UPDATE

InvestChile + Insights
INVESTMENT EBOOKS

“Impact of COVID-19 on the economy and FDI”

This report provides an update of specific points in the report on “Impact of COVID-19 on the economy and FDI” published by InvestChile’s Competitive Intelligence Unit in June 2020 and available on www.investchile.gob.cl.

Economic measures implemented in Chile to address COVID-19

COVID-19 Emergency Economic Plan: Advances and compliance[1]

i) Protection of jobs and income from work: Employment Protection Law (Law N° 21.227[2])

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.

1. **US$2,000 million**: Upper limit on resources
2. **4.5 million people:** Potential beneficiaries

Progress on implementation:

- Starting date: April 30
- N° of employers registered: 110,940 employers
- N° of employees registered: 685,997 employees

[1] Source: Finance Ministry.

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

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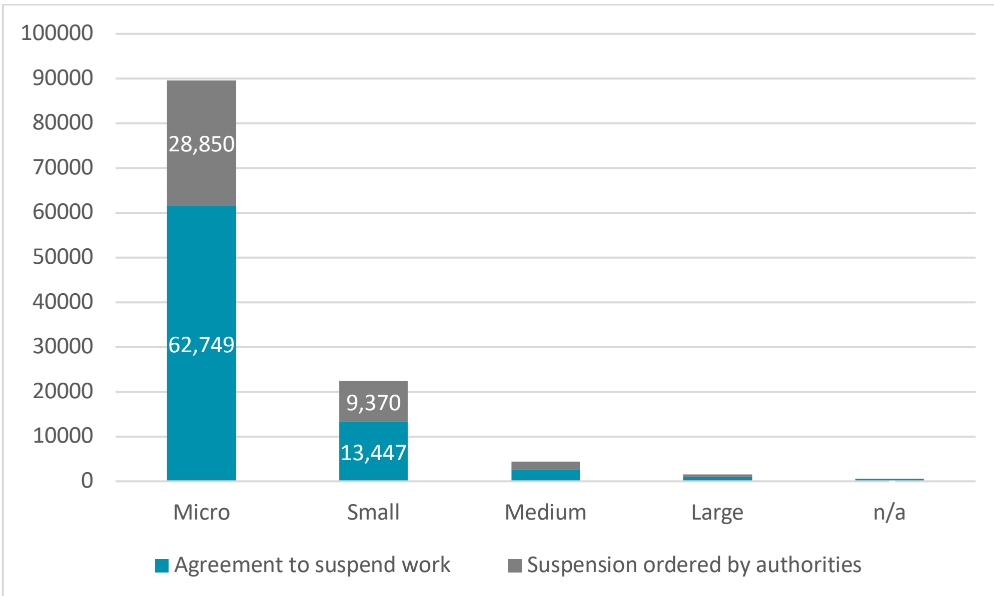
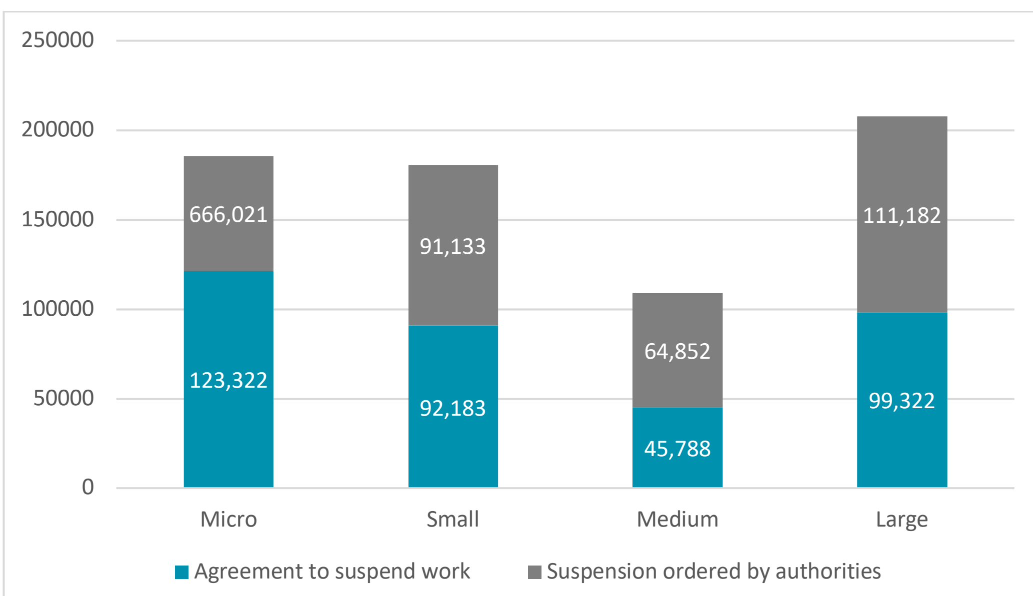
N° of companies by grounds for use and company size
Information updated to 12/07/2020



Source: Finance Ministry

N° of employees by grounds for use and company size
Information updated to 12/07/2020



Source: Finance Ministry

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ii) Protection of jobs and income from work: Benefit for the self-employed

Self-employed workers whose earnings drop by at least 30% in a month are entitled to a benefit in cash that covers up to 70% of the shortfall. It consists of a subsidy of up to 100,000 pesos for workers with an average monthly income of up to 500,000 pesos. The benefit may be requested for up to three months between June and November 2020 for a drop in earnings in the month prior to the application. It will be repayable at a 0% real interest rate in three annual installments starting in 2022.

- **41,325 million pesos:** Total amount paid
- Total of **171,791 applications** paid

Requirements:

1) To have issued invoices in at least three of the last 12 months (April 2019-March 2020) or at least six of the last 24 months (April 2018-March 2020). In both cases, the invoices can have been issued in consecutive or non-consecutive months.
2) A drop of at least 30% in income from invoices compared to the average for the last 12 months (April 2019-March 2020) during the month prior to applying for the benefit.
3) To have issued invoices electronically, except in exceptional cases.

iii) Injection of liquidity to support companies: Expansion of state credit guarantees (FOGAPE, Law N° 21.227[3]**)**

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**

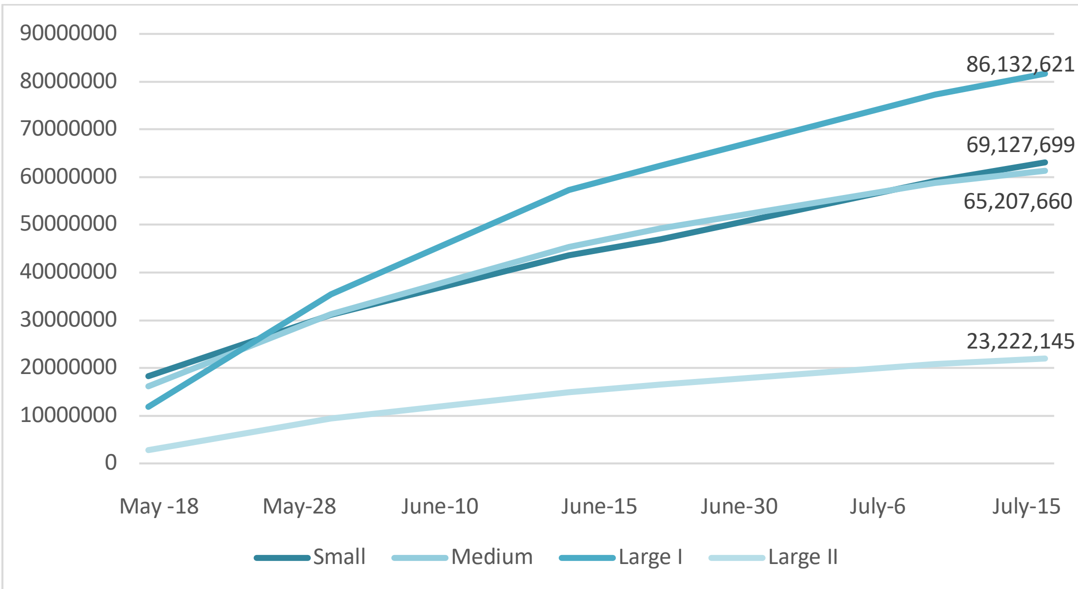
Progress on implementation:

- Starting date: April 30
- Total amount guaranteed: 243 million UF | US$8,868 million
- N° of credits guaranteed: 168,584

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

Amount of credits guaranteed (UF)

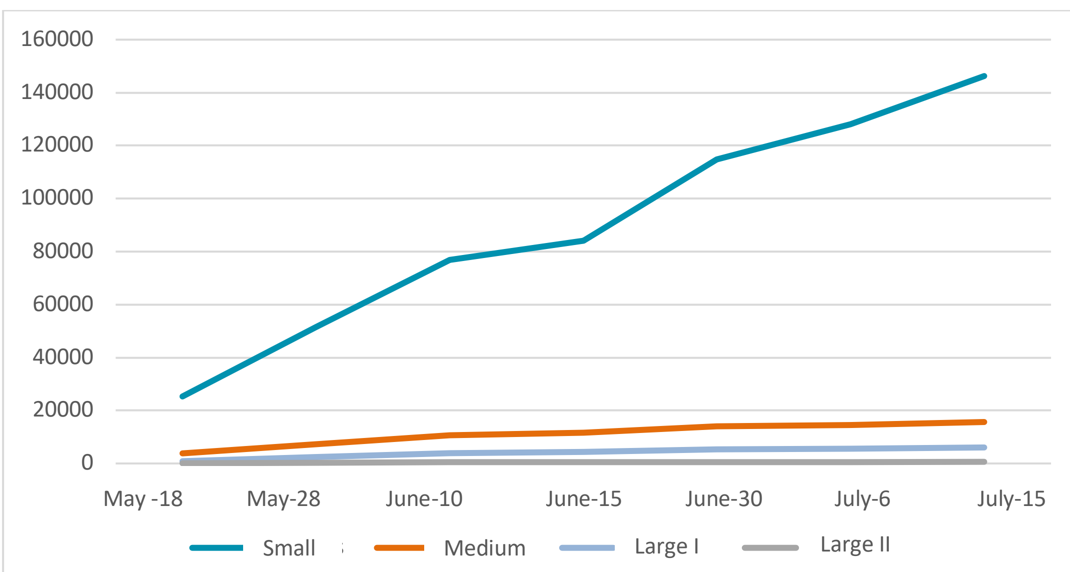
Information updated to 15/07/2020



Source: Finance Ministry

N° of credits guaranteed

Information updated to 15/07/2020



Source: Finance Ministry

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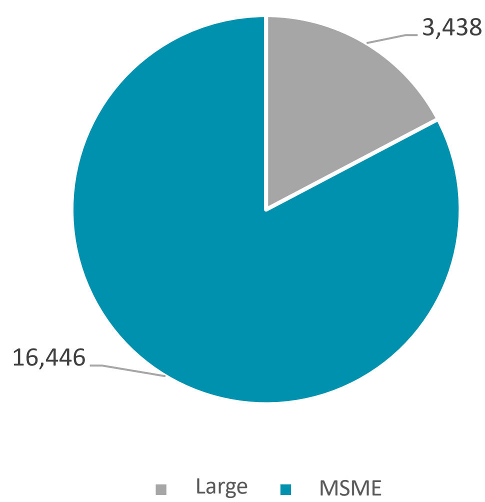
iv) Injection of liquidity to support companies: New *Compra Ágil* portal

On April 21, the public procurement platform, *Mercado Público*, launched the *Compra Ágil* (Agile Procurement) portal, targeting micro, small and mid-sized enterprises (MSMEs) (annual sales of up to 75,000 UF), for all public purchases of less than 1.5 million pesos (30 *unidades tributarias mensuales*, UTMs). These account for 80% of all transactions and are worth some US$800 million a year.

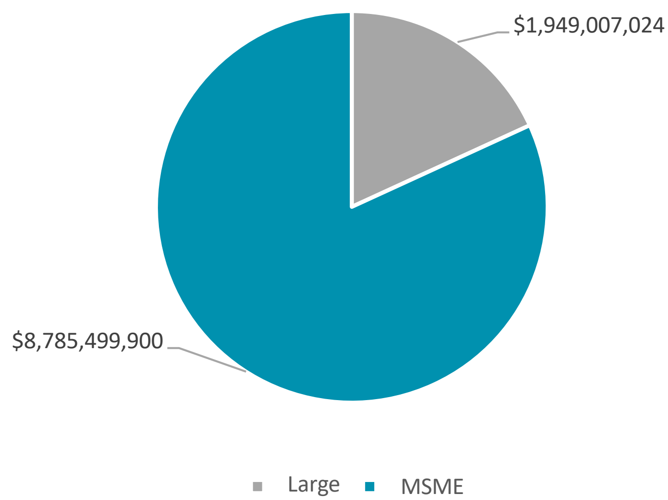
- **19,884 transactions**
- Total amount of transactions: **10,735 million pesos**

N° of transactions by company size
Information updated to 15/07/2020



Source: Finance Ministry

Amount of transactions by company size
Information updated to 15/07/2020



Source: Finance Ministry

vi) Tax measures to support liquidity

- **Suspension of PPMs:** PPMs are provisional monthly tax payments made on account of the annual income declared in Forms N° 29 and 50 of the National Tax Service (SII). These payments were suspended in April, May and June 2020.
    - **733,285 million pesos**: effective benefit
    - **551,133 companies** benefitted
- **Early income tax refund:** This refund on the annual tax return filed in April 2020 was brought forward from May to April.
    - **638,999 million pesos**: effective benefit
    - **341,687 SMEs** benefitted
- **Reduction of stamp tax:** Reduction to 0% of stamp tax on borrowing operations (mortgages, consumer lending, promissory notes, etc.) between April and September 2020, including both months.
    - **68,184 million pesos:** effective benefit
    - **36,321 taxpayers** benefitted
- **Postponement of real estate tax**: Payment of the first installment of real estate tax in April 2020 was postponed to be paid in three installments, without interest or fines, together with the second (June), third (September) and fourth (November) installments.
    - **US$335 million**: amount involved
    - **868,140 taxpayers** used this benefit

- **Extension of deadline for use of Pro Pyme regime**: The deadline for opting to use the *Pro Pyme* (Pro SME) tax regime was extended from 30 April to 31 July 2020.
    - **4,840 SMEs** benefitted
- **Postponement of tax payment**: First category tax is normally paid in April of each year but this year the deadline was extended to 31 July 2020 for those SMEs liable to make payments.
    - **659,000 million pesos**: effective benefit
    - **89,364 SMEs** benefitted.

Measures to Support the Middle Class[4]

On July 5, the government announced measures to support the middle class. They include the postponement of mortgage payments, a subsidy for house rental, access to soft loans and an exceptional application process for the State Guaranteed Credit (CAE) for higher education.

These measures will be financed out of the US$12,000 million of the COVID Fund.

1. Bill on COVID credit for middle class

A COVID credit program will be created for the middle class, providing loans of up to 2.6 million pesos to cover up to 70% of the drop in beneficiaries' monthly income for a period of four months.

The National Tax Service (SII) will receive applications for the loan and it will be paid by the General Treasury of the Republic in four monthly installments of up to 650,000 pesos each.

The loans will have a 0% real interest rate (they will only be adjusted for inflation) and will be repayable over four years through provisional monthly tax payments (PPMs) or second category or global complementary tax payments.

The following persons are eligible:

- Unemployed workers in the formal sector who are affiliated to the unemployment insurance program or whose contract has been suspended under the Employment Protection Law, as well as one-person companies regulated by the SII that can demonstrate a significant drop in income (at least 30%);

- Workers with a monthly income of over 500,000 pesos before the pandemic.

The universe of potential beneficiaries is at least 605,000 people of whom 116,000 are unemployed and receiving unemployment insurance benefit, 279,999 have their contracts suspended under the Employment Protection Law and 210,000 are one-person companies regulated by the SII.

This measure is subject to approval by Congress.

[4] Source: Finance Ministry.

2. Bill to postpone mortgage payments with state guarantee

An agreement has been reached with the banking industry to create a mechanism to facilitate the postponement of mortgage payments. Banks have already deferred repayment of 316,000 mortgages, out of a universe of more than 1 million clients, but the government believes that an additional effort is possible.

The new mechanism would permit the postponement of up to six installments (including those deferred as from April).

The state guarantee would cover the new installments deferred in the event of losses due to default and execution of the mortgage. It will be valid for 60 months as from the postponement of repayments.

The following mortgages are eligible:

- Mortgages on primary place of residence;
- Homes with a value of less than 10,000 UF, according to the original mortgage valuation (equivalent to over 90% of primary places of residence);
- Past due by no more than 29 days.

The following mortgage holders are eligible:

- Heads of household who have suffered a significant drop in income because they are unemployed or suspended under the Employment Protection Law or are self-employed and declare a significant drop in income.

Based on the above criteria of eligibility, preliminary estimates suggest that the mechanism would cover some 300,000 mortgage holders and repayments of around US$650 million.

This measure is subject to approval by Congress.

3. Expansion of house rent subsidy for middle class

Access to a house rent subsidy for the middle class will be expanded through a new application process targeting low and middle-income family groups with a proven drop in income of more than 30% that have not previously obtained the rent subsidy and are not covered by the Emergency Family Income (IFE) 2.0.

The subsidy will be provided for three months and can be for up to 250,000 pesos a month for rents of up to 600,000 pesos with certain conditions. The expansion envisages a total of 50,000 subsidies, with a total cost of US$30 million.

The application period began on July 13 and will close on August 24. Applications can be submitted through www.minvu.cl.

4. Expansion of credit for higher education

A new exceptional process for applying for credits to finance higher education will be opened for students who fulfill the following requirements:

- Do not receive other student benefits (free access, grant and/or credit);
- Deterioration in financial situation since the last process of application for student benefits in March 2020.

An estimated 130,000 students will benefit at a fiscal cost of US$90 million.

This measure will be implemented shortly.

Central Bank of Chile measures

- Constitutional reform to allow the Central Bank of Chile (BCCh) to buy government bonds in the secondary market.

On June 18, the executive presented a constitutional reform bill, merging motions presented by different senators. It was discussed by the Senate Finance Commission, which approved it on June 23.

The bill modifies Article 109 of the Constitution to empower the Central Bank to buy and sell financial instruments issued by the government, subject to the following restrictions:

- It would only do so in exceptional circumstances of a temporary nature and when necessary to safeguard the normal functioning of internal and external payments.
- Acquisitions would be made through the open secondary market.

A new 39th transitory article was incorporated, establishing that the constitutional reform will take effect once the law that introduces modifications to the Organic Constitutional Law (LOC) of the BCCh comes into force.

The constitutional reform bill is complemented by the government bill to modify the LOC of the BCCh. Article 27 of the bill was modified to regulate the constitutional power granted to the BCCh to buy and sell debt instruments issued by the Chilean government on the open secondary market, establishing that this power can only be exercised under the following conditions:

- Exceptional circumstances of a temporary nature;
- Determined by the Board of the BCCh in a reasoned decision approved by at least four of its members;
- When required to safeguard the normal functioning of internal and external payments;
- The BCCh must invite the Finance Minister to attend the Board meeting at which the agreement is adopted, in accordance with Article 19 of the current LOC.

- The BCCh must sell these instruments on the open market at the time and under the terms and conditions established by the Board.

This bill was dispatched by the Finance Commission together with the constitutional reform.

Measures of the Financial Market Commission

- The Financial Market Commission (CMF) has published regulation that facilitates the registration of debt instruments and equities in the context of COVID-19.

In order to facilitate companies' access to financing, the requirements and documentation necessary for the registration of publicly offered securities have been temporarily relaxed. In addition, to simplify the current process for the registration and placement of securities, permanent improvements have been made to General Norm (NCG) N° 30.

The aim is to streamline the process of issuing securities as a means of facilitating access to financing for companies that need to raise funds during the COVID-19 pandemic. This modification is part of the set of measures implemented by the CMF to support the entities it supervises in addressing the health crisis.

The modifications simplify the registration of publicly offered securities (bonds, bills of exchange and equities), temporarily exempting them from presentation of some of the documents required for registration applications. They also facilitate the registration of issuers and securities by permanently exempting them from the presentation of some documents.

The documents that will temporarily not be required include:

- Securities prospectus. The issuer must, however, still submit to the CMF those prospectuses and brochures used to divulge and advertise a securities issue, doing so two days before the placement.

- Copies of the notices and communications to be sent to shareholders in the case of a capital increase or the issue of convertible bonds.

- Duplicate documentation.

Changes to NCG N° 30

The permanent improvements to NCG N° 30 are as follows:

a) To register, a new issuer whose audited annual financial statements are older than 90 days can present more recent financial statements signed by its board of directors.

b) In the case of a capital increase, the amount of information required for inscription on the Securities' Register has been reduced.

c) The risk classification of the line of debt securities can be presented at the time of registering each emission against this line.

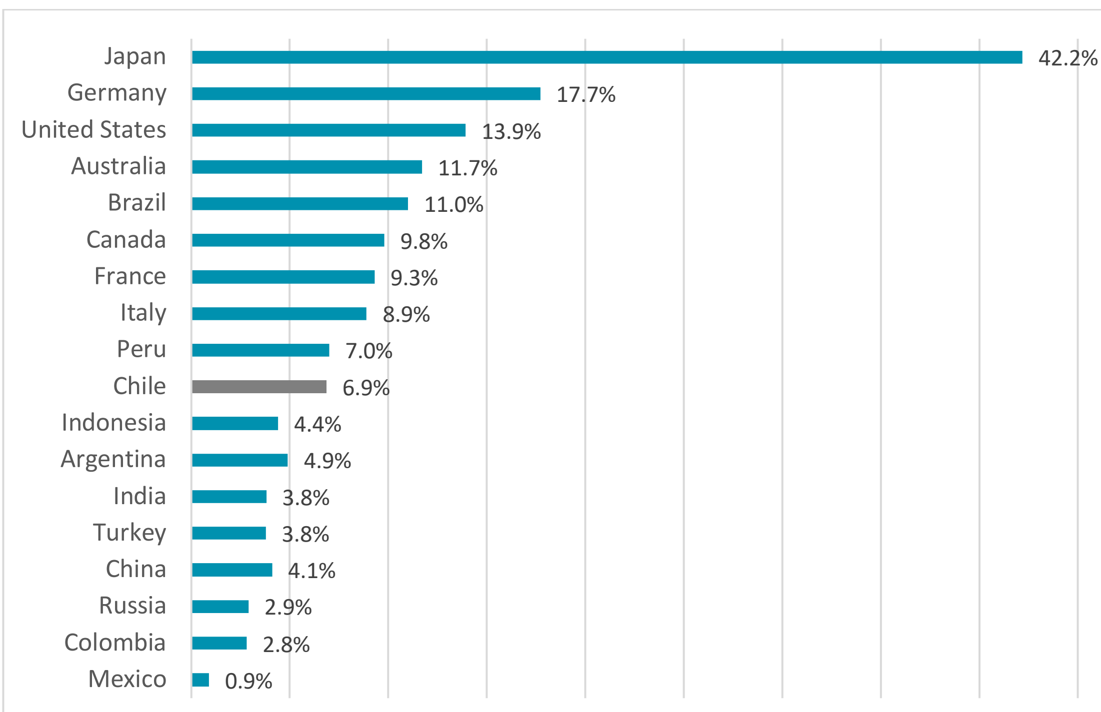
The temporary instructions (contained in Section I of the norm) came into effect on 15 June 2020 and will remain in force until 30 June 2021. These provisions can be used for requests for registration submitted to the CMF before the latter date and those that are currently being processed.

The permanent guidelines for NCG N° 30, contained in Section II of the norm, came into effect on 15 June 2020.

Fiscal spending as a percentage of GDP

Chile has already implemented measures equivalent to 6.9% of GDP, out of the 11% of GDP committed to the fight against the effects of COVID-19. The next chart shows figures for selected countries.

Fiscal stimulus plans as % of GDP
Updated to 24 June 2020



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