InvestChile + Insights
INVESTMENT EBOOKS

REPORT

"Impact of COVID-19 on the economy and FDI"

JUNE 2020

InvestChile
FOREIGN INVESTMENT PROMOTION AGENCY

CONTENTS

Ahumada 11, Piso 12, Santiago, Chile
Tel. (56-2) 2663 9200

Executive Summary

One of the purposes of **InvestChile**, the Chilean government's Foreign Investment Promotion Agency, is to facilitate your access to key information so that you can continue to develop your business and investment projects in Chile.

In line with this, InvestChile's Competitive Intelligence Unit has prepared the report "**Impact of COVID-19 on the Economy and FDI**", which it is constantly updating and comprises four parts.

In the first part, the report analyzes the latest economic forecasts and estimates of the impact of the pandemic, internationally and in Chile. It then goes on to describe the health and economic measures implemented by the Chilean government and the benefits it is making available to individuals and companies.

Finally, in the third section of the report provides an account of the different economic and macroprudential measures adopted by countries in Europe, Asia and the Americas.

It should be noted that this report is in no way definitive, rather it is an exercise in progressive analysis, in line with the changing situation and the growing economic and health measures being taken to address the crisis around the world and in Chile.

This version of the report, published on June 24, analyzes information from the beginning of the health crisis (March 2020) until June 7. However, some dates may differ depending on the update date.

If you require further information or have any questions, please do not hesitate to contact our team: *inteligencia@investchile.gob.cl*

Part I: Economic Impact of COVID-19

Economic Effects, FDI and World Trade

The COVID-19 pandemic has caused an unprecedented crisis with enormous human, social and economic costs. At the time of completing this report, over 6 million people around the world had been infected and almost 400,000 had died.

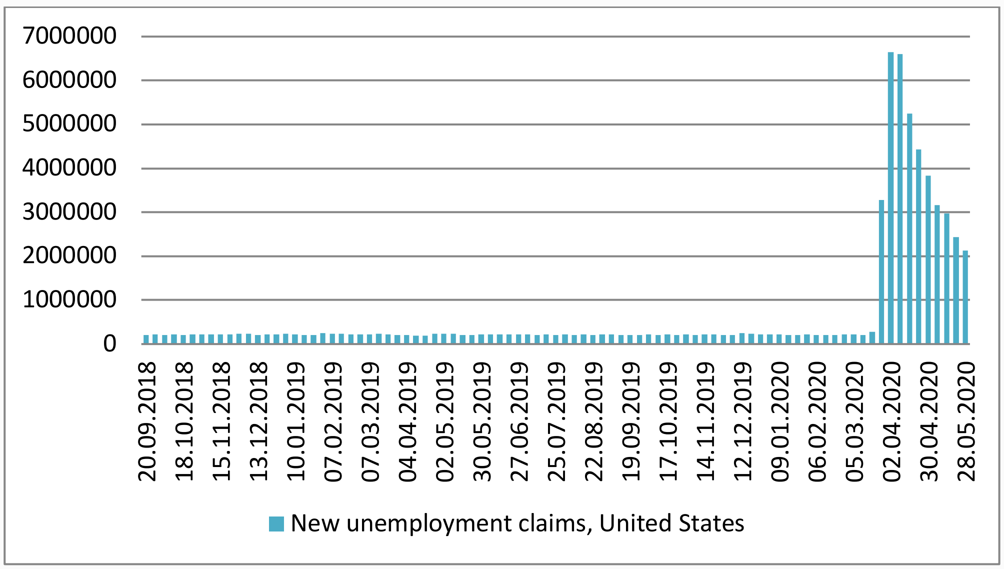
To combat the spread of the virus and protect the lives of millions of people, governments have taken drastic measures that include social distancing, confinement and the paralyzation of activities. The sectors that depend on social interaction have been the hardest hit.

The temporary closure of factories and workplaces in general has disrupted supply chains and reduced productivity. Layoffs, fear of contagion and increased uncertainty have negatively affected consumption, impacting companies' revenues, causing businesses to close and exacerbating job losses.

This impact is already apparent in the world's largest economies. In China, the National Bureau of Statistics reported that first-quarter GDP was down by 6.8% on the same period last year, in line with a drop of 19% in retail sales and 8.4% in industrial production.

In the United States, GDP contracted by 4.8% in the first quarter, due mainly to an important drop in personal consumption (-7.6%), while exports were down by 8.7% and imports by 15.3%.

Figure 1: New unemployment claims, United States

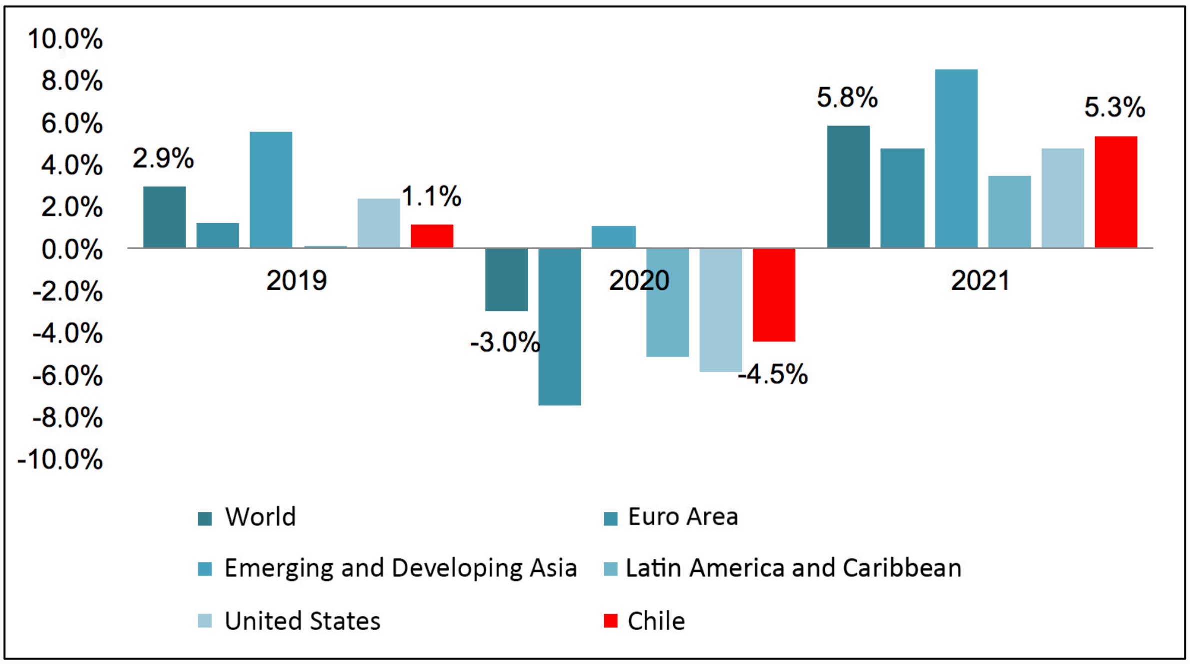


Source: InvestChile using data from investing.com.

Unemployment claims began to increase exponentially in the US in the last week of March and, since then, over 40 million new claims have been filed. In April, unemployment reached 14.7%, its highest level since the 2008 financial crisis.

In April, the International Monetary Fund (IMF) forecast that, as a result of the pandemic, the global economy will contract by 3% in 2020, a far larger drop than during the 2008 crisis.[1] In the absence of a vaccine or effective treatment for the virus, the IMF and other institutions have indicated that they will be cutting their estimates and forecasts for all the world.

Figure 2: Growth estimates and forecasts, 2019-2021[2]



Source: International Monetary Fund, World Economic Outlook, April 2020.

In the case of foreign direct investment (FDI), capital expenditure, investment in new projects and expansions have all been hampered by the physical closure of certain areas and the deceleration of demand.

The world's 5,000 main multinationals, which account for an important part of global FDI, have cut their earnings estimates for 2020 by an average 30%. The worst affected sectors are expected to be the energy and basic materials industries (-208% for energy, with the additional shock caused by the drop in oil prices), airlines (-116%) and the automotive industry (-47%).[3]

[1] World Economic Outlook: Chapter 1, The Great Lockdown. IMF, 13 April 2020.
[2] For other countries and areas, see Appendix 1.
[3] Investment Trends Monitor: Impact of the COVID-19 Pandemic on Global FDI and GVCs. UNCTAD, 26 March 2020.

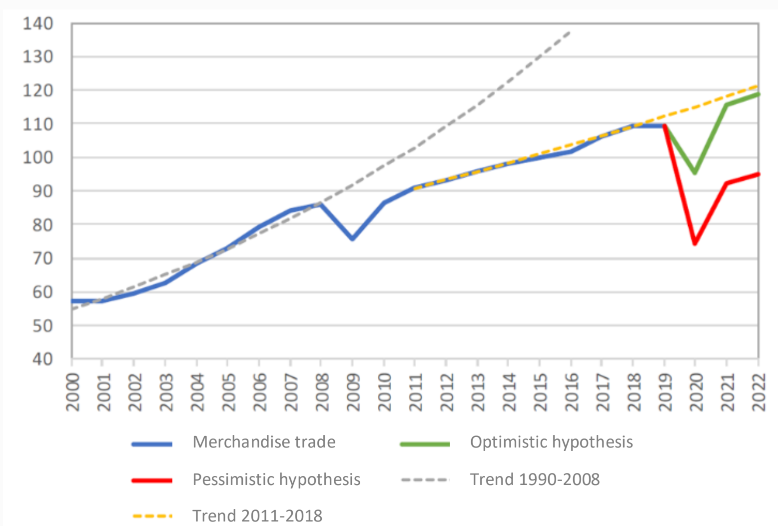
According to the UN Conference on Trade and Development (UNCTAD), COVID-19 will cause a dramatic contraction of global FDI flows that may reach **between 30% and 40% in 2020-2021**.[4] Similarly, the Organisation for Economic Co-operation and Development (OECD) anticipates that FDI flows will fall **by at least 30% in 2020**. The OECD has also indicated that developing countries are likely to suffer the largest impact because the sectors worst hit by the pandemic, including the primary and manufacturing sectors, represent a larger proportion of FDI in these countries than in developed economies.[5]

World trade already slowed in 2019, due to the tensions between the United States and China and a drop in economic growth. According to the World Trade Organization (WTO), the volume of world merchandise trade contracted by 0.1% in 2019 while the dollar value of world merchandise exports was down by 3%.

Due to the pandemic, world trade is forecast to contract more severely than in 2008-2009 and services will be less resilient than in previous crises, due mainly due to the restrictions governments have imposed to contain the spread of the virus, which have had an important impact on the travel and transport sectors.

The WTO has used two hypotheses to forecast the impact on world trade: 1) a relatively optimistic hypothesis under which a sharp decline will be followed by a recovery as from the second half of 2020, and 2) a more pessimistic hypothesis under which the initial drop will be steeper and the recovery longer and incomplete.

Figure 3: Volume of world merchandise trade, 2000-2022
(Index, 2015=100)



Source: WTO

[4] Investment Trends Monitor: Impact of the COVID-19 Pandemic on Global FDI and GVCs. UNCTAD, 26 March 2020.
[5] Tackling Coronavirus: Contributing to a Global Effort: Foreign direct investment flows in the time of COVID-19. OECD, 4 May 2020.

Based on these hypotheses, the WTO expects world merchandise trade to contract by between 13% and 32% due to the COVID-19 pandemic. In addition, trade in services could well be the most directly affected by the pandemic, due to restrictions on transport and travel, leaving digital services as the option for mitigating the decline.

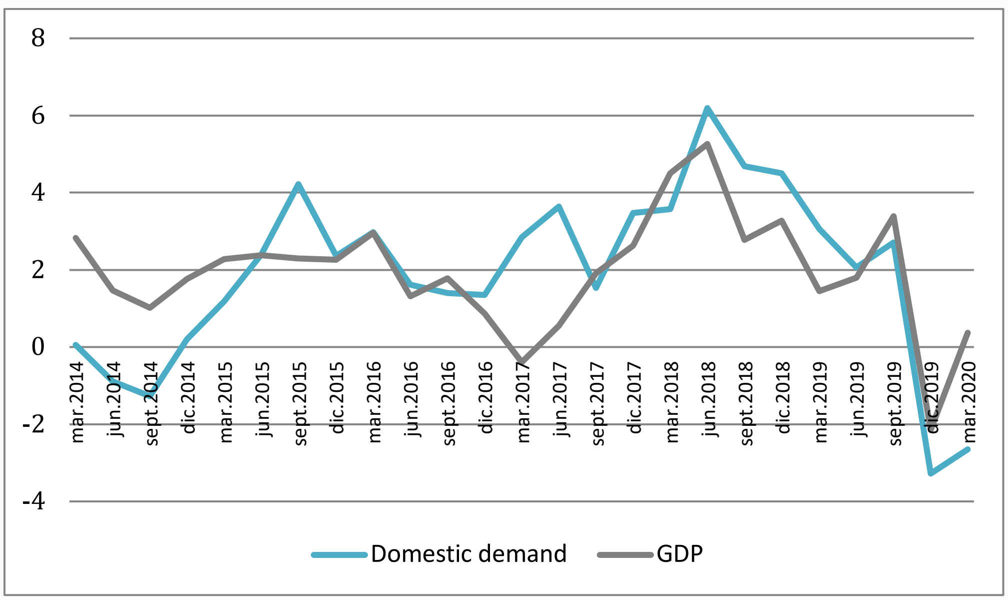
In 2021, trade is expected to recover but this will depend on the duration of the outbreak and the effectiveness of policy responses.

Economic effects in Chile

A) Impact on GDP

In the first quarter of this year, economic activity was up by 0.4% on the same period last year, reflecting the impact of the pandemic and the restrictions on movement and interaction imposed to contain the spread of the virus. There was a drop in activity in sectors that included personal services, commerce, transport and restaurants and hotels. In the case of spending, there was an important contraction of household consumption.

Figure 4: GDP and domestic demand
(Variation on same period in previous year, %)



Source: Central Bank of Chile

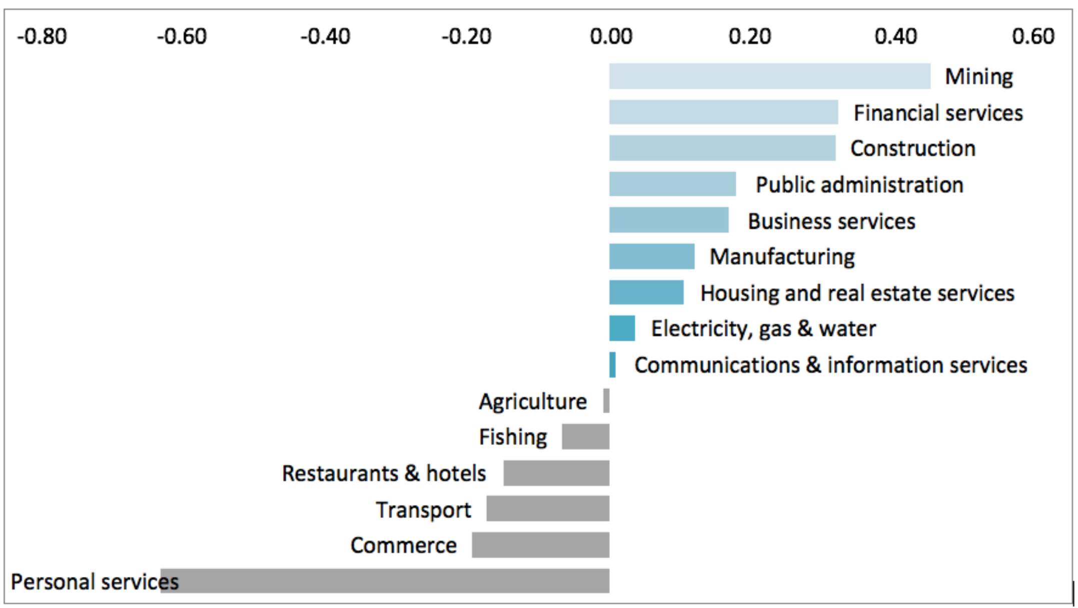
The strong growth of the mining sector (5.1%), financial services (6.5%) and the construction industry (5.3%) was offset by a drop in personal services (-5.3%), commerce (- 1.7%), transport (-3.4%) and restaurants and hotels (-6.5%).

The largest contraction was in the fishing sector (-10.6%), due mainly to a drop in extractive fishing. However, this sector makes only a small contribution to GDP. In personal services, the contraction of 5.3% was explained principally by a drop in educational services, the effect of which was partially offset by the implementation of online classes and by an increase in public and private health services.

The 1.7% drop in commerce was the sector's second consecutive quarterly contraction. It was led by the automotive trade, reflecting a reduction in sales that was aggravated by the health crisis. The retail trade also suffered a contraction due to the restriction of movement of people, associated with voluntary or compulsory quarantining. The drop occurred mainly in the sales of large stores and stores specializing in clothing, footwear and household equipment.

In the transport sector, the 3.4% contraction was due mainly to a reduction in the land and air transport of passengers.

Figure 5: Contribution of economic activities to GDP growth, Q1, 2020
(Percentage contribution compared to same period in previous year, %)



Source: Central Bank of Chile.

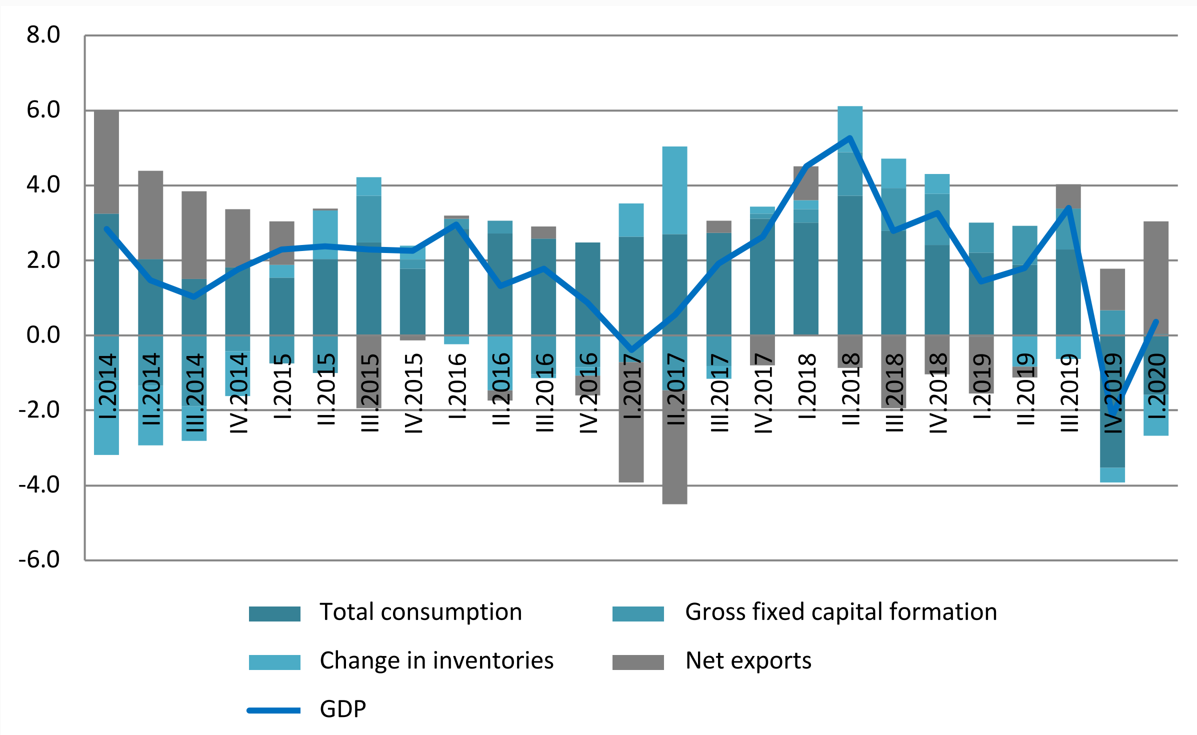
The 6.5% contraction in the hotel and restaurant sector followed its 5.4% contraction in the last quarter of 2019. It was badly hit by the outbreak of social unrest that began in October 2019 and the reduction in overseas visitors during the summer, a situation that has been further aggravated by the pandemic.

In the case of the expenditure components of GDP, household consumption contracted sharply (-2.2%) in the first quarter, due mostly to lower consumption of services. Consumption of durables, particularly automobiles and technology products, was also down while consumption of non-durables increased slightly, with higher spending on food, pharmaceuticals and cleaning products more than offsetting lower spending on clothing.

Gross fixed capital formation (investment) grew by 0.4% in the first quarter. This represented a deceleration on previous periods. The first-quarter increase was explained by an expansion of the construction and other works component, due principally to mining-related engineering projects and, to a lesser extent, increased building. This was partly offset by a drop in investment in machinery and equipment, reflecting lower imports of buses, trucks and cargo vehicles.

Figure 6: Contribution of expenditure components to GDP growth

(Percentage contribution compared to same period in previous year, %)



Source: Central Bank of Chile.

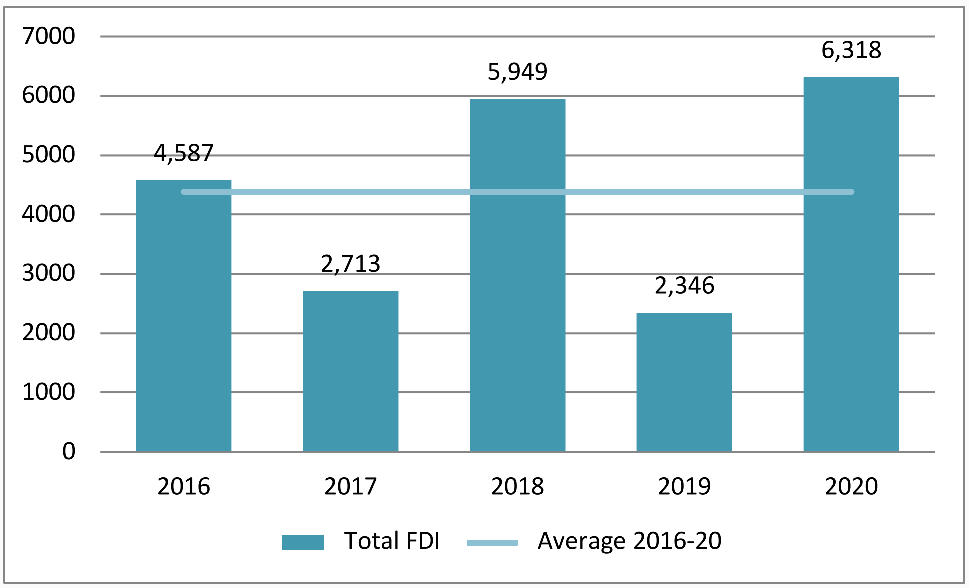
Activity is expected to show a very significant contraction in the second quarter. In April, the Central Bank's Monthly Indicator of Economic Activity (IMACEC) was down by a historic 14.1% on April 2019, reflecting contractions in the services, construction, transport and hotel and restaurant sectors. As a result, the non-mining IMACEC fell by 15.5% as compared to a drop of just 0.1% in the mining IMACEC.

B) Impact on FDI in Chile

According to figures published by the Central Bank on May 18, Chile received net FDI of US$6,318 million in the first quarter of this year. This represented an increase of 169% over the same period in 2019 and of 44% on the average for the previous five years. It was also 50% up on the average for the period since comparable records in 2003 and was the second highest first-quarter figure in this period. In March, the inflow reached US$1,632 million.

However, this does not serve as an indication of the inflow in the coming months. The high figure was largely explained by an inflow of US$4,335 million in January, which was probably a lagged effect of Delta's acquisition of a 20% stake in Latam Airlines (through the stock exchange on 26 December 2019) and the completion of the purchase of Chilquinta Energía by China's State Grid Corp.

Figure 7: Total FDI in Chile, Q1, 2016-2020
(US$ million)



Source: InvestChile using data from the Central Bank of Chile.

Due to the pandemic, some mining projects have had to stop work temporarily and this could affect FDI flows to Chile.

The decisions taken by main mining projects currently under construction in the country, which together represent an investment of over US$18,000 million, have varied quite widely. Some, such as Teck's Quebrada Blanca Phase 2 project and Antofagasta Minerals' INCO project, have halted work while others have opted to carry on but with a reduced workforce. It is, however, evident that none is advancing in the same conditions as before the pandemic.

This will imply longer implementation and ramp-up times and, possibly, higher costs.

Project	Status
Quebrada Blanca Phase II (Teck)	The project has been on hold for almost two months and the company has indicated that conditions do not yet permit a resumption of work. The project, which represents an investment of US$5,000 million, was 29% complete before the suspension of work.
New mine level, El Teniente (CODELCO)	Work on this project continues but with a 50% reduction in its workforce. This was the only project that did not halt work in March. It represents an investment of US$4,400 million.
Expansion of Spence (BHP)	This project is 91% complete and work continues with a reduced workforce. As a result of this reduction, the start-up of the desalination plant could be delayed by a few months until the first half of the company's 2021 financial year. The project represents an investment of US$2,546 million.
Underground Chuquicamata Mine (CODELCO)	This project is 96% complete. A gradual resumption of work began in the first week of May and activity has returned to around 50% of its level before the crisis.

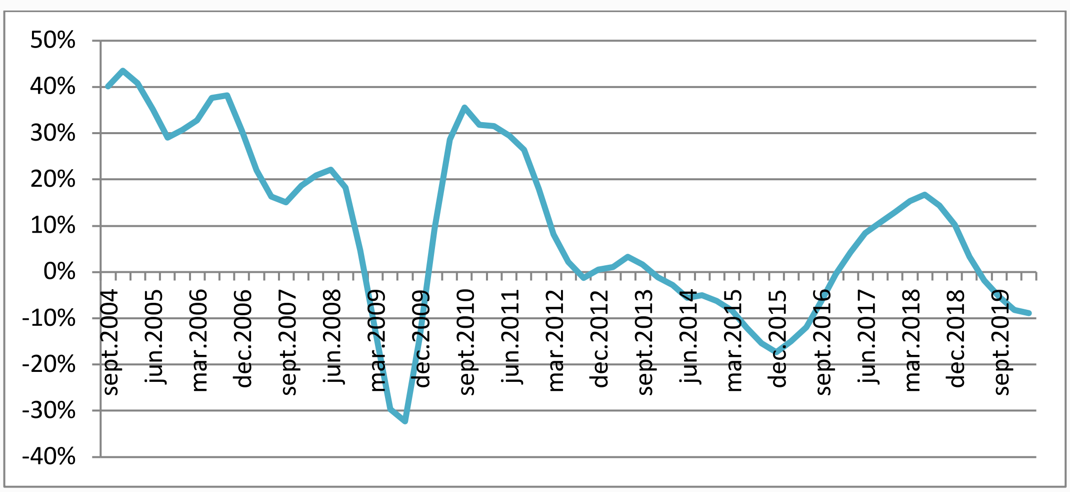
	The project represents an investment of US$5,500 million.
INCO (Antofagasta Minerals)	A month ago, the company decided to interrupt work on the project for an estimated 120 days. The project represents an investment of US$1,300 million.

C) Impact on foreign trade

Chile's trade with the rest of the world reached US$36,460 million in the first quarter of this year, its lowest level since 2017. The drop began in early 2019 and was deepest in the last quarter of 2019 (-11.1%) and the first quarter of 2020 (-10.9%) when imports were down by 13.7%.

In general, the drop in 2019 was attributed to the trade war between the United States and China. However, in the last quarter, it was largely a result of the outbreak of social unrest in Chile while, in the first quarter of this year, the pandemic significantly impacted production, logistics chains, value chains, and therefore, international trade.

Figure 8: Chile's foreign trade
(Rolling average, nominal quarterly variation, %)



Source: Central Bank of Chile.

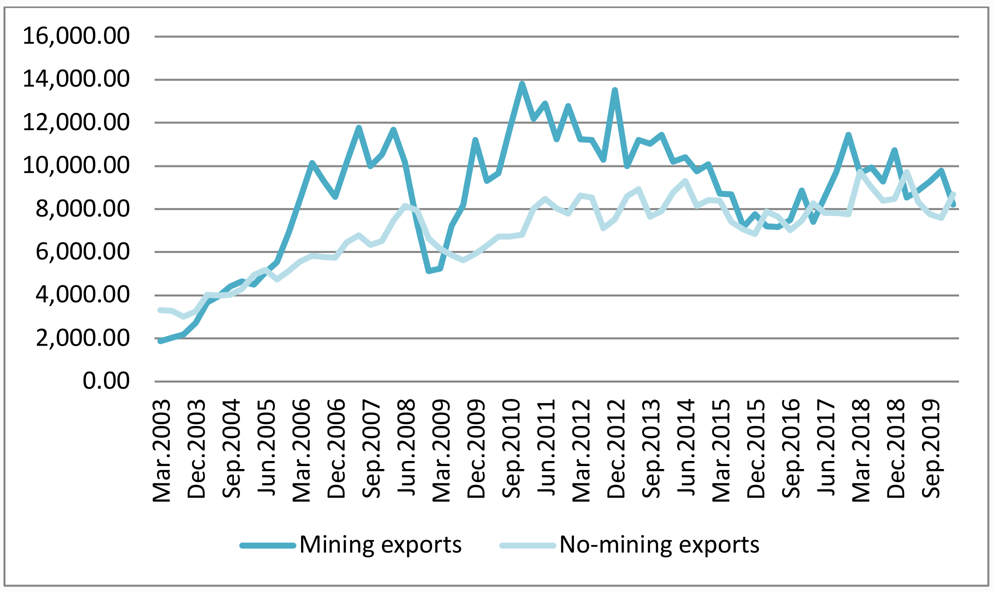
Exports

At US$16,890 million, exports of goods in the first quarter of this year were down by 7.5% in nominal terms on the same period last year. This was explained by lower prices (-10.0%) while volumes showed an increase of 2.8%.

Industrial exports reached US$6,251 million, showing a nominal annual drop of 10.3%. This was partly explained by a drop in both the volume and price of cellulose exports and, to a lesser extent, by lower exports of foods and chemicals, reflecting principally lower prices.

Exports by the agricultural and extractive fishing sectors dropped by a nominal 12.0% to US$2,425 million, reflecting mainly lower fruit prices.

Figure 9: Nominal exports of goods
(US$ million, FOB)

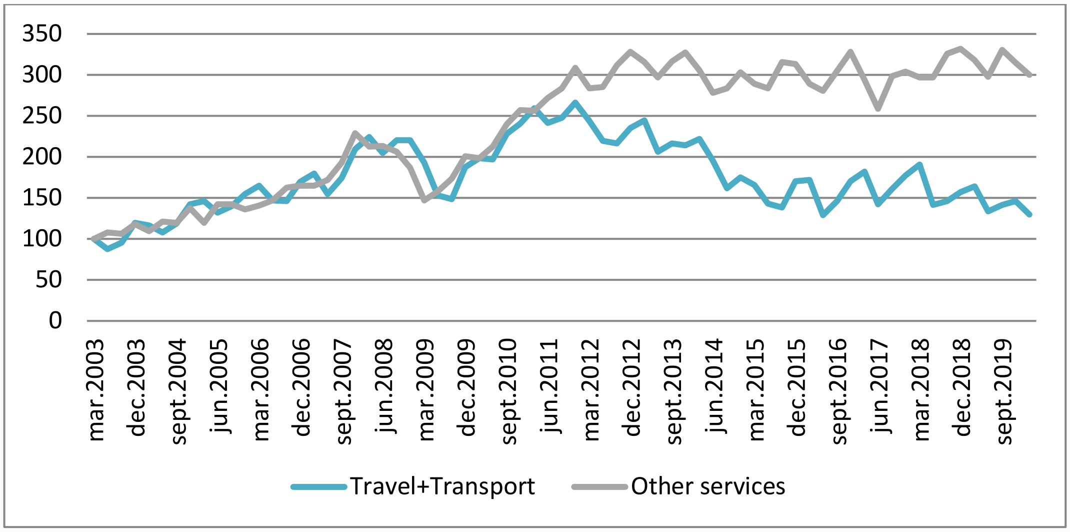


Source: Central Bank of Chile.

In the first quarter of this year, mining exports totaled US$8,213 million, representing a 3.7% nominal drop that was explained principally by a lower copper price. Iron exports, however, increased, reflecting an increase in volume and, to a lesser extent, price.

At US$2,155 million, exports of services were down by a nominal 14.7%, due mainly to a sharp contraction of travel (-30.3%), transport (-11.6%) and other business services (-12.3%). By contrast, telecommunications, technology and information services were up by 25.2%, reflecting the expected resilience of digital services to confinement and self-care measures.

Figure 10: Exports of services
(Index, 100 = Q1 2003)

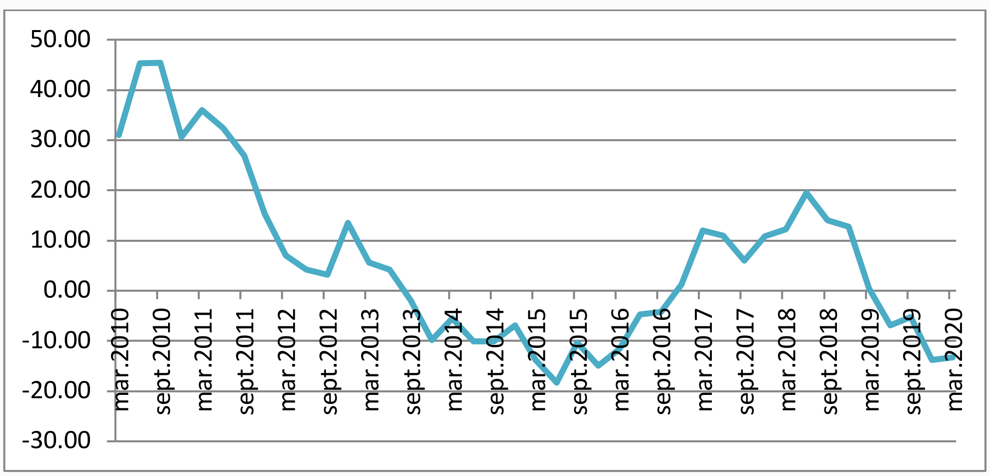


Source: Central Bank of Chile.

Imports

Imports of goods (CIF) totaled US$15,158 million in the first quarter of this year, equivalent to a 13.3% nominal annual reduction that reflected a drop in both volume (-8.0%) and price (-5.7%). The drop was seen across all three broad categories of imports: consumer goods (-20.4%), intermediate goods (-8.3%) and capital goods (-15.1%).

Figure 11: Nominal imports of goods
(Variation on same quarter in previous year, %)



Source: Central Bank of Chile.

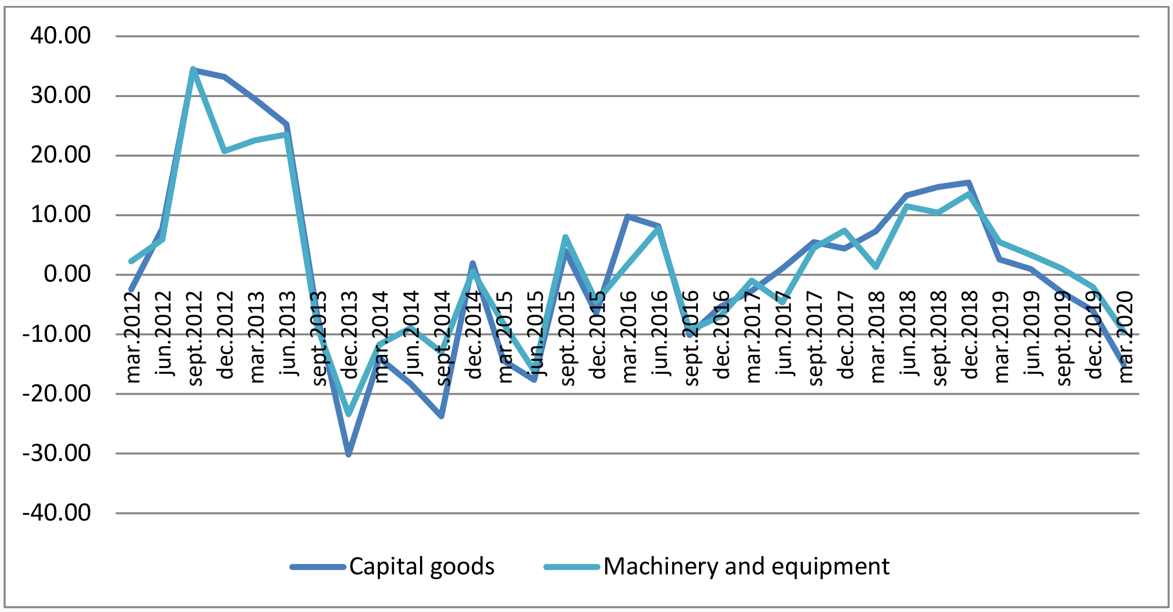
The drop in imports of consumer goods was due principally to a reduction in the volume of automobiles as well as lower imports of clothing, televisions and household appliances.

In the case of intermediate goods, the contraction was a consequence of lower prices and volumes of metal and chemical products, which were partially offset by an increase in the volume of oil and diesel imports.

In capital goods, the drop reflected a reduction in the volume of imports of buses, mining and construction machinery, trucks and freight vehicles in line with the evolution of activity in the corresponding sectors. This indicator is important since it is an important early sign of the behavior of gross fixed capital formation (GFCF) or, in other words, investment.

Imports of services, at US$3,280 million in the first quarter, showed a nominal 12% decrease, led by travel services (-32.6%), personal, cultural and recreational services (-26.4%) and financial, insurance and pension services (-4.9%).

Figure 12: Imports of capital goods and the machinery and equipment component of GFCF



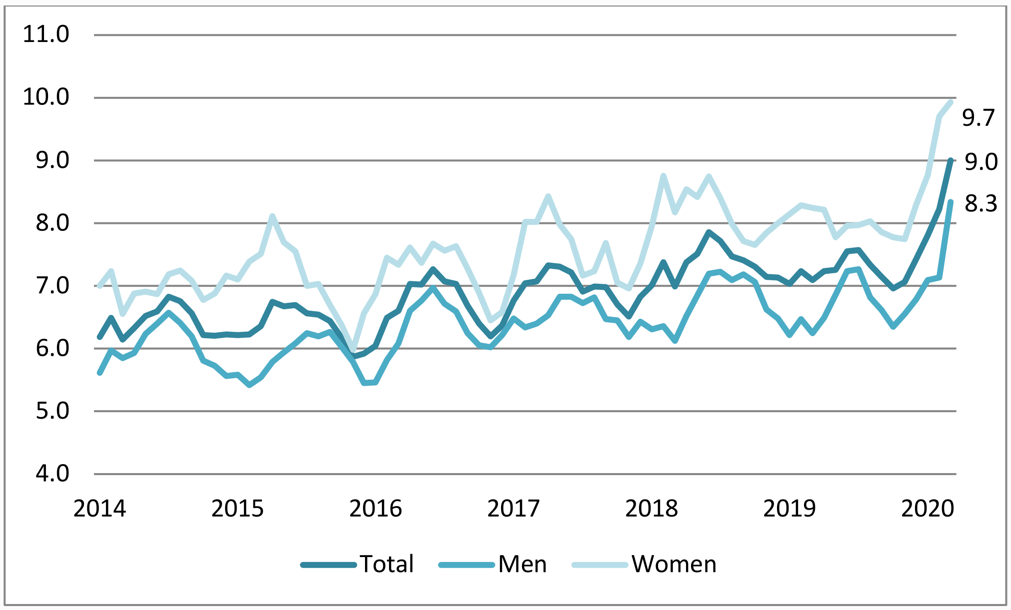
Source: Central Bank of Chile.

D) Impact on the labor market

At 9.0%, the rolling average unemployment rate for February-April was up by 1.9 percentage points on a year earlier. A 5.7% decrease in the workforce was more than offset by a 7.6% drop in employment. The number of people looking for work rose by 19.6% in line with a 22.9% increase in job losses. Higher unemployment was anticipated given the reduction in economic activity which, in some sectors, dates back to October 2019.

The 7.6% drop in employment was the largest since 2010. By sector, it was most marked in commerce (-10%), agriculture and fishing (-15.5%) and manufacturing (-11.9%). By occupational category, the largest drop was among the self-employed (-18.2%), followed by payroll employees (-2.9%).

Figure 13: Unemployment rate
(Quarterly rolling average, 2014-2020)

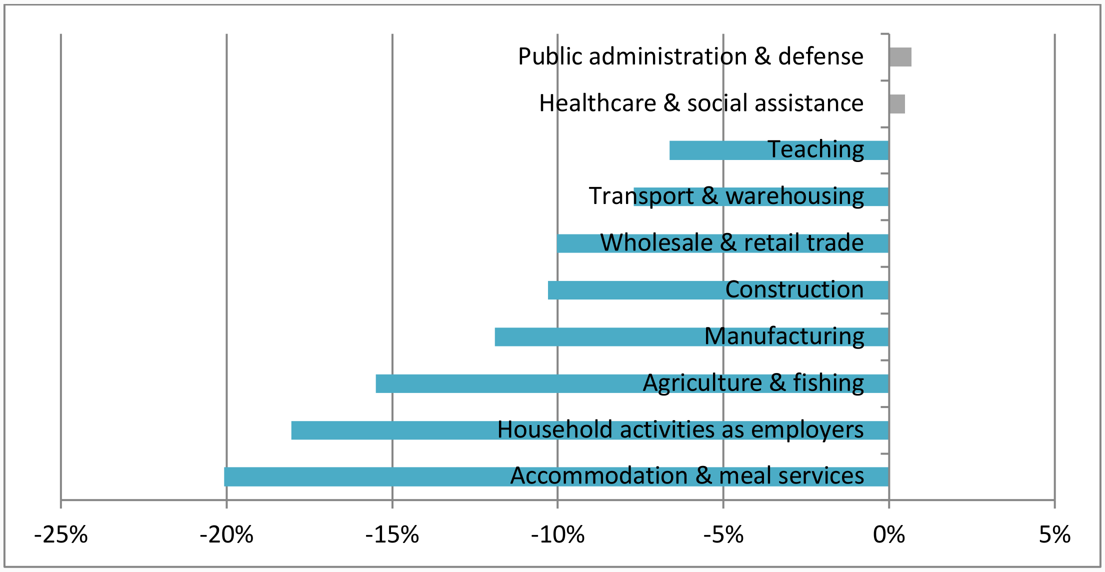


Source: National Statistics Institute (INE).

Absent employees[6], who account for 14.4% of employment, showed an increase of 44.2% (364,821 people). This was a result of the Employment Protection Law that came into force in April 2020.

[6] Absent employees are those persons who, having a job, were absent during the corresponding week. To be classified as absent employees, they must continue to have a work relationship and receive some income from the job or return to work within a maximum of four weeks.

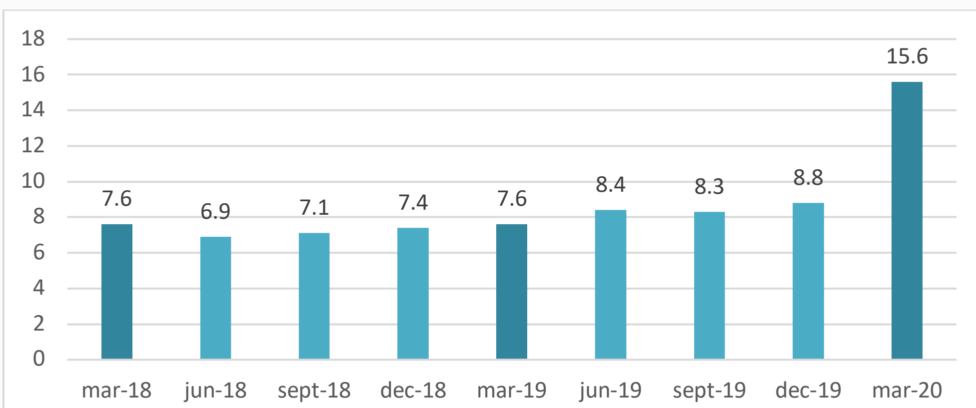
Figure 14: Twelve-monthly variation in employment by economic activity[7]



Source: National Statistics Institute (INE)

Similarly, according to the Survey of Employment and Unemployment in Greater Santiago, carried out by the Microdata Center of the University of Chile[8], the unemployment rate in Greater Santiago reached 15.6% in March 2020, up by 8 percentage points on March 2019 and 6.8 points on December 2019.

Figure 15: Unemployment rate in Greater Santiago



Source: Survey of Employment and Unemployment in Greater Santiago (U. of Chile).

---

[7] Includes the ten economic activities that are the largest sources of employment. Together, they account for 80% of employment in Chile.
[8] The unemployment figures of the National Statistics Institute (INE) and the Survey of Employment and Unemployment in Greater Santiago (University of Chile) are not comparable because their methodologies and sampling differ.

From a historical standpoint, the unemployment rate, as measured by the University of Chile survey, is above its average for the past 20 years (9.5%) and the past ten years (7.6%). The change in the unemployment rate compared to a year earlier is explained principally by: 1) a 15.5% reduction in jobs and 2) a 7.5% reduction in the labor force.

E) Impact on commodities: copper and oil

Two important events have impacted commodity prices in 2020. First, the deceleration of China's economic growth, due to COVID-19, triggered a sharp contraction of global demand for commodities. Secondly, the Organization of the Petroleum Exporting Countries (OPEC) and Russia failed to reach agreement on reducing oil output.

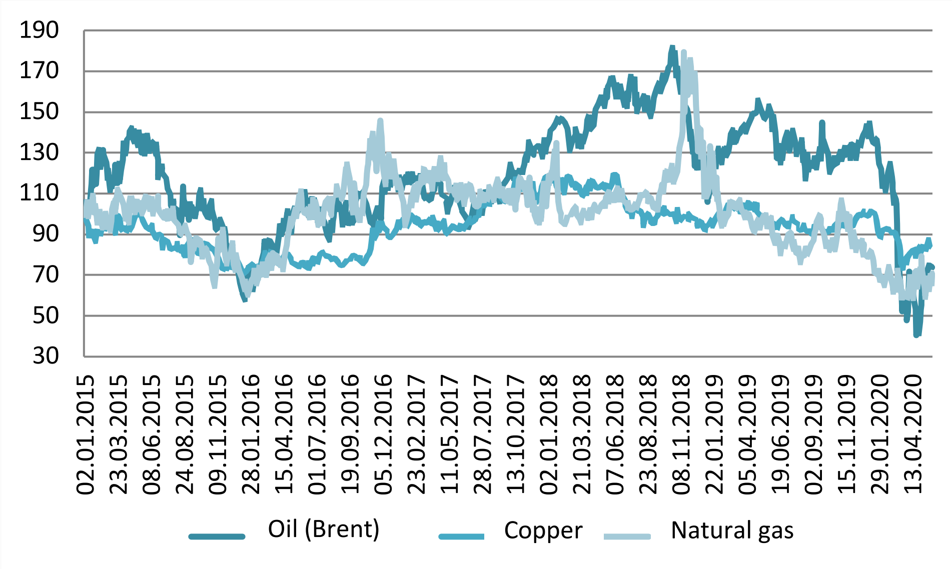
From mid-January through to end-March, base metal prices fell by approximately 15%, natural gas prices by 38% and crude oil prices by approximately 65%. Futures markets suggest that oil prices will remain below US$45/barrel through to 2023 or, in other words, 25% below their average in 2019, reflecting persistently weak demand.[9]

In a teleconference on 12 April 2020, the 23 members of OPEC+ - an alliance formed by OPEC and ten non-member states, including Russia and Mexico - signed an agreement to limit oil supplies for two years, with an initial reduction between May 1 and June 30 of 9.7 mbd, equivalent to around 10% of world production. As from July 1, production will increase again moderately and, through to December 30, the cut will narrow to 7.7 mbd, followed by 5.8 mbd between 1 January 2021 and 30 April 2021.

This agreement has had an impact on the oil price. On 1 April 2020, the Brent price was running at US$24.74/barrel but, by the end of May, had increased by 51.9% to US$37.6/barrel, although remaining below its level prior to the COVID-19 crisis.

[9] World Economic Outlook: Chapter 1, The Great Lockdown. IMF, 13 April 2020.

Figure 16: Commodity prices, January 2015-May 2020
(Index, 100 = Price on 1 January 2015)



Source: InvestChile using data from investing.com.

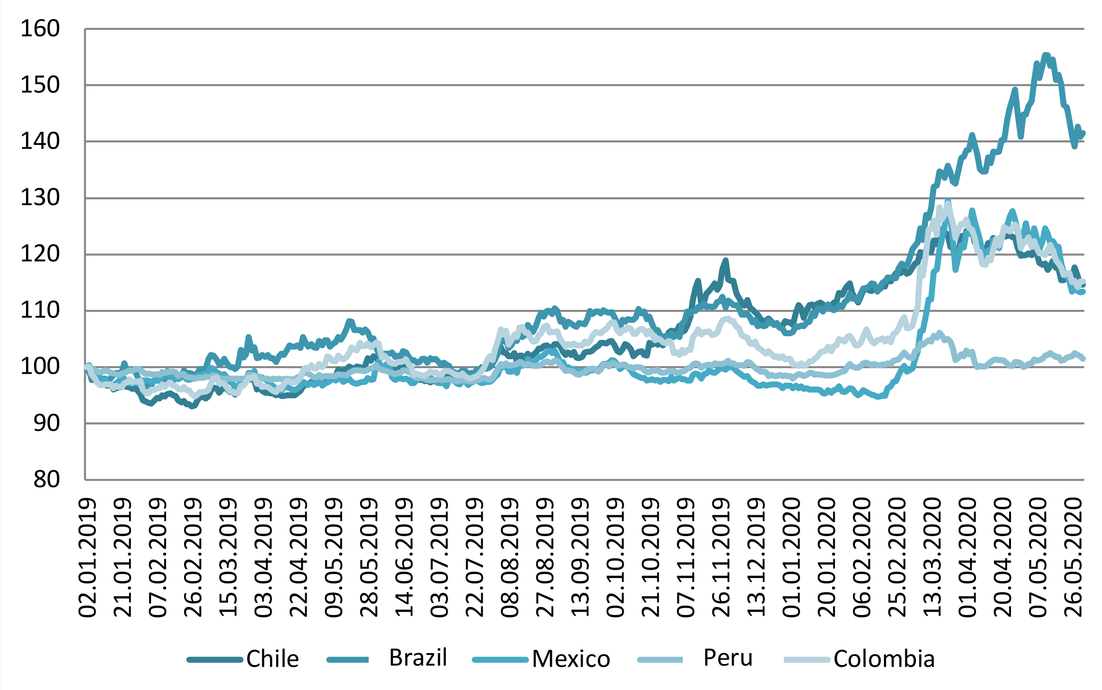
The pandemic has also affected the price of copper. In March, futures prices fell by 14.9%, taking the drop in the first quarter to 21.1% while, in April and May, they recovered by approximately 11%.

F) Impact on the exchange rate

In Latin America, increased aversion to risk as a result of COVID-19 and the search for refuge in safer assets (in dollars) have raised term and risk premiums and been reflected in sharp drops in share prices and a significant nominal and real depreciation of exchange rates.

In its latest Global Financial Stability Report (GFSR), released on April 14, the IMF noted that emerging market economies have experienced a reversal of portfolio flows, particularly in the case of foreign currency bonds and stocks, with signs of a shortage of dollar funds amid the general rebalancing of portfolios in favor of cash and safe assets.

Figure 17: Exchange Rate: Emerging Market Exporters
(US$/unit of domestic currency; 100 = 2 January 2019)



Source: InvestChile using data from investing.com.

As a result, emerging-market and advanced-economy commodity exporters with flexible exchange rates have seen their currencies depreciate sharply against the US dollar since the beginning of the year and, just since April 3, the US dollar has appreciated by 8.5% in real terms.

In Chile, the peso has depreciated sharply, with the exchange rate remaining above the barrier of 800 pesos/dollar throughout March and April. On March 18, it peaked at a closing value of 867 pesos/dollar, a historical record, and, over the month, averaged 841.9 pesos/dollar.

In May, the Chilean peso has shown a recovery. From 834.7 pesos/dollar on May 1, the exchange rate had dropped to 799.05 pesos/dollar by the end of the month. This was similar to its level before the pandemic, but still quite high compared to its behavior over the past 20 years.

APPENDIX 1

Growth Forecasts, World Economic Outlook, IMF, April 2020

	2019	2020	2021
World output	**2.9%**	**-3.0%**	**5.8%**
Advanced Economies	**1.7%**	**-6.1%**	**4.5%**
United States	2.3%	-5.9%	4.7%
Euro Area	**1.2%**	**-7.5%**	**4.7%**
Germany	0.6%	-7.0%	5.2%
France	1.3%	-7.2%	4.5%
Italy	0.3%	-9.1%	4.8%
Spain	2.0%	-8.0%	4.3%
Japan	0.7%	-5.2%	3.0%
South Korea	2.0%	-1.2%	3.4%
United Kingdom	1.4%	-6.5%	4.0%
Australia	1.8%	-6.7%	6.1%
Canada	1.6%	-6.2%	4.2%
Other Advanced Economies	**1.7%**	**-4.6%**	**4.5%**
Emerging Market and Developing Economies	**3.7%**	**-1.0%**	**6.6%**
Emerging and Developing Asia	**5.5%**	**1.0%**	**8.5%**
China	6.1%	1.2%	9.2%
India	4.2%	1.9%	7.4%
ASEAN-5	4.8%	-0.6%	7.8%
Emerging and Developing Europe	**2.1%**	**-5.2%**	**4.2%**
Russia	1.3%	-5.5%	3.5%

Latin America and the Caribbean	**0.1%**	**-5.2%**	**3.4%**
Brazil	1.1%	-5.3%	2.9%
Mexico	-0.1%	-6.6%	3.0%
Argentina	-2.9%	-5.7%	4.4%
Chile	1.1%	-4.5%	5.3%
Colombia	3.3%	-2.4%	3.7%
Peru	2.2%	-4.5%	5.2%
Uruguay	0.2%	-3.0%	5.0%
Middle East and Central Asia	**1.2%**	**-2.8%**	**4.0%**
Saudi Arabia	0.3%	-2.3%	2.9%
Sub-Saharan Africa	**3.1%**	**-1.6%**	**4.1%**
Nigeria	2.2%	-3.4%	2.4%
South Africa	0.2%	-5.8%	4.0%
Low-income Developing Countries	**5.1%**	**0.4%**	**5.6%**

Ahumada 11, Piso 12, Santiago, Chile
Tel. (56-2) 2663 9200

Part II: Chile's measures to confront COVID-19

Administrative and health measures implemented by the executive

At present, we are in Phase 4 of the plan to address the health crisis. According to the World Health Organization (WHO), Phase 4 is when there is sustained transmission of the virus within a country. The most important measures in force in Chile are:

- **State of Catastrophe.** On March 18, the government declared a State of Catastrophe for 90 days. This implies that the armed forces can help with the transport of patients, control of the country's borders and protection of the supply chain.

- **Quarantine.** Partial and total lockdowns have been imposed in different parts of the country. This means that people must stay in their usual place of residence until the authorities decide otherwise. There are a number of exemptions for which a permit must be obtained. The criteria for declaring a lockdown are:
    - Appearance of new cases;
    - Speed of propagation of the virus;
    - Density of cases per km^2;
    - Profile of the area's population (senior citizens, people with chronic illnesses);
    - Social vulnerability of the area.

- **Health Checkpoints.** At these 123 points, the health authorities, the armed forces and the police check the temperature of people traveling to ensure they should not be in quarantine and have their Health Passport.

- **Health Barriers.** At these barriers, the health authorities, the armed forces and the police control that no one enters or leaves a particular area. Only people with a permit to attend a funeral or to receive medical treatment in another city are allowed through these barriers.[10]

- **Closure of certain commercial activities.** Since Thursday, March 19, shopping malls have been closed, except for pharmacies, supermarkets, banks and medical centers, which are essential for the normal supply of the population. In addition, malls can open their construction materials stores and food delivery and click-and-collect services can operate. Since Saturday, March 21, the operation of cinemas, theaters, restaurants, pubs, discos and gyms and sporting events have been suspended indefinitely.

- **Closure of borders.** To prevent the import and spread of the virus, measures have been taken to control the entry of people who could be carrying the disease. The country's land, sea and air borders have been

[10] For geographical details of lockdowns, health checkpoints and health barriers, see Appendix II.

closed to foreigners since March 18, a measure extendable monthly. This does not affect the entry or exit of freight or the transport personnel required to guarantee normal supply.
In addition, the docking of cruise ships at Chilean ports was forbidden as from March 15 through to September 30 (inclusive).

- **Health measures.** Extraordinary measures have been taken to strengthen hospital capacity, expand testing capacity and establish protocols for sick leave and the discharge of patients.
    - Testing:

A free PCR test to diagnose COVID-19 is available for all affiliates of the National Health Fund (FONASA) suspected to have caught the virus. In the private healthcare system, the price of the test is capped at 25,000 pesos (without subtracting the part covered by the health insurer).
As from Wednesday, March 18, the detection protocol was expanded and it is no longer necessary to have traveled abroad or to have been in close contact with an infected person in order to be considered a suspected case. There are over 70 laboratories in Chile able to process COVID-19 tests.

- Definition of cases:
    - Suspected case:
        - i) Person with at least two symptoms of COVID-19, without having had direct contact with a positive case;
        - ii) Any person with a serious respiratory infection that requires hospitalization.
    - Confirmed case:
        - i) Person with a positive PCR result;
        - ii) If the patient has symptoms, quarantine is for 14 days as from the appearance of the symptoms;
        - iii) If the patient does not have symptoms, quarantine is for 14 days as from diagnosis using the PCR test.
    - Probable case:
        - i) Person with indeterminate symptoms and PCR result; it is not necessary to repeat the test;
        - ii) Close contact with a positive case and development of at least one of the symptoms within the 14 days following the contact; it is not necessary to have a PCR test;
        - iii) These cases are treated like confirmed cases, are reported separately and are included in active cases.
        - iv) Probable cases must quarantine or isolate for 14 days or until contagion has been ruled out through a PCR test.
    - Definition of close contact:

i) People close to a confirmed case, with contact between two days before and 14 days after the appearance of symptoms; in the case of an asymptomatic confirmed case, the contact must have occurred in the 14 days after diagnosis through a PCR test.

In both situations, one of the following circumstances must exist for the contact to be considered close:

ii) Face-to-face contact for more than 15 minutes at a distance of less than a meter;
iii) Lives or sleeps in the same house or equivalent place such as a hostel, boarding school, enclosed institution, home for seniors, hotel or residence;
iv) Having traveled in any closed means of transport at a distance of less than a meter with an infected person.

Important:

i) Persons awaiting the result of a PCR test must keep quarantine until notified of the result.
ii) Persons who have been in close contact with a person diagnosed with COVID-19 must isolate for 14 days or until contagion has been ruled out through a PCR test.

- <u>Sick leave:</u>

All infected, probable cases and proven cases of close contact as well as other specified cases that require compulsory quarantine are entitled to sick leave. According to the Protocol for Management of Contacts of COVID-19 Cases, issued on March 25, “close contacts” are high-risk persons and, therefore, are monitored by the Regional Office (SEREMI) of the Health Ministry from the moment they are known to be a confirmed case. They are persons who were in contact with a confirmed case two days before or 14 days after the latter’s symptoms appeared and who also fulfill any of the following conditions:

- Have been at a distance of less than a meter from the infected person for at least 15 minutes;
- Have shared a closed space for two hours or more in, for example, offices, other workplaces, meetings and schools;
- Live or sleep in the same house or equivalent place such as a hostel, boarding school, enclosed institution, home for seniors, hotel or residence;
- Have traveled in any closed means of transport at a distance of less than a meter with an infected person.

- Criteria for identifying people without risk of being contagious:

On April 11, the Advisory Committee established the criteria for considering that a person with COVID-19 has ceased to be contagious:

- **Patient with light symptoms, who has spent the illness at home:** Considered no longer contagious 14 days after diagnosis or the appearance of symptoms;
- **Hospital patient discharged without symptoms:** Considered no longer contagious 14 days after diagnosis or the appearance of symptoms;

- **Hospital patient discharged with symptoms but without a temperature:** Considered no longer contagious 14 days after discharge;
- **Patient with prior immune system problems:** Considered no longer contagious 28 days after diagnosis or the appearance of symptoms.

The test which can confirm that a person is no longer contagious is the immunoglobulin G (IgG) blood test, not the PCR test. It detects antibodies or, in other words, the defenses the organism has developed against COVID-19.

- Strengthening of hospital capacity:

An integrated health system for COVID-19 has been in place since April 1. Under this system, the Health Ministry controls management of the public and private infrastructure used to address the emergency. Beds and ventilators are, therefore, centrally allocated.
Chile currently has 37,000 hospital beds, but this will increase to 41,532 with the early opening of five new hospitals (Gustavo Fricke, Félix Bulnes, Ovalle, Padre Las Casas and Angol). Additional infrastructure includes a field hospital, six medical posts, the Sargento Aldea ship and a new field hospital with 3,000 beds in Santiago's Espacio Riesco events center.
Since February, the National Health Service's Supply Center (CENABAST) has acquired 30,000 million items of personal protective equipment. A fund of 220,000 million pesos has been established to finance the purchase of necessary supplies and equipment, strengthen the operation of hospitals and diagnostic laboratories, the lengthening of hours of emergency attention, additional beds, fast-build hospitals and other needs.
At the start of the pandemic, the guarantees of attention provided under the AUGE system were suspended along with elective surgeries in order to focus all resources on the emergency. However, at the end of April, the government decided to resume attention under AUGE and elective procedures, providing they do not involve more than one day in hospital.

- Quarantine facilities:

A total of 2,339 beds are available in 52 quarantine facilities around the country for persons unable to quarantine at home.

- Private health insurers:

The country's private health insurers (Isapres) have postponed an increase in their premiums from July to November.

- Face masks:

Their use is compulsory in public and private transport throughout the country as well as in elevators and places where ten or more people are gathered (for example, health centers, supermarkets and pharmacies).

- Guide to Emotional Wellbeing during Quarantine:

The Health Ministry has published a series of recommendations for the mental health of children, adolescents, people working remotely and senior citizens.

- **Education measures.**
    - Preschool and school classes were suspended from March 30 to April 12 and the winter holidays were brought forward to between Monday, April 13 and Friday, April 24. At the date of writing this report, classes remained suspended indefinitely. The date for their resumption will be announced in due course.
    - The school year will be extended by two weeks in December.
    - Payments to state-funded public and private schools continue. In the case of private fee-paying schools, there is an annual contract between each establishment and the parents.
    - Food baskets are being distributed to the 1.5 million school children entitled to free meals.
    - The Education Ministry has launched an *Aprendo En Línea* (I Learn Online) platform, with guides and texts for distance learning. It provides free access to Internet from mobile devices.
    - On April 27, the Education Ministry, the National Television Council (CNTV) and the National Television Association (ANATEL) launched *TV Educa en Chile* (TV Educates in Chile), providing educational content through television channels' digital signal.
    - Municipal governments have undertaken to provide staff at schools for the care of children whose family or home situation so requires.
    - In the case of higher education, in-person classes are being replaced by online classes using digital platforms.

- **Public sector employees.** All public sector employees aged over 70 or who correspond to a high-risk group can work remotely from home when circumstances so require. Heads of public services can take special measures to permit more flexible hours and encourage remote work. Public events and acts have been reduced to those that are strictly necessary and with a maximum of 50 people. Travel by public officials is restricted. A special fund of 220,000 million pesos is being used to finance the extraordinary expenses entailed by this work plan.

- **Senior citizens.**
    - **Prohibition of visits to long-stay care homes for seniors**, restricting access to those persons whose presence is strictly necessary and strengthening hygiene measures and isolation within homes;
    - **Suspension of operation of All Day Centers for Seniors** throughout the country;
    - **Suspension of meetings of all clubs and municipal associations for seniors** throughout the country;

- **Emotional Containment telephone line for senior citizens**, operated by the National Service for Senior Citizens (SENAMA); if a call is classified as "serious" or requiring specialized assistance, the caller's data is passed on to the Míranos Foundation for contacting by psychologists and experts in containment.
- ***Cuenta Conmigo* (Count on Me) campaign,** a campaign and website that offers different models that communities can replicate to help seniors voluntarily; downloads from the site include guidelines on how neighbors can coordinate to help with shopping for food and medicines and to walk senior citizens' dogs during the emergency.

- **Prisons.** To protect the health of older inmates, a law was passed replacing imprisonment with total house arrest for over-75s and those aged between 65 and 74 with less than a year of their sentence still to serve. It does not apply to those convicted of serious crimes, human rights violations and crimes against humanity. In addition, the frequency of visits and the number of people able to participate in them has been restricted. Prisons are also adopting stricter health controls for all people entering the facility and a protocol has been established for the isolation of any infected inmates.

- **Public transport.** Hygiene measures have been stepped up on Santiago's Metro subway and city and inter-city buses. Measures have also been adopted to ensure the adequate availability of transport in the context of measures such as the curfew and lockdowns.

- **Flu vaccination.** Given the severity of flu outbreaks during the northern hemisphere winter, the influenza vaccination campaign was brought forward. The aim is to vaccinate 8 million people, giving priority to high-risk groups such as children, seniors, pregnant women, the chronically ill and health workers. In addition to the primary health centers and other facilities where vaccination is normally available, special Vaccination Centers have been established to further facilitate access. The option of expanding the groups at risk will be subject to permanent review.

- **Mass events.** All public events with more than 50 people have been forbidden indefinitely. The events that have already been canceled include the ExpoMin mining exhibition, Lollapalooza and the FIDAE air show.

- **Other control measures.** On March 22, the following additional measures were adopted:
  - Chile's inhabitants must remain in their usual place of residence and are forbidden to move to other places of residence such as second homes.
  - People entering Chile must remain in isolation for 14 days, regardless of their country of origin.
  - A curfew is in force indefinitely throughout Chile between 22.00 and 05.00.

  - People who have infringed quarantine measures or lack where to comply with them will be transported to accommodation especially prepared for this purpose.[11]

- **Additional measures taken by the government.**
  - The validity of ID cards has been extended for a year in order to avoid the need to visit Civil Registry offices and measures have been taken to facilitate the use of online services.
  - Chile is in permanent contact with the other PROSUR countries.

Economic measures implemented by the executive

The government has announced measures that will mobilize fiscal resources for US$11,750 million, equivalent to 4.7% of GDP, over the coming months. The measures are divided into three pillars: (1) **Strengthening the health system budget**; (2) **Protecting family income**; (3) **Protecting jobs and the companies that create them**.

1. Strengthening the health system budget

In order to cover expenditure arising from the health emergency, the public health budget will be supplemented using a 2% of GDP budget provision reserved for catastrophes.

2. Protecting family income

A battery of measures is being implemented for the sole purpose of protecting Chilean families' income from work. It includes:

- **COVID-19 Employment Protection Law (Law N° 21.227).** This law guarantees payment of the income of those who, due to the emergency, must remain at home and are unable to work remotely. It applies subject to: (a) agreement between the employer and the employee; and (b) an order from the health authority. Reduced working hours are also permitted, with the difference in pay offset out of the Solidarity Unemployment Fund. In this way, the employee will receive income from the unemployment insurance program, according to its current rules, but will retain the existing employment relationship and all labor rights, implying that the employer will continue to pay the employee's social security contributions. For this purpose, up to US$2,000 million will be injected into the Solidarity Unemployment Fund.

- **COVID-19 Special Benefit (Law N° 21.225).** As from April, this law provided a benefit equivalent to that for the Family Subsidy (SUF) for 2.6 million people without a formal job. This measure has a cost of US$170 million.

[11] People failing to comply with quarantine measures are also liable to the fines and prison sentences indicated in the Health Code and the Criminal Code. Article 318 of the Criminal Code states that "a person who endangers public health by infringing hygiene or health rules, duly published by the authority, at a time of catastrophe, epidemic or contagion will be punished with the minimum prison sentence or a fine of between six and twenty monthly tax units (UTMs)."

- **Package of measures to support the most vulnerable families and micro, small and mid-sized firms (MSMEs) (Law N° 21.225)**[12]. This law facilitates access to credit, particularly for SMEs, by suspending Stamp Tax for six months. Also, adds a contribution of US$500 million by the Ministry of Finance to Banco Estado to be loaned to SMEs.

- **Crisis Solidarity Fund.** A Solidarity Fund of US$100 million has been established to address social emergencies caused by the fall in the sales of local micro-commerce. These funds will be channeled through municipal governments throughout the country.

3. Protecting jobs and the companies that create them

a) *Tax measures*

- **Income Tax**
  - Suspension of corporate income tax provisional monthly payments (PPMs) for three months (April, May and June 2020);
  - Income tax refund for SMEs brought forward to April 2020;
  - Postponement for SMEs of payment of income tax as calculated in annual returns filed in April 2020;
  - Early refund of Global Complementary Tax and refund of tax paid in January and February 2020 for the self-employed;
  - Deduction from taxable income of all company expenses related to the health emergency.

- **VAT**
  - Postponement of VAT payments for three months (April, May and June 2020) for companies with annual sales of less than 350,000 *unidades de fomento* (UF). Depending on the size of the company, they will be able to make the payments as from July 2020 in six or 12 installments with 0% interest.

- **Stamp Tax**
  - Reduction to 0% on all borrowing operations for six months (as from April 2020).

- **Real Estate Tax**
  - Postponement of the installment of real estate tax due in April 2020 for companies with sales of less than 350,000 UF and individuals with properties with a tax assessment of less than 133 million pesos. The installment will be staggered over the next three installments at a 0% interest rate.

---

[12] For more information: https://www.leychile.cl/Navegar?idNorma=1144002

- **Others**
  - Debts with the General Treasury of the Republic (TGR): Greater flexibility as from April 2020 in negotiating tax debt payment agreements with the TGR; this measure targets SMEs and lower-income individuals.
  - Deadlines for sworn tax declarations: Greater flexibility for the presentation of declarations related to this year's annual tax returns.

b) ***Other liquidity measures***

- **Acceleration of payment of suppliers to the state.** In April, the government undertook to pay all pending invoices to the state, equivalent to an immediate injection of liquidity of approximately US$1,000 million. All future invoices to the state will be paid within 30 days (equivalent to US$500 million per month). This corresponds to the first stage of the centralized payment agenda.
- **US$500-million capitalization of the state bank, BancoEstado.** These resources will be used mainly to provide financing to individuals and SMEs. This measure is equivalent to an increase of some US$4,400 million in the bank's lending capacity.

4. Special conditions for payment of utility bills

The government has reached agreement with public utility companies on benefits and special payment conditions for users classified as among the 40% most vulnerable households, according to the Social Register of Households.

a) Electricity sector

1. Service cuts on the grounds of overdue bills have been suspended.

2. Debts acquired while the State of Catastrophe is in force will be prorated over the subsequent 12 monthly bills without fines or interest.

3. Clients with debts of less than 10 UF dating back to before the State of Catastrophe can also prorate payment over the subsequent 12 months.

This plan will benefit 3 million families and 7 million people corresponding to the 40% most vulnerable households and other persons in a condition of vulnerability or unable to pay as a result of the health emergency such as senior citizens and those who have lost their jobs.

b) Telecommunications sector

A 60-day free Solidarity Connectivity Plan has been implemented for current clients from the 40% most vulnerable households. Under the plan, these families can use Internet and social networks, answer emails and access official coronavirus-related sites, the aprendoenlínea.mineduc.cl educational website and other services without incurring charges.

Clients unable to pay their current plan can, therefore, ask the company to terminate it and use this Solidarity Connectivity Plan free of charge.

c) Water sector

Residential clients from the 40% most vulnerable households with a monthly consumption of less than 10 cubic meters will be able to postpone payment of bills throughout the duration of the State of Catastrophe.

This benefit will also apply to over-60s with payment difficulties and people who lose their jobs during the State of Catastrophe. The bills will be prorated over the subsequent 12 months, without fines or interest. This measure will benefit 1.5 million families and others who need to use it and reach agreement with the company.

In addition, the government will continue to subsidize part of monthly water bills, up to a maximum monthly consumption of 15 cubic meters. For families in the *Sistema Chile Solidario* (Chile Solidarity System) and the *Sistema Chile Seguridades y Oportunidades* (Chile Securities and Opportunities System), the subsidy will cover 100% of the cost of the first 15 cubic meters. This subsidy can be renewed automatically for three months in order to avoid having to request renewal in person.

5. Additional Plan for the Protection of Economic Activity

In addition to the economic plan for US$11,750 million, announced on March 19, the government has announced a further plan for US$5,000 million of which US$2,000 million will be financed through budget reallocations. This plan contains measures in two areas:

Protection of Economic Activity
- Protection of Income.

a) Plan for the Protection of Economic Activity

This is a powerful plan of guarantees for up to US$3,000 million designed to mobilize credit for companies with annual sales of up to 1 million UF or, in other words, 99.8% of companies which, in turn, account for 84% of jobs.

Its aim is to provide companies with the liquidity to cover their working capital needs during the emergency, including the payment of wages, rent, inputs and other items.

This support will be provided through the Small Business Guarantee Fund (FOGAPE) and involves an important expansion of FOGAPE’s size and scope.

This implies increasing the fund’s resources, enabling it to guarantee loans for some US$24,000 million, equivalent to almost 10% of GDP.

The plan envisages:

- COVID-19 lines of credit for working capital can reach up to the equivalent of three months of a company's sales in normal times (defined as October 2018 to September 2019).
- This line of credit will have a six-month grace period and will be payable in installments over between 24 and 48 months.
- The credits will have a maximum real interest rate of 0% and, depending on inflation, this may even be negative. Specifically, the interest rate will be calculated as the Central Bank's monetary policy rate plus 3%. Today, this is equivalent to a nominal 3.5% which, given inflation forecasts, implies a 0% or negative real interest rate.
- Banks have undertaken to make this COVID-19 line of credit widely available, doing so in an expedite and standardized manner. This implies that it will be accessible for the majority of their commercial clients or, in other words, 1.3 million potential beneficiaries.
- In the case of companies using the COVID-19 line of credit, banks have been asked to suspend repayment of pre-existing loans for at least six months as a way of alleviating companies' financial burden.
- The coverage of existing guarantees will be increased to up to 60-85% of the value of the loan. Coverage will decrease with the size of the company.

Annual Sales	**Coverage of State Guarantee**
Less than 25,000 UF	85% of Working Capital Loan
Between 25,000 and 100,000 UF	80% of Working Capital Loan
Between 100,000 and 600,000 UF	70% of Working Capital Loan
Between 600,000 and 1,000,000 UF	60% of Working Capital Loan

6. Income Protection Plan

This plan consists in the creation of a fund of US$2,000 million to protect the income of the most vulnerable people. Its aim is to reassure this segment of the population that the government is there to help them whenever necessary.

Details of the Protection Fund are as follows:

- At US$2,000 million, the Fund is equivalent to 0.8% of GDP and will operate in a way similar to the government's 2% of GDP provision for catastrophes. The Fund will be financed through budget reallocations.
- It will benefit approximately 3 million people.

- It will be used flexibly as and when the need arises and depending on the context, enabling the government to respond to needs depending on the course of the health crisis.
- The plan has the advantage of providing a margin of action for varying response to people's situation at different moments in the pandemic.

Other measures:

- Incorporation of Central Counterparties and Savings and Loan Cooperatives that comply with the Central Bank's regulatory standards and supervision of liquidity facilities. This expands the Central Bank's scope of action to non-bank entities, enabling it to increase its effectiveness in its essential function of ensuring the continuity of payment systems, adapting its operation to changes in increasingly complex and interconnected financial markets in Chile and the rest of the world.

7. COVID-19 Emergency Economic Plan: Advances and compliance

i) Protection of jobs and income from work: Employment Protection Law (Law N° 21.227[13])

Establishes extraordinary measures of a temporary nature to protect the stability of the earnings and sources of employment of workers in the formal sector who are unable to work or face adjustments in their working hours as a result of COVID-19.

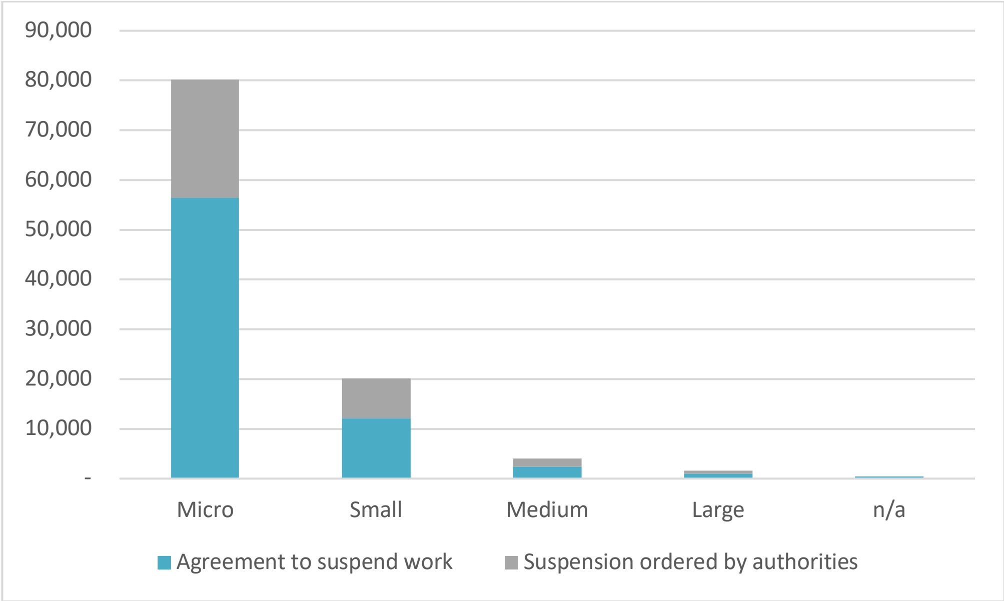
- **US$2,000 million**: Upper limit on resources
- **4,500,000 people:** Potential beneficiaries

Progress on implementation:

- Starting date: April 30
- N° of employers registered: 92,204
- N° of employees registered: 555,002

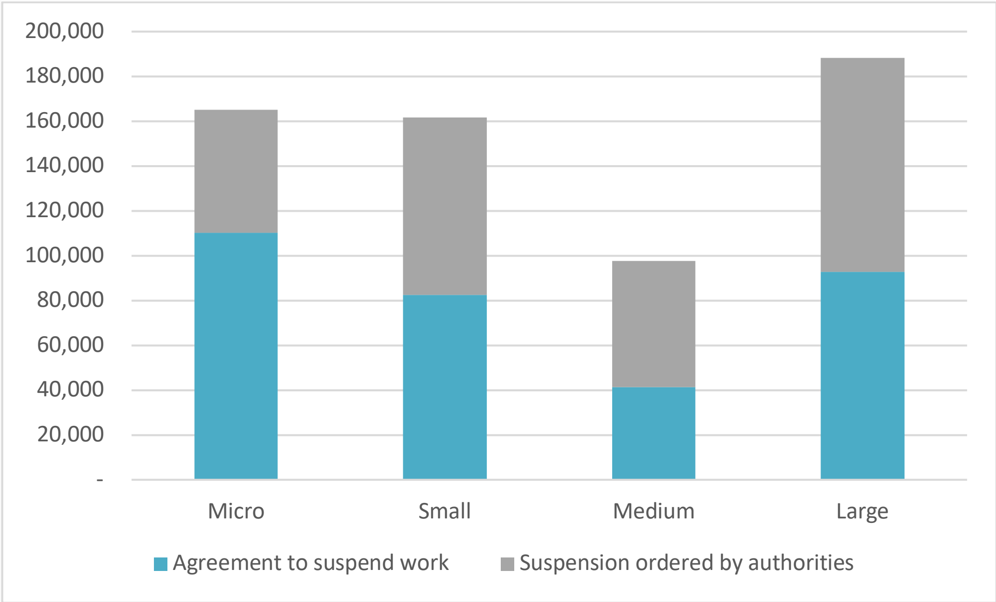
[13] https://www.leychile.cl/Navegar?idNorma=1144080.

Figure 18: N° of companies by grounds for use and company size
Information updated to 22/05/2020



Source: Ministry of Finance.

Figure 19: N° of employees by grounds for use and company size
Information updated to 22/05/2020



Source: Ministry of Finance.

ii) Injection of liquidity to support companies: Expansion of state credit guarantees (FOGAPE, Law N° 21.227[14]**)**

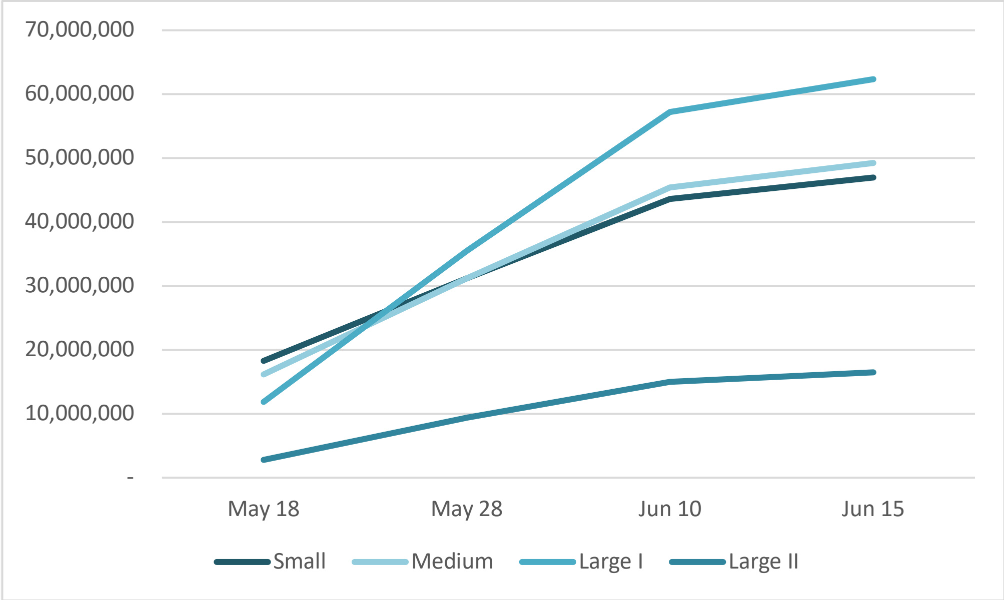
Important expansion of the Small Business Guarantee Fund (FOGAPE), increasing state guarantees by up to US$3,000 million in order to finance companies with annual sales of up to 1 million UF (up from the previous limit of 350,000 UF).

- **US$3,000 million**: Upper limit on guarantees
- Companies with annual sales of up to **1 million UF**

Progress on implementation:

- Starting date: April 30
- Total amount guaranteed: 99.9 million UF | US$3,500 million
- N° of credits guaranteed: 56,848

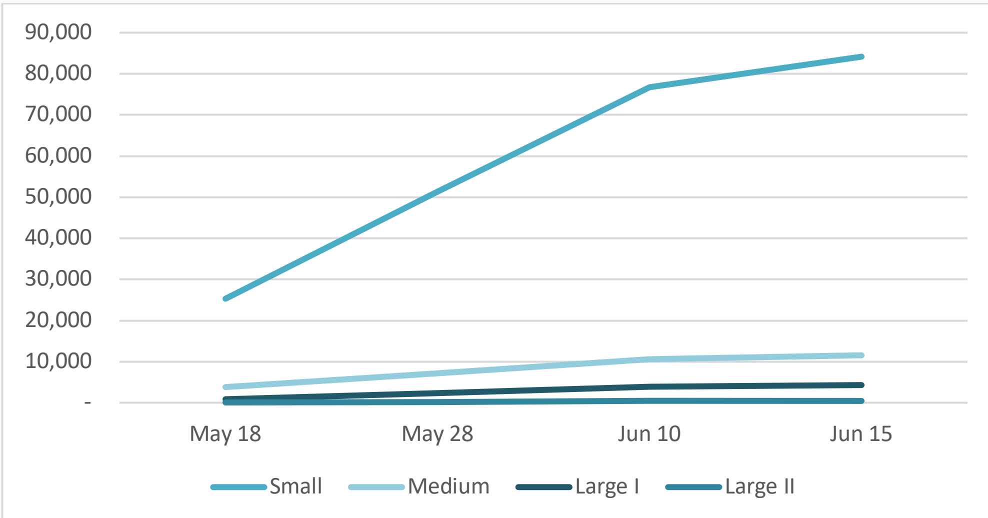
Figure 20: Amount of credits guaranteed
Information updated to 27/05/2020



Source: Ministry of Finance.

14 https://www.leychile.cl/Navegar?idNorma=1144080.

Figure 21: N° of credits guaranteed
Information updated to 27/05/2020



Source: Ministry of Finance.

iii) Support for family income: COVID-19 Special Benefit (Law N° 21.225[15])
This special benefit, which forms part of the government's Emergency Economic Plan, is designed to support the most vulnerable families in the face of the impact of COVID-19.[16]

- **US$167 million**: Upper limit on resources
- **1,576,434** households: Potential beneficiaries

Progress on implementation

- Starting date: April 17
- Total amount paid: 132,993 million pesos
- Beneficiaries: 1,528,459 households

<u>Framework for emergency financing of large strategic companies' proposal</u>

The COVID-19 pandemic has placed enormous stress on the liquidity of companies, which have seen their sales revenues drop abruptly whilst needing to continue to meet their operational and financial commitments. This cash flow mismatch is eroding their reserves of liquidity and, in some cases, threatening

15 https://www.leychile.cl/Navegar?idNorma=1144002.
16 For further information, see www.bonocovid.cl.

their operational continuity.

It has, therefore, been suggested that agreement be reached on a general framework under which, for the duration of the COVID-19 emergency, the state can **support the continuity of viable companies of a strategic nature when their survival is at risk** as is already the case in many countries such as the United Kingdom, Germany, France, the United States, Canada and Peru.

- General criteria of eligibility

The emergency support program must establish **eligibility criteria** to ensure that the state resources or guarantees go to **productive companies** whose continuity is of **strategic interest** and which have an **economically and financially viable** business project that would permit **withdrawal of state support within a reasonable timeframe** and with **adequate remuneration for the risks incurred**.

The state's emergency support is **not intended to protect the company's shareholders or creditors**, but rather to protect **the operational continuity of a strategic activity** for the country in the face of extraordinary economic and financial circumstances such as those currently prevailing.

- Requirements for companies to be eligible

  - Companies must be **incorporated in Chile** and have their headquarters in Chile, including those with an overseas parent company insofar as they have a relevant business in the country, which generates a significant volume of income, domestic sales or exports, taxes and jobs.
  - Companies must play an **important role in the country's value, commercialization, logistics or supply chain**, either because they directly or indirectly serve a large number of clients, have a large number of suppliers or establishments or **cannot be quickly replaced** by other companies due to the importance of factors such as scale economies, sphere of activity or networks.
  - Companies must be **viable in economic and financial terms**, with a business proposition and financial structure that will **allow the state to withdraw its support and obtain a remuneration in accordance with the risks incurred**, once the pandemic is over and normality has been restored. This framework does not seek to help companies that already had financial or structural vulnerabilities before the pandemic and it is not its purpose to protect the company's shareholders and/or existing creditors.

- Restrictions and obligations

To ensure good use of the state's resources and guarantees, it will be entitled to impose pre-conditions for its support of strategic companies along with other requirements, depending on the nature of its involvement:

- Establishment of clear rules on the **use of funds** so that the financing is actually used for the purposes for which it was requested;

- Establishment of limits on the **distribution of profits** over and above the minimum required for listed companies and **prohibition on capital reductions**;
- Prohibition on the **repurchase of shares** and the **pre-payment of borrowing** from related parties;
- Limits on the **remunerations of executives**;
- Incorporation of at least two **independent directors** on the Board, if none exist;
- Financial commitment of the **controllers and/or key creditors** to ensure the company's financial viability;
- **Preference** for state creditors over shareholders and pre-existing creditors.

- Forms of investment and retribution

Experiences of the emergency intervention of companies during the financial crisis offer important lessons on what a good public policy should seek to achieve in these cases:

- The objective is to **preserve the company's operational continuity**, not to save its shareholders, creditors or other interested parties.
- It is important to avoid **distortions of competition**, ensuring that state participation in the company is temporary and does not imply preferential treatment.
- It implies assuming a **risk of partial losses** but with **fair retribution** of taxpayers for the risk assumed by the state.

In line with these principles, the type of support provided **must be tailored to each case**. In some cases, a state guarantee will be required to encourage financing by third parties or direct investments in debt instruments such as bonds, convertible bonds or loans while, in others, it will be necessary to provide capital.

Measures implemented by the Central Bank of Chile

As the Central Bank has pointed out, the spread of the virus in the country and the health measures already adopted by the government, along with the experience of other countries, suggest that the impact on the sales and cash flow of affected companies may be significant, particularly in the case of small and mid-sized firms. This will, in turn, affect employment.

In a special Monetary Policy Meeting on Monday, March 16, the Central Bank decided to reduce its monetary policy interest rate by 75 basis points to 1% and implement a set of additional measures to ensure the proper functioning of the financial market. In response to the evolution of economic indicators, it subsequently reduced the rate by a further 50 basis points to its current level of 0.5%, a decision adopted unanimously by its Board.

In addition, the Central Bank has adopted measures to ensure the normal functioning of credit markets and their effective transmission and to facilitate the adjustment of the Chilean economy:

- **A financing facility for banks conditional on an increase in their lending (FCIC)[17,18]**

  Duration: Six months.
  Maturity of loans awarded using FCIC: Up to four years.
  Initial amount of lending: 3% of a bank's portfolio of commercial and consumer lending as reported to the Financial Market Commission (CMF) on February 29, 2020 (base portfolio).
  Additional amount of lending: The additional resources channeled through the FCIC will be proportional to the increase in each bank's lending as compared to its base portfolio, according to a factor that will be larger for smaller loans.
  Interest rate: Banks that use this facility will pay an interest rate equal to the monetary policy interest rate (TPM) at the time of accessing the facility. If the TPM changes during the six months in which the facility will be available, the rate for the residual term of the loan will be the lowest rate during this period.

  Corporate bonds will be considered eligible collateral for all current peso-denominated liquidity operations, including the FCIC.

- **Program of purchases of bank bonds from participants in the SOMA[19] for an amount up to the equivalent in UFs of US$4,000 million.**

- **Extension of the Central Bank's foreign currency sales program until January 9, 2021.** This is a very important decision because the Central Bank had previously suspended the program but re-established it in response to the exchange rate's volatility.

  On March 23, the Central Bank announced new measures:

  - The FCIC will be open to all banks with commercial and/or consumer lending.
  - Access to the initial line of financing, equivalent to 3% of a bank's base portfolio, will be immediate as from the date of launch of the program.
  - An additional line of financing will be available depending on the increase in a bank's lending and the percentage of the associated lending that corresponds to smaller companies. In allocating this additional line of financing, the Central Bank will take into account the following:
    a. A weekly review of the information reported by banks and administrative and accounting files from the CMF in order to monitor the use of funds from the FCIC;

---

[17] For further details, see https://www.bcentral.cl/documents/33528/133259/2310-03-200528.pdf/5c22d0e8-f93a-8367-d89d-e1e994fc59b6?t=1590685642450.

[18] The FCIC is a financing facility open to all banks with commercial and consumer lending, subject to the provision of sufficient collateral to the Central Bank. The facility and its incentives are designed so that banks continue to finance and refinance lending to households and companies, especially those that do not have access to the capital market. It will be available for six months and lending financed through it can be for up to four years.

[19] Open Market Operations System: the platform through which the Central Bank interacts with authorized financial institutions in order to carry out its monetary operations for the purpose of increasing or decreasing bank reserves.

  b. Two other factors: (i) the annualized and nominal growth of the base portfolio (commercial and consumer lending) taking 13 March 2020, as the starting date; and (ii) the use of the resources to finance smaller companies.

- To access the FCIC, banks must establish a guarantee in favor of the Central Bank for which they can use any of the following instruments (eligible collateral):
  a. Debt instruments in series issued by the Central Bank or the General Treasury of the Republic;
  b. Fixed-income debt instruments issued by banks in the form of mortgage letters of credit, mortgage bonds and other bonds without special guarantees (except subordinate bonds and bonds without a fixed maturity), promissory notes and time deposits;
  c. Debt instruments on Chile's Securities Register, held by the CMF, including bonds and negotiable instruments (corporate securities) that comply with the risk conditions stipulated by the Central Bank.
- Notwithstanding the above, the Central Bank is considering expanding the list of eligible collateral to include other assets in banks' investment and lending portfolios as envisaged in Articles 34 and 56 of the Constitutional Organic Law governing the Central Bank.
- This measure will include the possibility of replacing the instruments initially provided as collateral with other instruments that become eligible, providing they comply with the financial conditions established for this purpose.
- Complementing this, the Central Bank will also activate the Liquidity Line of Credit (LCL)[20] in local currency (Chapter 4.1 of the CNMF[21]). It is capped at the average reserve requirement of each bank in pesos. Access to the LCL will be subject to the same conditions of increased lending as the FCIC (conditional LCL), notwithstanding the possibility of using the LCL to access the same amount as for the initial FCIC line (or, in other words, the possibility of using the same common initial amount which will be available through one and/or the other facility).
- To measure the effectiveness of this program of extraordinary facilities, the banks using them must file a weekly form reporting their use of the funds.

In addition, the Board of the Central Bank has approved a flexibilization of liquidity requirements for banks.

To this end, it modified its Compendium of Financial Norms (CNF) to expressly consider that, in situations of national emergency or other serious exceptional cases, the Board can decide, solely on the basis of its own judgment, to flexibilize or suspend the application of the established limits for term mismatches on a contractual or adjusted basis.

[20] The LCL is a line of credit activated by the Central Bank with an upper limit of the average reserve requirement of each bank in pesos. Access to the LCL is subject to the same conditions of increased lending established for the FCIC, with the difference that it is guaranteed by the reserve requirement. It will be available for six months and has a maturity of two years.

[21] Compendium of Monetary and Financial Norms.

Measures implemented by the Financial Market Commission (CMF)

Between 3 April and 29 May 2020, as part of the process of adoption of Basel III standards, the CMF held a public consultation on the following norms:

- Calculation of the ratio of basic capital to total assets (leverage ratio);
- Requirements and minimum conditions that must be met by the preferred stock and bonds without a fixed maturity referred to in Article 55 bis of Chile's General Banking Law;
- Requirements and minimum conditions that must be met by the subordinate bonds referred to in Article 55 bis of Chile's General Banking Law

In the first week of April, the CMF announced that it was postponing the start of implementation of Basel III in Chile by one year. However, it still plans to issue all the corresponding norms by 1 December 2020, as established in the General Banking Law.[22]

The CMF has announced a package of measures to facilitate the flow of credit to companies and households. These measures are designed to:

- Provide special treatment for the establishment of provisions for delayed mortgage repayments and the use of mortgage guarantees as collateral for lending to SMEs and adjust the treatment of assets received in lieu of payment and margins on operations with derivatives;
- Facilitate the flow of credit to individuals and companies and mitigate the effect of the pandemic on the financial system;
- Begin a review of the calendar for the implementation of Basel III standards in order to avoid exacerbating the negative effects of the current economic cycle.

The CMF is working in close coordination with the Finance Ministry, the Central Bank and international regulators to monitor effects on the financial market and the entities under its supervision.

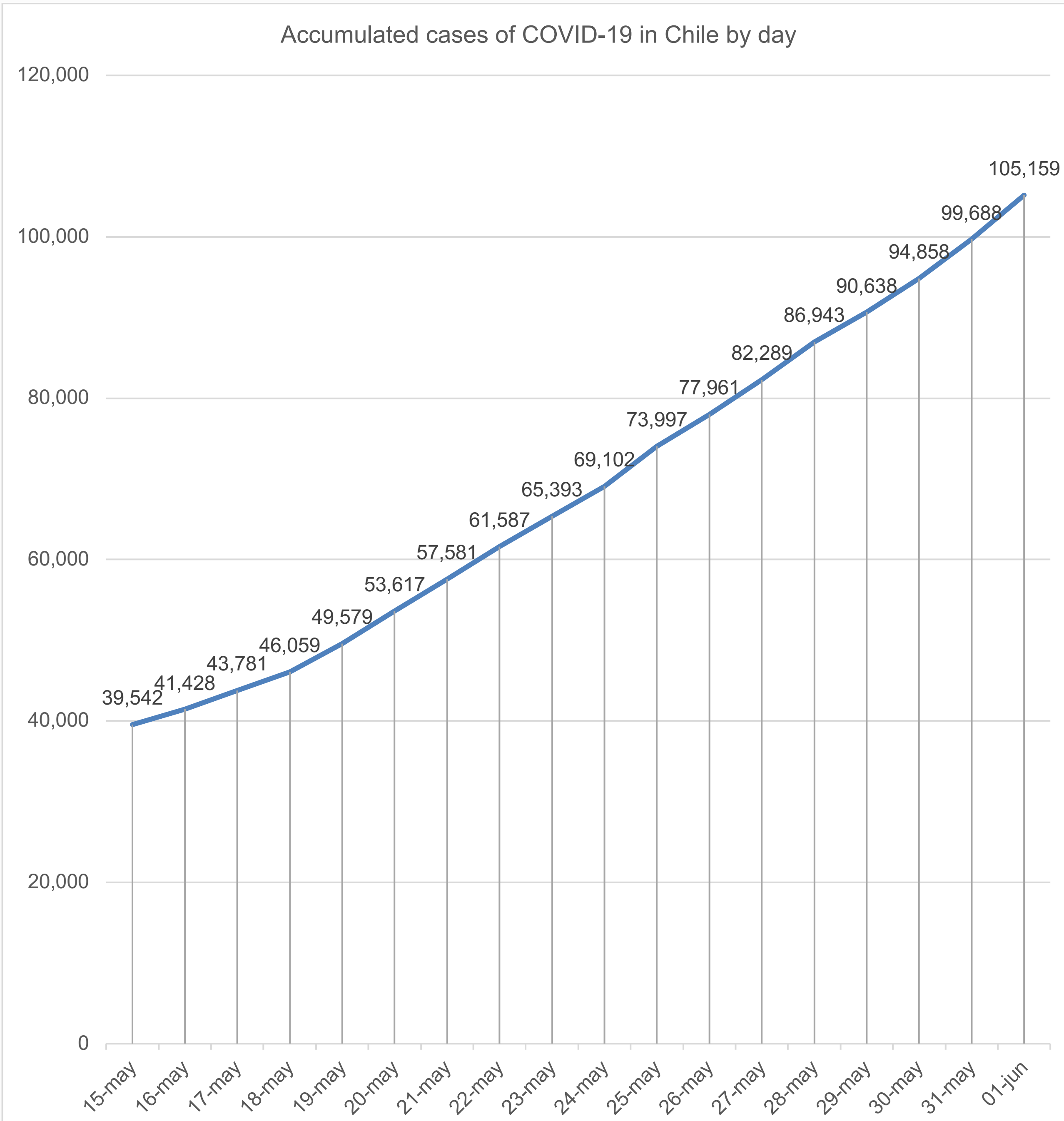
The measures taken by the CMF seek to complement those already announced by the Finance Ministry and the Central Bank and are as follows:

- **Regulatory treatment to facilitate deferral of up to three mortgage repayments.** The CMF opted to make a regulatory exception in the case of provisions for delayed mortgage repayments so that installments rescheduled by customers to dates after the mortgage's original maturity are not treated as renegotiations for the purpose of establishing provisions. This special treatment targets mortgage holders who were up to date with repayments when the State of Catastrophe was declared. It applies to the postponement of three installments until after the mortgage's original maturity date.

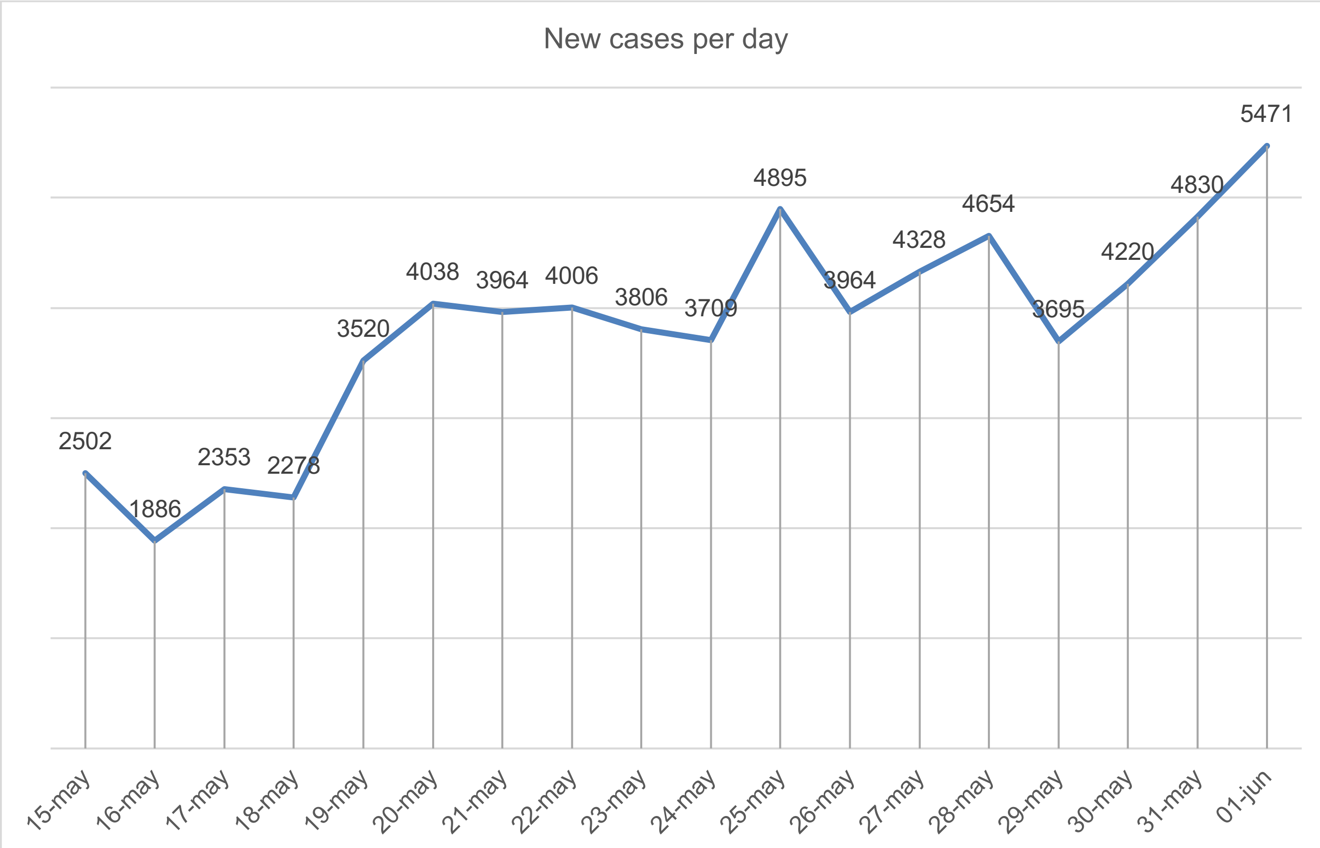
[22] For the calendar, see http://www.cmfchile.cl/portal/principal/605/articles-28213_doc_pdf.pdf

- **Facilities for banks to reschedule loans repayments by SMEs for up to six months, without this being considered a renegotiation.** Similarly, the CMF has eased regulation so that banks can extend the period for repayment of consumer loans in installments by SMEs and individuals for up to six months, without this rescheduling being considered a renegotiation for the purpose of establishing provisions.
- **Option of using excess mortgage guarantees for loans to SMEs.** The CMF has modified regulation to permit the use of excess mortgage guarantees as collateral for loans to SMEs.
- **Extension of period for sale of assets received in lieu of payment.** The period in which banks must sell assets received as payment has extraordinarily been extended by 18 months. This measure seeks to avoid banks having to sell the assets during a period of economic contraction at prices that could be well below those prevailing at a time of less uncertainty.
- **Treatment of variation margin of derivatives.** The CMF has modified the amount of cash that banks must post as collateral for the variation margin of bilaterally cleared derivatives transactions. In periods of high exchange rate volatility, "margin calls" occur for derivative contracts held with banks. In the case of foreign banks, the cash deposited in favor of the counterparty has a capital charge of 100%, raising the cost of derivatives. The modification allows the value of the derivative to be offset against the amount pledged as collateral in favor of the counterparty. This will significantly reduce the capital charge associated with derivative contracts, thereby encouraging their use precisely in periods of increased exchange rate volatility. The Board of the CMF considered that these transitional easements can be adopted as long as they do not weaken the medium-term solvency and liquidity of the institutions. However, it emphasized the importance of banks maintaining adequate risk management policies and establishing prudent dividend distribution policies in line with their exposure and risks in this new environment, indicating that it is the responsibility of each bank's corporate government to ensure compliance.

Appendix II. 1
Evolution of cases of COVID-19 in Chile



Source: InvestChile using data from the Ministry of Health.



Source: InvestChile using data from the Ministry of Health.

Appendix II.2

Quarantine by Geographical Area

Northern Chile

- **Urban area of the city of Arica**: In lockdown from April 16 to May 15.
- **Urban area of the city of Antofagasta**: In lockdown from May 5 to May 29.
- **Mejillones**: In lockdown from May 5 to May 29.
- **Iquique**: In lockdown since May 15.
- **Alto Hospicio**: In lockdown since May 15.
- **Health checkpoints in each region** from the Coquimbo Region northwards.

Central Chile

- **Health checkpoints** on the main access roads to the city of Santiago to conduct health tests and enforce quarantine. As from May 8, **health barriers** were installed for travel from the Santiago Metropolitan Region to Valparaíso and Viña del Mar.
- **San Antonio:** Health barrier since May 15.
- **Lampa:** In lockdown since May 15.
- **Colina:** In lockdown since May 15.
- **Quilicura:** In lockdown from the railway line to the west since May 5; all the district in lockdown since May 15.
- **Huechuraba:** In lockdown since May 15.
- **Conchalí:** In lockdown since May 8.
- **Renca:** In lockdown since May 8.
- **Recoleta:** In lockdown since May 5.
- **Independencia:** All the district in lockdown from March 26 to April 2; southern sector (from Gamero to Mapocho River) in lockdown since April 23 and all the district again since April 30.
- **Cerro Navia:** In lockdown since May 8.
- **Quinta Normal:** In lockdown since April 23.
- **Lo Prado:** In lockdown since May 8.
- **Santiago:** In lockdown to the south of Avenida Matta/Blanco Encalada from March 26 to April 13 and to the north of Avenida Matta/Blanco Encalada since March 26; all the district again in lockdown since May 5.
- **Providencia:** In lockdown between March 26 and April 13 and again since May 15.
- **Vitacura:** In lockdown between March 26 and April 13 and again since May 15.
- **Lo Barnechea:** In lockdown between March 26 and April 13 and again since May 15.
- **Las Condes:** In lockdown between March 26 and April 13 and again since May 15.

- **Estación Central:** In lockdown since April 30.
- **Cerrillos:** In lockdown since May 5.
- **Maipú:** In lockdown since May 15.
- **Padre Hurtado:** In lockdown since May 15.
- **Pedro Aguirre Cerda:** In lockdown since April 23.
- **San Miguel:** In lockdown since May 8.
- **San Joaquín:** In lockdown since May 8.
- **Lo Espejo:** In lockdown since May 8.
- **Ñuñoa:** In lockdown to the south of Avenida Grecia from March 26 to April 13 and to the north of Avenida Grecia from March 26 to May 7; all the district again in lockdown since May 15.
- **La Reina:** In lockdown since May 15.
- **Macul:** In lockdown since May 8.
- **Peñalolén:** In lockdown since May 8.
- **La Cisterna:** In lockdown since May 8.
- **San Ramón:** In lockdown to the south of Avenida Américo Vespucio since April 30 and all the district since May 8.
- **El Bosque:** In lockdown since April 16.
- **La Pintana:** In lockdown to the north of Calle El Observatorio. Since May 8 all the district in lockdown.
- **San Bernardo:** In lockdown from Autopista Central south to Avenida Colón and from Avenida Colón to the north since April 16; extended to the area from Avenida José to the north as from May 8 and, as from May 15, to all the district.
- **La Granja:** In lockdown since May 8.
- **La Florida:** In lockdown since May 8.
- **Puente Alto:** In lockdown to the west of Avenida Vicuña Mackenna/Avenida Concha y Toro since April 9; extended to the banks of the San Carlos Canal and the San José de Maipo road as from May 8 and, as from May 15, to all the district.
- **Buin:** In lockdown since May 15.
- **Rapa Nui**: In lockdown between March 20 and April 6.

<u>**Southern Chile**</u>

- **Chillán and Chillán Viejo**: Health barrier in place indefinitely as from March 23; lockdown from March 30 to April 23.
- **Greater Concepción**: Health barrier in place from April 30 to May 3.
- **San Pedro de la Paz and Hualpén**: Health barrier in place from March 25 to April 21 and in lockdown from April 6 to April 16.
- **Temuco**: Health barrier in place from March 28 to May 29 and in lockdown from March 28 to April 30.

- **Padre Las Casas**: Health barrier in place from March 28 to May 29 and in lockdown from March 28 to April 16.
- **Urban area of the town of Nueva Imperial**: In lockdown from April 9 to April 16.
- **Urban area of the town of Angol**: In lockdown from April 30 to May 15.
- **Urban area of the town of Victoria**: In lockdown from April 30 to May 15.
- **Lonquimay**: In lockdown since May 22.
- **Osorno:** Health barrier in place indefinitely as from March 30 and in lockdown from March 30 to April 23.
- **Island of Chiloé:** Health barrier in place indefinitely as from March 25.
- **Caleta Tortel:** In lockdown from March 13 to March 27.
- **Punta Arenas:** Health barrier in place indefinitely as from April 8 and in lockdown from April 1 to April 23.
- **Puerto Williams:** Health barrier in place indefinitely as from April 6 and in lockdown from March 25 to April 6.
  - **Holiday areas:** Prohibition on travel to second homes. Over-65s and people with chronic illnesses can remain in second homes but must notify the corresponding Regional Office (SEREMI) of the Health Ministry.

Part III: Principal Measures to Address COVID-19 in Other Countries

COVID-19 represents the greatest challenge that the international community has faced since the 2008 subprime crisis, and its economic effects are expected to be far more negative. The International Monetary Fund (IMF) is forecasting that the world economy will contract by 3% in 2020.

The pandemic has obliged governments to take containment and mitigation measures that have impacted all the components of foreign direct investment (FDI). Capital expenditure, investments in new areas and expansions have all been hampered by the physical closure of certain areas and the deceleration of production. The most recent estimates suggest that global FDI flows could contract by between 30% and 40% in 2020-2021 and that the hardest-hit sectors will be the energy and basic materials industries (-208% for energy, with the additional shock caused by the drop in oil prices), airlines (-116%) and the automotive industry (-47%)

At the overall economic level, production difficulties due to measures such as the closure of operations, adopted by health authorities, have been exacerbated by a generalized drop in consumption.

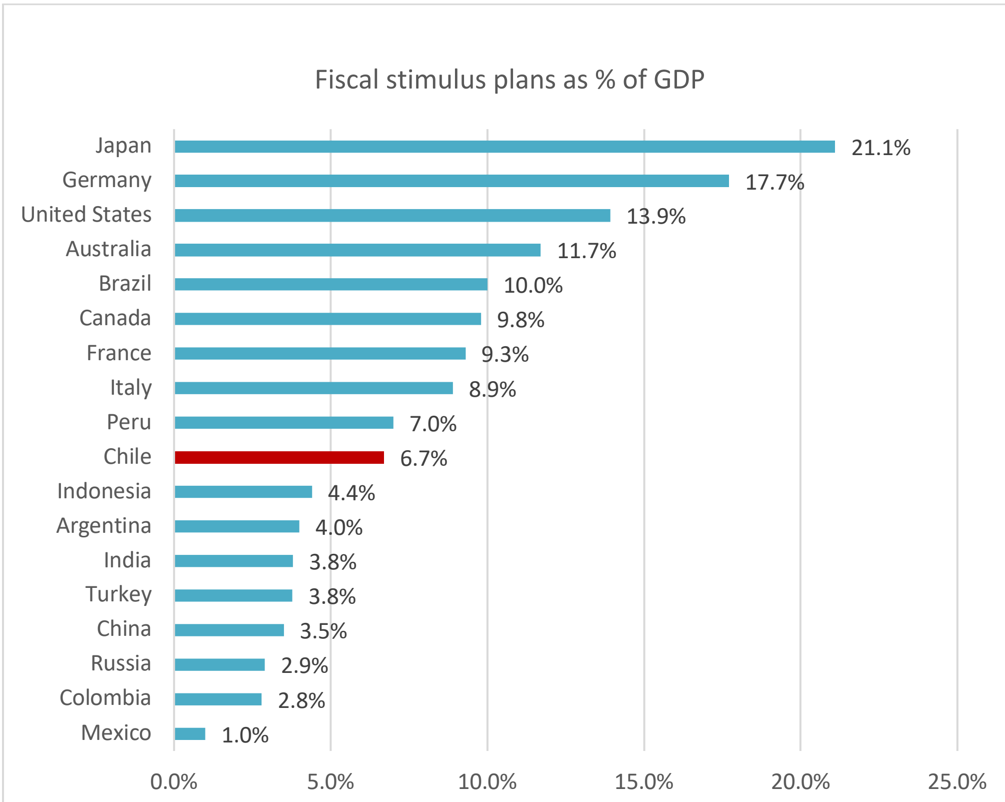
Faced with this somber situation, the vast majority of governments in Europe, the Americas and Asia have sought to protect and strengthen their internal structures, seeking to mitigate the economic impact of the pandemic through a series of macro-financial, economic and fiscal measures.

Given the importance of understanding how different markets are reacting, a brief description is provided below of the main measures adopted to date in Latin American, European, North American and Asian markets that are important to Chile.[23]

The following graph shows the fiscal stimulus adopted by 18 selected economies as a percentage of GDP. Chile's spending amounts to 6.7% of GDP.

[23] Taken directly from the IMF's compilation of key policy responses.

Ahumada 11, Piso 12, Santiago, Chile
Tel. (56-2) 2663 9200



Source: COVID-19 Economic Stimulus Index. Elgin, Columbia University; Basbug, Sungkyunkwan University; Yalaman, Eskişehir Osmangazi University.

1. Latin America

1.1 Argentina[24]

Reopening of the economy

The government's policy of moving from strict lockdown to a gradual reopening of the economy is contingent on the speed of contagion, defined as the length of time it takes for the number of reported cases to double. On May 8, with the doubling of contagions rising above 25 days, the government announced a gradual reopening aimed at raising regional mobilization from 50-75% in all districts, except the Buenos Aires metropolitan area. On May 23, restrictions in the Buenos Aires metropolitan area were tightened in response to an acceleration in infections.

[24] Key policy responses as of May 28, 2020.

Fiscal Policy

The measures adopted (costing around 1.2% of GDP according to preliminary estimates) have focused on:

- Increasing health spending, including improvements in virus diagnostics, purchases of hospital equipment and the construction of clinics and hospitals;
- Support for workers and vulnerable groups, including through increased transfers to poor families, increased social security benefits (especially to low-income beneficiaries), higher unemployment insurance benefits and payments to minimum-wage workers;
- Support for hard-hit sectors, including an exemption from social security contributions, grants to cover payroll costs and subsidized loans for construction activities;
- Measures to boost demand, including spending on public works;
- Payment flexibility, including the continued provision of utility services for households in arrears;
- Credit guarantees for bank lending to micro, small and medium-sized enterprises (MSMEs), mainly for the production of foods and basic supplies. In addition, the authorities have adopted anti-price hike policies, including price controls on food and medical supplies, and the ring-fencing of essential supplies, including certain export restrictions on medical supplies and equipment and centralization of the sale of essential medical supplies.

Monetary and Macro-Financial Measures

Measures to encourage bank lending through:

- Lower reserve requirements on bank lending to households and SMEs;
- Regulations limiting banks' holdings of Central Bank paper to provide space for SME lending;
- Temporary easing of bank provisioning requirements and bank loan classification rules (i.e. an extra 60 days before classification as non-performing and a stay-of-action on both bank account closures due to bounced checks and credit denial to companies with payroll tax arrears).

Exchange Rate and Balance of Payments Measures

A broad set of capital-flow management measures (CFMs) has been in place since August 2019 in a bid to restrict financial account transactions (limits on the purchase of dollars, transfers abroad and debt servicing in foreign currency) and some current account transactions (surrender requirements on export proceeds and restrictions on imports of services, dividend payments abroad and interest payments on foreign currency debt). CFMs have helped limit outflows and permitted a (small) net purchase of foreign currency by the Central Bank in March. The exchange rate has depreciated by about 4% against the US dollar since early March, far less than in regional peers.

1.2 Brazil [25]

Fiscal Policy

To mitigate the impact of COVID-19, the authorities have announced a series of fiscal measures totaling up to 6.5% of GDP, about half of which has a direct impact on the 2020 primary deficit. With Congress declaring

[25] Key policy responses as of May 28, 2020.

a state of “public calamity” on March 20, the government’s obligation to comply with the primary balance target in 2020 has been lifted.

The government has also invoked the escape clause of the constitutional expenditure ceiling to accommodate exceptional spending needs. Emergency measures are to be included in a separate (so-called ‘war’) 2020 budget, not bound by the provisions of Brazil’s Fiscal Responsibility Law and the constitutional golden rule. The fiscal measures include:

- Temporary income support for vulnerable households (bringing forward the 13th pension payment to retirees, expanding the “Bolsa Familia” program with the inclusion of over 1 million additional beneficiaries, payment of cash transfers to informal and unemployed workers and advance payment of salary bonuses to low-income workers);
- Employment support (partial compensation to workers who are temporarily suspended or have a cut in working hours, as well as temporary tax breaks and credit lines for firms that preserve employment);
- Lower taxes and import levies on essential medical supplies, and new transfers from the federal to state governments to support higher health spending and to cushion the expected fall in revenues;
- Financial assistance to states and municipalities, with a temporary stay of debt payments, debt renegotiation, and support for credit operations through government guarantees;
- Public banks are expanding credit lines for businesses and households, with a focus on supporting working capital (credit lines add up to over 3% of GDP), and the government will back a 0.5% of GDP credit line to cover payroll costs;
- The National Treasury responded to pressures in the interest rate futures market by announcing a program for simultaneous auctions (buying and selling) of government securities.

Monetary and Macro-Financial Measures

The Central Bank lowered its policy rate (SELIC) by 50 bps to a historical low of 3.75%. Measures to increase liquidity in the financial system (such as a reduction of reserve requirements and capital conservation buffers and a temporary relaxation of provisioning rules) have been implemented. The reserve requirement has been reduced from 25% to 17% in addition to a reduction of 6 bps in early March. The Central Bank also opened a facility to provide loans to financial institutions with private corporate bonds as collateral.

In addition, the US Federal Reserve has arranged to provide up to US$60,000 million to the Central Bank through a swap facility that will remain in place for six months. The country’s five largest banks have agreed to consider requests by individuals and SMEs for a 60-day extension of their maturing debt liabilities.

Exchange Rate and Balance of Payments Measures

The exchange rate has depreciated by close to 17% since mid-February and by 24% since end-2019. The Central Bank has intervened in the foreign exchange market on several occasions since mid-February (both with spot and derivative contracts sales), injecting a total of US$45,000 million (over 10% of gross reserves). It has also resumed repo operations of Brazilian sovereign bonds denominated in US dollars and has so far released US$9,000 million into the money market.

1.2 Colombia [26]

Reopening of the economy

The construction and manufacturing sectors were allowed to restart operations on April 27, and an expanded list of industrial and commercial services sectors restarted on May 11. The next wave of reopening was scheduled for May 31 with an expanded sector list that included retail. Other measures to contain virus transmission have included travel bans, border closures and a suspension of classes.

Fiscal Policy

A state of emergency was decreed and a National Emergency Mitigation Fund was created. It will be partially funded out of regional and stabilization funds (around 1.5 % of GDP) and will be complemented by 1.3% of GDP from domestic bond issuance and other budgetary resources. Given the expected economic impact, the Fiscal Rule Consultative Committee also authorized a fiscal deficit of 6.1% in 2020.

Additional budgetary support for health has been announced, along with faster direct hiring of services associated with the emergency response:

- New credit line to provide liquidity to all tourism-related companies, credit lines for payroll and loan payments by SMEs through the National Guarantee Fund, a two-month suspension of pension contributions by both employees and employers and delayed tax collection for the tourism and air transportation sectors;
- Exemption from tariffs and VAT for strategic health imports and selected food industries and services;
- Delayed utility payments for poorer households, additional taxes for public-sector workers (to help fund the response) and expanded transfers for vulnerable groups;
- A payroll subsidy equivalent to 40% of the minimum wage per worker for businesses experiencing a drop of over 20% in revenues for a period of three months.

Monetary and Macro-Financial Measures

The Central Bank has cut its policy rate by 100 bps and has implemented several measures to boost liquidity in the financial and foreign exchange rate markets. These include:

- Expansion of their liquidity overnight and term facilities in terms of amounts, applicable securities and eligible counterparts;
- A COP 10 trillion program to purchase securities issued by credit institutions;
- TES purchases in the secondary market;
- A reduction of the reserve requirement applicable to savings and checking accounts from 11% to 8% and, in the case of fixed-term savings accounts (less than 18 months) from 4.5% to 3.5%.

Superfinanciera, the financial markets regulator, has allowed supervised entities to reprofile all loans that were less than 30 days over-due on Feb 29. These new provisions can include grace periods or extended deadlines. Banks cannot increase interest rates on loans, charge interest on interest or report entities to credit registries for availing themselves of any forbearance measures.

[26] Key policy responses as of May 21, 2020.

Counter-cyclical provisions have been released and Superfinanciera has authorized certain related-party transactions for fund managers, including the purchase of *Certificados de Deposito a Termino* (term deposit certificates) issued by an associated entity. Fund managers can also invest, directly or indirectly, up to 15% of the value of each fund in other investment funds managed by them.

<u>Exchange Rate and Balance of Payments Measures</u>
To provide liquidity in the foreign exchange market, the Central Bank has auctioned FX swaps (in US dollars). In addition, a new mechanism of exchange-rate hedging was introduced through auctions of Non-Deliverable Forwards with a 30-day maturity. Colombia also obtained access to the FIMA Repo facility while the Flexible Credit Line agreement with the IMF has been renewed for two more years.

1.3 Mexico [27]

<u>Reopening of the economy</u>

On May 14, the government announced plans to begin the normalization of economic activities, including a green-yellow-orange-red color system for states to represent the extent of activities allowed (e.g. states with the most active cases are red and would remain in a forced quarantine), the resumption of school and labor activities in infection-free municipal districts and the addition of construction, mining and transport equipment manufacturing as essential activities.

<u>Fiscal Policy</u>
The government has announced that it will:

- Ensure that the Ministry of Health has enough resources, is not hampered by red tape and has a sufficient supply of medical equipment and materials;
- Advance pension payments to the elderly;
- Accelerate tender processes for public spending to ensure full budget execution;
- Consider setting up a Health Emergency Fund to request additional resources up to 180,000 million pesos (0.7% of 2019 GDP) from Congress.

In his address to the nation on April 5, President López Obrador outlined the government's priorities for combatting the economic effects of COVID-19. In addition to higher health spending and a strengthening of the social safety net, the plan includes measures such as: 1) the frontloading of social pension and disability payments by four months; 2) the acceleration of procurement processes and VAT refunds; 3) lending of up to 25,000 million pesos to SMEs; 4) liquidity support by development banks; and 5) access to borrowing from social security accounts for some workers.

In addition, the government has announced:

1) Public housing credit institute to cover three months of workers' debt (and deferral for a further six months for those losing their job);
2) Lending to small businesses that have not fired workers or reduced salaries since the outbreak.

[27] Key policy responses as of May 28, 2020.

Ahumada 11, Piso 12, Santiago, Chile
Tel. (56-2) 2663 9200

Overall, the above-the-line fiscal measures amount to 0.2% of GDP in health spending.
Below-the-line measures amount to around 0.7% of GDP in loans:

(i) Lending programs for the self-employed and SMEs that maintain employees on their payroll, provided by the Ministry of Economy and the Mexican Social Security Institute (IMSS);

(ii) Development banks to provide loans, particularly to SMEs.

In the week of April 19, the President went on to announce an austerity program for public expenditures including wage reductions and a hiring freeze in order to finance additional health expenditures and priority investment.

Monetary and Macro-Financial Measures

The Central Bank cut rates by 150 basis points between March and May. It also implemented several government bond exchanges, mainly to shorten maturities, and revised plans for new government bond issuance.
It has announced additional measures to provide MXN and USD liquidity to the banking system and improve the functioning of domestic financial markets:

1) Reduce the mandatory regulatory deposit with Banxico (by 50,000 million pesos, or about 15% of the current stock);
2) Halve the cost of repos;
3) Provide USD liquidity (via auctions) to banks by drawing on the US$60,000 million swap line with the US Federal Reserve;
4) In conjunction with the Ministry of Finance, seek to strengthen market making in the government bond market;
5) Activate the swap line with the Fed of which it has already auctioned US$5,000 million to commercial banks and announced a second auction for the same amount;
6) Temporarily adjust the accounting rules for banks and other financial institutions to facilitate debt service rescheduling;
7) Recommend suspension of dividend payments and share buybacks.

The Central Bank has also substantially expanded its liquidity facilities, making them more affordable, accepting a broader range of collateral and expanding eligible institutions while establishing a corporate securities repo facility to support the corporate bond market.
It has also opened financing facilities for commercial and development banks (350,000 million pesos) to allow them to channel resources to micro, small and medium-sized enterprises and individuals affected by the COVID-19 pandemic.
Credit will be provided in exchange for conventional repo collateral as well as banks' corporate loans, which would free up liquidity in the banks' balance sheets, currently used especially by corporate credit lines for new credit extension.

Exchange Rate and Balance of Payments Measures

The exchange rate has been allowed to adjust flexibly, while supporting US-dollar liquidity. The non-deliverable forward hedging program (NDF, in domestic currency) was extended by 10,000 million pesos to 30,000 million pesos and two NDF auctions were conducted, each offering 2,000 million pesos (a total of 2,000 million pesos was allocated, equivalent to 0.2% of 2019 GDP). A new tool was added permitting the Central Bank to intervene in offshore non-deliverable forwards markets in case intervention is warranted during European or Asian trading hours.

1.5 Peru [28]

Fiscal Policy

The government has approved 1,100 million soles (0.14% of GDP) to address the health emergency. In addition, it has approved approximately 3,400 million soles (0.4% of GDP) in direct transfers to support poor households during the four-week national lockdown and, given the lockdown's extension, is likely to increase this amount.

The government has also approved a three-month extension of the deadline for SMEs to file income tax returns and is offering companies and households flexibility in paying tax liabilities. These tax measures are estimated to provide temporary relief of the order of 1.4% of GDP. The government has also approved the creation of a fund of 300 million soles (0.04% of GDP) to help qualified SMEs secure working capital and/or refinance debts.

In addition, it has announced a postponement of payment of households' electricity and water bills as well as a larger fiscal support package that would take total fiscal support to approximately 7% of GDP.

Monetary and Macro-Financial Measures

The Central Bank has cut the policy rate by 200 basis points to 0.25% and is monitoring inflation developments and its determinants in order to increase the monetary stimulus if necessary.

In addition, the Central Bank has reduced reserve requirements, provided liquidity to the financial system through repo operations and has recently announced a package of 30,000 million soles (nearly 4% of GDP) in liquidity assistance (backed by government guarantees) to support lending and the payments chain.

The bank regulator has issued a notification allowing financial institutions to modify the terms of their loans to households and enterprises affected by the COVID-19 outbreak without changing the classification of the loans. These operations have to satisfy well-defined conditions, including a maximum modification period of six months.

[28] Key policy responses as of May 28, 2020.

Exchange Rate and Balance of Payments Measures

The Central Bank has been intervening since late February to mitigate disorderly conditions in the foreign exchange market. By May 28, it had sold approximately US$2,000 million (or 0.9% of GDP) in foreign exchange swaps. International reserves remain significant, at over 30% of GDP.

2. Europe

2.1 European Union/Euro Area [29]

Reopening of the economy

The European Commission has presented guidelines for exit strategies and called for a common framework across member states. The criteria include: (i) sustained reduction and stabilization of new cases, (ii) sufficient health system capacity such as adequate hospital beds, pharmaceutical products and equipment, and (iii) appropriate monitoring capacity to quickly detect and isolate infected individuals as well as to trace contacts. The Commission invited the Schengen Member States and the Schengen Associated States to extend the temporary restriction on non-essential travel to the EU until June 15 and presented further guidance on a gradual lifting of border restrictions.

Fiscal Policy

The European Commission's latest package of about €540,000 million (4% of EU27 GDP) includes:

(i) Allowing the European Stability Mechanism (ESM) to provide Pandemic Crisis Support (based on existing precautionary credit lines) up to 2% of 2019 GDP for each euro area country (up to €240,000 million in total) to finance health-related spending;
(ii) Providing €25,000 million in government guarantees to the European Investment Bank (EIB) to support up to €200,000 million to finance to companies, with a focus on SMEs (which augments previously agreed guarantees of €40,000 million for the EIB's on-lending activities);
(iii) Creating a temporary loan-based instrument (SURE) of up to €100,000 million to protect workers and jobs, supported by guarantees from EU Member States. The Pandemic Crisis Support from the ESM has become operational and the European Council has adopted the SURE.

Key measures from the EU Budget (about €37,000 million and 0.3% of 2019 EU27 GDP) include:
(i) Establishing the Coronavirus Response Investment Initiative (CRII) and the Coronavirus Response Investment Initiative Plus (CRII+) in the EU budget to support public investment for hospitals, SMEs, labor markets and stressed regions;
(ii) Extending the scope of the EU Solidarity Fund to include a public health crisis, with a view to mobilizing it if needed for the hardest-hit EU Member States (up to €800 million is available in 2020);

[29] Key policy responses as of April 2, 2020.

(iii) Redirecting €1,000 million from the EU Budget as a guarantee to the European Investment Fund to incentivize banks to provide liquidity to SMEs and midcaps;
(iv) Announcing credit holidays to crisis-affected debtors;
(v) Adopting a proposal for a €3,000 million macro-financial assistance (MFA) package to ten enlargement and neighborhood partners to help them limit the economic fallout of the coronavirus pandemic.

The European Commission also activated the general escape clause in the EU fiscal rules, which suspends the fiscal adjustment requirements for countries that are not at their medium-term objective and allows them to run deficits in excess of 3% of GDP.
After announcing a flexible interpretation of EU State Aid rules to support national support measures for critical sectors, the European Commission has further directed Member States to apply Article 107(2)(b) TFEU, which enables them to compensate companies for the damage directly caused by exceptional occurrences, such as COVID-19, including measures in sectors such as aviation and tourism.
To date, national liquidity measures, including schemes approved by the European Commission under temporary flexible EU State Aid rules, amount to about €2.5 trillion.
On May 8, the European Commission adopted a second amendment to extend the scope of the State Aid Temporary Framework to recapitalization and subordinated debt measures to further support the economy in the context of the coronavirus outbreak. The amended Temporary Framework will be in place until the end of December 2020, except for recapitalization measures which have an extended period through to the end of June 2021. The Commission will assess before these dates if they need to be extended further.

Monetary and Macro-Financial Measures

The European Central Bank (ECB) decided to provide monetary policy support through:
(i) Additional asset purchases of €120,000 million until end-2020 under the existing program (APP);
(ii) Temporary additional auctions of the full-allotment, fixed-rate temporary liquidity facility at the deposit facility rate and more favorable terms on existing targeted longer-term refinancing operations (TLTRO-III) between June 2020 and June 2021, with interest rates that can go as low as 50 bps below the average deposit facility rate.

More recently, the ECB has introduced a new liquidity facility (PELTRO), which consists of a series of non-targeted Pandemic Emergency Longer-Term Refinancing Operations carried out with an interest rate that is 25 bps below the average MRO rate prevailing over the life of the operation. The PELTROs commenced in May and will mature in a staggered sequence between July and September 2021.
Further measures include an additional €750,000 million asset purchase program of private and public sector securities (Pandemic Emergency Purchase Program, PEPP) until end-2020, an expanded range of eligible assets under the corporate sector purchase program (CSPP) and relaxation of collateral standards for Eurosystem refinancing operations (MROs, LTROs, TLTROs).

In early April, the ECB also announced a broad package of collateral easing measures for Eurosystem credit operations. These include a permanent collateral haircut reduction of 20% for non-marketable assets and temporary measures for the duration of the PEPP (with a view to re-assessing their effectiveness before end-2020) such as a reduction of collateral haircuts by 20% and an expansion of collateral eligibility to include Greek sovereign bonds as well as an expansion of the scope of the so-called additional credit claims framework so that it may also include public sector-guaranteed loans to SMEs, self-employed individuals and households.

In a move to mitigate the impact of possible rating downgrades on collateral availability, the ECB also announced on April 22 that it would grandfather until September 2021 the eligibility of marketable assets used as collateral in Eurosystem credit operations falling below the current minimum credit quality requirements of "BBB-" ("A-" for asset-backed securities) as long as their rating remains at or above "BB" and "BB+", respectively. Assets that fall below these requirements will be subject to haircuts based on their actual ratings.

The ECB Banking Supervision has allowed significant institutions to operate temporarily below Pillar 2 Guidance, the capital conservation buffer and the liquidity coverage ratio (LCR). In addition, new rules on the composition of capital to meet Pillar 2 Requirement (P2R) were front-loaded to release additional capital. The ECB considers that the appropriate release of the counter-cyclical capital buffer (CCyB) by the national macroprudential authorities will enhance its capital relief measures.

The ECB Banking Supervision further decided to exercise – on a temporary basis – flexibility in the classification requirements and expectations on loss provisioning for non-performing loans (NPLs) that are covered by public guarantees and COVID-19 related public moratoria; it also recommended that banks avoid pro-cyclical assumptions for the determination of loss provisions and opt for the IFRS9 transitional rules.

More recently, ECB Banking Supervision asked banks not to pay dividends for the financial years 2019 and 2020 or buy back shares during the COVID-19 pandemic, indicating that the conserved capital should be used to support households, small businesses and corporate borrowers and/or to absorb losses on existing exposures to such borrowers.

The ECB Banking Supervision also provided some temporary capital relief for market risk by adjusting the prudential floor to banks' current minimum capital requirement. The European Commission adopted a banking package that proposes targeted amendments to EU banking rules, including a two-year extension of the current transitional arrangements for IFRS9 implementation in the CRR (cash reserve ratio).

2.2 France [30]

<u>Reopening of the economy</u>

On May 11, France started to gradually ease containment measures, beginning with the reopening of primary schools, shops and industry, on a differentiated regional basis. Internal travel restrictions have also been relaxed and the use of masks is obligatory on public transport.

[30] Key policy responses as of May 28, 2020.

Fiscal Policy

The authorities have announced an increase in the fiscal envelope devoted to addressing the crisis to €110,000 million (nearly 5% of GDP, including liquidity measures), from an initial €45,000 million included in an amending budget law introduced in March.
A new draft amending budget law was introduced on April 16. This adds to an existing package of bank loan guarantees and credit reinsurance schemes for €315,000 million (close to 14% of GDP).

Key immediate fiscal support measures include:

(i) Streamlining and boosting health insurance for the sick or their caregivers;
(ii) Increasing spending on health supplies;
(iii) Liquidity support through postponements of social security and tax payments for companies and accelerated refund of tax credits (e.g. CIT and VAT);
(iv) Support for wages of workers under the reduced-hour scheme;
(v) Direct financial support (solidarity fund) for affected microenterprises, liberal professions and independent workers;
(vi) Postponement of rent and utility payments for affected microenterprises and SMEs;
(vii) Additional allocation for equity investments or nationalizations of companies in difficulty;
(viii) Facilitation of the granting of exceptional bonuses exempt from social security contributions;
(ix) Extension of expiring unemployment benefits until the end of the lockdown and preservation of rights and benefits under the disability and active solidarity income schemes.

The authorities announced a gradual phasing-out of support measures starting in June, except for industries that still face opening restrictions (e.g. tourism, which will benefit from targeted exemptions from taxes and social security contributions, and the reduced-hour scheme and the solidarity fund, which will continue until end-2020). They have also announced additional support plans for the hardest-hit sectors (e.g. incentives to purchase greener vehicles and green investment support for the auto sector).[31]

Monetary and Macro-Financial Measures

For monetary policy at the currency union level, please see the Euro Area section.
Other measures include:

(i) Reducing the counter-cyclical bank capital buffer to 0% (an increase from 0.25% to 0.5% was to become effective by April);
(ii) A temporary ban on short-selling stocks was in place until May 18;
(iii) Credit mediation to support renegotiation of SMEs' bank loans.

Exchange Rate and Balance of Payments Measures
No measures.

[31] See also https://www.economie.gouv.fr/coronavirus-soutien-entreprises.

2.3 Germany[32]

Reopening of the economy

On April 20, smaller shops reopened subject to social distancing requirements. Selected grades in schools gradually reopened as from May 4, as did cultural and leisure venues. On May 6, the government announced a further easing of containment measures to include all shops, restaurants and sports facilities, with the exact timeline to be determined at the state level. Reopening is subject to an "emergency brake" whereby an occurrence of more than 50 new infections per 100,000 inhabitants over seven days requires state governments to reverse the reopening and re-establish containment. A gradual lifting of control of borders with neighboring countries began on May 16 and the quarantine requirement for travelers from EU-countries was lifted in several states as from May 18. On May 26, federal and state governments agreed to ease restrictions on public gatherings for up to ten people or two separate households, subject to minimum distancing and face mask requirements in public places.

Fiscal Policy

In addition to running down accumulated reserves, the federal government adopted a supplementary budget of €156,000 million (4.9% of GDP) which includes:

- Spending on healthcare equipment, hospital capacity and R&D (vaccine);
- Expanded access to a short-term work ("Kurzarbeit") subsidy to preserve jobs and workers' incomes, expanded childcare benefits for low-income parents and easier access to basic income support for the self-employed;
- Grants to small business owners and self-employed persons severely affected by the COVID-19 outbreak for a total of €50,000 million, in addition to interest-free tax deferrals until year-end. At the same time, through the newly created economic stabilization fund (WSF) and the public development bank KfW, the government is expanding the volume of public loan guarantees and access to them for firms of different sizes, some eligible for up to 100% guarantees, increasing the total volume by at least €757,000 million (23% of GDP).

In addition to the federal government's fiscal package, many state governments (Länder) have announced their own measures to support their economies, amounting to €48,000 million in direct support and €63,000 million in state-level loan guarantees.

Monetary and Macro-Financial Measures

For monetary policy at the currency union level, please see the Euro Area section.
The authorities extended all ECB-issued regulatory and operational relief to German banks under national supervision. In addition to measures at the Euro Area level, it announced:

(i) Release of the counter-cyclical capital buffer for banks from 0.25% to zero;
(ii) An additional €100,000 million to refinance expanded short-term liquidity provision to companies through the public development bank KfW, in partnership with commercial banks;

[32] Key policy responses as of May 28, 2020.

(iii) Following the structure of the former Financial Stabilization Fund, €100,000 million of the WSF has been allocated for the direct acquisition of the equity of larger affected companies and strengthening their capital position.

A payment moratorium on consumer loans established before March 15 was extended to June 30 if the debtor is financially affected by the COVID-19 crisis. Loans issued under KfW guarantees are exempt from the calculation of lenders' own funds requirement and their leverage ratio as well as the large exposure limit.

Exchange Rate and Balance of Payments Measures

No measures.

2.4 Italy [33]

Reopening of the economy

The nation-wide lockdown expired on May 4. Since then, manufacturing and construction have reopened under new safety rules (e.g. staggered shifts, spaced workstations, temperature checks, masks). The government moved forward some of its reopening plans and retail shops, restaurants, cafés and hairdressers reopened on May 18 (the initial reopening plan was June 1). Sports facilities reopened on May 25, followed by cinemas and theaters on June 15. Regional governments were given discretion to adjust the dates in both directions. People were allowed to travel within their own region and restrictions across regions were lifted on June 3 when the country's international borders also reopened without restriction to and from other EU countries.

Fiscal Policy

On March 17, the government adopted a €25,000 million (1.4% of GDP) "*Cura Italia*" emergency package. It includes:

- Funds to strengthen the Italian healthcare system and civil protection (€3,200 million);
- Measures to preserve jobs and support the income of laid-off workers and the self-employed (€10,300 million);
- Other measures to support businesses, including tax deferrals and postponement of utility bill payments in the hardest-hit municipal districts (€6,400 million);
- Measures to support credit supply (€5,100 million).

The Liquidity Decree issued on April 6 allows for additional state guarantees of up to €400,000 million (25% of GDP). The guarantee envelope from this and earlier schemes aims to unlock more than €750,000 million (close to 50% of GDP) of liquidity for businesses and households (see below). The authorities indicated that further fiscal measures were also being considered.

On May 15, the government agreed on a further €55,000 million (3.2% of GDP) "Relaunch" package of fiscal measures. It provides, among other things, further income support for families (€14,500 million), funds for

[33] Key policy responses as of May 27, 2020.

the healthcare system (€3,300 million), and other measures to support businesses, including grants for SMEs and tax deferrals (€16,000 million).

Monetary and Macro-Financial Measures

For monetary policy at the currency union level, please see the Euro Area section.

Key measures adopted in the government's "*Cura Italia*" and Liquidity Decree emergency packages include a moratorium on loan repayments for some households and SMEs, including on mortgages and overdrafts; state guarantees on loans to all businesses; incentives for financial and non-financial companies in the form of Deferred Tax Activities; a state guarantee to Cassa Depositi e Prestiti, the state development bank, to support lending and liquidity to banks to enable them to finance medium-sized and large companies; and a co-insurance scheme for exporters.

The Bank of Italy has announced a series of measures to help banks and non-bank intermediaries under its supervision. In line with the initiatives of the ECB and the European Banking Authority (EBA), they include the possibility of temporarily operating below selected capital and liquidity requirements, an extension of some reporting obligations and the rescheduling of on-site inspections.

Italy's insurance supervisory authority, IVASS, followed the recommendations of the European Insurance and Occupational Pensions Authority (EIOPA) and called on insurance companies to be prudent about dividends and bonus payments in order to protect their capital position. Insurance companies are asked to provide updated Solvency II ratios on a weekly basis.

The securities market regulator, CONSOB, called a three-month ban on the shorting of all shares and lowered the minimum threshold beyond which it is required to communicate participation in a listed company. These measures seek to contain the volatility of financial markets and strengthen the transparency of holdings in Italian companies listed on the stock exchange.

Exchange Rate and Balance of Payments Measures

No measures.

2.5 Spain [34]

Reopening of the economy

A four-phase reopening plan was approved on April 28, with a view to its completion by end-June in a best-case scenario. Starting dates for each phase have differed by province, depending on health conditions. In phase 0, starting on May 4, individual outdoor exercise, food pickup and commercial activities with appointments were allowed. Phase 1 permits the partial opening of small shops, terraces, hotels and religious sites under certain restrictions, including capacity limits, as well as mobility within a province. Use

[34] Key policy responses as of May 28, 2020.

of masks in public transport is highly recommended. In phase 2, shopping and conference centers, cinemas, theaters and museums are allowed to open with one-third capacity limits and other restrictions. Indoor events are permitted with up to 50 people and outdoor events with up to 400 people. As of May 28, about half of the population was in phase 1 and the other half in phase 2. In phase 3, more flexible mobility is foreseen across provinces and the capacity limits of commercial establishments will be further relaxed. Schools will not reopen until September, except for graduating classes, but there will be arrangements for children with working parents.

Fiscal Policy

Key measures (about 3% of GDP, €35,000 million, subject to changes in the usage and duration of the measures) include:

- Budget support from the contingency fund for the Ministry of Health (€1,400 million);
- Advance transfer to the regions for regional health services (€2,800 million); additional funding for research related to the development of drugs and vaccines for COVID-19 (€46 million);
- Unemployment benefit for workers temporarily laid off under the Temporary Employment Adjustment Schemes (ERTE) due to COVID-19, with no requirement for prior minimum contribution or reduction of accumulated entitlement (€17,800 million);
- Increased sick pay for COVID-19 infected workers or those quarantined, equivalent to 60%-75% of the regulatory base, paid out of the Social Security budget (€1,400 million);
- An allowance for self-employed workers affected by the suspension of economic activity (€3,800 million);
- A temporary subsidy equal to 70% of their contribution base for employees from household affected by COVID-19 (€3 million);
- A temporary monthly allowance of around €430 for temporary workers whose contract (at least two months' duration) expires during the state of emergency and who are not entitled to unemployment benefits (€17.6 million);
- Extension of unemployment benefit to cover workers who were laid off during the probation period (since March 9), as well as those who were switching jobs but with the new offer falling through (€42 million);
- Expansion of ERTE to cover workers and companies with significant activity reduction in sectors considered essential; strengthened unemployment protection for workers under permanent discontinuous contracts who cannot resume work but are not qualified for unemployment benefits (€99 million);
- Additional budgetary funds of €300 million and further budget flexibility for the provision of assistance to dependents;
- Transfer of €25 million to autonomous communities for meals for children affected by school closure;
- New rental assistance programs for vulnerable renters and additional state contribution to the State Housing Plan 2018-21 (€400 million);
- Extension of the social benefit for energy provision.

Further measures include:

- Exemptions from social contributions for affected companies that maintain employment under the ERTE (€2,200 million);

- Exemption from the payment of contributions for self-employed persons affected by the declaration of the state of alert (€980 million);
- Tax payment deferrals for small and medium-sized businesses and the self-employed for six months (€14,000 million).
- Extension of the deadlines for filing tax returns and self-assessment to May 30 for SMEs and the self-employed;
- Flexibility for SMEs and the self-employed to calculate their income tax and VAT installment payment based on actual profits in 2020 (€1,100 million);
- Zero VAT rate on purchases of medical material essential to combat COVID-19 until July 31, 2020 (€1,000 million);
- Reduction in VAT on digital publications from 21% to 4% (€24 million);
- 50% exemption from employers' social security contributions, from February to June 2020, for workers with permanent discontinuous contracts in the tourism sector and related activities;
- A six-month suspension of social security contributions for the self-employed (for May-July) and companies (for April-June) in selected industries (€352 million);
- Deferral of social security debts for companies and the self-employed (€340 million);
- No surcharge for late payment of tax debts for companies obtaining financing through the ICO Guarantee Lines;
- More flexibility for workers to access savings from their pension plans;
- Budget flexibility to enable transfers between budget lines and for local governments to use budget surpluses from previous years for housing measures;
- Modification of spending ceilings for certain lines of ministries and subnational governments;
- Centralization of medical supplies;
- An emergency management process for the procurement of all goods and services needed by the public sector to implement any measure to address COVID-19.

Monetary and Macro-Financial Measures

For monetary policy at the currency union level, please see the Euro Area section.

In addition, the government of Spain has extended up to €100,000 million in government guarantees for firms and the self-employed, covering loans and commercial paper of medium-sized companies that participate in Spain's Alternative Fixed-Income Market (MARF); up to €2,000 million in public guarantees for exporters through the Spanish Export Insurance Credit Company; guarantees for loan maturity extensions to farmers using the special 2017 drought credit lines; a line of guarantees to provide vulnerable households with financial assistance for housing expenses (€1,200 million); and additional loan guarantees for SMEs and the self-employed through the Compañía Española de Reafianzamiento (€1,000 million). These public guarantees could leverage up to €83,000 million of liquidity support for companies through the private sector.

Other measures include:

- Additional funding for the Instituto de Crédito Oficial (ICO) credit lines (€10,000 million);
- Introduction of a special credit line for the tourism sector through the ICO (€400 million);
- Temporary authorization of ICO to participate as a buyer of new commercial paper issued on MARF;

- Three-month moratorium on mortgage payments for the most vulnerable, including households, the self-employed and homeowners who have rented out their mortgaged properties;
- Automatic moratorium on rent payments for vulnerable tenants whose landlord is a large public or private housing holder during the COVID-19 crisis;
- Moratorium on non-mortgage loans and credits, including consumer credits, for the most vulnerable;
- Suspension of interest and repayment of loans from the Secretariat of State for Tourism for one year, with no need for prior request;
- Deferred repayment of loans to businesses from the Ministry of Industry, Trade and Tourism;
- Enhanced capacity of the mutual guarantee societies of the autonomous communities; deferral of payments on certain loans from the Institute for the Diversification and Saving of Energy (IDAE);
- Adoption of a mechanism for renegotiation and deferral of rent for business premises;
- Ban on short-selling Spanish shares on the stock market from March 16-May 18;
- Authorization for special government screening of FDI in strategic sectors;
- Adoption of a new macroprudential liquidity tool empowering the National Securities Market Commission to modify the requirements applicable to administrators of Collective Investment Schemes;
- Empowerment of the Consorcio de Compensación de Seguros to act as a reinsurer of credit insurance risks;
- Time-bound changes to corporate resolution frameworks in order to reduce insolvency cases.

Furthermore, the Bank of Spain will apply to the banks it supervises the flexibility provided by the legal system in relation to the setting of transition periods and the intermediate minimum requirements for own funds and eligible liabilities (MREL) targets.

Exchange Rate and Balance of Payments Measures

No measures.

2.6 United Kingdom [35]

Reopening of the economy

On May 10, the government set out a roadmap to ease the lockdown in England (Scotland, Wales and Northern Ireland have separate rules). Moving ahead with easing steps was tied to meeting five conditions related to the evolution of infections and deaths and the capacity to provide adequate care and prevent a new peak of infections. In the first step, between May 13 and 31, people who can work at home were requested to do so while those working in the manufacturing and construction sectors were encouraged to go back to work, minimizing the use of public transport. Unlimited outdoor exercise was allowed. In step 2, starting on June 1, some schools as well as outdoor markets and car showrooms were allowed to reopen, while all other non-essential retail will reopen on June 15. In step 3, no earlier than July 4, part of the hospitality and personal care industries will reopen while enforcing social distancing. The government has

[35] Key policy responses as of May 28, 2020.

published "COVID-19 Secure" guidelines for employers to help protect their workforce and customers from coronavirus. These must be met as a condition for reopening.

Fiscal Policy

Tax and spending measures have included:

- Additional funding for the NHS, public services and charities (£14,700 million);
- Measures to support businesses (£27,000 million), including property tax holidays, direct grants for small firms in the most-affected sectors and compensation for sick leave;
- Strengthening of the social safety net to support vulnerable people (almost £7,000 million) by increasing payments under the Universal Credit scheme as well as expanding other benefits;

The government has launched three separate loan schemes to facilitate businesses' access to credit. Together with the British Business Bank, it implemented the Coronavirus Business Interruption Loan Scheme to support SMEs and the Coronavirus Large Business Interruption Loan Scheme to support bigger firms, which carry an 80% guarantee for loans up to £5 million for the former and up to £200 million for the latter. In addition, the government has put in place the Bounce Bank loan scheme for SMEs with a 100% guarantee for loans up to £50,000. It is also deferring VAT payments for the second quarter of 2020 until the end of the financial year and income tax payments by the self-employed by six months. The government announced that it would pay 80% of the earnings of self-employed workers and furloughed employees (up to £2,500 per employee per month) in March-May. For furloughed employees, the scheme has been extended until end-October, although starting in August employers will be allowed to furlough employees for part of their daily working hours while being required to contribute to the 80% of earnings. The government has put in place a £1,000 million package to support firms driving innovation and development through grants and convertible loans.
To support international response, the government has made £150 million available to the IMF's Catastrophe Containment and Relief Trust.[36]

Monetary and Macro-Financial Measures

Key measures include:

- Reduction of the bank rate by 65 basis points to 0.1%;
- Expansion of the Bank of England's holding of UK government bonds and non-financial corporate bonds by £200,000 million;
- Introduction of a new Term Funding Scheme to reinforce transmission of the rate cut, with additional incentives for lending to the real economy, especially SMEs;
- HM Treasury and the Bank of England (BoE) have agreed to extend temporarily the use of the government's overdraft account at the BoE to provide a short-term source of additional liquidity for the government if needed;
- Launch of the joint HM Treasury-Bank of England Covid Corporate Financing Facility which, together with the Coronavirus Business Loan Interruption schemes, makes £330,000 million available in loans and guarantees to businesses (15% of GDP);

[36] See also https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses.

- Activation of a Contingent Term Repo Facility to complement the BoE's existing sterling liquidity facilities;
- In coordination with the Bank of Canada, the European Central Bank, the Federal Reserve, the Swiss National Bank and the Bank of Japan, enhancement of the provision of liquidity via the standing US-dollar liquidity swap line arrangements;
- Reduction of the UK counter-cyclical buffer rate to 0% from a pre-existing path toward 2% by December 2020, with guidance that it will remain there for at least 12 months.

The Prudential Regulatory Authority (PRA) set out the supervisory expectation that banks should suspend dividends and buybacks until end-2020, cancel outstanding 2019 dividends and pay no cash bonuses to senior staff. The PRA indicated all Pillar 2A requirements will be set as a nominal amount, instead of a percentage of total Risk Weighted Assets (RWAs). To mitigate the possibility of pro-cyclical market risk capital requirements, the PRA will temporarily allow firms to offset the increase in risk-weighted assets due to the automatic application of a higher VaR multiplier through a commensurate reduction in risks-not-in-VAR (RNIV) capital requirements.
The Financial Conduct Authority (FCA) introduced a package of targeted temporary measures to support customers affected by coronavirus, including by setting the expectation for firms to offer a payment freeze on loans and credit cards for up to three months.

Exchange Rate and Balance of Payments Measures
No measures.

3. North America

3.1 Canada [37]

Reopening of the economy

On April 28, Prime Minister Trudeau released a joint statement with first ministers from across Canada on their shared public health approach to support restarting the economy; all provinces have begun to implement plans to reopen.

Fiscal Policy

Key tax and spending measures (9.8% of GDP, CAD 205,000 million) include:

i) CAD 4,000 million (0.2% of GDP) to the health system to support increased testing, vaccine development, medical supplies, mitigation efforts and greater support for Indigenous communities;

ii) Around CAD 116,000 million (5.5% of GDP) in direct aid for households and firms, including wage subsidies, payments to workers without sick leave and access to employment insurance,

[37] Key policy responses as of May 28, 2020.

an increase in existing GST tax credits and childcare benefits and a new distinctions-based Indigenous Community Support Fund;

iii) Around CAD 85,000 million (4.1% of GDP) in liquidity support through tax deferrals.

Monetary and Macro-Financial Measures

Key measures adopted by the Bank of Canada include:

- Reduction of the overnight policy rate by 150 bps in March (to 0.25%);
- Extension of the bond buyback program across all maturities;
- Launch of the Bankers' Acceptance Purchase Facility;
- Expansion of the list of eligible collateral for Term Repo operations to the full range of eligible collateral for the Standing Liquidity Facility (SLF), except the Non-Mortgage Loan Portfolio (NMLP);
- Support for the Canada Mortgage Bond (CMB) market by purchasing CMBs in the secondary market;
- Announcement of a temporary increase in the amount of NMLP a participant can pledge for the SLF and for those participants that do not use the NMLP;
- Announcement of an increase in the target for settlement balances to CAD 1,000 million from CAD 250 million;
- Together with central banks from Japan, the Euro Area, the UK, the US and Switzerland, the announcement of the further enhancement of the provision of liquidity via the standing US-dollar liquidity swap line arrangements;
- Announcement of the launch of the Standing Term Liquidity Facility under which loans can be provided to eligible financial institutions in need of temporary liquidity support;
- Announcement of the Provincial Money Market Purchase (PMMP) program, the Commercial Paper Purchase Program (CPPP) and the purchase of Government of Canada securities in the secondary market.

Other measures in the financial sector include:

- OSFI, the bank regulator, lowered the Domestic Stability Buffer for D-SIBs to 1% of risk-weighted assets (previously 2.25%);
- Under the Insured Mortgage Purchase Program, the government will purchase up to CAD 150,000 million of insured mortgage pools through the Canada Mortgage and Housing Corporation (CMHC);
- The federal government has announced CAD 65,000 million in credit facilities for firms under stress;
- Farm Credit Canada will receive support from the federal government to provide it with an additional CAD 5,000 million in capacity for lending to producers, agribusinesses and food processors.

Exchange Rate and Balance of Payments Measures

No measures.

3.2 United States of America [38]

Reopening of the economy

Due to heterogeneous developments of the COVID-19 outbreak across states, progress on reopening the economy is varying across states. As of May 28, some states had yet to lift the "stay-at-home" orders. Nevertheless, all states have begun the reopening process, albeit with meaningful restrictions expected to remain in place at least through the end of the second quarter. The first sectors to be opened have generally included elective surgeries and outdoor recreations. For restaurants and retail stores, states tend to open curbside pickup before permitting limited indoor activities. In many states, indoor entertainment and close-contact services remain closed or have opened only with limited capacity. Most states have announced school closure through the end of the academic year.

Fiscal Policy

The US$483,000 million Paycheck Protection Program and Health Care Enhancement Act includes:

(i) US$321,000 million for additional forgivable Small Business Administration loans and guarantees to help small businesses that retain workers;
(ii) US$62,000 million for the Small Business Administration to provide grants and loans to assist small businesses;
(iii) US$75,000 million for hospitals;
(iv) US$25,000 million for expanding virus testing.

The Coronavirus Aid, Relief and Economic Security (CARES) Act, for an estimated US$2.3 trillion (around 11% of GDP), includes:

(i) US$293,000 million to provide one-time tax rebates to individuals;
(ii) US$268,000 million to expand unemployment benefits;
(iii) US$25,000 million to provide a food safety net for the most vulnerable;
(iv) US$510,000 million to prevent corporate bankruptcy by providing loans, guarantees and the backstopping Federal Reserve 13(3) program;
(v) US$349,000 million in forgivable Small Business Administration loans and guarantees to help small businesses that retain workers;
(vi) US$100,000 million for hospitals;
(vii) US$150,000 million in transfers to state and local governments
(viii) US$49,900 million for international assistance (including SDR 28,000 million for the IMF's New Arrangement to Borrow).

[38] Key policy responses as of April 9, 2020.

The US$8,300 million Coronavirus Preparedness and Response Supplemental Appropriations Act and the US$192,000 million Families First Coronavirus Response Act together provide around 1% of GDP for:

(i) Virus testing, transfers to states for Medicaid funding, the development of vaccines, therapeutics and diagnostics and support for the Centers for Disease Control and Prevention;
(ii) 2 weeks paid sick leave, up to 3 months emergency leave for those infected (at 2/3 pay), food assistance and transfers to states to fund expanded unemployment insurance;
(iii) Expansion of Small Business Administration loan subsidies;
(iv) US$1,250 million in international assistance. In addition, federal student loan obligations have been suspended for 60 days.

Monetary and Macro-Financial Measures

The federal funds rate was lowered by 150 bps in March to 0-0.25 bps. Other measures include:

- Purchase of Treasury and agency securities of the amount needed;
- Expansion of overnight and term repos;
- Reduction of the cost of discount window lending;
- Reduction of the existing cost of swap lines with major central banks and extension of the maturity of foreign exchange operations;
- Broadening of US-dollar swap lines with more central banks;
- Offer of a temporary repo facility for foreign and international monetary authorities.

The Federal Reserve has also introduced facilities to support the flow of credit, in some cases backed by the Treasury, using funds appropriated under the CARES Act. These facilities are:

(i) *Commercial Paper Funding Facility* to facilitate the issuance of commercial paper by companies and municipal issuers;
(ii) *Primary Dealer Credit Facility* to provide financing to the Fed's 24 primary dealers collateralized by a wide range of investment grade securities;
(iii) *Money Market Mutual Fund Liquidity Facility* (MMLF) to provide loans to depository institutions to purchase assets from prime money market funds (covering highly rated asset-backed commercial paper and municipal debt);
(iv) *Primary Market Corporate Credit Facility* to purchase new bonds and loans from companies;
(v) *Secondary Market Corporate Credit Facility* to provide liquidity for outstanding corporate bonds;
(vi) *Term Asset-Backed Securities Loan Facility* to enable the issuance of asset-backed securities backed by student loans, auto loans, credit-card loans, loans guaranteed by the Small Business Administration and certain other assets;

(vii) *Paycheck Protection Program Liquidity Facility (PPPLF)* to provide liquidity to financial institutions that originate loans under the Small Business Administration's Paycheck Protection Program (PPP) which provides a direct incentive to small businesses to keep their workers on the payroll;

(viii) *Main Street Lending Program* to purchase new or expanded loans to small and mid-sized businesses;

(ix) *Municipal Liquidity Facility* to purchase short-term notes directly from state and eligible local governments.

Supervisory action. Federal banking supervisors have encouraged depository institutions to use their capital and liquidity buffers to lend and to work constructively with borrowers affected by COVID-19 and have indicated that COVID-19 related loan modifications will not be classified as troubled debt restructurings. Holdings of US Treasury Securities and deposits at Federal Reserve Banks could be temporarily excluded from the calculation of the supplementary leverage ratio for holding companies. Other actions include offering regulatory reporting relief and adjusting the supervisory approach to temporarily reduce the scope and frequency of examinations and give additional time to resolve existing non-critical supervisory findings.

Regulatory action. This includes lowering the community bank leverage ratio to 8% and an extended transition for the Current Expected Credit Loss accounting standard. PPP-covered loans will receive a 0% risk weight and assets acquired and subsequently pledged as collateral to the MMLF and PPPLF facilities will not lead to additional regulatory capital requirements. Early adoption of "the standardized approach for measuring counterparty credit risk" is permitted and there will be a gradual phase-in of restrictions on distributions when a firm's capital buffer declines.

Fannie Mae and Freddie Mac have announced assistance to borrowers, including mortgage forbearance for 12 months and the waiving of related late fees, the suspension of reporting to credit bureaus of delinquency related to the forbearance and of foreclosure sales and evictions of borrowers for 60 days and the offer of loan modification options.

<u>Exchange Rate and Balance of Payments Measures</u>

No measures.

Ahumada 11, Piso 12, Santiago, Chile
Tel. (56-2) 2663 9200

4. Asia

4.1 People's Republic of China [39]

Reopening of the economy

Starting in mid-February, the government has gradually removed mobility and activity restrictions, prioritizing essential sectors, specific industries, regions and population groups based on ongoing risk assessments. Most businesses and schools have reopened nationwide, but social distancing rules remain in place at the micro level and foreign entry remains restricted in order to contain imported cases. Localized movement restrictions were re-imposed in two cities in Jinlin province following reports of new infections. Testing and individualized health QR codes are used to gauge the path of the virus and contain outbreaks.

Fiscal Policy

An estimated RMB 3.6 trillion (or 3.5% of GDP) of discretionary fiscal measures have been announced. Key measures include:

(i) Increased spending on epidemic prevention and control;
(ii) Production of medical equipment;
(iii) Accelerated disbursement of unemployment insurance and extension to migrant workers;
(iv) Tax relief and waived social security contributions.

The overall public sector expansion is expected to be significantly higher, reflecting the effect of improvements in the national public health emergency management system, additional support through state-owned enterprises and automatic stabilizers.

Monetary and Macro-Financial Measures

The PBC has provided monetary policy support and acted to safeguard financial market stability. Key measures include:

(i) Liquidity injection of RMB 3.8 trillion (gross) into the banking system via open market operations (reverse repos and medium-term lending facilities);
(ii) Expansion of re-lending and re-discounting facilities by RMB 1.8 trillion to support manufacturers of medical supplies and daily necessities, micro, small and medium-sized firms and the agricultural sector at low interest rates;
(iii) Reduction of the 7-day and 14-day reverse repo rates by 30 and 10 bps, respectively, as well as the 1-year medium-term lending facility (MLF) rate and targeted MLF rate by 30 and 20 bps, respectively;

[39] Key policy responses as of May 28, 2020

(iv) Targeted RRR cuts by 50-100 bps for large and medium-sized banks that meet inclusive financing criteria which benefit smaller firms, an additional 100 bps for eligible joint-stock banks and 100 bps for small and medium-sized banks in April and May to support SMEs;
(v) Reduction of the interest on excess reserves from 72 to 35 bps;
(vi) Expansion of policy banks' credit line to private and micro and small enterprises (RMB 350,000 million).

The government has also taken multiple steps to limit the tightening of financial conditions, including measured forbearance to provide financial relief to affected households, corporates and regions facing repayment difficulties. Key measures include:

(i) Encouraging lending to SMEs, including uncollateralized SME loans from local banks and raising the target for large banks' lending growth to micro and small enterprises from 30% to 40%;
(ii) Delay of loan payments, with the deadline extended to end-March 2021, and eased loan size restrictions for online loans and other credit support measures for eligible SMEs and households;
(iii) Tolerance for higher NPLs and reduced NPL provision coverage requirements;
(iv) Support for bond issuance by financial institutions to finance SME lending;
(v) Additional financing support for corporates via increased bond issuance by corporates, including relaxing rules on insurers for bond investments;
(vi) Increased fiscal support for credit guarantees;
(vii) Flexibility in the implementation of the asset management reform;
(viii) Easing of housing policies by local governments.

Exchange Rate and Balance of Payments Measures

The exchange rate has been allowed to adjust flexibly. A ceiling on cross-border financing under the macroprudential assessment framework was raised by 25% for banks, non-banks and enterprises. Restrictions on the investment quota of foreign institutional investors (QFII and RQFII) were removed.

4.2 Japan [40]

Reopening of the economy

Amid the declining trend of daily new confirmed cases of COVID-19 since the beginning of May, the state of emergency was lifted for 39 of the country's 47 prefectures on May 14 and for Osaka, Kyoto and Hyogo on May 21. On May 25, the state of emergency was lifted for all prefectures, earlier than the previous May 31 expiry date.

[40] Key policy responses as of May 29, 2020.

Fiscal Policy

On April 7 (partly revised on April 20), the Government of Japan adopted the Emergency Economic Package against COVID-19 for ¥117.1 trillion (21.1% of 2019 GDP) and subsumed the remaining part of the previously announced packages (the December 2019 stimulus package, passed in January 2020, and the two COVID-19-response packages announced on February 13 and March 10, respectively). The April package has five objectives:

- To implement preventive measures against the spread of infection and strengthen treatment capacity (expenditure of 0.5% of GDP);
- To protect employment and businesses (1.6% of GDP);
- To restore economic activities after containment (1.5% of GDP);
- To rebuild a resilient economic structure (2.8% of GDP);
- To enhance readiness for the future (0.3% of GDP).

The key measures comprise cash handouts to every individual and affected firms, deferral of tax payments and social security contributions and concessional loans from public and private financial institutions.

On May 27, the Government of Japan announced the second FY2020 draft supplementary budget. The package, worth ¥117.1 trillion (21.1% of 2019 GDP), covers:

(i) Health-related measures;
(ii) Support for businesses;
(iii) Support for households;
(iv) Transfers to local governments;
(v) Raising the ceiling of the COVID-19 reserve fund.

The specific measures include the expansion of work subsidies, provision of subordinated loans by the public financial institutions to affected firms and subsidies to affected firms for their rent payments.

Japan is the largest contributor to the IMF and its concessional lending facilities. In early April, Japan pledged an additional US$100 million for the IMF's Catastrophe Containment and Relief Trust as immediately available resources to support its capacity to provide grant-based debt service relief for the poorest and most vulnerable countries to combat COVID-19.

In order to provide emergency financing for a wider range of emerging markets and developing countries to meet their prospective imminent needs, Japan announced on April 16 that it aims to double its contribution to the Poverty Reduction and Growth Trust (PRGT) from the current SDR 3,600 million. Japan made available the first SDR 1,800 million immediately. Japan has called on other member countries to follow quickly and will match an additional SDR 1,800 million with their contributions.

Monetary and Macro-Financial Measures

On March 16, the Bank of Japan (BoJ) called a monetary policy meeting and announced a comprehensive set of measures to maintain the smooth functioning of financial markets (notably of U.S. dollar funding markets) and incentivize the provision of credit. They included targeted liquidity provision through an increase in the size and frequency of Japanese government bond (JGB) purchases, a special funds-supplying operation to provide loans to financial institutions to facilitate the financing of corporates, a temporary increase in the annual pace of BoJ's purchases of Exchange Traded Funds (ETFs) and Japan-Real Estate Investment Trusts (J-REITs) and a temporary additional increase in targeted purchases of commercial paper and corporate bonds. The BoJ has provided lending support through the special funds-supplying operation and has purchased Japanese government securities, commercial paper, corporate bonds and exchange-traded funds.

At its April 27 monetary policy meeting, the BoJ announced additional measures to maintain stability in financial markets and support credit provision. It decided to purchase a necessary amount of JGBs without setting an upper limit on its guidance on JGB purchases. In addition, it raised the maximum amount of additional purchases of commercial paper and corporate bonds, lifting the upper limit of commercial paper and corporate bond holdings to a total of ¥20 trillion (US$186,000 million). The special funds-supplying operations have been scaled up by expanding the range of eligible counterparties and collateral to private debt (including household debt), as well as by applying a positive interest rate of 0.1% to the outstanding balances of current accounts held by financial institutions at the BoJ that correspond to the amounts outstanding of loans provided through this operation. On May 22, the BoJ introduced a new fund-provisioning measure to support financing of mainly small and medium-sized enterprises, providing funds against loans such as interest-free and unsecured loans made by eligible counterparties based on the government's emergency economic measures.

The BoJ in coordination with the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve and the Swiss National Bank enhanced the provision of U.S. dollar liquidity on March 15, by lowering the pricing on the standing U.S. dollar liquidity swap arrangements by 25 basis points. Between May 25 and 29, the BoJ provided US-dollar funding through the swap line of US$1,500 million for 84 days and US$5,300 million for seven days. Japan also has several important bilateral and regional swap arrangements with Asian countries.

The government expanded the volume of concessional loan facilities (interest-free without collateral) primarily for micro, small and medium-sized business affected by COVID-19 through the Japan Finance Corporation and other institutions. The government also indicated that it would enhance access to loans with the same conditions from local financial institutions, such as local banks. To support borrowers during this period of stress, the Financial Services Agency has reassured that banks can assign zero risk weights to loans guaranteed with public guarantee schemes, draw down their capital conservation and systemically important bank buffers to support credit supply and draw down their stock of high-quality liquid assets below the minimum liquidity coverage ratio requirement.

Exchange Rate and Balance of Payments Measures

The exchange rate has been allowed to adjust flexibly.

4.3 Korea [41]

Fiscal Policy

On March 17, the National Assembly passed the first 2020 supplementary budget. It envisaged a decline in revenues of KRW 0.8 trillion and an additional KRW 10.9 trillion in spending on disease prevention and treatment, loans and guarantees for business affected, support for households affected and support for local economies affected.

On April 30, the National Assembly passed the second 2020 supplementary budget. It included an increase in spending of KRW 8 trillion to fund an emergency relief payment program for KRW 14.3 trillion that provides transfers to households.

On April 22, the government announced an additional KRW 10.1 trillion in spending on wage subsidies and assistance for the unemployed. The proposal requires approval from the National Assembly.

On May 14, the government announced that it would (1) create 1.56 million public-sector jobs; (2) work on expanding unemployment insurance to platform workers, freelancers and other contractual workers. Both plans require approval from the National Assembly.

Other announced measures, which either do not require approval from the National Assembly or have not reached the supplementary budget proposal stage include:

- February 5-19: Tax, customs and financial support for businesses affected by the disease; coastal vessel financing;
- February 28: Financial and tax support for families and businesses affected, including 50% income tax cuts for landlords on rent;
- March 30: Social security contribution relief. A total of KRW 7.5 trillion in payment deferrals and 0.9 trillion in contribution cuts as well as KRW 1.3 trillion in electricity bill payment deferrals;
- April 1: Support for tourism-dependent businesses, telecommunications businesses and film industries;
- April 8: Measures to frontload public sector investment and purchases; tax support for boosting private sector spending;
- April 9: Financial support for childcare due to school and daycare closure will be expanded.

Monetary and Macro-Financial Measures

The Bank of Korea (BOK) has taken several measures to ensure continued accommodative monetary conditions and facilitate financial system liquidity. They include:

1) Reduction of the base rate by 50 bps from 1.25% to 0.75%;

[41] Key policy responses as of May 27, 2020.

2) Availability of unlimited amounts through open market operations (OMOs);
3) Expansion of the list of eligible OMO participants to include selected non-bank financial institutions;
4) Expansion of eligible OMO collateral to include bank bonds and the bonds of certain public enterprises and agencies;
5) Easing of collateral requirements for net settlements in the BOK payments system;
6) Purchase of Korean Treasury Bonds (KRW 3.0 trillion).

To augment available funding for SMEs, the BOK increased the ceiling of the Bank Intermediated Lending Support Facility by a total of KRW 10 trillion (about 0.5% of GDP) and lowered the interest rate to 0.25% (from 0.5-0.75%).

On March 24, President Moon announced a financial stabilization plan for KRW 100 trillion (5.3% of GDP). Its main elements are:

1) Expanded lending by both state-owned and commercial banks to SMEs, small traders, mid-sized firms and large companies (the latter on a case-by-case basis), including emergency lending, partial and full guarantees and collateralization of loan obligations;
2) A bond market stabilization fund to purchase corporate bonds, commercial paper and financial bonds;
3) Financing by public financial institutions of corporate bond issuance through collateralized bond obligations and direct bond purchases;
4) Short-term money market financing through stock finance loans, BOK repo purchases and refinancing support from public financial institutions;
5) An equity market stabilization fund financed by financial holding companies, leading financial companies and other relevant institutions.

On April 22, additional measures were announced totaling KRW 25 trillion (1.3% of GDP), mainly through the creation of a special-purpose vehicle to purchase corporate bonds and commercial paper (KRW 10 trillion) and additional funds for SME lending (KRW 10 trillion). Financing support for exporters and specific industries has also been announced. On April 8, a package of measures totaling KRW 36 trillion (1.9% of GDP) was announced to ease financing constraints for exporters, including increasing the amount and maturity of trade credit and expanding trade insurance. On April 22, President Moon announced that a key industry stabilization fund would be established for KRW 40 trillion (2.1% of GDP) and operated by Korea Development Bank to support seven key industries: airlines, shipping, shipbuilding, autos, general machinery, electricity and communications. Funds will be raised through the issuance of government-guaranteed bonds and contributions of private funds. Support will be provided through loans, payment guarantees and investments. To access this support, businesses are required to maintain employment, limit executive compensation, dividends and other payouts and share benefits from business normalization in the future.

Other measures taken pertaining to financial market stability include the expansion of BOK repo operations to non-banks, creation of a BOK program of lending to non-banks with corporate bonds as collateral, a temporary prohibition on stock short-selling in the equity markets, a temporary easing of rules on share buybacks and a temporary easing of loan-to-deposit ratios for banks and other financial institutions and the domestic currency liquidity coverage ratio for banks.

Exchange Rate and Balance of Payments Measures

The BOK opened a bilateral swap line with the US Federal Reserve for US$60,000 million. Other measures taken to facilitate funding in foreign exchange include:

1) Increase in the cap on foreign exchange forward positions to 50% of capital for domestic banks (previously 40%) and 250% for foreign-owned banks (previously 200%);
2) Temporary suspension of the 0.1% tax on the short-term non-deposit foreign exchange liabilities of financial institutions;
3) Temporary reduction of the minimum foreign exchange liquidity coverage ratio for banks to 70% (previously 80%).