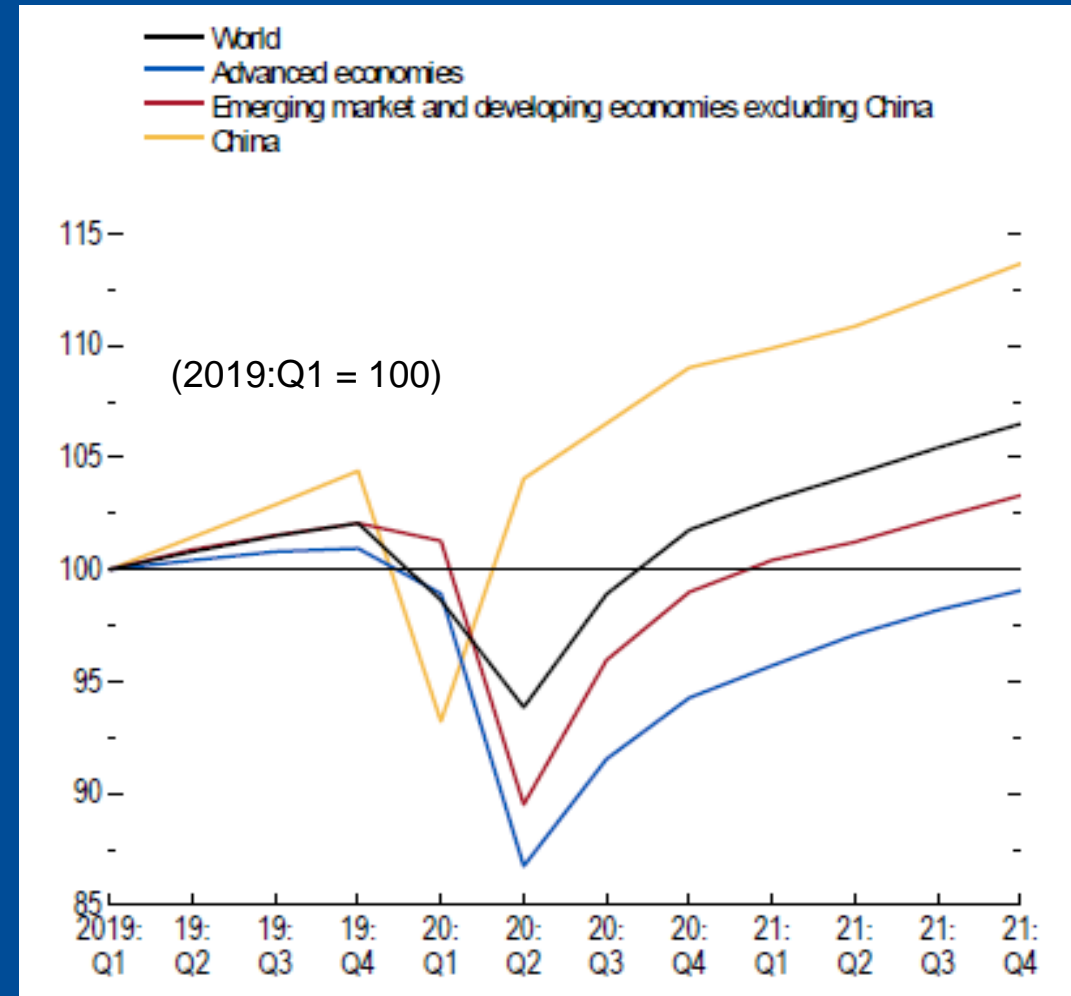**FISCAL AFFAIRS**

From Lockdown to Recovery: Spending Measures to Support Firms and Households during COVID-19
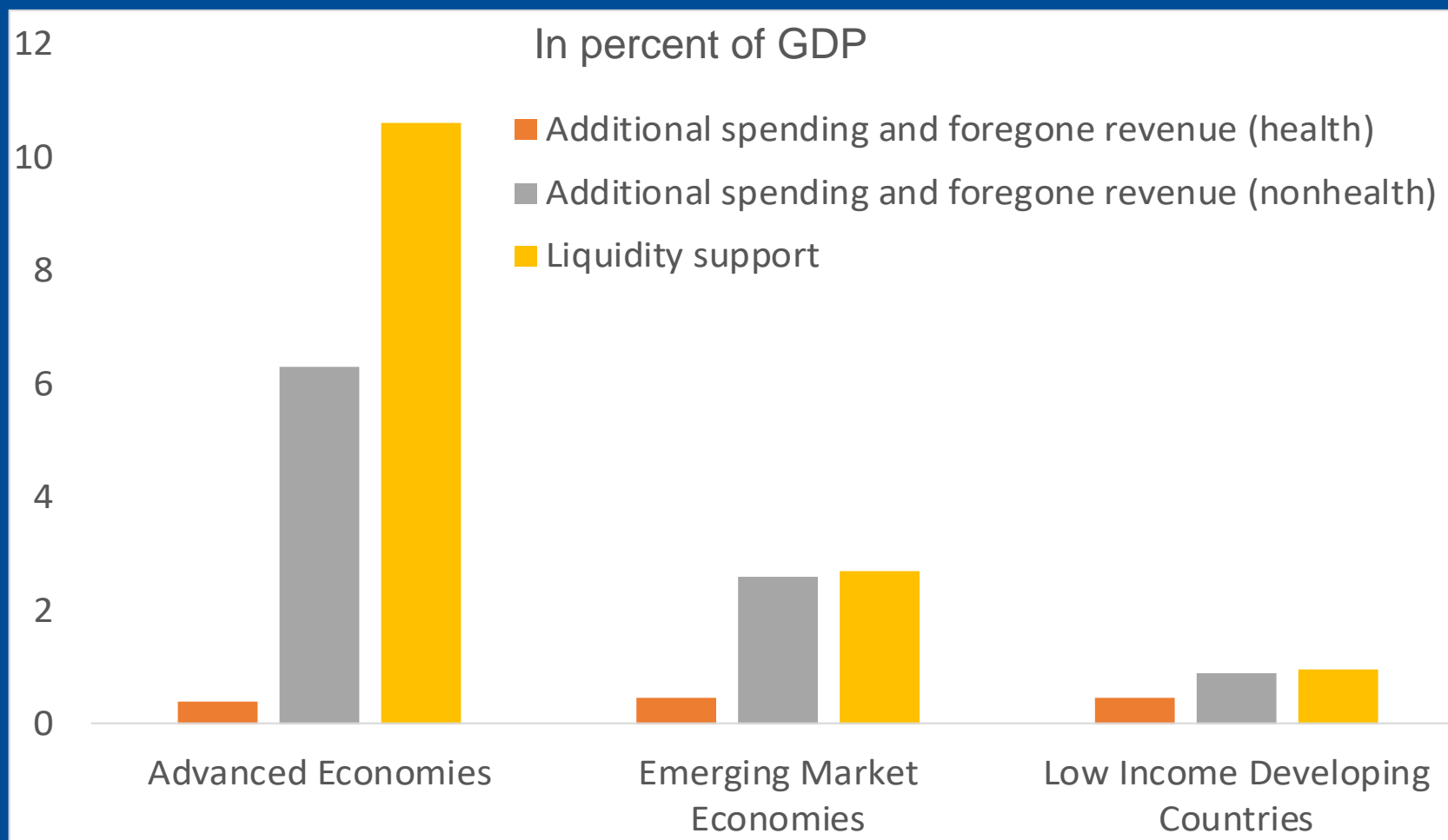
July 14, 2020

Baoping Shang

COVID-19 is expected to take a substantial toll

- Deeper contraction and slower recovery than previously projected

- Large uncertainties

- Low-income households harder hit

(2019:Q1 = 100)

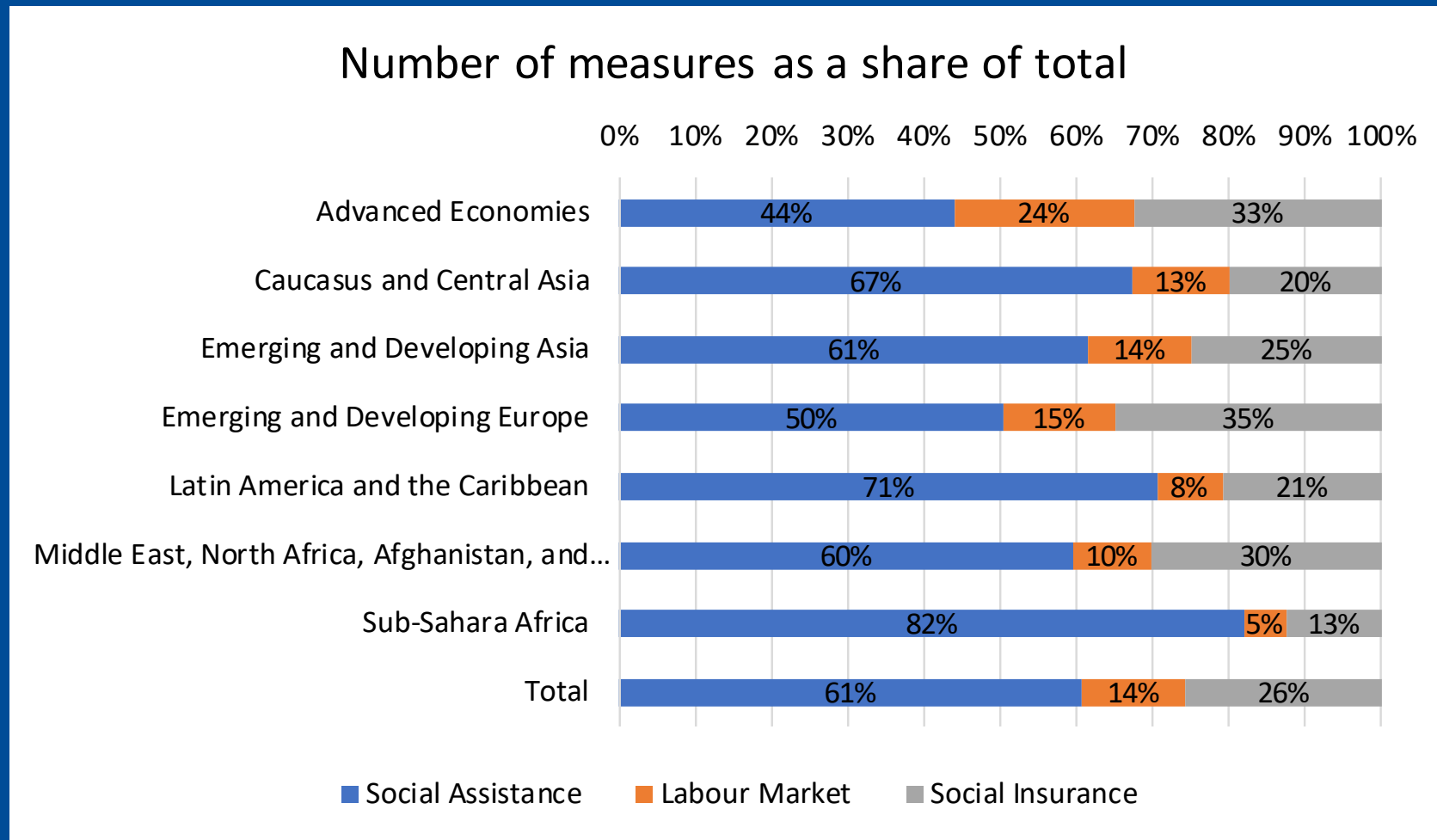Legend:
- World
- Advanced economies
- Emerging market and developing economies excluding China
- China

Source: June WEO, IMF.

Fiscal responses have been unprecedented

In percent of GDP

- ■ Additional spending and foregone revenue (health)
- ■ Additional spending and foregone revenue (nonhealth)
- ■ Liquidity support

Sources: National authorities; and IMF staff estimates.
Note: Data are as of June 12, 2020, covering a sample of 55 countries. The estimates are based on simple averages.

The designs differ substantially by region and country

Number of measures as a share of total

Region	Social Assistance	Labour Market	Social Insurance
Advanced Economies	44%	24%	33%
Caucasus and Central Asia	67%	13%	20%
Emerging and Developing Asia	61%	14%	25%
Emerging and Developing Europe	50%	15%	35%
Latin America and the Caribbean	71%	8%	21%
Middle East, North Africa, Afghanistan, and…	60%	10%	30%
Sub-Sahara Africa	82%	5%	13%
Total	61%	14%	26%

■ Social Assistance ■ Labour Market ■ Social Insurance

Sources: Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures (World Bank).

Expenditure policy designs: some general considerations

- Clear policy objectives can help inform responses and designs.

- Measures consistent with medium-term development goals should be prioritized.

- The extent of targeting involves several tradeoffs.

- Designs should be closely aligned with existing infrastructure.

During the lockdown

Supporting firms

- Keeping viable firms alive while preserving employment; facilitate recovery by avoiding disruptive and costly bankruptcies

- Temporary

- Targeted: based on financial conditions, sectors (Indonesia and US), locations (Italy), firm size (Armenia, Spain), or some combinations (NY and South Korea)

- Informal sector is often difficult to reach

Preserving employment linkages

- Preventing loss of firm-specific human capital; buffer employment and economic activity

- Temporary

- Wage-based measures such as short-time work schemes (Austria, Singapore, UK, Germany, and Bangladesh)

- Measures targeted at employment levels (Italy, Spain, Denmark, and US)

Supporting households

- Strengthen existing social protection programs in countries with sufficient capacity, including expanding coverage (Finland, US, Brazil, Indonesia, and Colombia), increasing benefit levels (Australia and Belgium), extending benefit period (Greece and US), and expanding paid leave benefits (Austria and Germany)

- Countries with weak capacity can explore alternative approaches:
  - Cash transfers targeted at specific population groups (India and Bolivia) or regions (i.e., most affected areas)
  - Subsidies for key goods and services such as food, health, transportation and utilities (Indonesia and Jordan)
  - Use information of and deliver benefits through various government entities and community organizations (Rwanda, Nepal, Egypt and Peru)

- (Near) universal transfers may be considered as a complementary income support tool to existing benefit systems (Hong Kong, Singapore, and US)

- ALMPs such as public works may only play a limited role (Philippines, China and Estonia)

For the recovery and medium term

Improving economic incentives

- Move away from saving firms and protecting jobs

- Phase out short-time work schemes and maybe replace them with in-work benefits and hiring subsidies where cost-effective (UK)

- Reduce the generosity of unemployment benefits where replacement rates are too high (Canada and United States)

- Strengthen activation policies for unemployment benefits

- Target ALMPs (e.g., training, employment services and public works) at specific groups where cost-effective

- Prioritize measures that can help stimulate aggregate demand (China, Malaysia, and Luxemburg)

Building strong and resilient social protection systems

- Strengthen social protection systems by improving coverage, targeting and benefit delivery

- May start by refining the programs that were introduced as quick fixes and consolidating multiple programs

- Universal (near universal) transfer programs can provide a basis for strengthening the safety net over the medium term

- Should consider work incentives in program designs

Further information

IMF policy notes on how to respond to the crisis
https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes

Policy tracker of global country level response measures
https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19

IMF WEO, June 2020
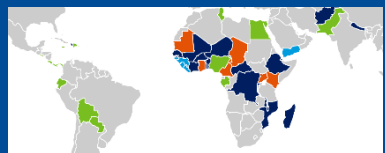https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020

Summary of IMF lending instruments
https://www.imf.org/en/About/Factsheets/Sheets/2020/02/28/how-the-imf-can-help-countries-address-the-economic-impact-of-coronavirus

Summary of IMF emergency lending approved to date
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker