



# COVID-19: How to Record Government Policy Interventions in Fiscal Statistics

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# COVID-19 How to Record Government Policy Interventions in Fiscal Statistics: Overview

- **Introduction to IMF Statistics Department (STA) guidance note**
- **Summary of guidance in note : by 8 broad types of intervention**
- **Country examples**
- **Questions & Answers**

# Introduction

STA has prepared a guidance note with recommendations on how to record the most commonly observed interventions in fiscal accounts

Guidance note available at <https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes>

Based on GFSM 2014 (but recommendations apply to GFSM 2001) – some different implications for the Overall Balance for countries that still follow GFSM 1986

Note focuses on the impact on the deficit, but fiscal interventions will also affect gross and net debt, financial net worth and net worth.

# Eight Broad Types of Intervention

- A. Increased healthcare spending
- B. Provision of assistance to households
- C. Relaxation of tax obligations for households and corporations
- D. Provision of financial assistance to corporations (and other units other than households)
- E. Capital injections, establishment of new, or extended, lending facilities and provision of guarantees
- F. Emergency assistance from international organizations and foreign governments
- G. Liquidity and quasi-fiscal operations by public financial institutions
- H. Debt reorganization

# A. Increased Healthcare Spending

Recorded Above-the-Line

**Three broad types of spending:**

- Additional spending on more healthcare workers or increased spending on existing healthcare workers
- Additional spending on medical supplies
- Construction of new health facilities and acquisition of new medical equipment

# A. Increased Healthcare Spending

## A1. Additional spending on more healthcare workers or increased spending on existing healthcare workers

- **Will depend upon the classification of the institutions that employ the health workers.**
  - ▶ If healthcare workers are employed in public hospitals, *classified inside general government*, then extra spending is recorded as **compensation of employees (GFS Code 21)**
  - ▶ If healthcare workers are employed by private healthcare contractors, then additional payments would be recorded in **Use of goods and services (22)**

# A. Increased Healthcare Spending

## A2. Additional Spending on Medical Supplies

- **How to record purchases of masks, personal protective equipment, additional drugs etc. will again depend on the classification of the entities involved in delivering healthcare.**
  - ▶ If healthcare is delivered through public hospitals, classified inside general government, then extra spending is just additional spending on **use of goods and services (22)**
  - ▶ If goods and purchased by government and distributed to households, then guidance under B3 is applicable (see below)
  - ▶ If government is buying supplies for private healthcare providers, then purchases may be treated as a **subsidy (25)** or **other expense (28)**

# A. Increased Healthcare Spending

## A3. Construction of new health facilities and acquisition of new medical equipment

- **New or extended medical facilities, quarantine facilities, ventilators.**
  - ▶ Assuming purchases are for a government hospital, these will be recorded as **acquisitions of nonfinancial assets / fixed assets (311)**
  - ▶ But if government is only financing additional facilities / equipment for private hospitals, then record these payments as an **other expense / capital transfer not elsewhere classified (2822)**
  
- **Important question – are these temporary facilities, intended for short term use? E.g. temporary testing facilities.**
  - ▶ Short term facilities may not qualify as a fixed asset (which would be used for more than one year) – record spending on such facilities as additional spending on **use of goods and services (22)**, in line with A2.

## B. Provision of Assistance to Households

Recorded Above-the-Line

### **Four broad types of assistance:**

- Cash payments designed to address social needs arising from social risks
- Fixed amount cash payments not based on social needs arising from social risks
- Provision of food, medicines, and other households goods for free by government
- Onward distribution by government of food, medicines and other household goods provided by donors

## B. Provision of Assistance to Households

### B1. Cash payments designed to address social needs arising from social risks

- **Payments to households that are sick, unemployed, caring for sick relatives.**
  
- **Recorded as Social Benefits (27) in most cases;**
  - ▶ If payments are made through a social insurance scheme, and the recipients are limited to those households which have contributed to the scheme, then they should be recorded as **Social security benefits (271)**
  - ▶ If payments are made to households, irrespective of past contributions to a social insurance scheme, record as **social assistance benefits (272)**
  - ▶ If the payments are social benefits payable by governments to their own employees under existing contractual arrangements they should be recorded as **Employment related social benefits (273)**

## B. Provision of Assistance to Households

### **B2. Fixed amount cash payments not based on social needs arising from social risks**

- **Flat rate benefits to all or large proportion of households, unrelated to social risks and needs, are not recorded as social benefits.**
  - ▶ In this case, record these payments as **other expense, current transfers not elsewhere classified (2821)**

## B. Provision of Assistance to Households

### **B3. Provision of food, medicines, and other households goods for free by government**

- **Government purchases goods and provides them to households, rather than providing cash benefits.**
  - ▶ In general, record these as **other expense, current transfers not elsewhere classified (2821)**
  - ▶ If provided under a social protection scheme, related to social risks, record as **social benefits in line with B2**
  - ▶ If provided by governments solely to their employees, record as **Expense/Social Benefits/Employment-related social benefits in kind (2732)**

## B. Provision of Assistance to Households

### **B4. Onward distribution by government of food, medicines and other household goods provided by donors**

- **Various types of goods can be provided by foreign governments, NGOs, philanthropic institutions, for onward distribution to households.**
  - ▶ The redistribution by government of the goods should be recorded as **Expense/Other Expense/Current transfers not elsewhere classified (2821)**
  - ▶ Matching revenue should be recorded as either **Grants (13)** or **other revenue (14)** depending on whether the donor is a foreign government or international organization, or a private sector donor respectively
  - ▶ No impact on deficit by recording these flows in revenue and expense, but a better picture of overall flows is achieved by this approach

## C. Relaxation of Tax Obligations

Generally impacts Above-the-Line

### Three broad examples:

- Temporary changes to tax scheme rules to reduce tax obligations (Tax cuts or “Tax Holidays”)
- Temporary changes to increase the level of payments and/or number of beneficiaries for tax credits
- Deferral of tax payments

## C. Relaxation of Tax Obligations

### C1. Temporary changes to tax scheme rules to reduce tax obligations

- **These type of changes reduce tax payers tax obligations – so less tax is owed.**
  - ▶ Result in a lower amount of revenue collected
  - ▶ For countries that record taxes on a cash basis, or a time adjusted cash basis, data will feed through automatically
  - ▶ (Complications may arise for any country recording taxes on an accrual basis, or based on “assessments and declarations”)

## C. Relaxation of Tax Obligations

### C2. Temporary changes to increase the level of payments and/or number of beneficiaries for tax credits

- **Temporary increases in non-payable tax credits (that reduce the value of taxes owed).**
  - ▶ Result in a reduction of tax revenue
- **Temporary increases in payable tax credits (that reduce the value of taxes owed and trigger payments from government to tax payers).**
  - ▶ Record these on a gross basis – i.e. record the full amount of tax prior to the tax credit being applied as revenue, and the gross amount of tax credit as an expense – typically either a **subsidy (25)** – where the recipient is a corporation – or a **social benefit (27)** where the recipient is a household

# C. Relaxation of Tax Obligations

## C3. Deferral of tax payments

- **Allowing tax payers to pay tax owed now in a later period.**
  - ▶ Deferral of tax payments should not impact total revenue over period of deferment but short-term tax revenue may be impacted, depending on cash or accrual basis of tax recording
  - ▶ For countries that record taxes on a cash basis, deferrals will be reflected in different timing for tax receipts
    - ◆ Need to explain impact of deferrals to users of revenue data
  - ▶ For countries that record on an accrual or time adjusted cash basis, more careful adjustments will be required

## D. Provision of Financial Assistance to Corporations (and units other than households)

Recorded Above-the-Line

### Four broad types of assistance:

- Increased Subsidies
- Payments from governments to corporations to support them in keeping part, or all of their workforce temporarily idle ('furloughed')
- Payments from governments to corporations to help them cover exceptional losses
- Payments to other governments (foreign or domestic)

# D. Provision of Financial Assistance to Corporations (and units other than households)

## D1. Increased Subsidies

- **Common for government to provide subsidies – to producers in various industries – to cover annual deficits or encourage particular types of economic activity or production of specific goods and services. Covid-19 related impacts may result in higher subsidies under these existing mechanisms.**
  - ▶ Recorded as Expense/Subsidies (25), where government makes unrequited payments to corporations to support the productive activities of the corporations based on scheme rules which apply equally to all corporations working within an industry/region
  - ▶ But if government makes targeted payments to individual corporations, then these should be reviewed against the guidance for capital injections (E1 and E2)

# D. Provision of Financial Assistance to Corporations (and units other than households)

## D2. Payments from governments to corporations to support them in keeping part, or all of their workforce temporarily idle ('furloughed')

- **Most problematic new intervention seen during the pandemic – recording of payments depends on the predominant intent of the payment.**
  - ▶ If the payment is predominantly intended to support households incomes, and a business acts as a conduit for the payment, record these schemes as **Other expense / Social assistance benefits (272)** or as **Other Expense/Current transfers not elsewhere classified (2821)**
  - ▶ If the payment is predominantly intended to support the employer and the funds are provided to the employer with some discretion as to how the funds are used, then record as **Expense/Subsidies (25)**, between the government and employer, then as wages and salaries between the employer and employee
  - ▶ N.B. GFS recording should be consistent with statistical reporting in national accounts and labor market statistics

## D. Provision of Financial Assistance to Corporations (and units other than households)

### **D3. Payments from governments to corporations to help them cover exceptional losses**

- **Government may make one off payments to previously profitable businesses (e.g. airlines) making one off losses due to Covid-19.**
  - ▶ In line with GFSM guidance, record these payments not as subsidies, but as **Other Expense/Capital transfers not elsewhere classified (2822)**

# D. Provision of Financial Assistance to Corporations (and units other than households)

## D4. Payments to other governments (foreign or domestic)

- **Payments between government units – e.g. transfers from the budget to local government – are common. Depending on their own revenues or responsibilities, additional transfers may be needed during the pandemic.**
  - ▶ Payments between government units are recorded as grants in revenue (GFS Code 13) and expense (26)
  - ▶ Grants will be consolidated in data for the whole of general government or the public sector
  - ▶ Record as grants any payments to / from foreign governments or international organizations (e.g. WHO)

## E. Capital injections, establishment of new, or extended, lending facilities and provision of guarantees

Can be recorded Above-the-Line and / or Below-the-Line

### Five broad types of intervention:

- Capital injections by government into corporations (public and/or private).
- Direct government lending schemes to public and/or private corporations.
- Direct government lending schemes to households.
- Government initiatives to support lending by banks, and other financial corporations, through provision of guarantees on the loans they have extended.
- Government initiatives to support lending by banks, and other financial corporations, through provision of lending to banks.

## E. Capital injections, establishment of new, or extended, lending facilities and provision of guarantees

### E1. Capital injections by government into corporations (public and/or private).

- **Covered in detail in GFSM 2014 A3.47-A3.53. Capital injections are cases where government claims to be acquiring additional equity, or loaning money to a corporation (loans discussed under E.2)**
  
- **Key question for equity transactions – can government expect a “realistic return” on its investment?**
  - ▶ If no realistic return, capital injections should be recorded **Above-the-Line** as an Expense/Other Expense/Capital transfer not elsewhere classified (2822).
  - ▶ If a realistic return is expected, record **Below-the-Line** as Net Acquisition of Financial Assets/Equity (3205), with no impact on the deficit.
  - ▶ If equity is purchased for >market price (quoted shares), payments should be *partitioned*.

## E. Capital injections, establishment of new, or extended, lending facilities and provision of guarantees

### **E2. Direct government lending schemes to public and/or private corporations.**

- **In general, recorded as Net Acquisition of Financial Assets/Loans (3204), whether the lending is concessional or non-concessional**
  - ▶ However, if there is evidence that the government does not acquire an effective financial claim\* on the debtor and so the loan is unlikely to be repaid, then the government payments should be recorded as Expense/Other Expense/Capital transfers not elsewhere classified (2822).
  
  - ▶ **For both E1 and E2, look closely at large injections or large loans at concessional rates into historically loss making entities proposed to be recorded below-the-line.**

E. Capital injections, establishment of new, or extended, lending facilities and provision of guarantees

**E3. Direct government lending schemes to households.**

- **Similar to loans to corporations, in general recorded Below-the-Line as Net Acquisition of Financial Assets/Loans (3204)**
  - ▶ However, if it is clear loans to households will never be repaid, then the government payments should be recorded as Expense/Other Expense/Capital transfers not elsewhere classified (2822).

## E. Capital injections, establishment of new, or extended, lending facilities and provision of guarantees

### **E4. Government initiatives to support lending by banks, and other financial corporations, through provision of guarantees on the loans they have extended.**

- **Guarantees are contingent liabilities, and not recorded as debt or transactions for government when they are issued**
  - ▶ N.B. some governments have definitions of debt that include both debt and guaranteed debt.
  - ▶ If government receives fees for providing guarantees, fees should be recorded as Revenue/Other Revenue/Administrative fees (1422).
  - ▶ If a guarantee is called, government should record a debt assumption, as described in GFSM 2014 A3.26-A3.29 – this is recorded **Above-the-Line** as a Expense/Other Expense/Capital transfers not elsewhere classified (2822) and an increase in Government debt for the amount of debt assumed.
  - ▶ If, at issuance, its clear that a guarantee is highly likely to be called, then the entire amount of debt should be treated from inception as debt assumption by government.

E. Capital injections, establishment of new, or extended, lending facilities and provision of guarantees

**E5. Government initiatives to support lending by banks, and other financial corporations, through provision of lending to banks.**

- Recorded **Below-the-Line** as Net Acquisition of Financial Assets/Loans (3204) and shown in the balance sheet at nominal value
  - ▶ The recording is not influenced by whether the lending is backed by collateral or not.
  - ▶ As with other loans to households or nonfinancial corporations, if loans are not likely to be repaid, consider recording **Above-the-Line**.

## F. Emergency Assistance from International Organizations and Foreign Governments

Can be recorded Above-the-Line or Below-the-Line

**Three broad types of assistance:**

- Emergency lending by international organizations or foreign governments.
- Payments from international organizations and foreign governments where there is no financial claim established.
- Donations of goods and assets from international organizations and foreign governments.

# F. Emergency Assistance from International Organizations and Foreign Governments

## F1. Emergency lending by international organizations or foreign governments.

- **Examples include direct lending by the IMF, World Bank or bilateral loans from foreign governments**
- **Recorded below the line as increases in loan liabilities (3304) from external creditors in most cases;**
  - ▶ IMF loans are often first provided to the Central Bank, then on lent to the government. This should be recorded as external debt for the Central Bank, but domestic debt for Government.
  - ▶ If loans are made directly to the government, then they would be recorded as government external debt.

# F. Emergency Assistance from International Organizations and Foreign Governments

## **F2. Payments from international organizations and foreign governments where there is no financial claim established.**

- **This includes various forms of foreign aid that (subject to any conditionality) does not have to be repaid**
  
- **Recorded as Revenue/Grants/Grants from foreign governments (131) or international organizations (132) depending on the donor**
  - ▶ Note that bilateral donations from non-government foreign entities are not recorded as grants but as Other Revenue/Other current transfers (1441).

## F. Emergency Assistance from International Organizations and Foreign Governments

### F3. Donations of goods and assets from international organizations and foreign governments.

- **In the Pandemic, this has included donations of Food, Personal Protective Equipment and other medical supplies**
  
- **Recorded as Revenue/Grants/Grants (in-kind) from foreign governments (131) or international organizations (132) depending on the donor and an expense if / when the donated items are used / distributed**
  - ▶ Even if GFS is on a cash basis, countries should adjust for in-kind donations where amounts are material, valued at market value of the donated goods.
  - ▶ Goods or supplies should be recorded as current grants, assets should be recorded as capital grants.
  - ▶ Note that in-kind donations from non-government foreign entities are not recorded as grants but as Other Revenue/Other current transfers (1441).

# G. Liquidity and Quasi-Fiscal Operations by Public Financial Institutions

Generally Below-the-Line or no impact, but Above-the-Line is possible in some scenarios

## Two broad examples:

- The purchase of government bonds by the Central Bank from the secondary market, as part of a quantitative easing program.
- Government provision of government debt securities (either directly or through a public financial corporation) to financial or nonfinancial corporations in exchange for other financial assets.

# G. Liquidity and Quasi-Fiscal Operations by Public Financial Institutions

**G1. The purchase of government bonds by the Central Bank from the secondary market, as part of a quantitative easing program.**

- **Not widely applicable to SARTTAC countries! QE refers to cases where the Central Bank purchases government bonds in the secondary markets**
  
- **No GFS transactions to record, and no direct government debt impact at time of purchase by Central Bank**
  - ▶ However, government debt counterparties will change - debt to private sector becomes debt to the public sector.
  - ▶ For measures of public sector debt in the form of debt securities and loans, QE causes debt to fall, as government bond liabilities to private sector are replaced by Central Bank reserve liabilities.

# G. Liquidity and Quasi-Fiscal Operations by Public Financial Institutions

**G2. Government provision of government debt securities (either directly or through a public financial corporation) to financial or nonfinancial corporations in exchange for other financial assets.**

- **Often associated with “defeasance structures” and “bad banks”, refers to cases where government swaps “risky” bank loan assets for “safer” government debt**
- **In general recorded below-the-line as net acquisition of financial assets (3204) financed by net incurrence of liabilities (3303)**
  - ▶ However, if loan assets acquired are worth less than the debt securities issued in exchange (often the case when government acquires non-performing or toxic loan assets), government should record capital transfer above-the-line for the difference as Expense/Other Expense/Capital transfer not elsewhere classified (2822).

# H. Debt Reorganization

Generally gives rise to recording Above-the-Line

## Two broad scenarios:

- Government forgives (i.e., cancels) debt which is owed to it by other units in the economy.
- Government reschedules debt which is owed to it by other units in the economy, by either postponing repayment or lowering debt service costs.

# H. Debt Reorganization

## H1. Government forgives (i.e., cancels) debt which is owed to it by other units in the economy.

- Debt forgiveness is recorded Above-the-Line as an expense in GFSM framework
  - ▶ In general, recorded as Expense/ Other Expense/Capital transfer not elsewhere classified (2822) where the debtor unit is outside of government. This will be matched by a reduction in government financial assets, typically loans (3204).
  - ▶ If government forgives debt of other government units, this is recorded as Expense/Grants/Capital grants to other levels of government (2632) by the creditor, and as Revenue/Grants/Capital grants from other levels of government (1332) by the debtor. Consolidated general government will see no impact from debt forgiveness involving only government units.

# H. Debt Reorganization

**H2. Government reschedules debt which is owed to it by other units in the economy, by either postponing repayment or lowering debt service costs**

- **Recorded as repayment of the original debt instrument simultaneously with creation of the renegotiated new debt instrument.**
  - ▶ Debt levels at the point of debt rescheduling will be unchanged (any reduction being treated as debt forgiveness – see Item H1 (above)).
  - ▶ Future interest payable and/or debt repayment dates will change – with implications for government cash flow to repay its own debts.



Questions?

# Country Examples

- I. US - Paycheck Protection Program
- II. UK - Coronavirus Job Retention Scheme
- III. Bosnia and Herzegovina – Tourist Vouchers
- IV. The Gambia – Debt Relief Under Catastrophe Containment and Relief Trust

# I. US – Paycheck Protection Program

- Eligible - Small Businesses
- Funding type - 2 year loan, 1% interest rate with no interest for 6 months
- Funding limit - 2.5 times monthly payroll costs (capped)
- Funder - Small Business Administration (SBA) approved lenders
- Guarantor - US Federal Government
- Special features
  - Loans can be forgiven if 75% used on “payroll costs”
  - All lending used for payroll, rent, mortgage interest & utilities is forgiven
  - Reduction in forgiveness if workers laid-off or wages reduced by >25%

**GFS Treatment?**

**Loans? Subsidies? Capital Transfers?**

## II. UK – Coronavirus Job Retention Scheme

- Eligible - Businesses with furloughed workers
- Funding type - “Grant”
- Funding extent - 80% of monthly wage costs of furloughed workers (capped)
- Funder - UK Government
- Special features
  - Eligible workers must be furloughed and still employees
  - Wages of furloughed workers still subject to tax and social contributions

**GFS Treatment? Expense – but are they Subsidies / Social Benefits / Current Transfers?**

### III. Bosnia and Herzegovina – Tourist Vouchers

- Eligible - Tourist accommodation businesses
- Funding type - “Transfer”
- Funding extent - KM 100 payment (~€50) for every 3-night stay in tourist accommodation,
- Funder - Republika Srpska Government
- Special features - Vouchers can be obtained by every citizen of RS aged 18+
  - Households apply for vouchers, but government transfers money to bank account of the business

**GFS Treatment? Expense – but are they Subsidies / Social Benefits / Current Transfers?**