Government Webcast: Chile

Event´s notes
Resilience & Resumption
Impacts and responses to the effects of covid-19
Government chapter

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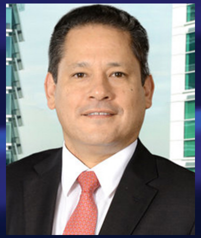

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Impact of COVID-19 on the Chilean economy: Chile's GDP is expected to drop 2.7% by 2020. As a result of the containment measures to face the pandemic, economic activity is suffering a significant decline (information technology, retail, transport, telecommunications, real estate and banking are among the most affected industries according to the IPSA stock index), LATAM airlines stock price has fallen 90% since December 2019, while the IPSA stock index dropped 36%. Meanwhile, unemployment could increase to 9%. Moreover, the lockdown of the metropolitan area will continue until June 19 with possible renewals.

Tax measures: According to **AM**, the most relevant tax measures cover the postponement of monthly CIT advance payments for the months of April to June, the payment of the annual corporate income tax, which was deferred to July 31, 2020 (only for small and medium-sized companies, SMEs), as well as the payment of property tax for properties with tax values of up to US$ 200,000. Furthermore, SMEs have the possibility of postponing VAT payment until May. Other notable measures are the possibility of deducting expenses intended to reduce the spread of COVID-19, flexibility for the presentation of annual tax returns, favorable procedures or approaches for the payment of tax debts, as well as the cancellation of the tax applicable to loans and credit operations.

Human Resources measures: According to the data managed, the unemployment rate is expected to even reach double digits by the end of 2020 (>10%), since it reached 7% at the end of FY19. As of this date, 11% of employees are under the Employment Protection Law (*Ley de Protección del Empleo*, LPE)

Among the most important measures that the Chilean government took regarding HR, **MF** highlighted the following:

— Suspensions of employment contracts, which allowed employees to withdraw funds from unemployment insurance.

— The employer remains responsible for making social security contributions.

— The working hours can be reduced, and remuneration is complemented with unemployment funds.

— Employers under the LPE cannot distribute dividends in the same fiscal year.

— Companies that have holding entities in jurisdictions with fiscal preferential regimes cannot use the LPE regarding its employees.

— And, finally, subsidies and/or loans to independent or self-employed individuals were implemented. The types and amounts are under discussion.

Economic stimulus measures: According to **DP**, the economic measures adopted by the Chilean authorities are focused on three pillars: 1) employment and income protection, 2) injection of liquidity to assist companies, especially SMEs, and 3) protection of family income. Particularly, the Government of Chile has concentrated its efforts on two emergency plans: 1) the first one is based on a fiscal stimulus package that could represent 4.7% of GDP, while 2) the second one is based on an additional package in the amount of US$ 5 million, aimed at informal employment and SMEs. These plans are the most important in the history of Chile. Moreover, the Central Bank has decided to reduce the reference interest rate to 0.5%, with the purpose of promoting investment in a complex environment, while it has announced an increase in its bond purchase program for further US$ 4 million. Finally, in coordination with the financial industry regulators (CMF), the requirements to access credit have been reduced.

In general terms, the fiscal stimulus measures adopted by Chile represent, as previously mentioned, around 5% of GDP, and Chile is among the countries within the Latin American region that offered more funds and stimulus packages to fight or mitigate the health and economic impact of the crisis imposed by COVID-19. Only Brazil, Peru and Paraguay are above Chile in this ranking (Source: Columbia University).

At the same time, the Government increased the Guarantee Fund for Small Businesses (*Fondo de Garantía para Pequeñas Empresas*, FOGAPE), with an expansion of guarantees for state loans of up to US$ billion, so that companies with annual sales of up to 1 million UF (= US$ 36 million) can be financed with this instrument. This measure is part of the second fiscal stimulus package announced by the government, for a total of US$ 5 billion, and will allow the Fund to grant guarantees for loans of approximately US$ 24 billion, almost 10% of the country's GDP, hoping to benefit at least 1.3 million between legal entities and individuals. Among the main objectives of said instrument are the following: 1) provide loans for working capital equivalent to 3 months of sales (for eligible companies), and 2) increase the coverage of current guarantees to percentages ranging from 60% to 85% of the loan amount (although, coverage decreases depending on the size of the company). Aiming to ensure the smooth operation of this instrument, participating banks must provide a weekly balance with details on applications and condition.

Moreover, measures have been taken to facilitate that the flow of loans is especially biased towards companies and households (such as the possibility of using mortgage guarantees for commercial loans to SMEs, a regulatory treatment that facilitates the possibility of deferring the payment of mortgage loans by up to three payments, allowing greater flexibility in the treatment of provisions required by banks to reschedule loan installments, etc.).

According to the data provided by **DP**, most of these funds have been earmarked for industry and agriculture, so that in some way the "improvement" of this tool is understood to promote activity where it is really necessary.