Protecting and Transforming Social Spending for Inclusive Recoveries

Financing Social Spending during COVID-19: Monthly Update #5

August 2021

This is the fifth and final 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 countries: Antigua and Barbuda, Argentina, Bahrain, Barbados, Botswana, Cape Verde, China, Congo, Costa Rica, Côte d'Ivoire, Croatia, the Dominican Republic, Democratic People’s Republic of Korea, Equatorial Guinea, Gabon, Ghana, Greece, Grenada, Guyana, Kazakhstan, Kosovo, Kuwait, Malaysia, the Marshall Islands, Montenegro, Namibia, Nigeria, Palau, Panama, Qatar, Saint Kitts and Nevis, Saint Lucia, South Africa, Thailand, Trinidad and Tobago, United Arab Emirates, Uruguay, and Vanuatu.

Taken together, these five monthly updates now cover 150 UNICEF partner countries.

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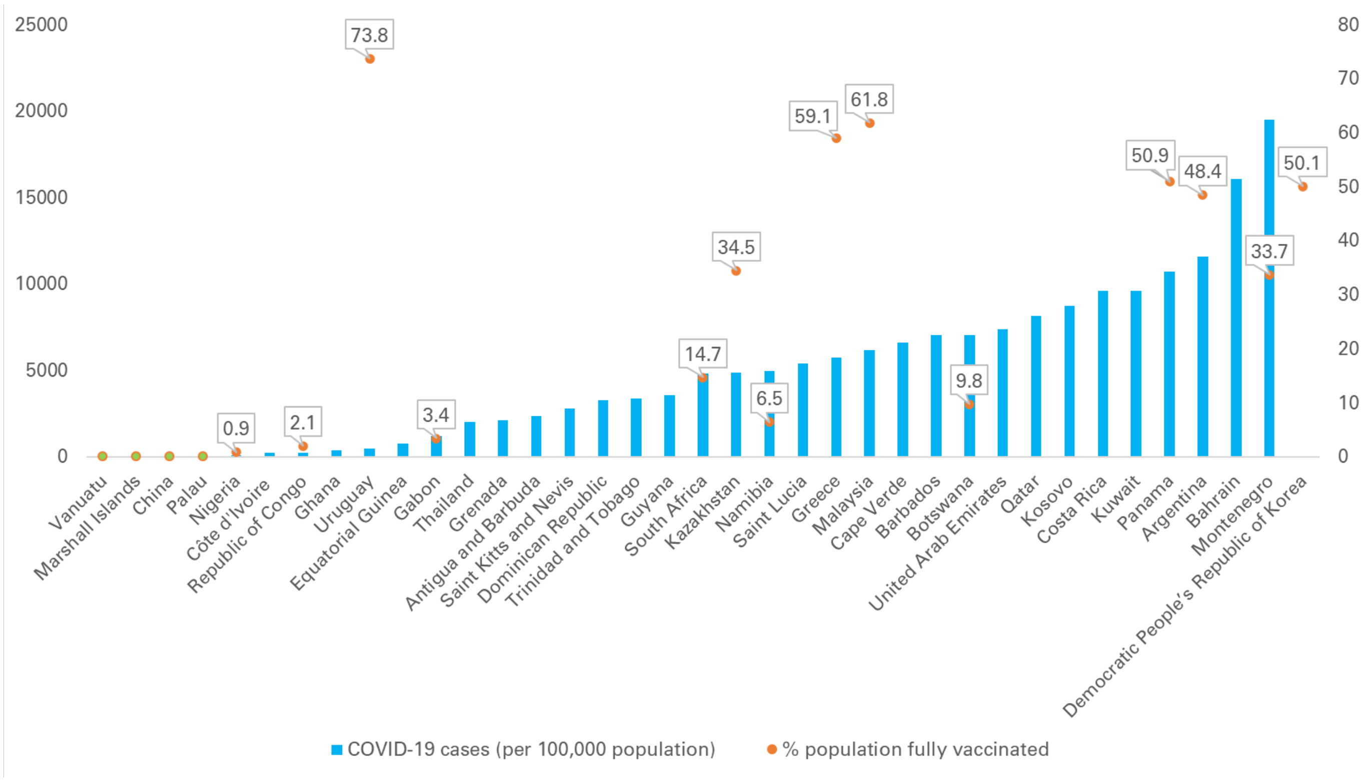
Key messages

Despite the predominantly upper-and high-income status of this group of countries, median COVID-19 vaccination rates hover at just over a third of the population (34.1 per cent) (*see Figure 1*). The gap between vaccination rates in rich and poor countries is causing growing concerns about the prospects for the global economic recovery. High-income countries in this cohort have a median vaccination rate of 66.4 per cent, compared with just 2.1 per cent of the population in low-and lower-middle income countries. The IMF cites the 'great vaccine divide', alongside debt and the threat of inflation in its recent decision to trim the economic growth forecast for 2021 (now slightly down from +6 per cent) (Reuters, Oct 5, 2021). Countries in sub-Saharan Africa have particularly low COVID-19 vaccination rates: in Nigeria, the Congo and Gabon, under 5 per cent of the population is currently fully vaccinated.

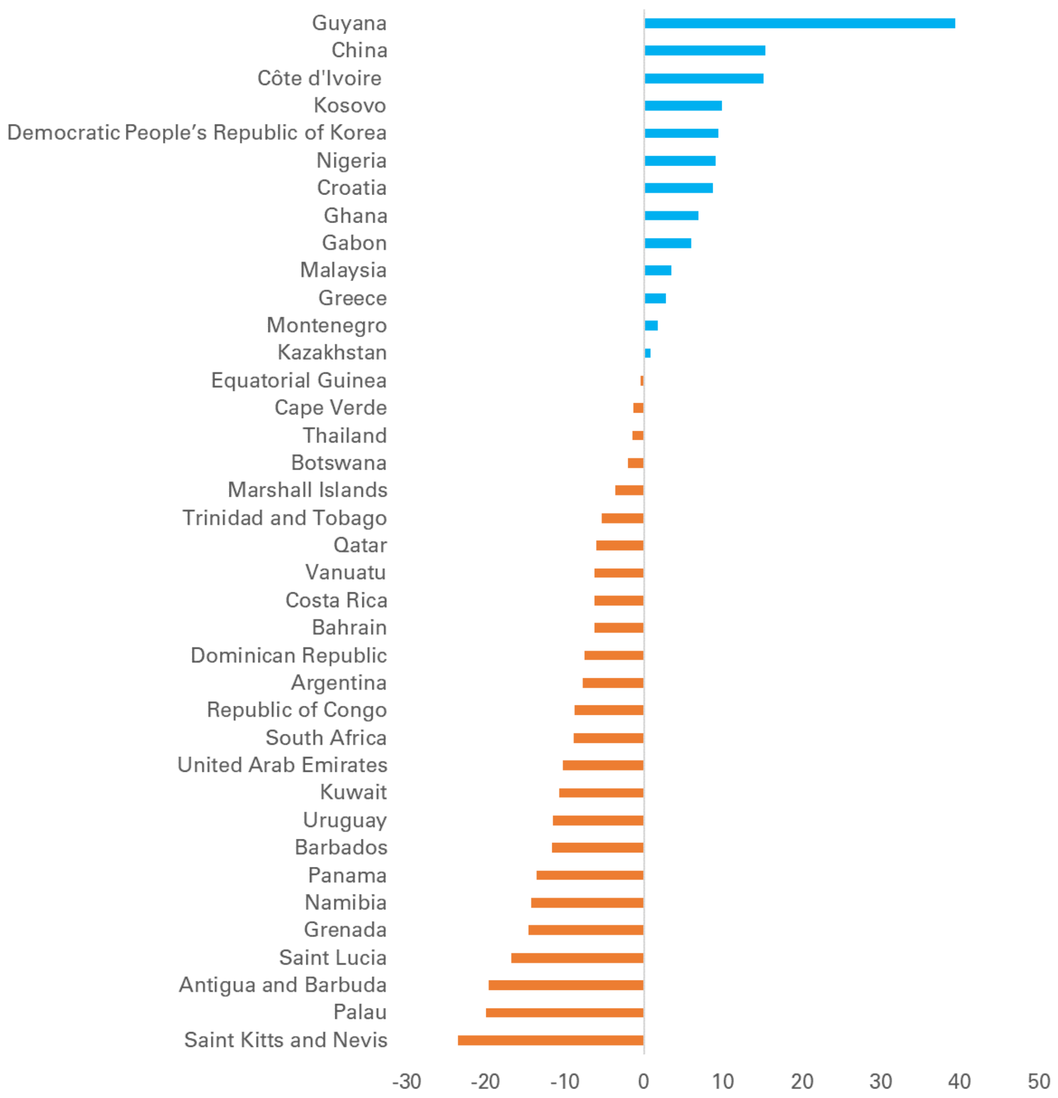
Figure 1. Cumulative COVID-19 cases and percentage of the population fully vaccinated



Sources: WHO COVID Dashboard; Our World in Data, using latest available data, August 2021
Note: COVID-19 case data missing for Democratic People's Republic of Korea and Croatia. Countries marked in green have COVID-19 case rates under 10 per 100,000 population

Divergent economic recoveries between richer and poorer countries also threaten global economic growth prospects (IMF World Economic Outlook, April 2021). While some countries have enjoyed strong growth since the start of the pandemic – Guyana's economy for example grew by well over a third during this period – others have seen significant economic decline. Small Island States in Latin America and the Caribbean, and East Asia and Pacific regions, have been particularly badly affected. Antigua and Barbuda, Palau, and Saint Kitts and Nevis all saw their economies shrink by about one fifth between 2019 and 2021, in large part due to the collapse in tourism as borders closed. Taken together, almost two thirds of this group of countries has seen their economies shrink over the course of the pandemic (*see Figure 2*).

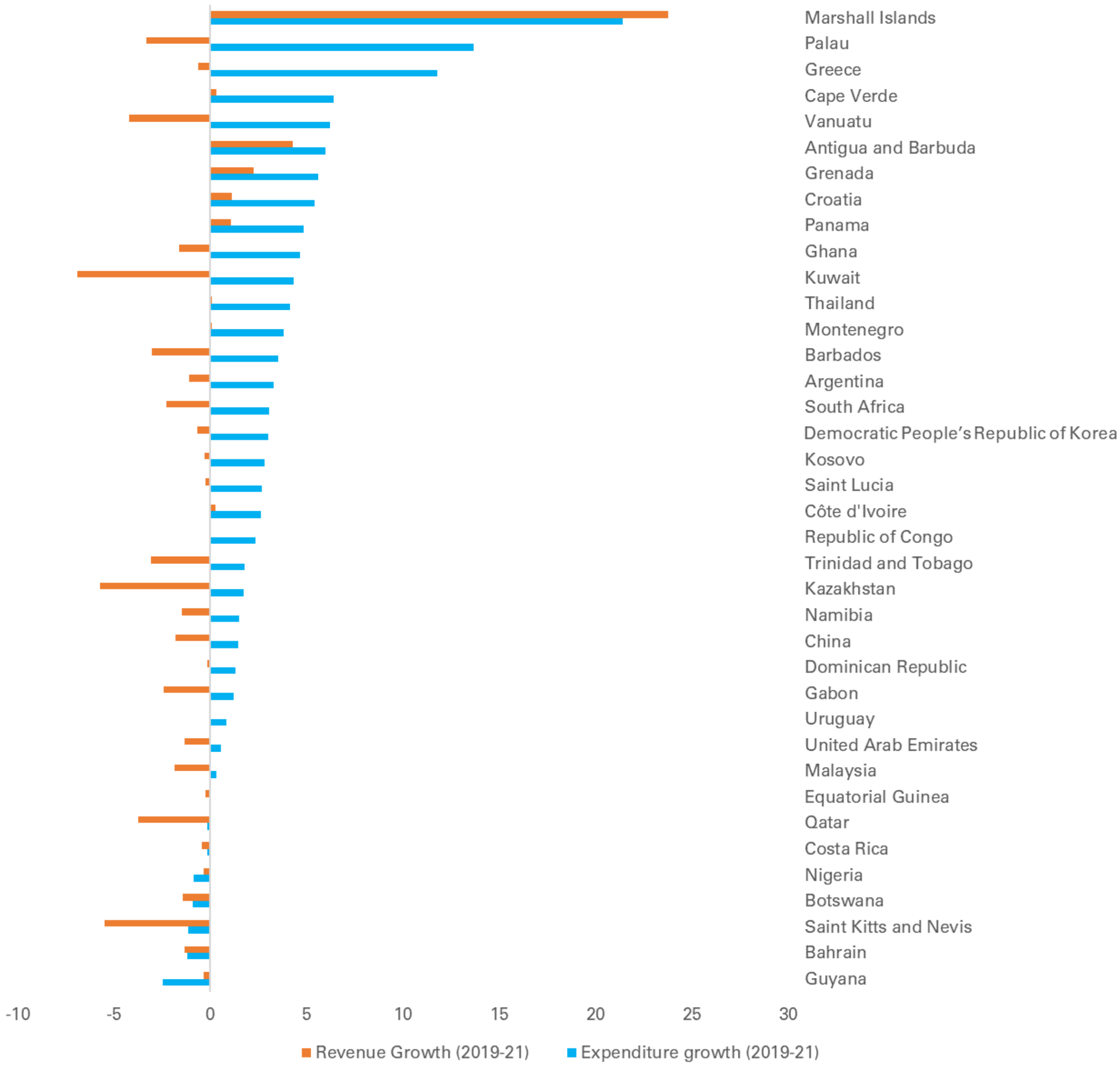
Figure 2. GDP per capita growth between 2019 and 2021



Source: IMF World Economic Outlook, April 2021, author's calculations. Estimates start after 2019.

Revenue prospects have also been particularly badly hit by the impact of COVID-19: almost three quarters of these countries (28/38) have seen revenue fall during this period. In some cases, this might lead to cuts in social spending: five countries are reporting decreases in expenditure in one or more social sectors in the first quarter of this year, according to [UNICEF COVID Monitoring Reports](), the majority in the education sector. However, over three quarters (30/38) have increased general government expenditure between 2019 and 2021 (*see Figure 3*).

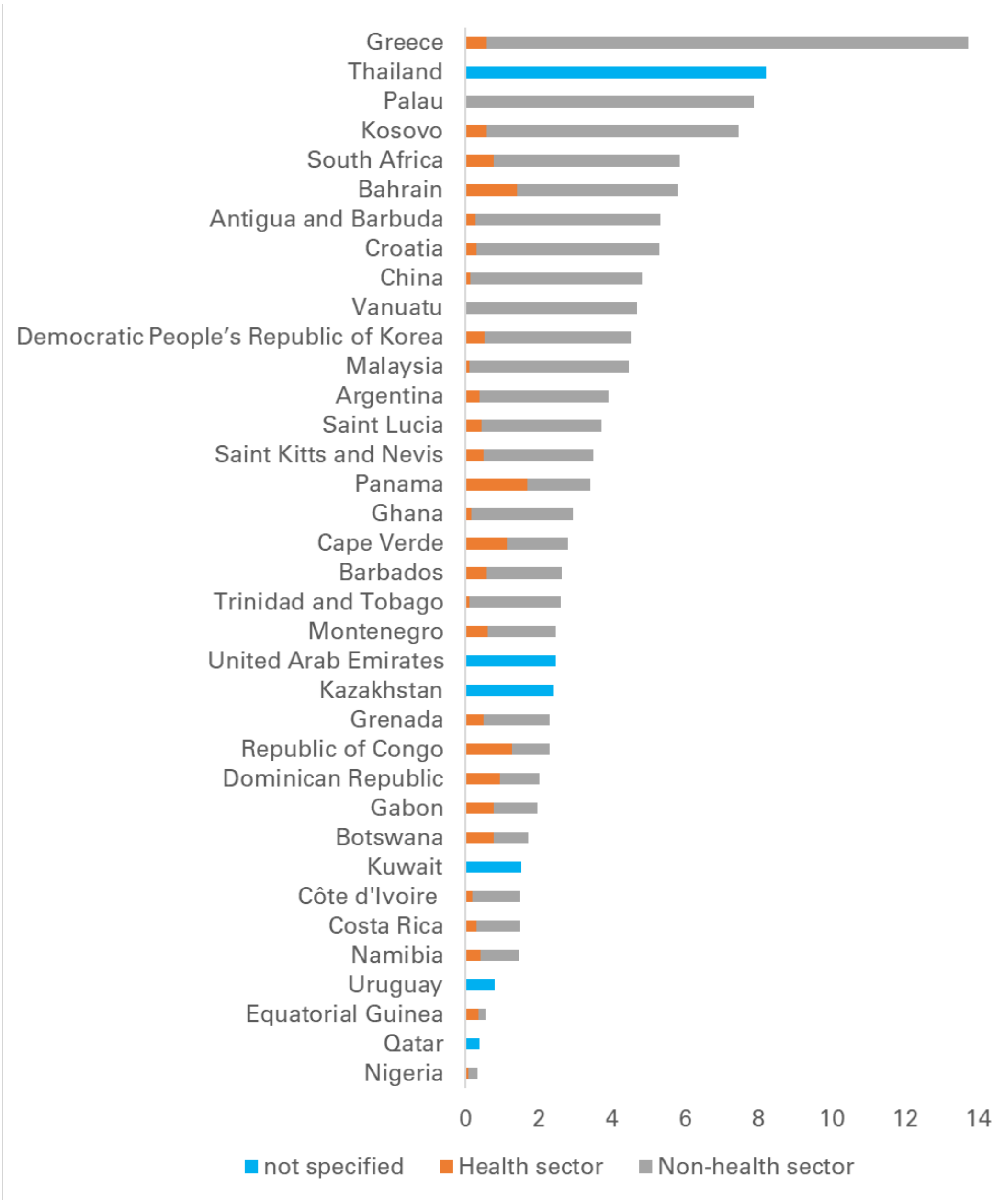
Figure 3. Growth in revenue and expenditure as a percentage of GDP between 2019 and 2021



Source: IMF World Economic Outlook, April 2021, author's calculations. Estimates start after 2019.

Much of the increased expenditure has gone to the COVID-19 response. On average, this group of countries has spent 3.6 per cent of GDP on additional spending or foregone revenue to date. Of this, only 0.5 per cent of GDP has gone to the health sector (*see Figure 4*). Instead, the policy response in most of these countries has focused on a package of economic measures including tax relief for business and individuals, and enhanced social protection benefits ([IMF Policy Responses to COVID-19]).

Figure 4. COVID-19-related additional spending and foregone revenue as a percentage of GDP



Source: Author's calculation based on IMF COVID lending; OECD DAC ODA and UN Population Prospects.

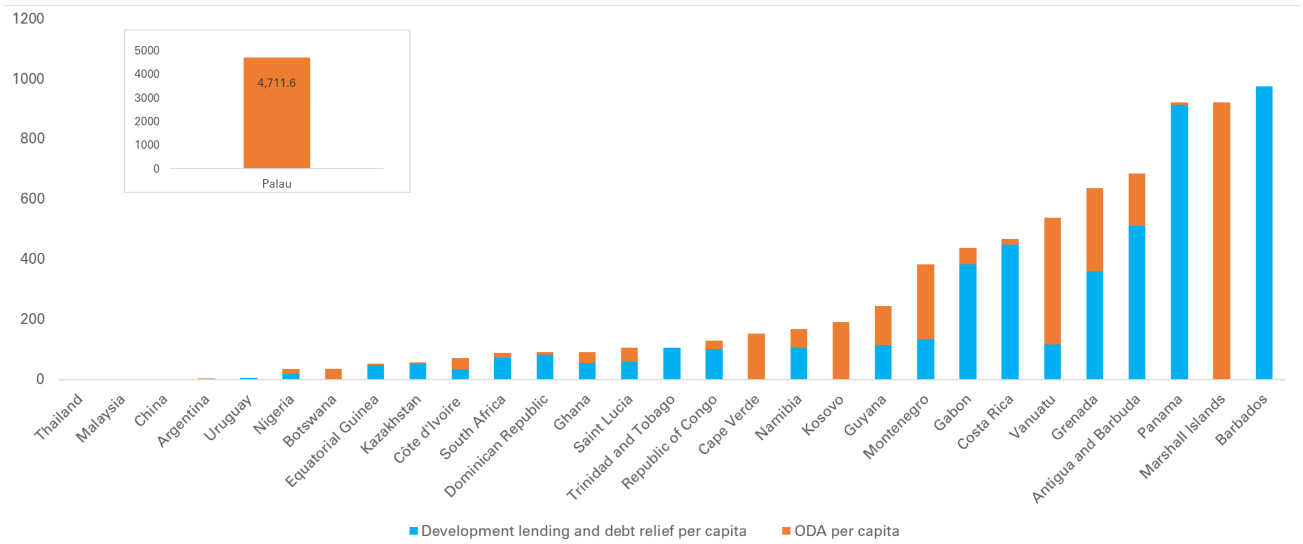
The level of additional spending has led to a growing fiscal deficit in almost all countries. All except three countries (Argentina, the Marshall Islands, and Nigeria) are now running increased fiscal deficits, with deficits growing by over 10 percentage points between 2019 and 2021 in Kuwait, Palau and Vanuatu (*see Figure 4*).

Figure 5. Percentage point growth in fiscal deficit between 2019 and 2021

Source: IMF World Economic Outlook, April 2021, author's calculations. Estimates start after 2019.

Countries may struggle to finance this level of increased spending on top of declining revenue and increasing deficits. There are wide inequalities in the levels of external finance countries have been able to access. While several smaller nations in Latin America and the Caribbean have accessed significant levels of development lending and ODA per capita, other more populous nations have received much less in per capita terms *(see Figure 5).* Taken together, median ODA is USD 36.6 per capita; with median debt relief and development lending almost double this at USD 72.6 per capita.[1] Two countries, the Congo and Grenada, are currently in debt distress according to the IMF, and two more, Ghana and the Marshall Islands, are currently considered at high risk of debt distress (IMF, June 2021). To meet the SDGs despite these challenges, it will be crucial that countries avoid fiscal austerity, and that governments and development partners continue to invest in social spending for children during the recovery period.

Figure 6. ODA, development lending and debt relief (USD per capita) as part of the COVID-19 response in 2020



Source: Author's calculation based on IMF COVID lending; OECD DAC ODA and UN Population Prospects.

[1] 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, estimate based on preliminary reports of an overall ODA growth rate of 3.5 per cent.