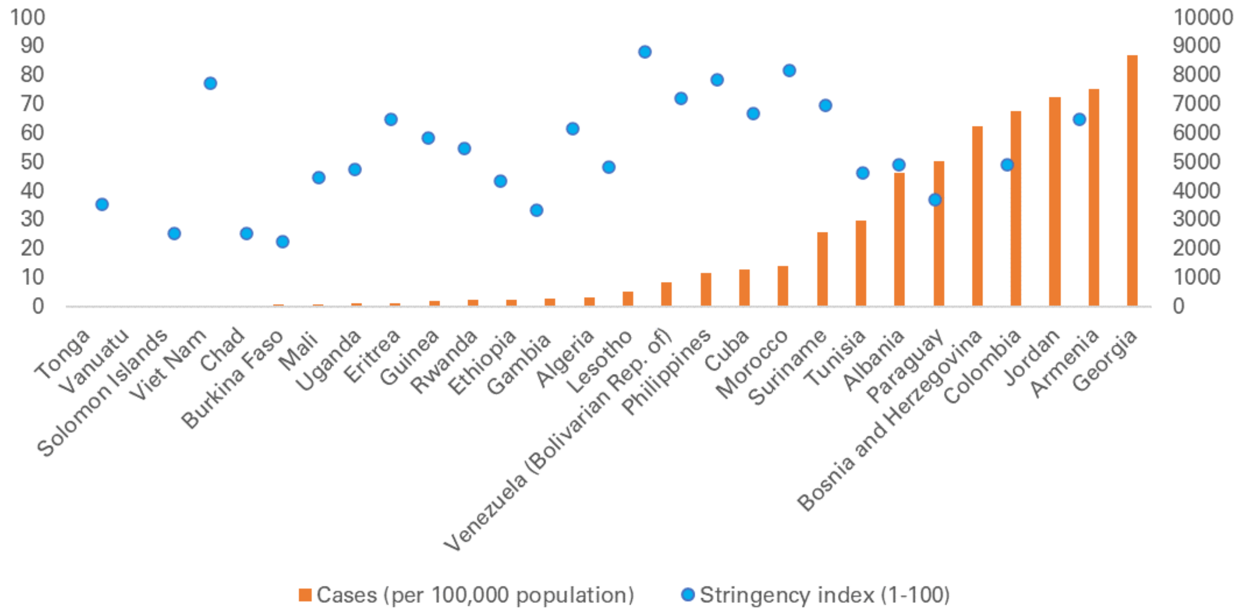
Key messages

As many countries experience a third wave of the pandemic, COVID-19 cases continue to rise sharply in several countries studied. The first week of June 2021 saw Colombia particularly badly affected, with the third highest case rise in the world. Cuba, the Philippines, and Tunisia also saw large increases in infections. To date, Armenia, Georgia, and Jordan have seen the highest cumulative caseloads relative to their populations (*see Figure 1*).

Figure 1. Impact of COVID-19 and government response

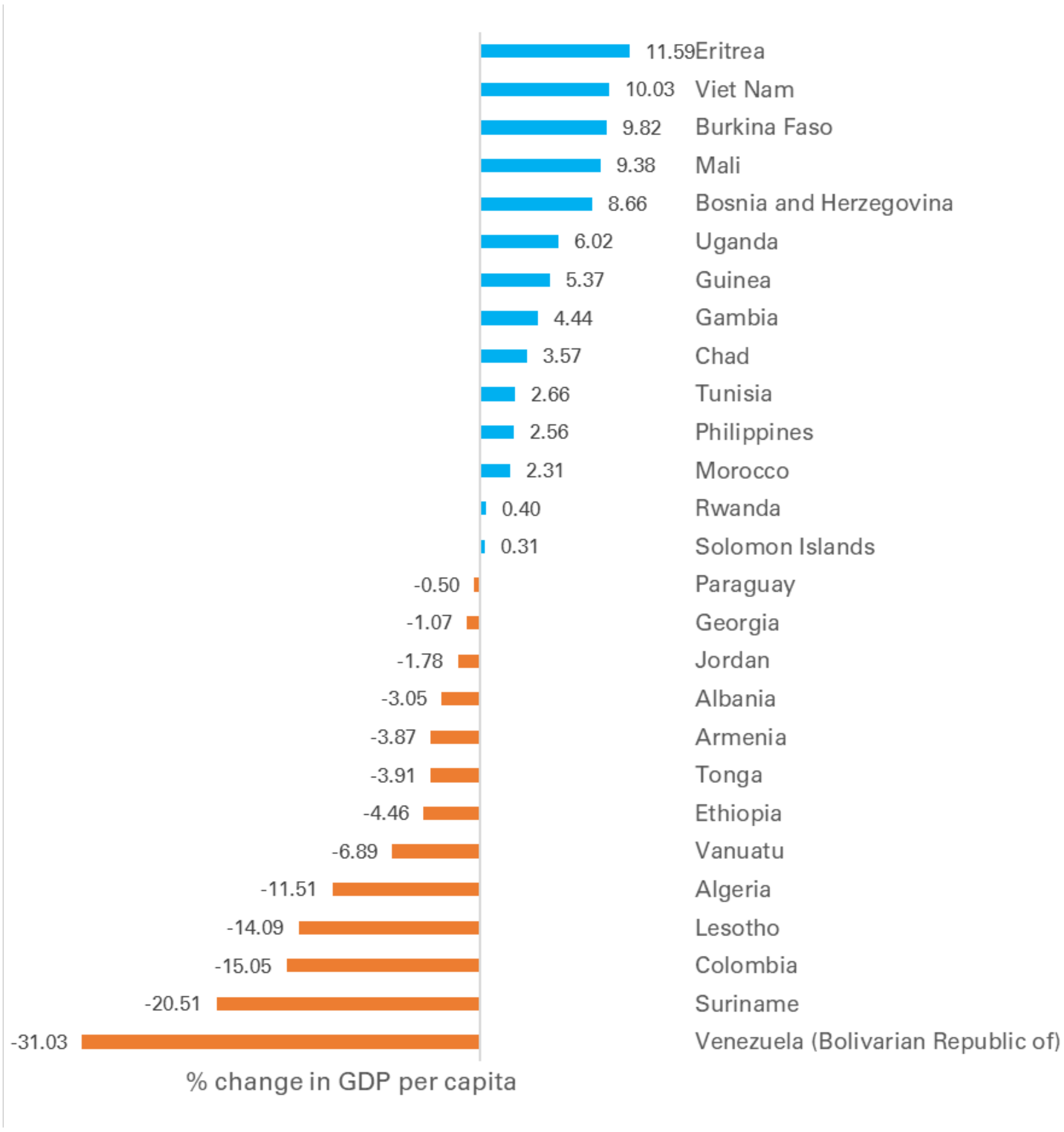


Sources: WHO COVID Dashboard; Oxford COVID-19 Government Response Tracker, using latest available data, June 2021

While the association between caseloads and the stringency of government lockdowns is not clear (*see Figure 1*), countries implementing the most stringent lockdowns are among those that have seen the largest drop in **GDP per capita** since 2019, with Suriname and Venezuela experiencing a 20.5 per cent and 31 per cent drop in GDP respectively during this period (*see Figure 2*).[1] On average, GDP per capita fell by 1.5 per cent across this group of countries.

[1] Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, University of Oxford. accessed, June 2021

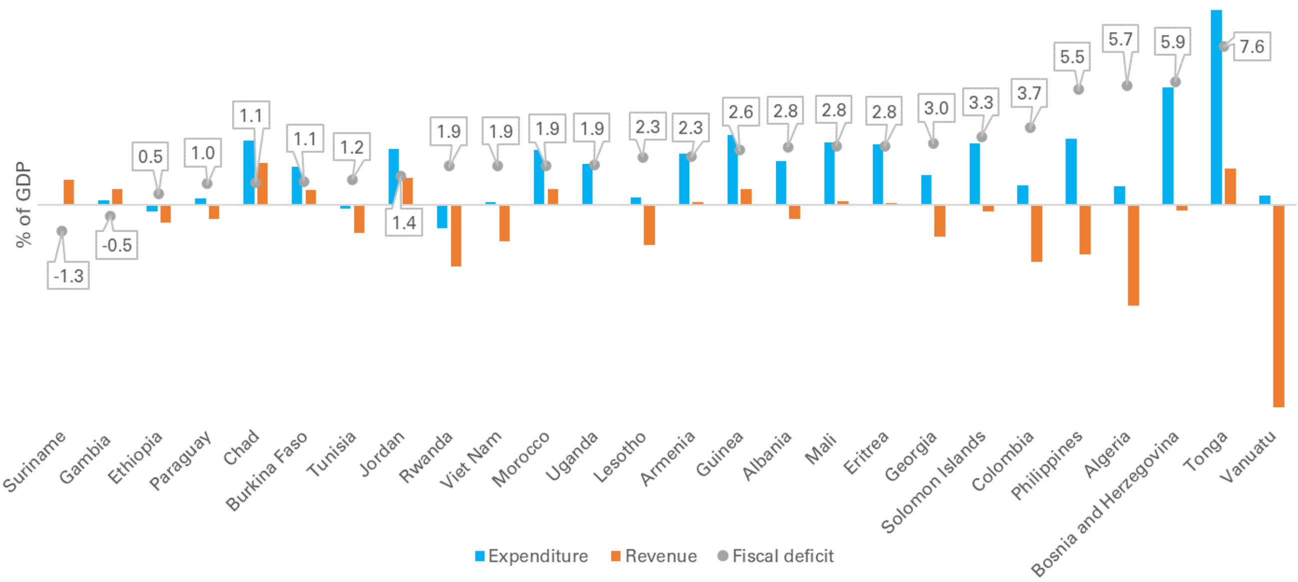
Figure: 2. GDP per capita growth between 2019 and 2021



Source: IMF World Economic Outlook, October 2020, author's calculations.
Note: Data is missing for Cuba. Estimates start after 2019.

Half of these countries have seen **government revenue** fall since 2019, with Algeria, the Philippines, and Vanuatu the most affected. Vanuatu's government revenue fell by almost 10 per cent of GDP between 2019 and 2021 (*see Figure 3*). During this period, the average **fiscal deficit** has almost doubled from -2.8 per cent of GDP in 2019 to -5.6 per cent in 2021. Five countries - Algeria, Burkina Faso, Chad, Colombia, and Suriname - have seen their fiscal deficit grow by between 5 and 10 per cent of GDP since 2019 (*see Figure 3*). This growth is driven by rising **government expenditure** in all but four countries: Ethiopia, Rwanda, Suriname, and Tunisia (*see Figure 3*).

Figure 3. Percentage point growth in revenue and expenditure between 2019 and 2021 showing increase in fiscal deficit



Source: IMF World Economic Outlook, October 2020, author's calculations.
Note: Data is missing for Cuba and Venezuela. Estimates start after 2019.

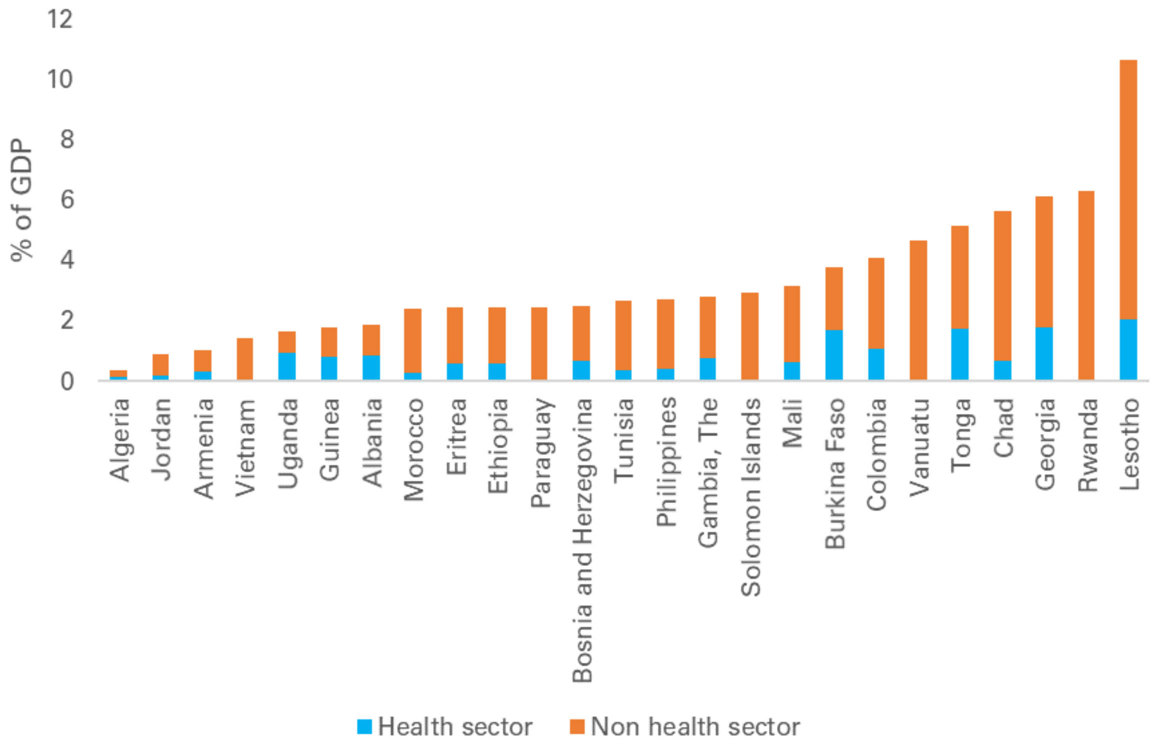
Nonetheless, all 28 countries report **additional spending** or **foregone revenue** in response to COVID-19. On average, the cost of the COVID-19 response amounted to 3.3 per cent of GDP. Five countries - Chad, Georgia, Lesotho, Rwanda, and Tonga - have diverted over 5 per cent of GDP to the pandemic response. Twenty out of 28 countries have increased health budget expenditure, according to a recent UNICEF survey; however, IMF data show under a quarter of all additional COVID-19 spending has gone to the health sector (*see Figure 4*). Two thirds of these countries have increased social assistance payments; others have foregone revenue from public utility payments, for example Chad, Colombia and Mali have announced a temporary suspension on water and electricity bills. Another four countries - Albania, Algeria, Ethiopia, and Mali - have offered temporary pay rises or bonuses for health staff.[2]

This group of 28 countries may struggle to finance this level of additional spending on top of growing fiscal deficits. Altogether they have accessed external finance estimated at about an average US$58 per capita in ODA in 2020; and an additional US$35 per person in IMF development lending since the start of the pandemic.[3] However, not all development lending is

2 Fiscal Policies Database in Response to COVID-19, IMF, accessed June 2021.
3 Author's calculation based on IMF COVID lending, OECD DAC ODA and UN population figures. This figure includes multiyear grants. While a breakdown of ODA per country is not yet available for 2020, this estimate is based on preliminary growth figures from the OECD, which predict an ODA growth rate of 3.5 per cent.

concessional and, for middle income countries, reflects increasing debt levels during this period. Colombia, for example, has received US$16.9bn in IMF lending during this period. With the overall GDP for these countries not set to recover to pre-pandemic levels until after 2025, additional assistance from the international community may be urgently needed to preserve social spending in low- and middle-income countries.

Figure 4. Additional health and non-health spending in response to COVID-19 as a percentage of GDP



Source: Fiscal Policies Database in Response to COVID-19, IMF, accessed June 2021.
Note: Data is missing for Cuba, Suriname and Venezuela