

# Chapter 11

## Economic Growth and Changes in Public Expenditures of the States in the Time of the COVID–19 Pandemic: An Assessment of Development Level Based on Country Groups

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### **ABSTRACT**

*Fiscal policies are changing due to the conditions required by the COVID-19 pandemic towards the new world order. Under these circumstances, developed countries use their resources for their citizens, and international financial institutions step in for underdeveloped and developing countries with insufficient public resources of their own or are in debt and offer new credit opportunities to these countries. This study aims to analyze how public expenditures, one of the important policies in economic growth and development, will change during and after the COVID-19 pandemic. In light of the findings obtained from the literature review, the economic effects of the pandemic are explained by making a descriptive analysis of secondary data at the levels of country groups classified according to development and income level. Secondly, factors affecting the changes in the public expenditure of countries due to the pandemic were examined, and evaluations are made on the public expenditures in fiscal policies that will ensure the economic recovery and growth of countries after the pandemic.*

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## **INTRODUCTION**

With the COVID-19 pandemic, economic problems began to surround people's lives. People are faced with many financial obligations such as the closure of businesses at the micro-level, part-time or remote working, layoffs, human needs essential for life, taxes, loans and bills to be paid. The fear of losing health, not being able to work and perform old activities affected many people, from the youngest to the oldest, during the pandemic process. At the macro level, the pandemic conditions, which disrupted commercial activities, production and financial markets, and service sector, resulted in financial obligations for companies. While some countries aimed to meet citizens' and firms' certain financial needs to the extent that public resources allowed, some of them offered limited support, except for health measures, due to the inadequacy of resources. As stated in the World Bank's (WB) 2020 Annual Report, "*the COVID-19 pandemic is threatening lives, livelihoods, and entire economies, erasing decades of economic progress, poverty reduction, and gains in human development*" (World Bank, 2020, p.3).

Unlike previous financial crises, not only a specific region, country, market(s) or companies, but also the whole world has been affected globally by the COVID-19 pandemic. All people have been involved in the process, affecting their health and living standards. Therefore, it is necessary to provide some support and measures so that economic difficulties can be tackled in a way that encompasses all stakeholders of the economy. As in previous crises, countries will implement monetary and fiscal policies in this crisis in order to overcome the process and expand the regressed economic growth. The economic policies to be implemented to overcome the COVID-19 pandemic may vary and diversify in line with the economic conditions, market structures and social preferences of the countries. However, in this process, the implementation of fiscal policies and especially public expenditures is more visible not only for the recovery and growth of the country's economy and the payment of increasing debts but also for solving the financial problems of individuals and companies as suggested by the economic authorities.

Current studies and analyses carried out on the effects and consequences of the economic crisis created by the COVID-19 pandemic on countries are still far from illuminating the real situation. As this crisis affects the whole world simultaneously, it will not be overcome quickly and easily. Therefore, the recommended financial policies and the recommendations for public expenditures within the fiscal policies, which are the main framework of the study, are still open to discussion.

According to the International Monetary Fund (IMF) regarding the COVID-19 pandemic; "*Where conditions and room in the budget allowed, governments also stopped the freefall of global growth with extraordinary monetary and fiscal support—the latter to the tune of \$11.5 trillion globally as of September 2020—to extend lifelines to businesses and people*" (IMF, 2020, p.8).

Due to the constraints on purpose and scope, the present study examines fiscal policies regarding expenditures according to income levels under the economic crisis conditions that started with the COVID-19 pandemic and focuses on the relationship between public expenditures and economic growth. From this point of view, the study only aims to investigate the change in fiscal policies and the direction of public expenditures in the growth axis of these country groups. The literature review section of the study deals with how the fiscal policies and public expenditures can be used in the economically shrinking countries during the economic crisis generated by the COVID-19 pandemic. The main focus part of the study analyses the change of public expenditures in line with the pandemic conditions and the COVID-19 responses of the countries based on their income levels in terms of public expenditures.

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