



# Case Analysis of Emergency Relief Payments in response to COVID-19

## Focusing on major economies and local government

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### Overview of Emergency Relief Payments

- On March 30, 2020, the Korean government announced the “Emergency Relief Payments” in response to COVID-19 crisis<sup>1)</sup>
  - Eligibility: Korean households in the bottom 70 % income bracket<sup>2)</sup> determined by using the sum of individual health insurance contributions paid in March as a key standard.
  - Amount of payment: Payments to vary according to the number of household members (from KRW 400,000 for single-person households to 1 million for four-person households)

[Table 1] Eligibility requirement and the amount of assistance by household types

(Unit: KRW)

	Health insurance premium			Amount of relief payment
	Employed subscriber	Local subscriber	Employed + Local subscribers	
Single-person households	88,344	63,778	-	0.4 million
Two-person households	150,025	147,928	151,927	0.6 million
Three-person households	195,200	203,127	198,402	0.8 million
Four-person households	237,652	254,909	242,715	1 million

Note: For families with more than five members, the sum of insurance contributions is calculated based on the number of household members, but they will receive the amount equivalent to four-person households

Source: Government briefings, “The eligible requirement principle of Emergency Relief Payment drawn up” (April 04, 2020)

1) Government briefings, “Emergency Relief Payment Plan” (March 30, 2020)

2) Wealth is to be added to the eligibility requirement (under internal review by the government). The non-subscribers to national health insurance are also to be added.

- **Means of payment:** Cash or voucher. Currently, the latter (regional gift certificates or local currency) is under review.
- **The total volume and source of finance:** A total of 9.1 trillion won is to be spent (7.1 trillion won and 2 trillion won funded by the central government and local government respectively)<sup>3)</sup>
  - The 7.1 trillion won to be spent by the central government is drawn up in the second supplementary budget. However, it will be fully financed by restructuring the annual expenditure of the original budget.
  - The 2.0 trillion won will be financed by spending restructuring and the local government funds (Disaster Management Fund, Disaster Relief Fund, and Regional Development Fund)

Despite the government's official announcement, there were recent calls for extending the grant in certain amounts to all citizens. The Prime Minister mentioned that universal assistance may be realized as long as a system is in place to reclaim the payment offered to high-income earners (April 8, 2020)

**Cases in major economies**

● **Direct cash assistance measures in major economies**

- The eligibility requirements and volume of assistance vary by countries

[Table 2] Summary of direct cash assistance in major economies

		Details
United States <sup>1)</sup>	Eligibility/Amount of assistance	US\$1200 for individuals with annual adjusted gross income below US\$75,000 Based on the 2018 or 2019 income if income is not confirmed yet. (US\$150,000 for couples who file jointly) ※ The stimulus check is reduced by US\$5 for every US\$100 for individuals earning more than US\$75,000 → This makes individuals earning above the income threshold of US\$99,000 (US\$198,000 for couples who file jointly) ineligible for the stimulus check. ※ An extra US\$500 per qualifying child
	Means of payment	Direct deposit or paper checks sent by mail ※ Without application, the stimulus check is paid out automatically using the banking/address information the taxpayer has previously provided to the Internal Revenue Service (IRS) for tax returns.
	Total volume of assistance	Approximately US\$ 290 billion <sup>3)</sup> (at least 93.6 % of filers are expected to receive the stimulus check)
Japan <sup>4)</sup>	Eligibility/Amount of assistance	¥300,000 for households with reduced income ※ Income requirements: 50% or more decrease in income or residence tax reduced below the tax exemption limit
	Means of payment	Direct deposit to account ※ Payment is made upon application
	Total volume of assistance	Approximately ¥4 trillion (10 million out of 58 million households are expected to be eligible)

3) According to the article titled "Congress Approves Economic Relief Plan for Individuals and Businesses" published by the Tax Foundation (US NGO) on March 30, 2020, 93.6% of the taxpayers are likely to receive the aid. Non-taxpayers and children are all subject to the aid; thus, at least 93.6% or more are subject to the aid.

	Details
Germany	Provide operational costs for 3 months for freelancers, self-employed, and small business with less than 10 employees ※ Up to € 9,000 for freelancers, self-employed, and small business and up to € 1,500 for businesses with 6 – 10 employees ※ Advance payment is made upon request. However, an evidential document must be submitted to prove that the applicant has been experiencing difficult cash flow.
France	Provide € 1500 to freelancer, self-employed, and small businesses with less than 10 employees whose profit for the last financial year is less than € 1 million and is experiencing 50% or more loss in profits or temporal shut down of the business(maximum 1200)
Hong Kong	HK\$10,000 (approximately KRW1.55 million) assistance for all permanent residents (individuals)
Singapore	S\$100–300 (approximately KRW85,000–260,000) assistance for all Singaporeans (individuals) depending on income. ※ Additional assistance for parents with qualifying children, Singaporeans aged 50 years and above, and low-income families.

- 1) Also known as Tax Rebate. The bill CARES Act (Coronavirus Aid, Relief, and Economic Security Act) is passed by the House and signed by the president on March 27, 2020.
- 2) Based on the 2018 or 2019 income if income is not confirmed yet.
- 3) According to “Congress Approves Economic Relief Plan for Individuals and Businesses” published by Tax Foundation(US NGO) on March 30, 2020, 93.6% of the taxpayers are likely to receive the aid. Non-taxpayers and children are all subject to the aid; thus, at least 93.6% or more are subject to the aid.
- 4) Known as the “Livelihood support temporal aid”,the Japanese government has been promoting measures after the official announcement of the assistance on April7, 2020.

Source: NABO

● **Analysis of the economic impact of the past direct cash assistance in major economies**

- During the global financial crisis (2008-2009), the United States, Japan, and Taiwan offered cash assistance to their people and analyzed its economic impact.
- Tax Rebate in the United States (2001, 2008)
  - Policy Overview

**[Table 3] Overview of the US Tax Rebate**

	2001	2008
Objective	In line with tax reduction policy	In response to the global financial crisis
Eligibility	All	Individuals with annual adjusted income of US\$75,000 or less (US\$150,000 for married couple) * When exceeding the income threshold is exceeded, 5% of the exceeding amount is deducted from the refund → Individuals with above the income threshold of US\$87,000 (US\$174,000 for couples who file jointly) are ineligible for the stimulus check. * The income threshold of US\$870,000 in 2008 is 169.8% compared with US GDP per capita in the same year which is US\$51,000. This is similar to the income threshold of US\$99,000 in 2020(168.9%) compared with the US GDP per capita of US\$59,000 in the same year.
Amount of assistance	US\$300 per individual (US\$600 for married couple) * US\$500 for single parent	US\$600 per individual (US\$1200 for married couple) * An extra US\$300 per child below age 17
Means of payment	Direct deposit or paper checks sent by mail	

Source: NABO

- **Conclusion:** The related research from CBO report is summarized as follows:
  1. The spending stimulus effect varies from study to study and the interpretations of the same results also vary.
  2. The analysis of 2001 Tax Rebate indicates that the consumption was relatively high among low income families.
  3. The analysis of 2008 Tax Rebate indicates that the spending of the elderly relatively expanded.

**[Table 4] Summary of US Tax Rebate Analysis**

Author(Year)	Study title	Details
David Johnson and others (2004)	"Household Expenditure and the Income Tax Rebates of 2001"	〈Analysis of the government’s Consumer Expenditure Survey〉 – After receiving the rebate, expenditure on food and non-durable goods increased 11 % and by 37%, respectively → Short-term effects – Low income households spent much larger fraction of the rebate: Low-income households with an annual income of less than US\$34,300 spent 0.624 on non-durable goods whereas households with an annual income of US\$69,000 or more spent 0.255.
Claudia R.Sahm and others (2009)	"Household Response to the 2008 Tax Rebate: Survey Evidence and Aggregate Implications"	〈Conclusion of the survey〉 – 20% of the respondents showed increased consumption, 28% spent on savings and 52% spent paying debt – 26% of the elderly respondents(age 65 years and above) showed increased consumption, which is higher than that of younger respondents (age 30 years or less), at 11%.

Source: Reproduced based on the studies referred to the Congressional Budget Office titled "Did the 2008 Tax Rebates Stimulate Short-Term Growth?" (June 10, 2009).

- Japan's cash assistance (2009)
  - **Overview:** ¥12,000 for individuals aged 18-65 years and, ¥20,000 for those aged 65 years and above → Stimulus check wired to bank account without any limitations on usage and period.
    - ※ In line with the cash assistance provided by the central government, a significant number of local governments offered gift vouchers and other means of support (1,084 out of around 3,200 local government provided a total of ¥134.8 cash assistance)
  - **Conclusion:** The analysis is conducted by the Japanese government (Cabinet Office) on cash assistance is summarized as follows:
    1. The impact on consumption behavior varies by research method.
    2. Households with a child (40%), households with more than two children (70%), and the elderly (37%) showed relatively increased consumption.

**[Table 5] The Japanese government(Cabinet Office)'s analysis of the 2009 cash assistance**

	Analysis method	Results
First analysis (January, 2010)	Survey	The effect on consumption behavior: Consumption increased by 32.8% compared with the volume of cash assistance ※ ¥136.38 million out of ¥415.85 million of cash assistance provided to survey respondents (9,194 individuals) was used in consumption
Second analysis (April, 2012)	Household data analysis by the Ministry of Internal Affairs and Communications	The impact on consumption: Consumption increased by 25% compared with the volume of the cash assistance. However, the increase in consumption was 40% in households with a child (70% for households with more than two children), 37% for the elderly, which are relatively higher than the average.

Source : Cabinet Office of Japan, "Survey on Consumption related to cash assistance"(January, 2010). Cabinet Office of Japan, "How did cash assistance affect household consumption? - Analyzing household survey data"(April, 2014).

- Shopping Vouchers in Taiwan (2009)
  - **Overview:** A total NT\$ 2.57 billion scale of shopping vouchers was offered: NT\$ 3,600 (approximately KRW 160,000) per individual with time limit (January - September 2009)
    - ※ In line with the cash assistance, many stores in Taiwan conducted promotion/discount events.
  - **Conclusion<sup>4)</sup>:** The marginal propensity to consume is 0.243. However, if there were no promotion or discount events, the MPC is 0.164, which is somewhat lower.

## Cases in Local governments of Korea

### ● Economic Relief Plan of local governments

- 17 metropolitan governments and 45 local governments announced the economic relief plan. Meanwhile, 14 metropolitan governments and 16 local governments obtained a resolution on the relief package from the local council.
  - As the Emergency Relief Payments of the second supplementary budget is matched with the relief fund of the local government(20%), some local governments are revisiting their relief funds.
- The title, eligibility requirement, volume, method of application and payment, financing vary by local governments.

4) KAMHON KAN, SHIN-KUN PENG & PING WANG, "Understanding Consumption Behavior: Evidence from Consumer's Reaction to Shopping Vouchers," American Economic Journal: Economic Policy, Sep.2019(1), pp.137-153.

**[Table 6] Emergency Relief Plan of local governments (As of April 7, 2020)**

① Universal assistance

(Unit: KRW 100 million)

	Title	Eligibility	Amount	Means of payment	Total budget
Gyeonggi- do Province	Disaster Relief Fund	All residents	KRW 100,000 per person	Local currency card, credit/prepaid card	13,642
Gyeonggi Gwangmyeong	Gwangmyeong Disaster Relief Fund	All residents	KRW 50,000 per person	Local currency card	158
Gyeonggi Goyang	Crisis Relief Fund	All residents	KRW 50,000 per person	Local currency card	1,031
Gyeonggi Gimpo	Disaster Relief Fund	All residents	KRW 50,000 per person	Local currency card	221.5
Gyeonggi Yeosu	Yeosu Disaster Relief Fund	All residents	KRW 100,000 per person	Local currency card	112
Gyeonggi Seongnam	Emergency Livelihood Relief Fund	All residents	KRW 100,000 per person	Seongnam gift certificate, prepaid card	1,893
Gyeonggi Siheung	Disaster Relief Fund	All residents	KRW 100,000 per person	Local currency card, credit/prepaid card	480
Gyeonggi Yongin	Disaster Relief Fund	All residents	KRW 100,000 per person	Local currency card	1,064
Gyeonggi Uijeongbu	Disaster Relief Fund	All residents	KRW 50,000 per person	Local currency card	226
Gyeonggi Paju	Emergency Livelihood Support Fund	All residents	KRW 100,000 per person	Local currency card	454
Gyeonggi Pocheon	Disaster Relief Fund	All residents	KRW 400,000 per person	Local currency card	591
Gyeonggi Hwasung	Disaster Relief Fund	All residents	KRW 200,000 per person	Local currency card	1,660
Busan Sasang	Disaster Emergency Relief Fund	All residents	KRW 50,000 per person	Local currency card	109
Busan Gijang	Gijang Disaster Relief Fund	All residents	KRW 100,000 per person	Cash	150

② Selective support

(Unit: KRW 100 million)

	Title	Eligibility	Amount	Means of payment	Total budget
Seoul	Disaster Emergency Living Expenses	Below 100% of median income	KRW 300K-500K per household	Seoul Love Gift Certificate, prepaid card	3,271
Busan	Emergency Livelihood Support Fund	Small merchants and businesses	KRW 1M per individual	Cash	1,856
Daegu	Disaster Emergency Living Expenses	Below 100% of median income	KRW 500K-900K per household	Prepaid card	1,749
Gwangju	Emergency Livelihood Support Fund	Below 100% of median income	KRW 300K-1M per household	Local currency (card)	910
Daejeon	Emergency Disaster Livelihood Support Fund	50-100% of median income	KRW 300K-633K per household	Prepaid card	700
Ulsan	Disaster Emergency Relief Fund	Below 100% of median income	KRW 400K-600K per household	Local Love Gift Certificate, prepaid card	1,055
Incheon	Emergency Disaster Livelihood Fund	30% above the upper income	KRW 250K per household	Local currency (card)	933
Gangwon-do province	Relief Fund	Vulnerable group	KRW 400K per person	Local Love Gift Certificate	1,200
Chungcheong buk-do province	Emergency Disaster Livelihood Fund	Below 100% of median income	KRW 400K-600K per household	Local Love Gift Certificate, prepaid card	1,055
Chungcheong nam-do province	Emergency Livelihood Support Fund	Below 80% of median income, small merchants	KRW 1M per household (business)	Vary by city	320
Jeollanam-do province	Emergency Livelihood Support Fund for vulnerable groups in COVID-19 crisis	Below 100% of median income, small merchants	KRW 300K-500K per household	Local currency (card)	1,280
Gyeongsang buk-do province	Disaster Emergency Relief	Below 85% of median income	KRW 500K-800K per household	Prepaid card	2,089
Gyeongsang nam-do province	Selective Disaster Relief Fund	Below 100% of median income	KRW 300K-500K per household	Prepaid card	1,665
Gangwon, Gangneung	Emergency Livelihood Support Fund	Below 100% of median income, small merchants	KRW 600K-1M per household, 1M per business	Local Love Gift Certificate	534
Jeollabuk-do, Jeonju	Jeonju Disaster Relief Fund	Below 80% of median income, non-regular workers	KRW 500K per person	Local Love Gift Certificate	263
Gyeongsang buk-do, Gyeongsan	Disaster Emergency Relief Fund	Below 85% of median income	KRW 500K-800K per household	Local currency (card), Onnuri Shopping Voucher	59

Note: Data are based on the resolutions obtained from the local council (as of April 7, 2020). The execution and details of the program may be revisited in accordance with the local government's circumstances.

● **Composition of Emergency Relief Fund of local governments**

- The local governments are appropriating funds from Disaster Management Fund, Disaster Relief Fund, and Regional Development Fund. The legal basis and volume of each fund are defined in Table 7.

**[Table 7] Legal basis and the scale of local government funds**

(Unit: KRW 100M, as of end of last year)

	Legal basis	Fund	Volume	Usage
Disaster Management Fund	“Framework Act on the Management of Disasters and Safety”	1% of the annual average amount of settled accounts of revenues from local tax and general tax for the last 3 years	39,203	To prevent any disasters in the public sector and for emergency restoration of damaged facilities (15% of the minimum amount of reserve used for the statutory deposit) <sup>1)</sup> (21% of the minimum amount of reserve shall be used)
Disaster Relief Fund	“Disaster Relief Act”	0.5% of the annual average amount of the settled revenues of the local tax and general tax for the preceding 3 years (0.25% for Seoul Metropolitan City)	12,453 <sup>2)</sup>	For emergency relief and securing disaster relief supplies in case of a disaster
Regional Development Fund	“Local Public Enterprises Act”	Local government bonds (Local government development bonds)	134,593	Support projects that promote resident’s welfare, local public enterprises, and local development (The bond is issued within the limits of the local government bond as stipulated in Article 11 of the Local Finance Act) <sup>3)</sup>

1) The amount of statutory deposit in 2019 is KRW1.205 trillion, and some of these amounts can be used for natural disasters with damage exceeding certain extent.

2) This figure is an estimation from the 2019 settlement, which may change when the settlement is completed by the local government (May 31).

3) Considering the scale of debt, the schedule for repaying obligations, and other financial situations of local governments every year, the Minister of the Interior and Safety determines the amount within 10% of the relevant local government’s budget in the year before the preceding year.

Source: Reproduced based on the data submitted to the Ministry of the Interior and Safety.

- The top 5 governments with the largest scale of disaster relief budget are appropriating funds firstly through Disaster Management Fund. Depending on the fiscal conditions, each government appropriates the fund through other funds and spending restructuring.

**[Table 8] Composition of Emergency Relief Funds by major local governments**

(Unit: KRW 100M)

Name of the local government	Disaster Management Fund (Accumulated amount)	Disaster Relief Fund (Accumulated amount)	Regional Development Fund	Spending restructuring <sup>1)</sup>	Total volume
Seoul Metropolitan City	3,271 (6,197)	-	-	-	3,271
Gyeonggi-do province	3,405 (6,070)	2,737 (2,891)	7,000	500	13,642
Busan Metropolitan City	463 (1,142)	872	-	521	1,856
Daegu Metropolitan City	413 (2,172)	165	-	1,171	1,749
Gyeongsangbuk-do province	-	315	300	885	1,500 <sup>2)</sup>

1) This figure refers to the amount of funds appropriated by the local governments by reducing the amount intended for projects in the 2020 budget.

2) Gyeongsangbuk-do's total amount of budget is KRW208.9 billion, excluding disaster response fund of KRW58.9 billion transferred from the central government.

Source: Reproduced from the data submitted by local governments

**Issues and Policy Implications**

● **A call for social consensus on eligibility and other requirements**

- The relief package is categorized according to eligibility requirements
  - The Emergency Relief Payment can be broadly categorized into “universal assistance” that supports all citizens and “selective assistance” that supports certain groups of people. The latter can be further divided into “income basis” and “damage basis.”
  - ※ Korea’s assistance measure is close to selective assistance that supports citizens in certain income levels. Unlike the United States, which selectively supports “individuals” based on “taxation data,” Korea selectively supports the unit of “households” based on “health insurance premium.”

**[Table 9] Main types of Economic Relief Payment**

		Eligibility	Countries
Universal assistance		All citizens	USA <sup>1)</sup> , Hong Kong, Singapore
Selective assistance	Income basis	Citizens under certain income level (households)	Korea
	Damage basis	Citizens hit by the virus (individuals)	Japan, Germany, France

1) The United States’ income requirement is \$75,000 annual income (\$99,000 including the sliding scale). However, its cash assistance is categorized into universal assistance because almost all citizens fall under the eligible criteria.

Source: NABO

- Characteristics and issues of relief package by types

- **Universal assistance:** Since universal assistance supports all citizens; hence, no social and administrative costs were spent on separate standards, and payment can be made quickly. Universal assistance is widely acceptable because there is no concern related to discrimination or reversal of income. However, it increases the fiscal burden of the government.

Unlike the government proposal, if the assistance is granted to all citizens in Korea, the measures to reclaim the payment offered to high-income earners are expected to take place in parallel. However, the government's proposal is designed to offer assistance to households rather than individuals, which makes it difficult to set the standard to reclaim the aid under the individual-unit income tax system. Moreover, reclaiming 100% of the assistance is difficult under the current tax law (up to 42% of the income tax rate) or even through amendments. Thus, further discussion is necessary in this regard.

- **Selective assistance (income-basis):** The financial burden is lesser in the selective program than the universal program. However, it is difficult to set an income eligibility requirement that is widely acceptable and reflects the degree of damage from the virus. There may be a fierce controversy over equity due to income reversal. Since the payment is based on application, it may entail payment delays, administrative expenses, and other problems.

The government's proposal provides disaster relief only to households that fall under the eligibility criteria and not for those exceeding the criteria. Thus, income reversal may occur for households near the reference point. Therefore, reduced checks on a sliding scale are necessary for households that exceed the eligibility criteria.

In addition, the government's proposal is based on the bottom 70% of income and references health insurance premiums to determine the eligibility. This may cause controversy over equity due to different calculation standards between the employed and local subscribers.

In addition, the health insurance premiums are calculated based on the previous year's income, not taking the earnings after this year's COVID-19 into account.

In response, the government announced its preparation of supplementary measures to help local governments determine whether to apply for these measures by reflecting changes in income conditions. The deliberation of the National Assembly needs to be carried out in parallel.

- **Selective assistance (damage-basis):** The program best suits the original purpose and the principle of equity. However, as in the selective assistance (income-basis), it is difficult to provide assistance promptly due to the time required for setting damage standard and screening process.

## ● Issues on matching the central government's relief fund with local relief funds

- According to the government proposal, the Emergency Relief Payment (20%, differential support in the case of Seoul) is partially borne by the local governments.
    - For this reason, the local governments responded through the following:
      1. Revisit its relief program (Incheon, Chungbuk, etc.)
      2. Refusal to finance the central government Emergency Relief Payment (Gyeonggi, Gangwon, etc.)
      3. Objection to the rate of local government expenses in Emergency Relief Payment (Seoul).
- Thus, considering the financial situation of local governments, it is necessary to discuss the proportion local government fund in the Emergency Relief Payment.

## ● Other Considerations

- **Ex-Post-evaluation:** The Emergency Relief Payment is the first case in Korea and will be used as an important standard when similar measures are taken in the future.
  - Conduct post-analysis of economic impacts such as increased consumption for objective evaluation results as a reference.
    - ※ In the case of Japan, the economic impact analysis was conducted twice in 2010 and 2012 after the relief payment in 2009. It was used as a reference for the design of the assistance measure introduced recently.
- **Introduce a supplementary measure for the disaster response capabilities of local governments:** A significant number of the local government's aid programs are composed of disaster management funds; hence, disaster relief funds are expected to decrease significantly.
  - As the resources for future events of disaster such as typhoons and heavy rains are exhausted, supplementary measures should be reviewed concurrently.

## Conclusion

### ● A discussion on countermeasures along the progression of COVID-19 is required

- Since the Emergency Relief Payment is hastily implemented in response to an unexpected disaster, prompt payment would be the factor determining the type of relief package.
- If additional support is required due to the progression of the virus in the future, the selective assistance focusing on the citizens hit by the virus must be reviewed, which takes comprehensive factors into account, such as the relevance of damage, fairness and financial status of the government.