

Methodological note

DRAFT NOTE ON STATISTICAL IMPLICATIONS OF SOME POLICY MEASURES IN THE CONTEXT OF THE COVID-19 CRISIS

EUROSTAT, DIRECTORATE D — GOVERNMENT FINANCE STATISTICS (GFS)

9 APRIL 2020

Background

1. Recently, a number of EU governments have announced major active policy measures in order to mitigate the economic and social impact of the shutdown of businesses enforced across the EU due to the COVID-19 pandemic.
2. Such policy measures include, but are not limited to, the following:
 - I. Employment related measures: government support for keeping employees on the payroll despite an enforced reduction of working hours, as well as support for self-employed and small businesses, and shutdown of public services without redundancies;
 - II. Fiscal policy related measures: deferral of tax deadlines, postponing the submission deadlines for tax declarations, suspension of late payment interest on unsettled tax obligations, suspension of tax debt enforcement.
 - III. Other business support measures such as loan, guarantees and equity/capital injections into corporations. In addition, there may be an extensive use of development banks (and sometimes central banks) to convey government support (with scope for rerouting operations through government accounts).
3. This note is a consultation draft that aims at examining the arguments for and against potential recordings and at ensuring a harmonised recording of similar policy measures across EU Member States, to the extent possible. This note is launching a consultation within the GFS and EDP compilers community.

1. Employment related measures

BACKGROUND

4. In many/ most EU Member States, governments have enforced or advised the shutdown of certain businesses such as gastronomy, non-essential retail or parts of industrial production. In addition, in many/ most EU Member States, non-essential public services

have been reduced. In some countries, all activity except those essential to ensure basic needs are temporarily banned.

5. In some cases, social insurance schemes to support businesses retaining their employees at short or zero hours in cases of sectoral crises or force majeure existed prior to the COVID-19 pandemic. In such arrangements, businesses are encouraged not to make their employees redundant by way of public insurance schemes paying all or a large part of wages (and salaries and the associated employers' and/ or employees' social contributions). Such pre-existing measures have tended to be covered by social contributions and, accordingly, payments to households have tended to be recorded as social benefits – similarly to other unemployment benefits.
6. In other cases, such measures have only been implemented in the context of the COVID-19 pandemic.
7. Additionally, where such short hours compensation arrangements existed in the past, their generosity as regards the kind of situations covered, the amounts paid to employers or employees, as well as the time during which such payments can take place, have now often been significantly expanded. As a result, where measures have been significantly changed, it is debatable whether the payments are actually carried out in the context of these social insurance schemes even when the latter actually perform their administration. Indeed, social security funds may be seen, in this occasion, as merely acting on behalf of government.
8. As a result, it is questionable whether the recording applicable for short hours schemes existing nationally can be used in the context of the COVID-19. The size of the amounts in question may also be relevant, also in consideration that the payments made are not coverable by any insurance scheme without the external help of government.
9. The main questions to address are: What is the nature and purpose of the government expenditure concerning short hours' compensation schemes? What should be the recording for market producers (aside from the obvious fall in output)? What should be the more appropriate recording for nonmarket producers (decline in output or not)?

REFERENCES IN THE ESA 2010 AND 2008 SNA

10. ESA 2010 paragraph 4.02 defines compensation of employees (D.1) as *“the total remuneration in cash or in kind, payable by an employer to an employee in return for work done by the latter during an accounting period”*.
11. 2008 SNA paragraph 7.44c indicates that wages and salaries include amounts *“payable to employees away from work for short periods [...] as a result of a temporary halt to production”*.
12. Subsidies on production (D.39) includes according to ESA 2020 paragraph 4.37a *“subsidies on payroll or work force i.e. subsidies payable on the total wage or salary bill [...] on employment of particular types of persons such as physically handicapped persons or persons who have been unemployed for long periods”*. ESA 2010 paragraph 4.37 also clarifies that non-market producers can receive subsidies on production for their non-market output if the payments *“depend on general regulations applicable to market [...] producers as well.”*
13. Social benefits, according to ESA 2010 paragraph 4.83, *“are transfers to households, in cash or in kind, intended to relieve them from the financial burden of a number of risks or needs, made through collectively organised schemes, or outside such schemes by*

government units and NPISHs; they include payments from general government to producers which individually benefit households and which are made in the context of social risks or needs.” The list of social risks and needs in ESA 2010 paragraph 4.84 includes “promotion of employment” and “unemployment”.

14. While social security benefits (D.621) and other social insurance benefits (D.622) require participation in a social insurance scheme, social assistance benefits (D.623) are made outside the context of social insurance schemes.
15. ESA 2010 paragraph 4.105 indicates that social assistance benefits do not include “current transfers paid in response to events or circumstances that are not normally covered by social insurance schemes (i.e. transfers made in response to natural disasters, recorded under other current transfers or under other capital transfers)”.

RECORDING OPTIONS

16. To determine the appropriate way to record government support for keeping employees on the payroll, it needs to be determined whether the payments are made in the context of an existing social insurance scheme and whether the payments are made to mitigate social risks or meet social needs of employees or are rather made for the purpose of supporting businesses.
17. The purpose of the government payments is important given that depending on the purpose, different recipients (employers or employees, possibly rearranged), different ESA transactions (D.39, D.75, D.99 to employers or D.62, D.75 or D.99 to employees) and different COFOG functions (04.12 general labour affairs or 10.5 unemployment) need to be examined. The compatibility relationship is illustrated in the table below.

Purpose	Recipient (possibly rearranged)	ESA transaction	COFOG (by socio-economic purpose)
To mitigate social risks	Employee/ self-employed in their capacity as recipients of D.1	D.62, D.75 or D.99	10.5 unemployment – individual function
Support labour intensive businesses/ general labour policy	Employer/ self-employed in their capacity as employers	D.39, D.75, D.99	04.12 general labour affairs – collective function

18. When considering recording options, it is necessary to note that, in some Member States, social insurance schemes existed to cover not only the situation when employees are made redundant but also situations similar to the current measures, i.e. when employees are kept on the payroll with government support, despite production stopped or reduced (temporarily). This could point to considering the current measures as the creation or expansion of social insurance schemes implying a recording of social security benefits (D.621) or other social insurance benefits (D.622). On the other hand, social insurance schemes require participation (inclusion in the scheme), which according to ESA paragraph 4.105 usually manifests itself via social contributions. This is not (or not necessarily) the case for schemes or arrangements that have been newly created without contributions (past or future) foreseen or that have been expanded in terms of eligibility, financial generosity, coverage without foreseeing changes in funding. Thus, it will be important to

analyse whether an existing social scheme has just had a greater number of beneficiaries, or if the scheme has been significantly changed due to COVID-19 circumstances.

19. However, ESA 4.105 also points to considering as social assistance benefits (D.623) “*current transfers payable to households by government units (...) to meet the same needs as social insurance benefits but which are not made under a social insurance scheme requiring participation usually by means of social contributions*”. This means that the fact that participation under the form of social contributions did not exist does not prevent these transfers to be recorded as social benefits.
20. Some refer to 2008 SNA paragraph 7.44c “*wages or salaries payable to employees away from work for short periods, for example, on holiday or as a result of a temporary halt to production, except during absences due to sickness, injury, etc.*” to support the social benefit recording, considering the exemption for sickness mentioned there to be applicable to the COVID-19 schemes under review. However, this paragraph refers to cases where employees are actually sick and cannot work because of that, on prescription of the doctor, which becomes clear when reading 2008 SNA paragraph 7.46b. This seems a very different situation from the COVID-19 case, where government payments are meant to compensate for government’s general stay-at-home orders that concern mostly a population in good health.
21. Some who support recording social benefits believe that an insurance scheme can be deemed to exist, including through imputed social contributions. The latter is debatable given that benefits are due by government rather than by the employer. This shortcut is however not necessary because, as mentioned, the ESA 2010 explicitly foresees recording social assistance (D.623) in the case that social benefits are paid out outside social insurance.
22. Nonetheless, a difficulty exists for viewing the schemes in question as provision of social assistance, because ESA paragraph 4.105 a priori appears to exclude the recording of social assistance for benefits that are in response to natural disasters. Insofar as the COVID-19 pandemic can be considered as a natural disaster, ESA paragraph 4.105 then seems to prescribe rather the recording of other current transfers (D.759) or other capital transfers (D.99).
23. Some have questioned whether the COVID-19 could be described as a natural disaster. Although pandemics are not typically listed in usual definitions of natural disaster, such is also the case for other events that are nonetheless clearly natural disasters (e.g. meteorite impacts). It is not very clear why pandemics would not be natural disasters, being disasters and presumably originating from nature.
24. As regards the purpose of the payment, it may be useful to consider the differences and similarities with unemployment support made in the context of social insurance or social assistance. The current measures have a similar effect in terms of mitigating the social risks of employees, but they are not limited to this. Rather, employees remain in a contractual relationship with their current employers; they are not being made redundant. Their employers are helped in avoiding insolvency and massive friction on the labour market due to mass redundancies and bankruptcies is avoided.
25. The additional effects of the current measures serve a collective¹, rather than an individual purpose. From the individual employees’ point of view, the effect of the current

¹ From a COFOG function point of view.

governments' measures may be similar to receiving unemployment support. But this holds only when not considering that without these current measures a lot of unemployment would result suddenly, coupled with bankruptcies of businesses. The payments thus appear to serve a collective purpose, to prop up the labour market as well as to support existing employers. In that sense, a recording of a social insurance benefit seems not applicable and subsidies on production to employers or social assistance benefits, or other current transfers, or capital transfers may appear more appropriate.

26. As regards the option of recording other subsidies on production (D.39), it should be noted that the recording of D.39 is to be coupled with the continued recording of compensation of employees (D.1), so to be neutral for employers' operating surplus (B.2) (or mixed income (B.3)).
27. The recording of subsidies on production can be justified by the consideration that these transfers benefit companies that have not severed the links with their employees. One could see these payments as *de facto* subsidizing future production, i.e. to assure the continuity of the productive structure during the quarantine period so to efficiently re-start production once this period is over. In addition, participation in the schemes is often voluntary, rather than imposed.
28. The fact that this is a subsidy not to produce may be seen, at first sight, as inconsistent with recording a subsidy on production, though. At the same time, payments in order not to produce are routinely recorded as subsidies on production, for instance in agricultural. In these cases, the payments are often linked to the voluntary idling of a factor of production (land) by the beneficiary/ producer. By analogy, one could describe the COVID-19 payments under discussion as a compensation to business for not using labour (while leaving production free to continue). One issue is that this is not on a voluntary basis, and the payment is here to compensate for an order not to use an input.
29. Another problem with this recording is that it is generally presumed that compensation of employees (D.1) is recorded for hours done (aside from earned holidays). It could also be seen as a disadvantage to stabilise D.1 despite a steep fall in production and in actual hours worked. It is presumed that productivity would not be distorted (less volume and less hours), but there is a risk that unit labour cost (ULC) would be distorted. While ULC would generally deduct the subsidies on labour costs in labour costs statistics, no such detail is published in national accounts, and – as a result – national accounts-based ULC would be severely distorted. Thus, the D.39/ D.1 option only maintains the coherence of statistics if the D.39 position were split in two, so to permit users of national accounts series to compile adequate ULC. On the other hand, the stabilisation of D.1 could be seen as reflecting the continuing contractual relationship of employees with their employers.
30. For some users, this D.39 /D.1 recording would severely distort the picture of generation of income. If adopted, the impact of the crisis in economic activity and value added would only translate into reductions in mixed income/operating surplus, while compensation of employees would remain unchanged, with negative net production taxes (less subsidies) explaining the resulting excess of main primary income components over value added. This poses difficulties to them for their analysis of remuneration of factors, cost developments or price formation, as well as for their analysis of the determinants of households' disposable income.
31. Another (less serious) difficulty with the D.39 recording is the distortion of the market/ non-market test this could entail. One option would be to make an exception for the compilation of the test. To the extent that the test should generally be calculated for several years, this

would not likely lead to any significant, if any, (artificial) reclassification of units inside government, however.

32. Whereas there can be a debate as to whether government subsidies to business for short hours should be recorded as subsidy on production (D.39) or not, there is less an issue for general subsidies to businesses designed to cover various costs, given that corporations generally have discretion on their use.
33. Recording of D.759 and D.99 to corporations matched with D.1 would not be neutral on operating surplus nor mixed income and should accordingly be rejected.
34. One consideration would be to record a D.75 directly to households, similarly to D.621/D.622 but outside social insurance. This recording would be simply in application of ESA 4.105 (natural disaster). Alternatively, this recording could be seen as a compensatory payment by government for a government order to employees not to work (stay at home order). Such a recording – in effect reducing D.11 by the amount of D.75 paid to households – would nevertheless raise a number of questions on other flows, when wage and salary payments would still be subject to employer and employee social contributions.
35. Some argue that unemployment benefits are D.62 and that D.75 is only intended to compensate for damage. However, compensation for income lost that is agreed for instance in case of dispute (in court or out of court) can well be recorded as D.75. As a result, D.75 could probably be applicable under ESA 2010 in the case under review, if a recording of a social benefit would not be deemed appropriate. Unemployment benefits paid out in case of earthquake would well be recorded in D.75 under ESA 2010, if outside the social insurance contract.
36. In this vein of reasoning, a plausible alternative would be to record a D.75 through corporations accounts as both a resource and a use. The D.75 revenue from government would reflect a compensation by government for a government order to stop production. The D.75 transfer from corporation to households would reflect a compensation by the employer for an employer order to employees to stay at home. This recording has the advantage of recognising two transfers supporting the income of both corporations and households. It also has the advantage of following cash flows.
37. One question relates to how to record payments to self-employed (classified in the household sector). Recording a subsidy on production would be reflected in mixed income, while a D.75 recording would not.
38. Recording D.99 is not particularly advisable despite the exceptional and irregular nature, as the transfers are meant to support household income, not wealth. In addition, recording a D.99 directed to corporations, which would then have a D.75 expenditure, is not advisable either as this would unduly deteriorate corporate saving. Although ESA 2010 paragraph 4.38e prescribes recording a capital transfer to non-financial corporations to cover exceptional losses due to factors outside the control of the enterprise, in the scheme under review, corporations have no or very little discretion in the use of the funds. Government is not covering a loss but paying directly for specified costs (wages and salaries) such that this paragraph may not be applicable.

GOVERNMENT EMPLOYEES

39. Regarding the specific case of government employees continuing to be paid despite being asked not to work, ESA 2010 does not a priori preclude the recording of subsidies on production revenue in general government accounts as long as general regulations are in

force to provide such support for market producers as well. One advantage of this approach is to enforce consistency for both market and non-market producers.

40. On the other hand, the current measures may be seen to be mostly designed to prevent unemployment and bankruptcies (to keep a structure in place for economic recovery). Government as a non-market producer does not mainly finance itself through market output but rather through taxes, assuming its redistributive role. For government units can directly implement the desired labour policy without resorting to incentives. The recording in this case could be to continue to record compensation of employees.
41. In general, since the recording of compensation of employees does not distinguish between private or public employers, a similar recording should be envisaged for government employees and other employees.
42. A number of government activities continue unimpeded: hospitals of course, police, army and many civil servants are engaged in teleworking – notably teachers. Accordingly, compensation of employees should continue to be recorded.
43. For the remainder, the recording should preferably follow the rules applicable to market producers, with a fall in output (value), when government units enlist in the same short hours subsidy schemes. Indeed, recording hours not paid as transfers D.75 instead of D.1 entails a fall in government output (measured at the sum of production costs). By the same token, keeping recording payments to employees of selected government units as D.1 despite no hours being worked while recording the transfers received as a subsidy on production D.39 would also lead to a fall of output of the government units in question.
44. When government units do not enlist in such scheme, continuing recording compensation of employees may be more appropriate, even when no actual working hours are done. In this case, government output does not fall as no subsidy on production can be recorded.

CRITERIA FOR ENFORCING ONE OPTION AGAINST THE OTHER

45. Although, the appropriate recording should generally take into account national circumstances or arrangements, one wonders whether the specific COVID-19 circumstances that concern all Member States and the exceptional size of these operations may not call for a homogenous recording across the EU, irrespective of the way the transfers are precisely organised.
46. It is clear that both corporations and households benefit from these exceptional transfers that are both carried out to support income of household while at the same time keeping the employment link intact with employers. The level of discretion retained by business in the use of fund is a decisive criterion for classification. In contrast, it is not necessarily relevant whether the transfers are carried out directly to households or carried out through corporations, as the latter can be seen as acting as an agent.
47. The mere orientation of cash flows, i.e. whether payments are directly made to households or alternatively transit through corporation, is not an important criteria for national accounts recording, as substance prevails over form. To the extent that – as in many cases – firms have no discretion in the use of the payments made to them by government, recognising the principal in the transaction is required, as firms are de facto acting as agents of government. However, payment arrangements can be relevant for the classification decision if they can be thought to reflect the underlying government intent to support corporations income instead of, or as well as, household income.

48. Similarly, it may not be relevant which government units/ subsectors carry out the payment, in the sense that using social security schemes may be considered as merely a practical payment arrangement.
49. In contrast, the choice made by labour statistics as to whether the work not done is included in actual hours worked in official statistics is an important consideration in view of the coherence of macro-economic statistics. ESA 2010, paragraph 11.14 includes furloughed employees in the concept of employment but at the same time paragraph 11.28 only includes in total hours actually worked those hours that have contributed to the production in the sense of the national accounts' production boundary.

CONCLUSION

50. New measures to support businesses retaining their employees at short or zero hours in the context of COVID-19 lock downs ordered by governments should not be recorded as social insurance benefits (D.621/D.622) nor as capital transfers (D.99) but should be recorded either as
 - subsidies on production (D.39) to employers. In the accounts of the employers, D.1 should continue to be recorded; or as
 - current transfers, either as social assistance D.623 or other current transfers D.75

The recording to be chosen may depend on the actual detail of the scheme in question (e.g. degree of discretion held by corporations) and on the choice followed in employment statistics. An attempt to reach an EU-wide common interpretation will also be attempted.

2. Fiscal policy related measures

BACKGROUND

51. Fiscal policy measures enacted in the context of the COVID-19 pandemic include the deferral of tax deadlines, postponing the submission deadlines for tax declarations, early settlements of tax refunds or of payable tax credits, suspension of late payment interest on unsettled tax obligations, or suspension of tax debt enforcement.

REFERENCES IN THE ESA 2010

52. According to ESA 2010, the accrual of taxes and social contributions can be approximated either using time-adjusted cash or using assessments and declarations adjusted by a coefficient on the tax itself or by a capital transfer (D.995) to account for non-collectible taxes (ESA 2010 paragraphs 4.27, 4.82, 4.95). Both methods ensure that uncollectible taxes and social contributions are not recorded as government revenue in accordance with ESA 2010 paragraph 5.244c, which states that other accounts receivable (F.89) do not include *“that part of these taxes and social contributions which is unlikely to be collected, and which therefore represents a general government claim of no value”*.

RECORDING

53. When payment deadlines are changed (lengthened) or the submission deadlines for tax declaration are postponed, for taxes where the accrual is implemented using time-adjusted cash, the time-lag used for time-adjusted cash should be reviewed so as to still reflect well the time when the economic activity generating the tax liability took place. Such a review of the time lag avoids a double-count of taxes in one period, and no recording in another period. This may imply the need for an estimate, where no estimate was hitherto needed,

for example when the time lag is extended from 2 months to, say, 5 months – such that in the April T+1 EDP notification not all cash flows applicable to revenue of year T are known, and an estimate is required. Some compilers already carry time adjustments exceeding 2 months, up to 8 months (and occasionally more), and accordingly routinely conduct provisional estimates.

54. For taxes where accrual can be approximated currently through cash receipts (which can be perhaps viewed as a time lag of zero), exceptional ad-hoc adjustments need to be considered in order to approximate accrual.
55. For taxes where assessments and declarations are used to implement the accrual principle, on the face of it, changes in payment deadlines or postponing of tax declarations do not have any impact on the recording method. However, given that the changes in payment deadlines and postponements of tax declarations are generally in response to expected liquidity issues on the parts of the tax payers, a review, possibly of an ad-hoc nature, of the coefficient to be used is needed, in order to avoid the recording of uncollectible amounts as revenue.
56. These recording principles follow the generally established rules. However, in view of the high degree of uncertainty over the ability of tax payers to settle their liabilities in the future and in view of the length of the postponements enacted, significant uncertainty may exist for taxes where assessments and declarations are used to implement the accrual principle but also when TAC is used.
57. Irrespective of the recording method followed by compilers (assessment, TAC, or cash), compilers should estimate the amounts of tax that is expected to be eventually waived. In general, recording the full amount that is postponed or no amount at all are not recommended recording options. Eurostat recognises that such an estimation will pose challenges to national compilers and will have to be made in close consultation with Eurostat.
58. However, when within a year a final estimate is compiled, then, two options may be envisaged;
 - a. Revise earlier periods once better estimates/ actual source data are available.
 - b. Record lower/ higher amounts in more recent periods in response to better estimates/ actual source data.
59. Option a) is generally to be preferred for quarterly accounts, in order to have more consistent accounts. This is also an option to prefer for annual accounts although we should expect that more visibility will exist with respect to the extent of fiscal claims write-offs granted to taxpayers as a matter of government policy by the April 2021 notification – thus hopefully limiting the extent of the estimation to conduct.
60. When government settles tax refunds early, ad-hoc adjustments also need to be considered.
61. Whenever taxes are wholly waived for certain time periods, no accrual of revenue can be considered for the period the tax is waived.
62. When governments suspend the enforcement of tax claims already recorded as revenue, this does not lead to entries in the accounts. However, as soon as the enforcement is fully abandoned, a capital transfer should be recorded.

63. Regarding the suspension of late payment interest on unsettled tax obligations. When interest are routinely separated from tax revenue and recorded on an accrual basis (taking into account non-collectible amounts) and there is strong certainty that the tax obligation will be settled eventually, the suspension of interest payments presumably leads to an entry in the financial accounts with D.41 recorded unchanged. In case the interest is abandoned, one would preferably record a D.9 expenditure by the creditor, matched by a D.41 revenue unchanged.
64. In case there is no certainty that the tax obligation will be settled eventually, or when the NSI uses the tax recording method (i.e. not separating D.41) in general, TAC is applicable.
65. As usual, a change in tax compilation method should be agreed with Eurostat beforehand.
66. As an application of these principles, the delays granted because of the COVID-19 for 2019 taxes paid in 2020 should not have any impact on the notified deficit of 2019. By the same token, decisions to forfeit some of the 2019 tax obligations to be settled in 2020 should be recorded as an expenditure in 2020, with an impact on the deficit in 2020 and not in 2019.

3. Other business support measures

67. Some governments have announced targeted schemes for businesses that involve providing loan guarantees, interest rate subsidies and even the possibility of equity injections into (currently private) corporations.
68. There are already clear statistical rules for many of these schemes in the Manual on Government Deficit and Debt. Some of them were developed in response to measures taken by governments during the last financial crisis, whilst others are long-standing.
69. It is expected that in many cases the existing rules can be applied on a case-by-case basis to these new (or re-established) schemes. However, Eurostat will analyse if there are any novelties which will require further guidance.