



### Special Series on Fiscal Policies to Respond to COVID-19

This is one of a series of notes produced by the Fiscal Affairs Department to help members address the COVID emergency. The views expressed in this paper are those of IMF staff and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

# Expenditure Policies in Support of Firms and Households<sup>1</sup>

The economic impacts of the ongoing COVID-19 outbreak will be broad in scope and large in magnitude. Reflecting this, many countries have swiftly introduced a diverse range of spending measures.<sup>2</sup> This note discusses potential expenditure policy support to firms and households to mitigate the economic impact of the outbreak during the containment phase. It starts by identifying some general principles that should guide the choice of support and then discusses the design of specific expenditure policy measures. This provides a basis for formulating policy advice and assessing measures being introduced by countries.<sup>3</sup>

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## I. GENERAL CONSIDERATIONS

**Clear policy objectives should inform policy responses.** The outbreak has caused broad and large economic impacts on firms and households, and expenditure policy responses face the task of addressing a number of issues rapidly and simultaneously. This note sees three broad policy objectives for expenditure policy responses: (i) liquidity support for firms, (ii) preserving employment linkages, and (iii) income and in-kind support for the vulnerable including the unemployed. Importantly, expenditure policies that are intended to achieve the above three objectives will automatically support the broader objective of supporting aggregate demand. The appropriate mix of spending measures will depend on the underlying policy objectives. Since each policy

<sup>1</sup> Prepared by Baoping Shang, Brooks Evans, and Zhiyong An. Expenditure support to firms and households are also touched upon by two other notes in this series. “[Public Banks’ Support to Households and Firms](#)” focuses on the role of public banks, particularly related to fiscal risks and governance, while “[Public Sector Support to Firms](#)” focuses on the forms of support for firms and governance issues. This note, instead, focuses on the designs of a broad range of expenditure policies in support of firms and households.

<sup>2</sup> Gentilini, Almenfi and Orton, “Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures”; and [IMF Policy Tracker](#).

<sup>3</sup> An important issue not covered by the note is that of the fiscal risks and governance challenges associated with expenditure policy responses. In addition to the two notes cited in Footnote 1, “[Managing Fiscal Risks Under Fiscal Stress](#)” has extensive discussions on fiscal risks.

instrument often contributes to achieving multiple objectives, policy formulation should also take account of their impacts on other policy objectives in addition to their primary objective.

**Countries should prioritize measures that are consistent with their medium-term development needs.** In countries where existing social protection programs are weak, the crisis may provide an opportunity to strengthen them, through both expanding coverage and increasing benefits. Furthermore, the design of these programs can be gradually refined over time. For example, where a universal cash transfer program is introduced, its coverage of the hard-to-reach segments of the population may be further improved, and targeting may be introduced directly for these programs or through the tax system.

**The targeting of the policy responses to specific households and firms involves several tradeoffs that need to be carefully managed.**

- Targeted policy measures focusing on the most impacted households and firms can provide better protection for a given spending envelope and help contain fiscal costs, which is especially important in countries with limited fiscal space.<sup>4</sup>
- Effective targeting can also better contribute to supporting aggregate demand since the propensity to consume is typically higher for the most vulnerable.
- However, targeted measures can inadvertently exclude some of those in need of support, particularly when administrative capacity is low, and may take more time to design and implement. Therefore, a desire to intervene in a timely manner and promote solidarity among the population means that broader coverage may be desirable. Targeted measures may also distort economic incentives by increasing the implicit marginal tax rate when benefits are withdrawn as earnings rise.
- A degree of targeting may also be achieved over the medium term on the financing side, e.g., through progressive income and wealth taxes if administrative capacity allows.

**Policy measures should be closely aligned with existing infrastructure to accelerate deployment.** Taking advantage of existing infrastructure, such as the well-developed tax systems in advanced economies and existing program structures in emerging and developing economies, can help ensure the deployment of existing and new programs in a timely manner. Mobile payments systems, which are increasingly accessible in emerging and developing economies, also provide a mechanism for broader and timely delivery of support in some countries.<sup>5</sup>

## II. LIQUIDITY SUPPORT FOR FIRMS

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**Expenditure policy can help fill some of the gaps left by monetary policy and tax policy.** While monetary policy may be better equipped to provide liquidity to the broader economy and tax policies can readily provide broad or targeted support to firms in the tax system, expenditure policy is often more effective for delivering targeted support to firms particularly hard hit by the crisis, having difficulties in accessing the financial system, or not included in the tax system. This can also help avoid unnecessary distortions to tax systems, and reversal of hard-won improvements to these systems, that can persist beyond crises. These types of expenditure support are typically temporary to help firms overcome short-term difficulties.

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<sup>4</sup> While the note takes into consideration fiscal cost in designing expenditure policy responses, it does not explicitly address the issue of financing.

<sup>5</sup> See [Rutkowski and others \(2020\)](#) and [Gelb and Mukherjee \(2020\)](#) for a discussion of recent developments and policy opportunities. See also the accompanying note “Reaching Households in Emerging and Developing Economies: Citizen ID, Socioeconomic Data, and Digital Delivery”.

## **Liquidity support can help achieve various economic and social objectives and take various forms.**

Support can include direct lending, loan guarantees, capital injection and deferral of utility and rent payments. These can help:

- **Keep viable firms alive and preserve employment.** Some firms that otherwise might close may be able to keep operating, albeit at reduced capacity. For firms that need to suspend operations, including as part of virus containment measures, support can enable them to maintain operational capacity and retain at least some of their workforce.
- **Facilitate post-crisis recovery.** Keeping firms operational can enable quicker scaling up of output and employment as crisis management measures (such as social distancing) are relaxed and demand recovers. This can also help avoid bankruptcies due to illiquidity during the crisis, which is typically disruptive and costly.
- **Reduce fiscal cost of other programs.** In the short and medium term, firm support can help reduce unemployment and public spending on other types of support such as unemployment benefits, social assistance, and wage subsidies.

**Liquidity support can be targeted to the most affected firms in a number of ways.<sup>6</sup>** For example, support can be based on firms' financial conditions, focused on the most affected sectors (*Armenia, Argentina, Indonesia, and United States*) or locations (*Italy*), linked to firm size (*SMEs in Armenia, Austria, France, Germany, and Spain*), or some combinations of these methods (*targeting firms with more than a 25 percent drop in sales and fewer than 100 employees in New York; SMEs in certain sectors in South Korea*). In many emerging and developing economies, SMEs are often in the informal sector with little available information on their employment levels or production activity, so that reaching them is particularly challenging. However, support may be channeled to these firms by working with existing institutions that serve these groups, such as micro-credit institutions and informal sector organizations (*through credit guarantees for bank lending to micro-enterprises and SMEs for the production of foods and basic supplies as in Argentina*).

### **III. PRESERVING EMPLOYMENT LINKAGES**

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#### **The transitory nature and the severity of the shock call for measures beyond traditional policy**

**responses to help preserve employment linkages.** While for mild economic shocks it may be sufficient to provide some liquidity support to firms while strengthening the social benefit system, the highly disruptive nature of the pandemic crisis, especially on the supply side, may make measures to preserve employment linkages particularly relevant. These measures should be temporary and time-bound, with the flexibility for extension if needed. These measures, such as wage subsidies and employment restrictions, can have several advantages:

- They help **prevent the loss of firm-specific human capital**, which can be costly over the medium term. In addition, these policies would help ease liquidity pressures of stressed firms.
- They help **buffer employment and economic activity** in the short term, even if some of workers receiving subsidies only work at reduced capacity or productivity.
- They **reduce social benefit spending pressures** by preventing layoffs and claims for unemployment or social assistance benefits.

**Wage-focused measures can be designed to be cost-effective and progressive as well as reinforce solidarity.** To avoid substitution for private wages, where possible these measures should ideally be targeted to

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<sup>6</sup> Reaching those in the informal sector including micro-firms and self-employed is often a challenge. For this reason, their coverage is considered when discussing the design of household support.

those who would otherwise face layoffs. Various design options may be considered, while keeping in mind potential tradeoffs between efficiency and equity objectives, particularly related to administrative simplicity and fiscal cost:

- **Cover part of compensation only for workers with wages below a certain level (Austria and Singapore).** Subsidies can cover a certain percentage of total wages or certain components of compensation (such as salaries rather than payroll taxes). This policy may be particularly useful to protect employment of low-skilled workers with less firm-specific capital and therefore more likely to be laid off in the short term. It can also help retain workers with high firm-specific human capital to work at reduced hours or to be furloughed. This policy can help keep workers who can still contribute to the economy employed, while also removing the need for the government to pick specific firms for support and for getting involved in firm compensation policies. This policy could also be combined with some targeting at certain sectors—for example, those particularly hard hit by the crisis—to keep the fiscal cost low.

**Austria** has introduced a short-time work scheme that allows the reduction in work hours to 10 percent on average over a period of up to three months. Employers pay only for actual time worked, and the government covers the rest, up to 80-90 percent of salary (depending on the gross salary for up to 5,370 Euros per month). One condition is that workers need to first take all accumulated overtime and leave.

**Singapore** launched a Jobs Support Scheme worth SG\$13.7 billion to help firms retain local workers (Singapore citizens and permanent residents). Employers will receive a 25 percent cash grant on the gross monthly wages of each local employee, made on the Central Provident Fund payroll (subject to a monthly wage cap of SG\$4,600 per worker). The cash grant is higher for the tourism and aviation sectors (75 percent) and food services (50 percent) and was subsequently raised to 75 percent for all sectors for the month of April. The subsidy will cover 9 months of wages, which employers will receive in 3 tranches of payouts in April, July and October.

- **Cover part of the compensation for all workers with a ceiling on the wage subsidy (Denmark, Ireland, U.K., and Bangladesh).** A special case of this design is when there is no cap on the subsidy (Germany). The economic impact is similar to above, but there may be less incentive for firms to lower wages for those with high wages. One advantage of such a design is that it might be easier to administer. The fiscal cost, however, would tend to be higher as more workers are potentially covered. If fiscal costs are reduced by targeting certain firms and sectors, this can create eligibility cliffs leading to divisive horizontal inequalities and distortive economic incentives. For example, the threshold of 25 percent decline in trade in Ireland may lead firms with marginally higher trade to reduce it to qualify. Similarly, the policy to limit wage subsidies to furloughed workers in U.K. may disincentivize part-time employment, and the cost-effectiveness of such a design should be compared to allowing furloughed workers to claim unemployment insurance.

Wage subsidies in **Denmark** cover 75 percent of employees' salaries if firms commit not to lay off workers, which will last for three months and cover a maximum of 23,000 Danish krone per month (\$3,418).

Wage subsidy in **Ireland** refund employers up to 70 percent of an employee's wages with a maximum of €410 per week during the current pandemic. To be eligible, the employers have to show that they lost at least 25 percent of their turnover.

(continued)

**U.K.** government covers 80 percent of the salary for furloughed workers who are kept on payroll by their firms, for up to 2,500 pounds a month, with an initial period of three months (might be extended if needed).

**Bangladesh** would pay the salaries and wages if factories are shut down because of the coronavirus.

**Under Kurzarbeit,** a short-time work scheme in **Germany**, employees get 60 percent of net salary (67 percent for people with children) for the reduced working hours for up to 24 months (previously 12 months). The government will also pay the social security contributions for the missed hours (previously paid by employers). Businesses can apply for the scheme if 10 percent (previously 30 percent) of their employees face income reductions of more than 10 percent. The Kurzarbeit is also expanded to temporary workers due to the current crisis.

Measures that are directly targeted at employment levels tend to be more distortionary as firms then have less discretion to set the optimal level of employment and wages. Employment restrictions can be used by themselves (*Italy and Spain*) or complement other policy measures to further restrict eligibility and fiscal cost (*Denmark and United States*).

*In Italy, individual and collective terminations for business-related reasons are prohibited until May 18, 2020.*

*In Spain, the government temporarily prohibited any layoffs for reasons related to the coronavirus crisis from March 27.*

*The wage subsidy in Denmark is conditioned on no layoffs by firms.*

*Businesses that receive support from the lending program of the Coronavirus Aid, Relief, and Economic Security Act in the United States must retain 90% of employment levels as of March 24, "to the extent practicable," through September 30.*

#### IV. SUPPORTING HOUSEHOLDS, PARTICULARLY THE VULNERABLE AND UNEMPLOYED

Social protection systems, including both social insurance and social assistance, are central to providing income support to households during a crisis. Policy measures should focus on allowing current benefit systems to work and expanding coverage of existing programs through relaxing eligibility requirements, increasing benefit levels, and extending benefit duration. The potential for strengthening social protection systems to enable them to more effectively support households during a crisis varies across advanced, emerging and developing economies.

- Countries with well-developed social protection systems (many *advanced countries and some emerging market economies*) have strengthened them in various ways, including (i) expanding eligibility for unemployment benefits to those who do not traditionally qualify such as independent contractors, the self-employed, and gig economy workers (*Finland, United States*); (ii) relaxing eligibility requirements such as waiving the need for job search, training and other requirements for unemployment benefits (*Austria, United States*) and automatic renewal of medical certificates for disability benefits (*Bulgaria*); (iii) increasing benefit levels including additional one-off cash benefits (*Australia, Belgium, United States*); (iv) extending the benefit period (*Greece, United States*); and (v) extending paid leave benefits, particularly paid sick leave (*Austria, Germany, South Korea, Spain, United States*). Many countries have extended sick leave benefits for both self-care and care of children.

- Emerging and developing countries with sufficient existing capacity have mostly prioritized the strengthening of social assistance programs, particularly through expanding coverage (*Brazil, China, Indonesia, and Colombia*).

**Brazil** is allocating R\$3 billion for the *Bolsa Familia* program to add 1 million families.

**China** has increased the coverage and benefits of *Dibao*—its social assistance program for the poorest—particularly to cover families affected by the COVID-19 and falling into poverty.

In **Indonesia**, assistance for 10 million beneficiary families in the Family Hope Program (PKH) will be increased by 25% for a year; the food aid program (e-food vouchers) will be expanded to 20 million recipients from about 15 million and the benefit increased by 33 percent for 9 months; and the Pre-Work Card program will be expanded to cover 5.6 million informal workers, and micro- and small-business operators.

In **Colombia**, in addition to higher benefits for current beneficiaries in three existing programs, a new cash transfer program, "solidarity income", includes a one-off payment of COP 160,000 for informal workers and their families, including 3 million households identified via SISBEN (System of Identification of Social Program Beneficiaries) and tax collection databases, with payment made through bank accounts and electronic cell phone payments.

**In emerging and developing countries with weak social protection systems, alternative approaches can be explored for strengthening these systems in the short run.** In many of these countries, existing social safety nets only cover a small share of the vulnerable and cannot be readily expanded due to limited administrative capacity and fiscal space. In such cases, alternative ways of supporting those not covered by existing programs could be considered, including cash transfers targeted at specific population groups (i.e., elderly, families with children, or informal sector workers in *India and Bolivia*) or regions (i.e., most affected areas), or subsidies for key goods and services such as food, health, transportation and utilities (*Indonesia and Jordan*).

**India** is providing Rs1000 to all beneficiaries under the National Social Assistance Program (NSAP) for elderly, widows and disabled receiving social pensions (35M beneficiaries), frontloading a PM-KISAN payment of Rs2000 for 87 million farmers, and transferring Rs 500 (\$6.5) for 3 months to 200 million women with a Pradhan Mantri Jan Dhan Yojana (PMJDY) (financial inclusion) account.

The government of **Bolivia** introduced the *Bono Familia* program to compensate low-income families who will not have school feeding meals during this time of quarantine. An amount of 500 Bolivianos (US\$ 72.6) will be paid for each child in elementary school. The benefit will be delivered in April.

**Indonesia** has announced exemption of 3 months electricity fee for 24 million 450VA electricity customers, and 50 percent discount for 7 million subsidized 900VA customers.

**Jordan** provides in-kind distribution of bread (universal) at a subsidized price (JD1 per 3 kg, instead of JD1.5). The Ministry of Local Affairs is coordinating distribution from local bakeries. Bread delivered door to door by buses that patrol localities. National Aid Fund (NAF) beneficiaries receive the bread for free with the support from municipalities.

**A possible approach to effectively reach informal sector workers and other vulnerable households is to identify beneficiaries by using databases maintained by various government entities and private organizations or distributing benefits through local governments and community organizations**

(Rwanda, Nepal, Egypt and Peru). The exact design of interventions should take into account country-specific considerations such as the characteristics of informal workers and their access to social protection.

**Rwanda** plans to organize food distribution to informal sector workers in Kigali identified through the system of “Mudu Gudus”, a network of community organizations in charge of targeting and distributing social transfers from the government.

**Nepal** is providing food assistance to informal sector workers and those in need of assistance (including those living in old age homes and places of worship) through ward committees at local level.

**Egypt** has planned a monthly payment of EGP 500 over three months for informal workers registered in the workforce directorates databases of governorates.

The **Peruvian Council of Ministers** approved an exceptional payment of about \$107 for each vulnerable family to be affected during the 15-day quarantine period, estimated at 9 million based on the National Office of Electoral Processes (ONPE) database.

**Where coverage of the social protection system is low or restricted to narrowly defined poor groups, consideration could be given to expanding coverage through universal (or near-universal) cash transfers, which would require significant investment and is subject to the availability of fiscal space.**

Universal transfer programs can provide a basis for strengthening the safety net, possibly only over the medium term because of the difficulties to ensure adequate support for the most vulnerable within reasonable fiscal cost. Benefit progressivity and fiscal space can be developed over the medium term through finer targeting and financing through progressive wealth and income taxes. However, effectively realizing the potential of universal (or near-universal) transfers would require significant investment in most emerging and developing countries in universal citizen registries, integrated socio-economic and tax databases, electronic transfer systems, and expanded financial inclusion.<sup>7</sup>

**For countries with effectively targeted poverty-focused programs and fiscal space, universal (or near universal) benefits can be used to broaden income support for households beyond the vulnerable and stimulate aggregate demand.** These measures should be temporary and withdrawn as the crisis abates with the need to support higher income groups and aggregate demand diminishes. Some advanced countries have adopted one-off universal (or near universal) cash transfers as a complement to existing social benefit system (Hong Kong, Singapore, and United States).

**Activation policies including Active Labor Market Programs (ALMPs) should be strengthened after the crisis ends.** Crisis management measures such as social distancing and the need for rapid support deployment have led to relaxation in the conditionality for benefits (e.g., job search and training requirements for unemployment benefits) and limited the use of ALMPs (e.g., job-search assistance, training and public works). However, as the crisis management measures abate and the pressures for income support ease, the conditionality for receiving benefits should be reinstated and ALMPs reintroduced to accelerate the return to employment:

- In advanced economies where the labor market functions adequately and administrative capacity is high, activation policies can be a useful instrument for improving employment by providing a strong incentive for a quick return to employment, instead of claiming generous benefits. However, activation policies are only likely to be effective at enhancing employment if they are targeted at specific groups.

<sup>7</sup> See accompanying notes “Reaching Households in Emerging and Developing Economies: Citizen ID, Socioeconomic Data, and Digital Delivery” and “Managing the Impact on Households: Assessing Universal Transfers (UT)”.

- In emerging and developing economies, public works may play a role as other types of ALMPs are often lacking. Without access to unemployment benefits and training, public works can provide a source of income and job experience for low-income workers, especially the vulnerable and the poor (*the Philippines, China and Estonia*). There may be opportunities at which public works could target after the pandemic achieving poverty reduction through green jobs, such as reforestation, soil and water conservation and flood protection.

*In the **Philippines**, the government has already introduced public works for informal sector workers who have temporarily lost their livelihood due to the enhanced community quarantine. Participation in the temporary employment program is limited to 10 days of work involving disinfection/sanitation of their houses and immediate vicinity. Beneficiaries will have orientation on safety and health, receive payment of 100 percent of the highest prevailing minimum wage, and be enrolled to group micro-insurance. In addition, free courses are offered through online training programs to temporarily displaced workers.*

*Activation measures in **China** include: (i) coordination across line ministries and between migrant-sending and receiving regions to provide transportation and employment services to support return to work; (ii) enhanced use of unemployment insurance funds to provide public employment and online learning and training services; and (iii) expanded online recruitment, online employment guidance and postponing face to face interview to support job search of college graduates.*

**Estonia** offers online job search counselling and intermediation.

**Table 1. Expenditure Policy Responses to COVID-19 Outbreak**

Measures	Targeted population	Targeting method	Benefit design	Countries/regions
<b>Supporting businesses</b>				
		Financial conditions such as drop in sales	N.A.	New York
		Sector-based targeting	N.A.	Armenia, Argentina, Indonesia, Russia, United States
Loans, guarantees, and capital injection	Hard hit businesses	Place-based targeting	N.A.	Italy
		SMEs directly or institutions that works with SMEs	N.A.	Argentina, Australia, Italy, Spain, United States
		Local governments and community organizations	N.A.	United States
Deferral of payments such as for utilities, rents or taxes	Hard hit businesses	Sector-based targeting	N.A.	Indonesia, Venezuela
		SMEs	N.A.	France, Spain
<b>Preserving employment linkages</b>				
	Workers facing layoffs or reduction in hours	For workers whose wages are below a certain level	Covering part of total wages, up to a ceiling	Austria, France, Singapore
Wage subsidies	Workers facing layoffs or reduction in hours	Typically targeted at certain firms or workers to keep fiscal cost low	Covering part of total wages, up to a ceiling	Denmark, Estonia, Ireland, United Kingdom, United States, Bangladesh, and China
		Universal	Suspension of firing	Italy
Employment and wage restrictions	Workers facing layoffs or reduction in hours	For workers in businesses that receive government support	Maintaining certain employment level	United States
<b>Supporting households including the unemployed</b>				
Scaling up of existing programs including cash transfers, food assistance and unemployment insurance	Vulnerable households	Maintaining existing eligibility criteria	Increasing benefits	Australia, Argentina, Hong Kong, India, Philippines, Thailand, United States
			Extending benefit periods	Greece, United States
		Expanding eligibility	N.A.	Brazil, China, Columbia, Egypt, Indonesia, Ireland, United States
		Relaxing eligibility requirements or procedures	N.A.	Bulgaria, Spain, Philippines, United States
	Elderly or families with children	N.A.	Bolivia, India, Singapore, Spain	
	Subsidies for key goods and services, targeted	Fee exemption or reduced prices	Belgium (utilities)	
	Subsidies for key goods and services, universal	Fee exemption or reduced prices	Indonesia (electricity), Jordan (bread)	
	Workers for health or family reasons	Paid sick or family leave	Germany, South Korea, United States	
New programs to reach the most vulnerable	Vulnerable households	Local governments and community organizations or databases maintained by various organizations	N.A.	Austria, Egypt, Nepal, Peru, Rwanda
New universal or near universal cash transfers as primary programs	Vulnerable households	Universal registry or the tax-benefit systems	Not feasible with adequate support for the vulnerable at reasonable fiscal cost	N.A.
New universal or near universal cash transfers as complementary programs	All households (only the richest are excluded in some cases)	Universal registry or the tax-benefit systems	One-off cash transfers	Hong Kong, Singapore, United States