Protecting and Transforming Social Spending for Inclusive Recoveries

Financing Social Spending in Lower and Middle-Income Countries during COVID-19: Monthly Update #2

May 2021

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

Each monthly update links to the accompanying dataset, which details 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: Azerbaijan; Belize; Bhutan; the Plurinational State of Bolivia; Burundi; Cambodia; the Central African Republic; Djibouti; El Salvador; India; Kiribati; the Lao People's Democratic Republic; Liberia; Libya; Malawi; Maldives; the Republic of Moldova; Mozambique; Myanmar; Nicaragua; the Niger; Sierra Leone; Somalia; Sri Lanka; Sudan; the Syrian Arab Republic; Ukraine; and Uzbekistan.

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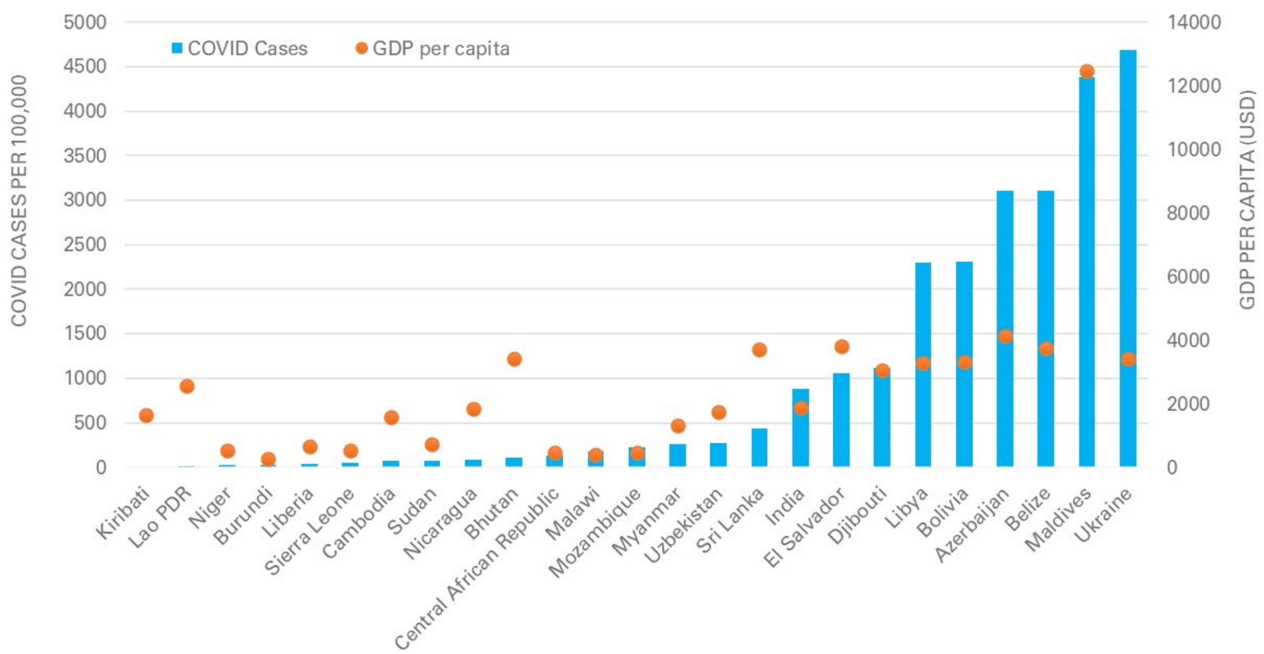
Key messages

COVID-19 has affected different countries across the world in diverse ways. To date, most lower-income countries have been spared the **high caseloads** seen in many middle- and higher-income countries (*see Figure 1*).[1] However, this situation is evolving rapidly and low- and middle-income countries remain highly exposed to the economic shocks of the pandemic. While global **GDP growth** is set to reach +6 per cent in 2021, over half these countries have experienced a decline in GDP since the beginning of the pandemic, with Libya, Sierra Leone, Belize and Mozambique particularly affected (*see Figure 2*). [2] In some countries, this may be due to the severity of government lockdown measures in place. Libya, for example, currently has one of the most stringent set of COVID-19 prevention responses in the world.[3] However, the impact of lockdown measures on economic growth varies (*see Figure 3*).

Figure 1. Despite lower COVID-19 case rates, poorer countries have been hard hit by the economic impact of the pandemic

Cumulative COVID-19 cases versus 2020 GDP per capita in 26 countries

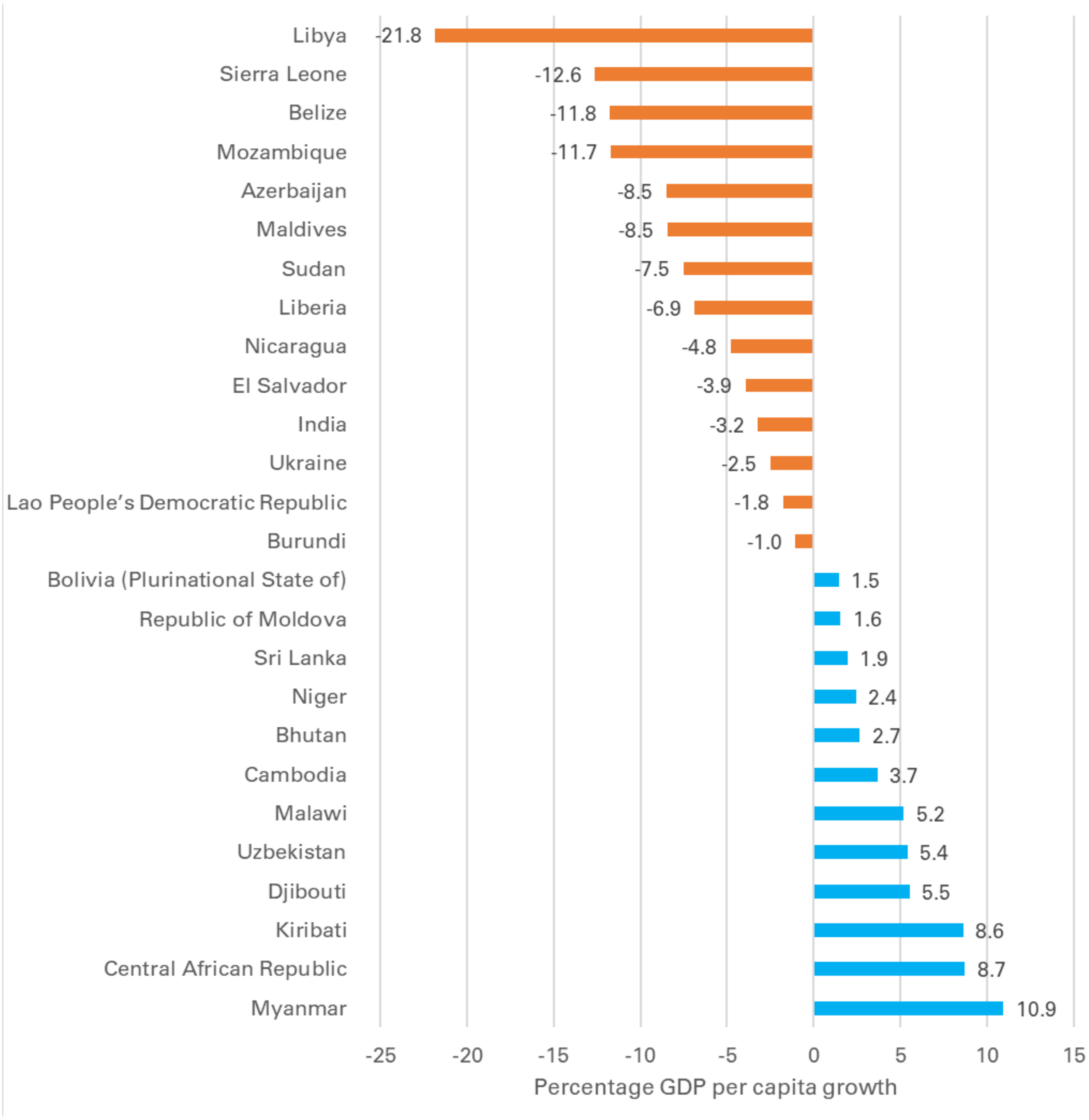


Sources: WHO COVID Dashboard; IMF World Economic Outlook
Note: COVID cases per 100,000 population shown on the left axis (updated 1 May 2021); 2020 GDP per capita shown on the right axis. COVID-19 cases in low-income countries and countries in conflict may be under-reported due to low rates of testing. Data is missing for Moldova, Somalia and the Syrian Arab Republic.

[1] COVID-19 cases in low-income countries and countries in conflict may be under-reported due to low rates of testing.
[2] Fiscal Policies Database in Response to COVID-19, IMF.
[3] Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, University of Oxford.

Figure: 2. Libya, Sierra Leone, Belize and Mozambique hardest hit by the COVID-19 downturn

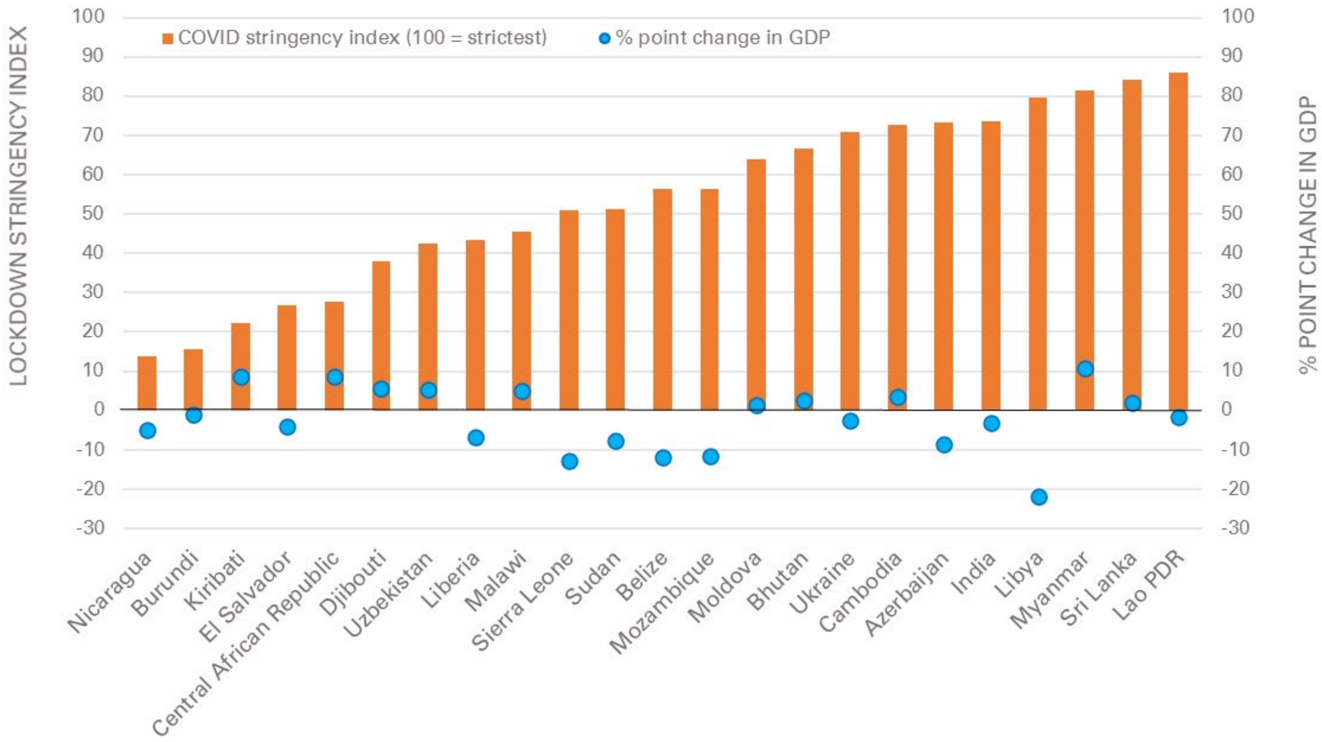
Projected GDP per capita growth (US$) in 26 countries, 2019–2021



Source: IMF World Economic Outlook
Note: Data is missing for Somalia and the Syrian Arab Republic.

Figure 3. The Lao People's Democratic Republic, Sri Lanka and Myanmar have some of the world's most stringent COVID-19 prevention restrictions in place

COVID-19 lockdown measures in order of stringency (left axis) and GDP growth, 2019–2021 (right axis)



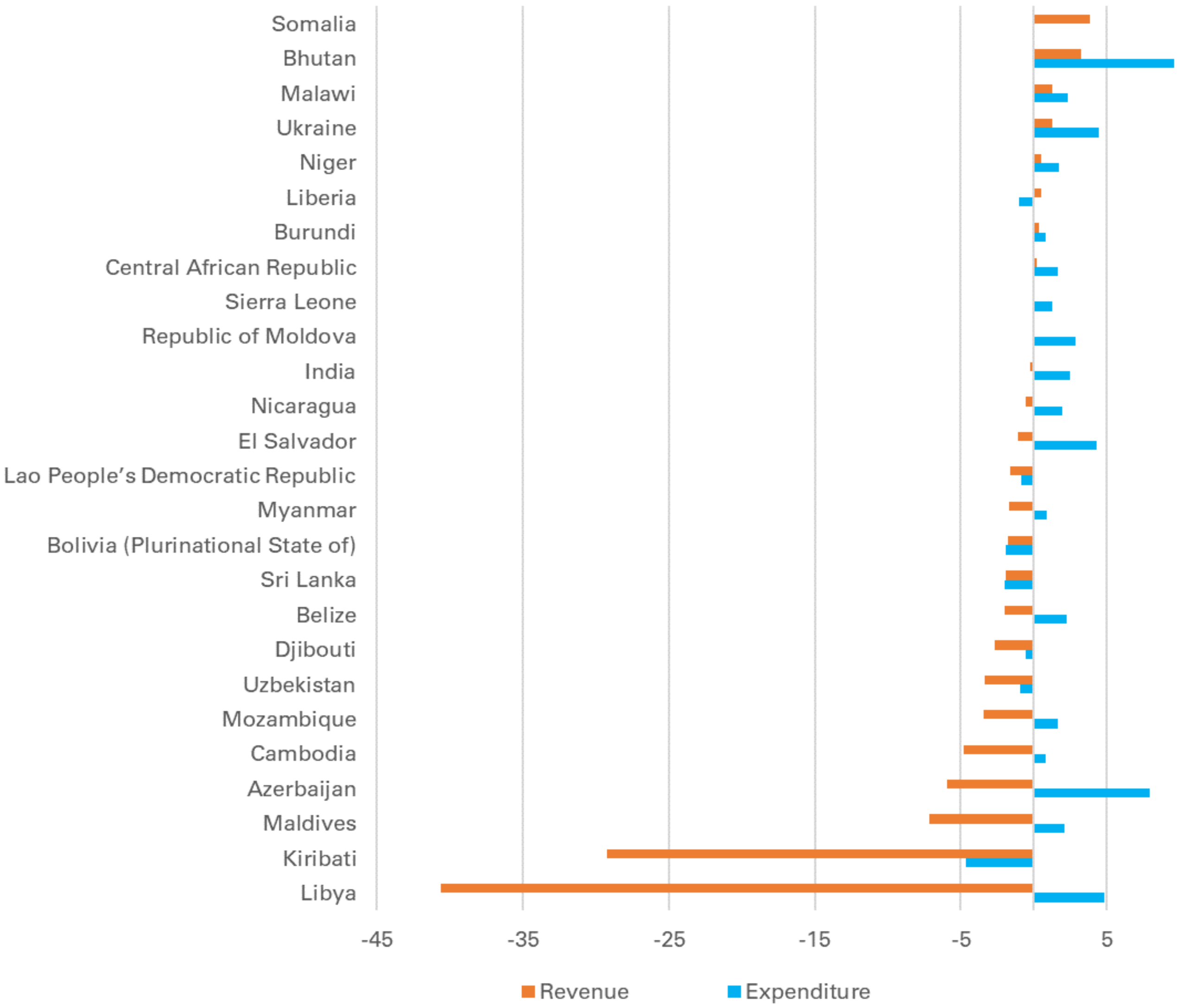
Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, University of Oxford. Latest available data, May 2021; IMF World Economic Outlook.

Sixteen countries have seen **government revenue** fall since 2019, with revenue as a proportion of GDP decreasing by an average of -1.3 percentage points across this group of 28 countries. Libya and Kiribati have been particularly hard hit, with government revenue falling by over one third in Libya and almost one quarter in Kiribati (*see Figure 4*). This is linked to both the economic downturn and governments' policy responses to the pandemic. Several countries have foregone revenue, for example, instigating tax waivers on essential goods and services. El Salvador, Malawi and Somalia have all waived import duties on medical equipment and food supplies; the Lao People's Democratic Republic and Maldives have introduced subsidies to reduce electricity and/or water tariffs.[4]

[4] Fiscal Policies Database in Response to COVID-19, IMF.

Figure 4. Over half of 26 low- and middle-income countries have seen their revenue fall since the start of the pandemic

Change in projected Government Revenue and Expenditure as a percentage of GDP, 2019–2021



Source: IMF World Economic Outlook.
Note: Data is missing for Somalia and the Syrian Arab Republic.

Within this context, almost all 28 countries have increased spending since the start of the pandemic. All except two (Liberia and Sudan) are running increased fiscal deficits, with **public expenditure** set to rise by an average of 1.5 per cent of GDP between 2019 and 2021 (*see Figure 4*). According to a recent UNICEF survey, all but three countries plan to increase social spending on health, education, social protection and WASH, with only three countries making cuts to planned budget expenditure in one of these areas.[5] The IMF calculates that overall COVID-19-

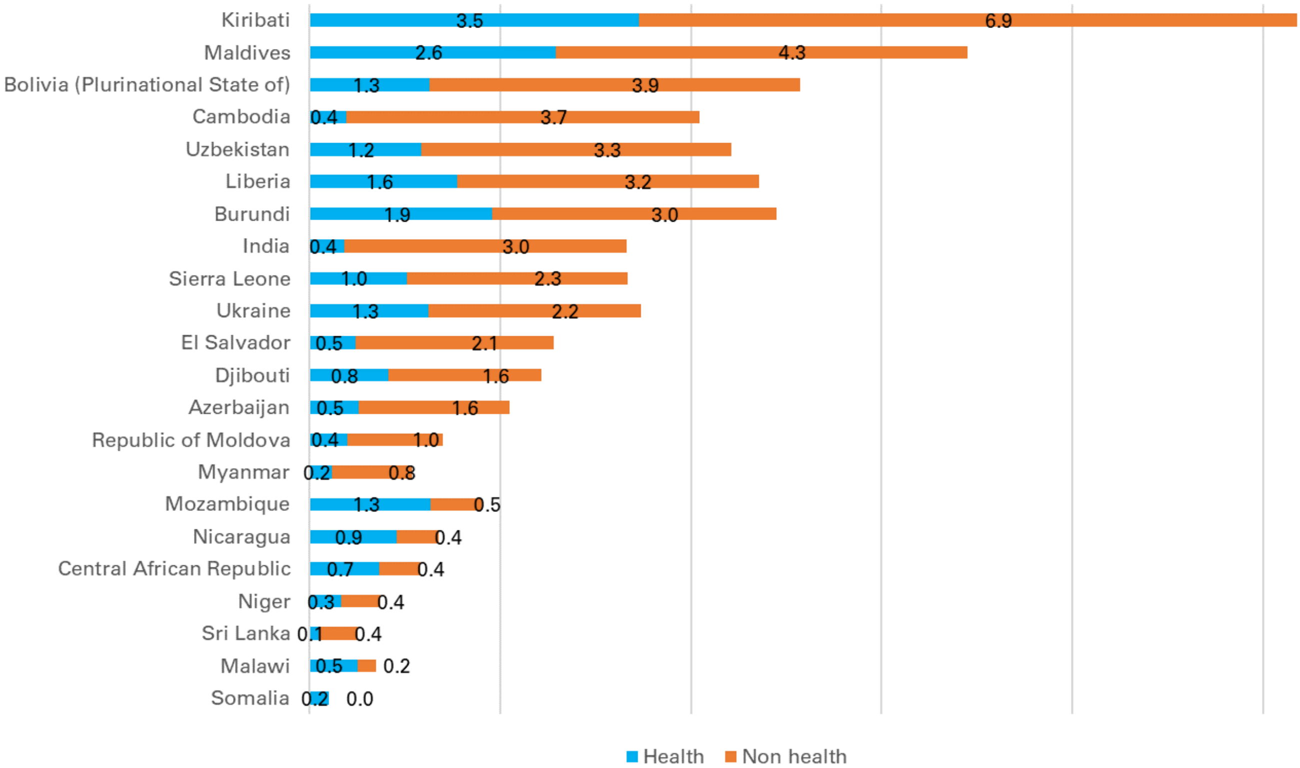
[5] Dashboard on government responses to COVID-19 and the affected populations, UNICEF.

related additional spending rises to an additional 2.9 per cent on average once foregone revenue is taken into account. Almost one third of additional spending has gone to the health sector (*see Figure 5*).[6]

These countries may struggle to finance this spending. Based on our analysis, they have accessed just US$13 per capita in additional **COVID-19 targeted external finance**, of which over three-quarters is development finance (concessional and/or non-concessional borrowing). Less than one quarter of total additional financing comes from grant funding, with the majority of grants aimed at the health sector. With the median **fiscal deficit** in 2021 standing at -5.8 per cent, 5 out 28 countries are already in, or at high risk of, **debt distress**, with three more at a moderate risk. Until their economies begin to recover from the pandemic, additional assistance from the international community may be required to protect social spending, as governments struggle to finance public expenditure in low- and middle-income countries.

Figure 5. Additional planned health and non-health sector spending or foregone revenue required to finance the COVID-19 response in 23 countries

Extrabudgetary measures in response to the COVID-19 pandemic as a per cent of GDP as of end 2020



Source: Fiscal Policies Database in Response to COVID-19, IMF.

[6] Fiscal Policies Database in Response to COVID-19, IMF.