



State Comptroller Of Israel | Special Report: The State of Israel's
Coping with the Covid-19 Pandemic | 2021

Economic and Budget Topics

Budgeting Management during the Covid-19 Pandemic - Handling the Crisis and Preparing for the Future



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Background

The spread of the covid-19 pandemic around the world was accompanied by policy measures taken to slow the spread of the pandemic and bolster the ability of the public health systems to cope with high levels of serious illness. In response to the adverse economic effects of the pandemic, countries worldwide established a wide range of economic assistance programs for those affected. These programs focused mainly on paying allowances to salaried employees and self-employed persons whose earnings took a hit, the postponement of mandatory fees and the grant of reliefs, and increased liquidity for businesses and households. With the beginning of restrictions on economic activity, the Government announced assistance programs in four categories: immediate response, social security net, business continuity, acceleration programs.



Key figures

NIS 202.3 billion

total of financial assistance programs to cope with the covid-19 pandemic on which the government decided in 2020 (including credit and cash-flow items)

NIS 131.1 billion

total of budgeted items in the economic plan to cope with the covid-19 pandemic (out of NIS 202.3 billion)

NIS 68.6 billion

increase in government spending in 2020 compared with 2019 due to the economic strategy for dealing with the covid-19 pandemic

11.6%

the deficit in the state budget as a percentage of the GDP

Approx. 81.3%

percentage of implementation of the economic plan in 2020

Approx. NIS 74.3 billion

planned budget for social security programs in 2020–2021

NIS 85.8 billion

amount from the state budget earmarked as an off-budget box for 2020 for coping with the covid-19 pandemic

March 15, 2018

last date of approval of the state budget



Audit Actions



From May 2020 to January 2021, the State Comptroller's Office examined the Government's budget management during the covid-19 pandemic, mainly in the Budgets Department, the Accountant General Department, and the Chief Economist Department of the Ministry of Finance. Supplementary examinations were conducted in other departments of the Ministry of Finance; The Capital Markets, Insurance and Savings Authority; the Bank of Israel; the National Economic Council; the National Security Council; the National Insurance Institute; the National Emergency Management Authority; the Innovation Authority; the Cabinet Secretariat; the Ministry of Health; the Ministry of Labor, Social Affairs and Social Services; the Ministry of Interior; and the Ministry of Tourism.




Key findings


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Advance economic planning for pandemic risks – The Ministry of Finance did not complete the development of economic plans for dealing with the economic implications of a pandemic such as the Covid-19 pandemic, based on the procedure issued by the National Emergency Management Authority in 2018. The Finance Ministry departments, as well as the Capital Markets, Insurance and Savings Authority, did not complete the groundwork and did not prepare professionally for the outbreak of such a pandemic, and among other things, failed to take the following steps:
 - **Budgets Department:** – Examination of the economic aspects unique to a pandemic-induced emergency and preparation of a budgetary contingency plan; examination of the interfaces between the Budgets Department and other government ministries, for determining the necessary steps and for transferring the data required to define the economic implications of those steps; consideration of ways to identify the affected individuals and businesses.
 - **Accountant General Department** – Performance of groundwork enabling an analysis of the economic implications of a pandemic outbreak, including assessing the government expenditure scope, evaluating the epidemic's impact on government debt, and forecasting government revenues to manage the debt and finance the deficit.
 - **Chief Economist Department** – Obtaining relevant data to formulate a real-time economy-wide picture enabling the development of plans to cope with the economic consequences and identifying the data required following the pandemic outbreak to forecast the drop in government revenues.
 - **Capital Markets, Insurance and Savings Authority** – Examination of the professional aspects unique to pandemics and their effects; issuing appropriate regulations and directives for entities regulated by the authority, including regulation concerning pension and employment termination, stemming from various options of temporary absence of employees from work.
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The groundwork for decision-making – The Finance Ministry's failure to prepare for the pandemic was apparent because the financial assistance programs for the public and businesses were implemented in part without any orderly administrative work and without adequately distinguishing between more and less affected parts of the population and economic sectors. Additionally, the Finance Ministry's failure to prepare in advance was a contributing factor, especially in the first months of the crisis, to its inability to present to the decision-makers the expected economic consequences of possible measures for preventing the spread of the disease.
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Manner of determination of the overall scope of the assistance program and examination of the program's effectiveness – The central assistance program (NIS 80 billion) was announced on March 30, 2020, after the World Health Organization had declared a public health emergency on January 30, 2020, after the declaration of the




covid-19 a global pandemic on March 11, 2020, and after the schools and higher education institutions in Israel closed down for two days. This central program was formulated after several preliminary programs for lower amounts of up to NIS ten billion had been announced. The head of the National Economic Council informed the State Comptroller's Office that the program's scope was set on the instructions of the Prime Minister after the National Economic Council had checked what percentage of the GDP the assistance programs of other countries constituted.

The audit did not find at the Ministry of Finance or the National Economic Council documents dealing with overall assistance program scope and the value of its items. The program did not relate to possible scenarios for the development of the pandemic and the times for reviewing the program's effectiveness.

 **Use of off-budget "boxes"** – Since Israel did not have a state budget for 2020, the government operated throughout that year on a continuation budget based on the budget for 2019, which was determined in March 2018. The scope of the boxes, which was defined in amendments to the Basic Law: The State Economy and in the Reduction of Deficit and Limitation of Budgetary Spending Law 1992 concerning the budgets for 2020 and 2021, was NIS 84.8 billion in 2020 and NIS 52.3 billion in 2021. An OECD report¹, as well as a Bank of Israel report from April 2021, stated that even if in the initial stages of the Covid-19 pandemic the need to make quick budgetary decisions outweighed accepted budgetary control considerations, the exceptional circumstances brought about by the Covid-19 pandemic and the resulting fiscal actions should not be allowed to become a fixed norm. The usual budget management methods should be put back in place.

 **Rate of implementation of assistance programs** – The cumulative rate of implementation of the financial assistance program increased over the year, reaching 81.3% at the end of December 2020. In total, the cumulative expenditure during the year stood at NIS 68,954 million out of a cumulative quota of NIS 84,812 million. The categories of the Law in which the budgetary planning was highest (health and solutions for government ministries; grants and assistance to businesses and the self-employed; indemnification of the National Insurance Institute) account for the highest implementation rates (109%, 83%, and 90%, respectively). By contrast, there is a low implementation rate in the "other purposes"² and "crisis exit plan – infrastructure, technology and digitization" categories (49% and 67%, respectively).





 **Control over the implementation of economic programs** – The control over budgetary planning versus the use of the budget earmarked for dealing with the Covid-

1 Government financial management and reporting in times of crisis, OECD, 19 November 2020.

2 Grant and assistance to ensure nutritional security for disadvantaged families, realization of demobilized soldiers' deposits and grants for some demobilized soldiers, as well as expenditure for exemption from land appreciation tax and purchase tax.




19 pandemic, totaling NIS 85 billion ("the off-budget box"), was performed in 2020 employing Excel files along with management under the different items in the computerized systems of the state budget. Budgets, especially of this magnitude, should be managed by systems that include computerized control mechanisms to prevent mistakes and errors. Regarding five out of the ten programs audited by it, the State Comptroller's Office found discrepancies between the control records of the Accountant General Department concerning the planning and implementation data of the economic programs (which are based on data from the Budgets Department and other government ministries) and the planning and implementation data provided by the Budgets Department and other government ministries to the State Comptroller's Office.


-  **One-time grants** – It was found that one-time grants were paid in two phases, in April and July 2020, to the entire population of Israel in a total amount of NIS 8.95 billion. In the first phase, the grant was paid without any income test, while the second phase incorporated an income test whereby anyone with an annual income above NIS 649,560 in 2019 was not entitled to a grant. Additionally, it was found that no orderly process of drawing lessons took place following each payment phase that demonstrated the advantages, drawbacks, and barriers to the distribution of the grant.
-  **Distribution of food coupons to disadvantaged populations** – The program for the distribution of food coupons, approved for a total of NIS 700 million, was made available to a broad population comprising 260,000 households deemed eligible. The eligibility was based on the entitlement to a municipal property tax discount, but without any groundwork to determine the usefulness of this criterion for targeting the disadvantaged populations most significantly affected by the Covid-19 pandemic. Additionally, it was found that the program, which the Government approved in August 2020, was implemented only half a year later, in February 2021, among other things, due to legal difficulties in the tender process for selecting a supplier to distribute the coupons.
-  **Hotel assistance programs** – NIS 300 million as the assistance for the tourism industry, was set by the Government in August 2020 based on an agreement from early June 2020 between the Finance Minister and the Tourism Minister at the time. This assistance was not distributed by the end of 2020 and a whole year passed before the government started distributing it while hotels began to be affected by the pandemic.
-  **Criteria for payment of support grants to third-sector institutions** – The Finance Ministry approved the additional support for the sector in the amount of NIS 100 million and should have published criteria for payment of the support grants within 30 days of the effective date of the Law³ (i.e., by August 29, 2020). It was found that Finance

3 Section 26Q(a) of the Law sets the "effective date" as October 29, 2020, but only for a certain chapter of the report and not with respect to the chapter dealing with the budget intended to support public institutions whose revenues had decreased. Therefore, the effective date of the Law with respect to the support budget for public institutions whose revenues had decreases is the date of publication of the Law, i.e. July 29, 2020.



Ministry published on December 3, 2020, a draft of criteria for payment of support grants to public institutions (whose revenues had decreased in the wake of the Covid-19 pandemic) for the receipt of public comments on December 17, 2020, and for payment of support grants to the public institution, the Finance Minister signed the criteria on January 17, 2021. Therefore, the budget set out in the law for distributing in 2020 to assist and support large institutions in the third sector was not distributed.

 **Innovation Authority's grants program** – An examination of the budget implementation of the Innovation Authority's assistance and grant tracks, according to reports of the Accountant General Department, showed that although based on the government resolution, the Authority was to have used the entire amount of the budget by the end of 2020. In actuality, a sum of NIS 659 million was used out of the budgeted NIS 1,200 million (55%).








 **Decision-making process from the economic perspective in the Covid Cabinet and in the Government** – An examination of 37 presentations made to the Covid Cabinet and to the government by the National Security Council (NSC) between March and November 2020 showed that the NSC incorporated in these presentations mainly health data and that no economic analyses were attached to the presentations, apart from a economic (GDP contribution) and health matrix that was presented in September 2020. According to the Bank of Israel and the Chief Economist estimates, the cost of each week in the first lockdown (as derived from the decline in the GDP) stood at 5.1 to 5.4 billion NIS, in the second lockdown at 3.2 to 4 billion NIS and in the third lockdown at 3 to 3.5 billion NIS. The high cost of the lockdowns highlights the importance of considering the economic costs of imposing lockdowns.



Following the outbreak of the Covid-19 pandemic, the Finance Ministry's departments and the Capital Markets, Insurance and Savings Authority performed numerous actions in their professional fields of responsibility to deal with the difficulties brought on by the pandemic, thereby helping the public and the entities regulated by them to cope with the effects of the pandemic.



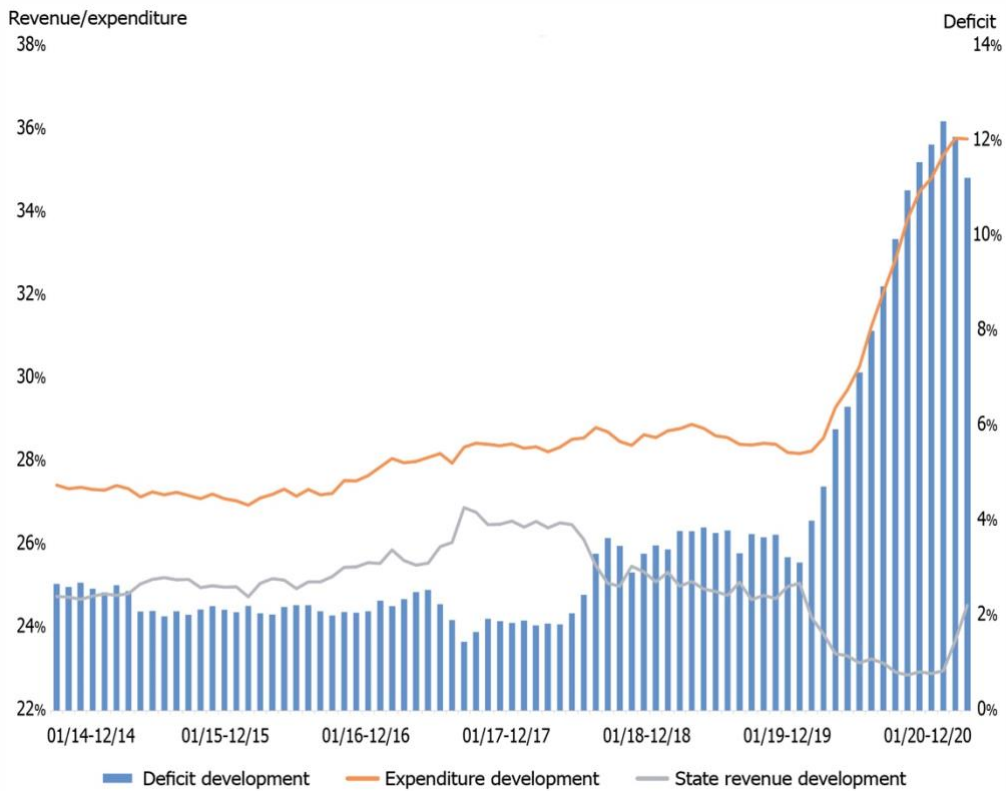
Key recommendations

-  It is recommended that the Finance Ministry and the relevant government ministries draw up an economic plan to serve as a "contingency plan" for dealing with the economic implications of a pandemic outbreak, based on lessons drawn from the experience that the ministries have gained during the Covid-19 pandemic.
-  It is recommended that the Budgets Department in the Ministry of Finance, the Ministry of Health, and the Ministry of Defense monitor the extent of use of the budgets allocated to the government ministries for preparedness for the Covid-19 pandemic, examine which of the allocations were not implemented or insufficiently implemented are still relevant, and make the necessary budgetary adjustments based on their examination.
-  Given the significant economic repercussions of the furlough policy implemented in Israel on the national economy and unemployment levels, the Ministry of Finance, the Bank of Israel, and the National Insurance Institute should examine the furlough policy over time to enable a consideration of its advantages and drawbacks compared with other approaches that were implemented around the world and to determine the extent to which it is suited to the Israeli economy.
-  It is recommended that the Ministry of Finance, the Bank of Israel, and the National Economic Council analyze the results of the one-time grant programs, their advantages, and drawbacks, and outline a basic emergency grant program based on orderly administrative work by professionals. According to the groundwork presented to it, the government should also discuss lessons learned in the matter and draw up rules for implementing grant programs for a broad population during a crisis.
-  It is recommended that the Budgets Department and the Accountant General Department incorporate in the computerized budget system of the Ministry of Finance all the Covid-19 budgets and make periodic adjustments regarding the budgetary data and the budget implementation. Additionally, rules should be formulated for the budgetary recording of earmarked emergency budgets for optimal management and control purposes, and necessary adjustments should be made on this basis in the computer systems.
-  It is recommended that the use of a continuation budget instead of promoting a Budget Law be done only in exceptional circumstances that warrant this to safeguard as much as possible fiscal and governance principles and the laws underlying the approval of the annual state budget.
-  It is recommended that the National Security Council collaborate with the Health and Finance Ministries in considering and formulating a methodology for presentation to the Government during a pandemic, that will include, along with infection rates, also an economic cost-benefit analysis by the different professional bodies, including the Finance



Ministry departments and the National Economic Council, regarding measures to prevent the spread of pandemic. Additionally, with the onset of a health crisis, the Government and the Cabinet members should deliberate on its economic implications.

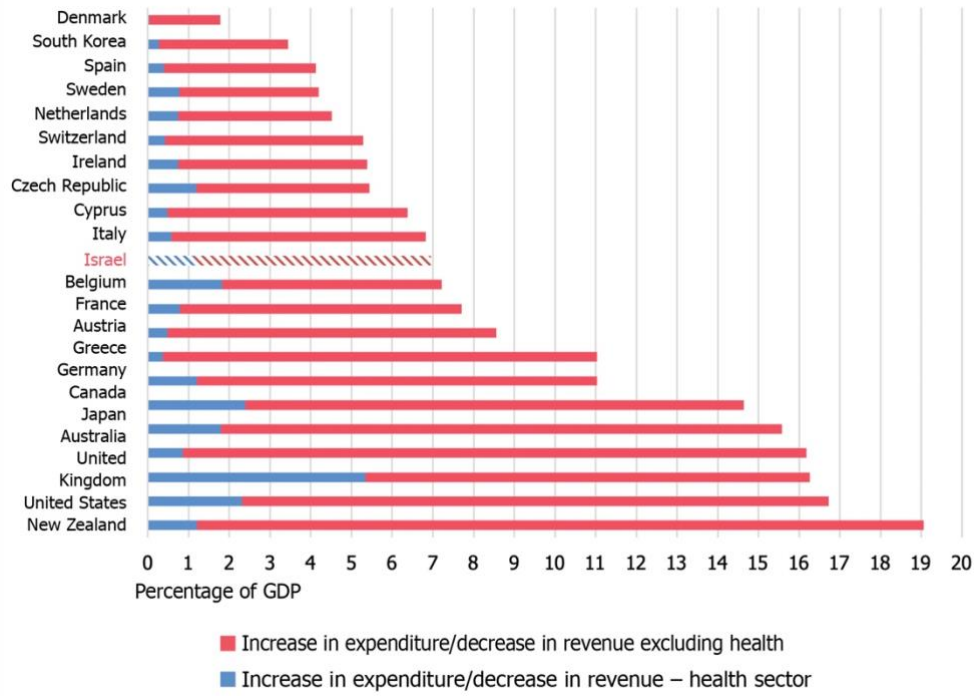
Development of deficit, expenditure and revenue as a percentage of GDP, 2014-2020



Based on Accountant General Department data, as processed by the State Comptroller's Office.



Increase in expenditure and decrease in revenue in assistance programs of selected countries, in GDP terms, by the health sector and other sectors, 2020



Based on International Monetary Fund data, as processed by the State Comptroller's Office.



Summary

The increase in government spending to cope with the Covid-19 pandemic and the decrease in revenue, mainly due to a decline in tax collection and a drop in other income, led to a growth in the annual state budget deficit in 2020 to 11.6 percent of the GDP.

This report has highlighted deficiencies in the preliminary preparation for pandemic risks, the groundwork for formulating financial assistance programs to cope with the Covid-19 pandemic, the implementation of and control over the programs, and the inclusion of economic considerations in the decision-making process during the Covid-19 pandemic. It is recommended that the government draw lessons from the crisis management from the economic aspect. All government bodies must act to correct the deficiencies in budgetary conduct revealed during the management of the Covid-19 pandemic and consider implementing the recommendations included in this report to improve their activity and readiness in the future.

It is further recommended that the Finance Ministry examine from a multi-annual perspective the required actions for dealing with the deficit for 2020, amounting to NIS 160.3 billion, and with the increase in the debt-to-GDP ratio for that year to 72.4% as of the end of 2020, as well as the necessary preparations for making principal and interest payments on the debt that the Government raised to finance the economic plan for coping with the Covid-19 pandemic.