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INVESTMENT EBOOKS

REPORT

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

APRIL 2020

InvestChile

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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.

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. Finally, in the fourth section, it describes the different initiatives implemented by overseas companies with operations in Chile to help address the pandemic.

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 April 23, 2020, analyzes information from the beginning of the crisis (March 2020) through to April 15.

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

Without doubt, the COVID-19 pandemic has radically changed the way our societies function, inflicting high and rising human and economic costs worldwide. To protect the lives of millions of people, governments have not only strengthened health systems but have also taken measures that include social distancing, confinement and the paralyzation of activities. This has triggered an unprecedented crisis, in a context in which the production of a vaccine or a cure for the virus remains uncertain.

The economic impact of COVID-19 will depend directly on the extent to which the virus spreads. In other words, those countries most affected by the pandemic will also suffer the most severe economic consequences. Similarly, quarantine, lockdowns and social distancing will have the most acute effects on those sectors that depend on social interaction, such as tourism, travel, entertainment, restaurants and non-digital services.

The temporary closure of factories and workplaces has disrupted supply chains and reduced productivity. Layoffs, fear of contagion and increased uncertainty have hit consumption, profoundly impacting sales and companies' liquidity, causing businesses to close and accentuating job losses. In the most internationally integrated countries, domestic disruptions will be transmitted to trading partners through both trade flows and global value chains.

Financial markets have also been affected by increased uncertainty and the reduction in economic activity. A flight to safe assets and a race for liquidity have put upward pressure on borrowing costs while credit has become scarcer, exacerbating financial tensions.[1] This has been driven mainly by expectations of a sharp decline in economic activity and employment, increasing the risk of a generalized default on payments. Lenders, worried that consumers and companies will be unable to keep up with repayments, have tightened credit conditions.[2] These effects can also be multiplied through international financial ties, particularly in countries that depend on external financing and have fiscal imbalances.[3]

This impact is already visible in countries worst affected by the virus. 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 during the quarter. In the United States, unemployment claims topped 6.6 million in the fourth week of March, compared to approximately 280,000 just two weeks earlier.

Taking into account the international context, the Central Bank of Chile has identified four main channels of transmission of the pandemic's economic effects:[4]

- It estimates that the international situation will mean a significant drop in trade flows. In addition, national income will be negatively affected by the drop in the prices of raw materials, although this will be partially offset by lower oil prices.

[1] World Economic Outlook: Chapter 1, The Great Lockdown. IMF, 13 April 2020.
[2] World Economic Outlook: Chapter 1, The Great Lockdown. IMF, 13 April 2020.
[3] Semiannual report on Latin America and the Caribbean region: The Economy in the Time of COVID-19. World Bank, April 2020.
[4] Monetary Policy Report (IPoM). Central Bank of Chile, March 2020.

- A second channel of transmission is the deterioration in financial conditions. The access of governments and companies to financing will be limited by increased global perception of risk and large adjustments in financial prices.
- The deterioration of business and consumer expectations operates as a third channel of transmission through its impact on investment and consumption.
- A fourth channel is the effect on the domestic economy of the health measures adopted to limit contagion and the resulting total or partial paralyzation of economic activity, with its effect on company and household income, jobs and consumption.

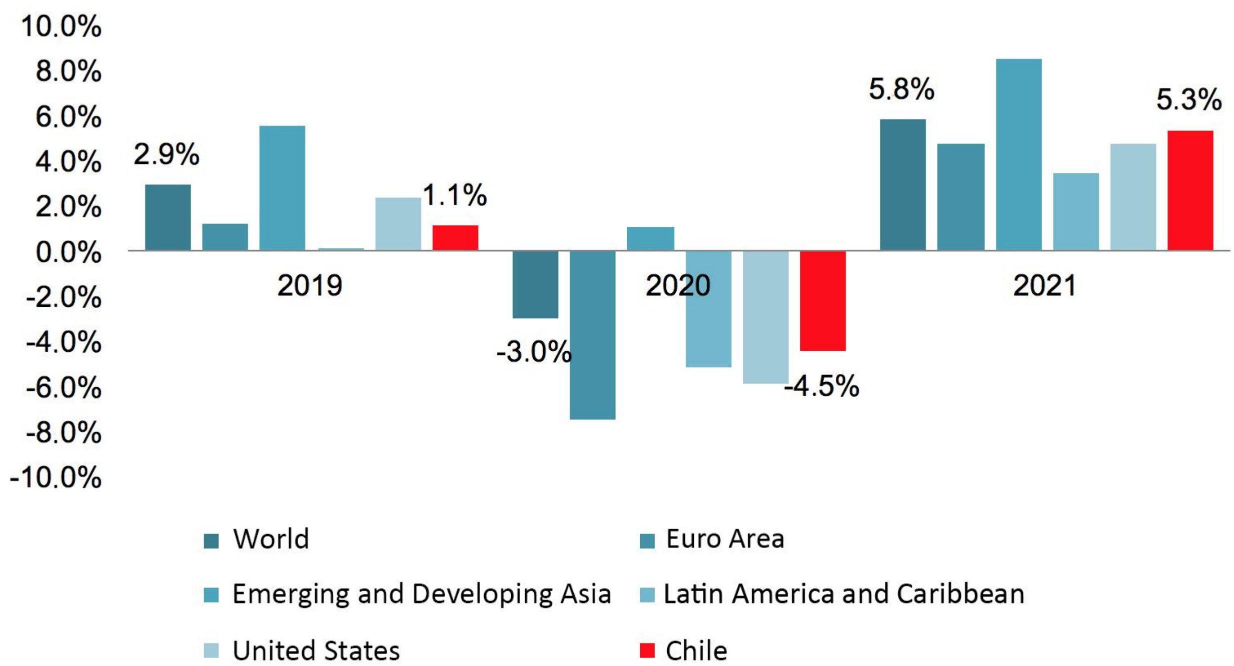
The International Monetary Fund (IMF) estimates that, as a result of the pandemic, the global economy will contract by 3% this year, a far worse performance than in the 2008 financial crisis.[5] The IMF's growth forecast is based on the following key assumptions:

- The pandemic fades in the second half of 2020.
- Containment measures are gradually lifted.
- Economic activity normalizes, helped by policy support.

In this context, the outlook for global growth is extremely uncertain and the economic fallout will depend on factors that interact in ways which are difficult to predict, such as the evolution of the pandemic, the intensity and efficacy of containment efforts, the extent of supply disruptions, the repercussions of the drastic tightening of conditions on global financial markets and shifts in spending patterns.

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

Figure 1: Growth Estimates and Forecasts, 2019-2021[6]



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

Impact of COVID-19 on FDI

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 impact on production will also be reflected in a reduction of world consumption, negatively affecting the earnings of overseas subsidiaries and, therefore, the reinvestment of profits (negative demand shock). According to the UN Conference on Trade and Development (UNCTAD), reinvestment of profits accounts for some 40% of global FDI.[7]

Greenfield projects that are already underway will also be affected. However, since new investment projects have a long lead time and a life cycle that can stretch into years, the impact will be more muted than in the case of stock market operations.

[6] For other countries and areas, see Appendix 1.
[7] Investment Trends Monitor: Impact of the Coronavirus Outbreak on Global FDI. UNCTAD, 4 March 2020

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Announcements of new projects will also be delayed. Cross-border mergers and acquisitions are being postponed and M&As announced globally dropped by an estimated 70% in the first quarter.[8]

COVID-19 is expected to affect investments in search of new markets, efficiency and resources. FDI projects seeking new markets and alternatives in the extractive industries could be delayed worldwide while consumer-oriented industries such as tourism and the travel and retail sectors will see their sales drop significantly, reflecting the negative demand shock caused by lower incomes and higher unemployment.

The negative effect on foreign investment in search of efficiency, in facilities that are closely integrated into global value chains (GVCs), will be concentrated in China and East Asia. However, it could quickly spread to other regions through GVCs as the virus propagates. UNCTAD's top 100 multinational enterprises (MNEs) provide a clear indication of the impact COVID-19 could have on investment trends: 61% of the companies have issued statements of concern regarding COVID-19 and 57% have issued warnings about the impact on sales of lower global demand.[9]

Similarly, the top 5,000 MNEs, which account for a significant share of global FDI, have seen average 30% downward revisions of their 2020 earnings estimates. The hardest hit are 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%).[10]

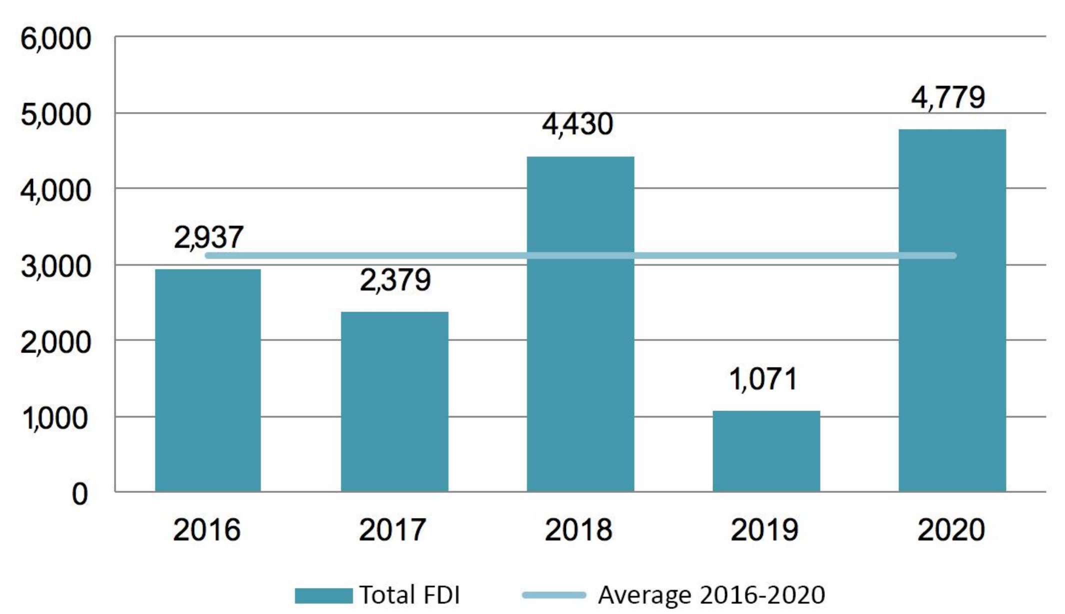
Downward revisions of earnings estimates are currently more serious in developed countries where they now reach 35% as compared to 20% at the beginning of March.[11] In developing Asia, however, they have stabilized (-21%). Encouragingly, earnings estimate revisions for Chinese MNEs average -21%, compared to -26% in early March. However, in South Korea, there has been an increase from -20% to -29%.[12]

According to new forecasts by UNCTAD, COVID-19 will cause a dramatic contraction of global FDI flows that may reach between **30% and 40% in 2020-2021**.[13] This compares with UNCTAD's earlier forecast of a drop of between 5% and 15%.[14]

[8] Investment Trends Monitor: Impact of the COVID-19 Pandemic on Global FDI and GVCs. UNCTAD, 26 March 2020.
[9] Investment Trends Monitor: Impact of the COVID-19 Pandemic on Global FDI and GVCs. UNCTAD, 26 March 2020.
[10] Investment Trends Monitor: Impact of the COVID-19 Pandemic on Global FDI and GVCs. UNCTAD, 26 March 2020.
[11] Due principally to the United States where earnings estimates halved reflecting the weight of energy-sector EMNs.
[12] Investment Trends Monitor: Impact of the COVID-19 Pandemic on Global FDI and GVCs. UNCTAD, 26 March 2020.
[13] Investment Trends Monitor: Impact of the COVID-19 Pandemic on Global FDI and GVCs. UNCTAD, 26 March 2020.
[14] Investment Trends Monitor: Impact of the Coronavirus Outbreak on Global FDI. UNCTAD, 4 March 2020.

Figure 2: FDI in Chile, January-February, 2016-2020

(US$ million)



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

According to figures published by the Central Bank of Chile on April 7, net FDI in Chile in the first two months of this year reached US$4,779 million, up by 346% on the same period in 2019. This was the highest amount for the first two months in five years. 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 probably reflected Delta's acquisition of a 20% stake in Latam Airlines (through the stock exchange on December 26, 2019) and the completion of the purchase of Chilquinta Energía by China's State Grid Corp.

To form an idea of the impact of COVID-19 on activity in Chile, the Central Bank conducted an online survey between March 19 and 26, which was answered by 320 of the regular participants in its Business Perceptions Report. The results showed that investment decisions are being affected. In line with the paralyzations of some large investment projects that have been announced recently,[15] most of those surveyed indicated that they will halt investment plans for this year and around half reported that they are re-evaluating their implementation.

[15] Announcements in the mining sector include the suspension of Quebrada Blanca Phase 2 and the Chuquicamata Underground Mine project, as well as, the cuts in investment plans announced by other mining companies. In non-mining investment a key announcement was the temporary paralyzation of the MAPA project.

Moreover, as weakened global demand drives down commodity prices, countries that export these products are facing pressure on their public finances and economic activity. This is in addition to the direct economic consequences of the health crisis and, as a result, the total disruption of economic activity would be particularly serious.

Investment projects under implementation are also being affected by the health emergency. Some large projects in Chile have announced that they will halt work for a few weeks to avoid the spread of the virus among their employees. How long these stoppages last will depend on the evolution of the health situation but they will inevitably have an important impact on the performance of investment in the second quarter. The base scenario assumes that these projects will resume normal work only as from the third quarter of this year.

Impact on stock markets

In response to the panic triggered by coronavirus, global share prices have tumbled to an extent not seen even in the 2008 financial crisis. In March alone, despite the measures announced by President Trump and the Federal Reserve's rate cut, the S&P 500 lost 16.4% and the NASDAQ 100 11.9%. In Europe, the STOXX 50 fell by 16.5% while, in Asia, Japan's Nikkei 225 and China's SHANGHAI lost 11.4% and 7.4%, respectively.[16]

[16] Data as of close of March 31.

Figure 3: Variation of Main International Share Price Indices (100 = August 2019)[17]

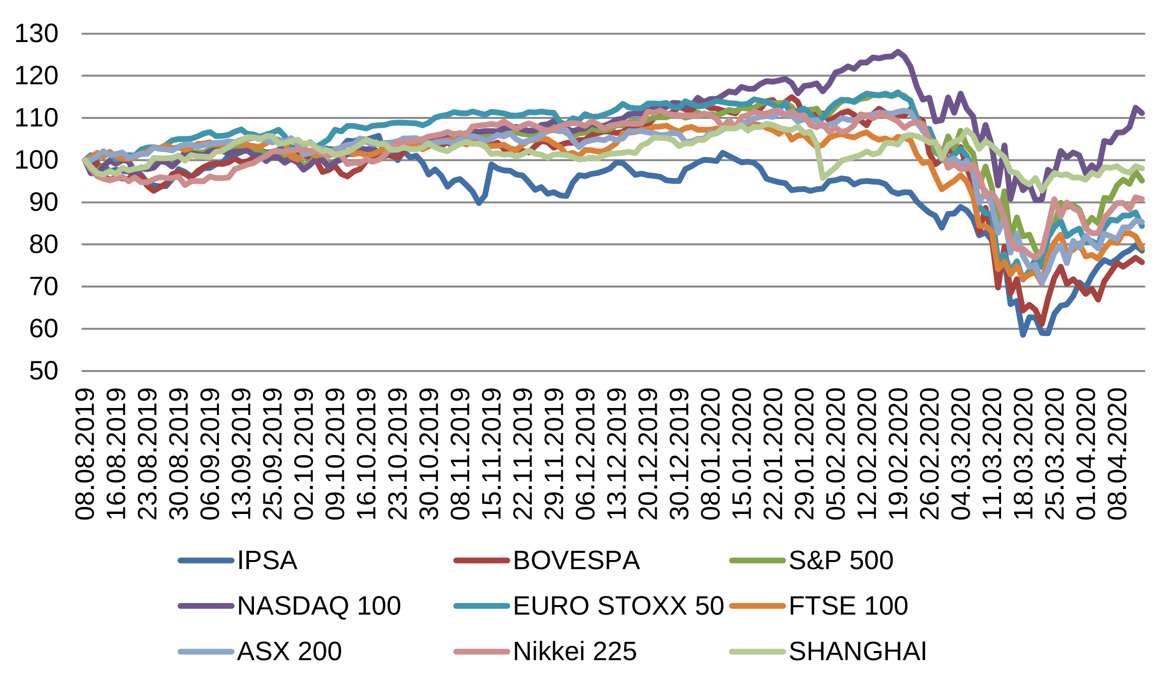


Table 1: Variation of Main International Share Price Indices (%)[18]

	IPSA (Chile)	BOVESPA (Brazil)	S&P 500 (USA)	NASDAQ 100 (USA)	EURO STOXX 50 (Europe)	FTSE 100 (UK)	ASX 200 (Australia)	Nikkei 225 (Japan)	SHANGHAI (China)
Variation in Q1 2020	-27.4	-38.4	-20.7	-11.9	-26.5	-25.4	-24.1	-18.5	-10.9
Variation in March	-18.6	-31.5	-16.4	-12.0	-16.5	-14.8	-20.6	-11.4	-7.4
Variation in April	12.7	11.1	12.7	14.8	4.8	2.6	4.0	8.2	2.8

Source: InvestChile using data from investing.com

In line with the global situation, Chile's IPSA index fell by 18.6% in March, taking its loss in the first quarter to 27.4%.

[17] Latest data corresponds to April 15. Variations were calculated using the close of each day on each market.
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One of the worst-hit companies was Latam Airlines. Its share price lost 60.3% in March and 71.7% in the first quarter. The share prices of retailers and shopping centers also dropped sharply.

As seen in Table 1, most of the principal stock markets showed signs of recovery in April, due mainly to the announcements made by many governments of measures to protect companies and jobs. However, it is premature to draw conclusions from this pick-up.

Impact on commodities: Copper and oil

Commodity prices had been showing signs of stability and some had even experienced a slight recovery (Figure 4), improving the terms of trade of some Latin American countries.

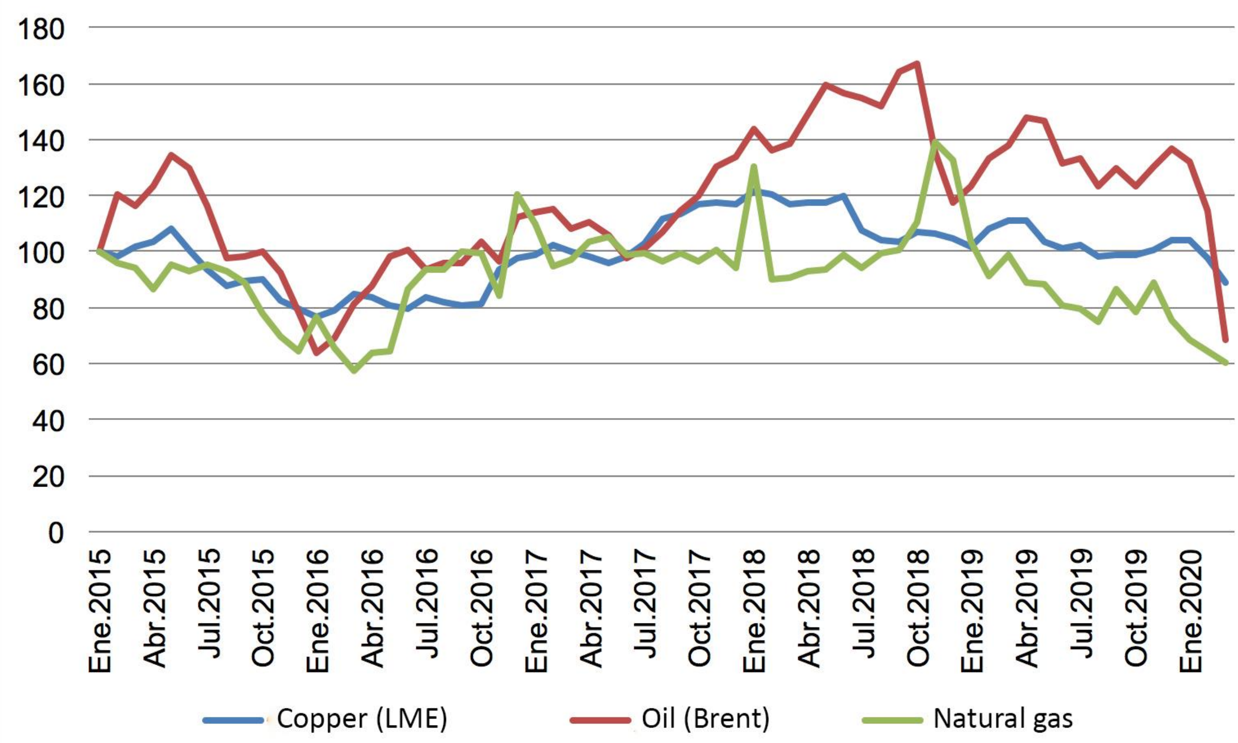
However, two important events put an end to this stability, causing a significant drop in prices during the first quarter of 2020. First, the deceleration of China's economic growth and the drop in activity caused by COVID-19 were reflected in a sharp contraction of global demand for commodities. Secondly, the Organization of the Petroleum Exporting Countries (OPEC) and Russia failed to reach agreement on reducing oil output.

From mid-January through to the end of 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 per barrel until 2023 or, in other words, 25% below their average in 2019, reflecting persistently weak demand.[19] Albeit benefiting oil-importing countries like Chile, this is expected to weigh heavily on countries that depend on oil exports, particularly high-cost producers, aggravating the impact of the virus, tighter global financial conditions and weaker external demand.

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

Figure 4: Commodity Prices, January 2015-March 2020

(100 = January 2015)



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

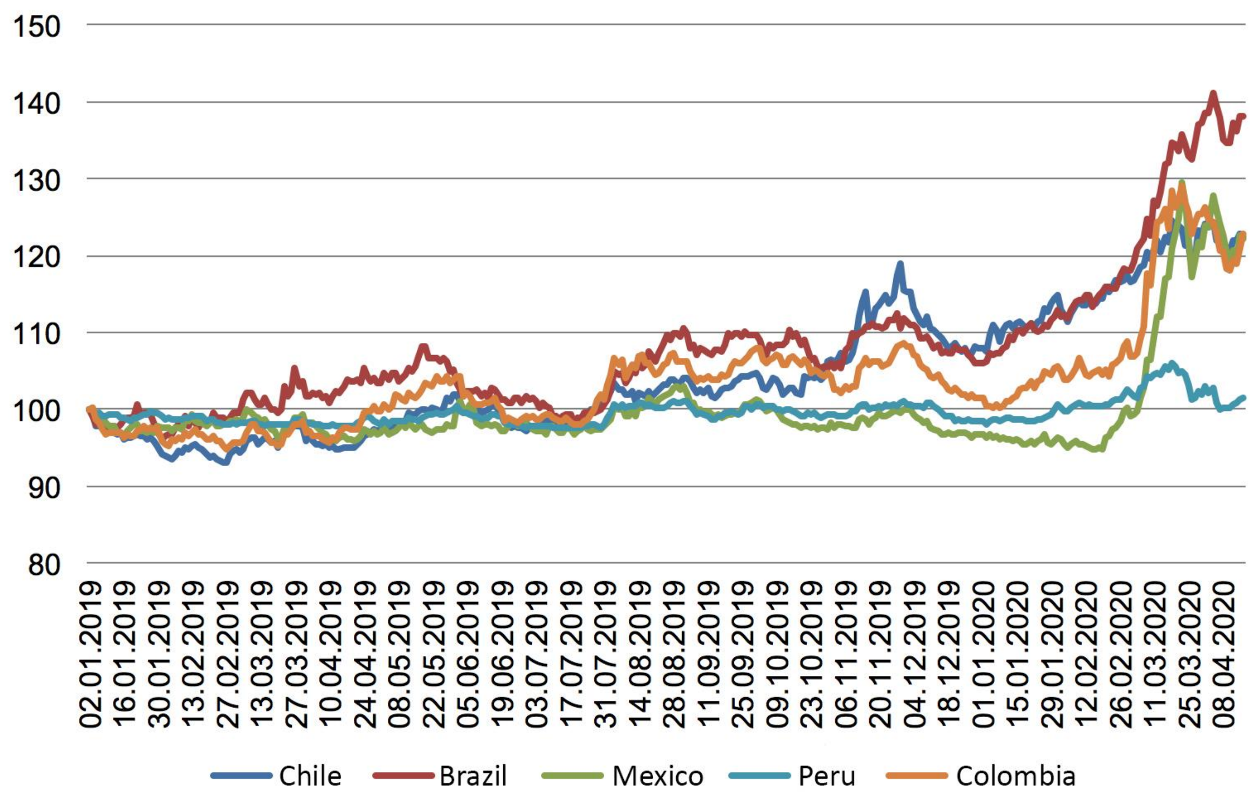
In the case of copper, futures prices fell by 14.9% in March alone and the drop over the first quarter reached 21.1%. On March 25, the state copper producer Codelco decided to temporarily halt work on three projects in order to protect employees' health by reducing workforce densities and air and land travel. These stoppages affected the last stages of the Chuquicamata Underground Mine project, early work on the Rajo Inca project and assembly work on the Traspaso Andina project.

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 notes 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 5: 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 since the beginning of the year. This has meant that, 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.

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%**

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

I. ADMINISTRATIVE AND HEALTH MEASURES IMPLEMENTED BY THE EXECUTIVE

At present, we are in Phase 4 of the plan to address COVID-19. According to the World Health Organization (WHO), Phase 4 is when there is sustained transmission 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 94 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.[20]
- **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 were closed to foreigners as from March 18 through to April 22 (extendable). This does

[20] For details of lockdowns, health checkpoints and health barriers, see Appendix 1.

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).

- **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. The date for the resumption of classes 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 receive 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) will launch *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.** Visits to long-stay care homes for senior citizens are prohibited and access is limited to persons whose presence is strictly necessary. In addition, hygiene and isolation measures inside these homes have been reinforced. The operation of all day centers has also been suspended, along with meetings of municipal clubs and associations for senior citizens.
- **Prisons.** To protect the health of older inmates, a law has been 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. This measure benefits 1,800 inmates. It does not apply to those

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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.

- **Public transport.** Hygiene measures have been stepped up on Santiago's Metro subway and on 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, the elderly, pregnant women, the chronically ill and health workers. The results have been extremely positive and, in just ten days, 60.6% coverage was achieved.
- **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.[21]

- **Additional measures taken by the government:**
    - Only ceremonies, events and public acts that are strictly necessary can take place and only with up to 50 people.
    - Public officials are allowed to travel abroad only when this is indispensable.
    - The validity of ID cards has been extended for a year in order to avoid the need to visit Civil Registry offices. Measures will also be taken to facilitate the use of online services.
    - Chile is in permanent contact with the other PROSUR countries and, in the second half of April, their presidents are expected to hold a video conference to strengthen collaboration within the region.

[21] 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: "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)."

II. ECONOMIC MEASURES IMPLEMENTED BY THE EXECUTIVE

On March 19, the government 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.** Under Law N° 21.225, a benefit equivalent to that for the Family Subsidy (SUF) will be paid in April to 2.6 million people without a formal job. This measure has a cost of US$170 million.
- **Package of measures to support the most vulnerable families and micro, small and mid-sized firms (MSMEs), Law N° 21.225**. This new law, which has been approved by Congress, includes facilitation of access to credit, particularly for SMEs, by suspending Stamp Tax for six months.
- **Crisis Solidarity Fund.** A Solidarity Fund of US$100 million will be used 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 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.
- **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.
  - Flexibility on 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:** The government undertook to pay all pending invoices to the state at the beginning of April. This measure is equivalent to an immediate injection 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. Companies will suspend service cuts on the grounds of overdue bills.

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 will be implemented for current clients from the 40% most vulnerable households. Under the plan, these families will be able to use Internet and social networks, answer emails and access official coronavirus-related and educational websites, such as: *www.aprendoenlinea.mineduc.cl*, besides 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 can postpone payment of bills throughout the duration of the State of Catastrophe.
This benefit will 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 *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. By increasing the fund's resources, the plan will enable it to guarantee loans for some US$24,000 million, equivalent to almost 10% of GDP.

Details of the plan are as follows:

- COVID-19 lines of credit for working capital can reach up to 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 a period of 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 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 up to between 60% and 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 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.

III. MEASURES OF THE CENTRAL BANK OF CHILE - BCCH

Economic figures in Chile do not yet reflect the effects of the disruptions. However, 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, all suggest that the impact on the sales and cash flow of affected companies will be considerable, 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%[22] and implement a set of additional measures to ensure the proper functioning of the financial market. Subsequently, in line with new economic measures, the governing body announced an additional adjustment of 50 basis points in the reference rate, up to 0.5%, a decision that was adopted unanimously by the members of the Council.

These measures included:

- **A financing facility for banks conditional on an increase in their lending (FCIC)**

  Duration: Six months.
  Maturity of loans: 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.

- Launch of a program of purchases of bank bonds for participants in the SOMA[23] for an amount up to the equivalent in UFs of US$4,000 million.

22 The monetary policy rate was again lowered to reach the current 0.5%.
23 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.

- Extension of the Central Bank's foreign currency sales program until January 9, 2021. This is an important decision because the Central Bank had suspended the program. However, it has been reestablished due to the exchange rate volatility.

On March 23, the Central Bank announced more details of the FCIC's operating norms:

- The FCIC will be open to all banks with commercial and/or consumer lending.
- Access to the initial line of credit, equivalent to 3% of a bank's base portfolio, will be immediate as from the date of launch of the program.
- In allocating the additional line of credit established as a function of the increase in a bank's lending, 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;
    b. Two factors determining the amount made available: (i) the annualized and nominal growth of the base portfolio (commercial and consumer lending) taking March 13, 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 activate the Liquidity Line of Credit (LCL) in local currency (Chapter 4.1 of the CNMF[24]). The LCL will be available for six months and has a maturity of up to two years. 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 for the FCIC (conditional LCL), notwithstanding the possibility of using the LCL to access the same amount as for the initial

[24] Compendium of Monetary and Financial Norms.

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, modifying 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.

On March 26, the Central Bank put the necessary documentation at the disposal of the banks so that the FCIC and LCL could begin operation on March 30.

The initial common line of the two mechanisms (3% of the base portfolio) is equivalent to US$4,800 million. There is, in addition, an additional line that, in the case of the FCIC will, in principle, be capped at 15% of the base portfolio but may be expanded by the Central Bank if the circumstances so require while, in the case of the LCL, the additional line is capped by the reserve requirement of each bank.

IV. MEASURES OF THE FINANCIAL MARKET COMMISSION (CMF)

On March 24, the Financial Market Commission (CMF) announced a package of measures in order 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.

In addition, the CMF indicated that it was 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.

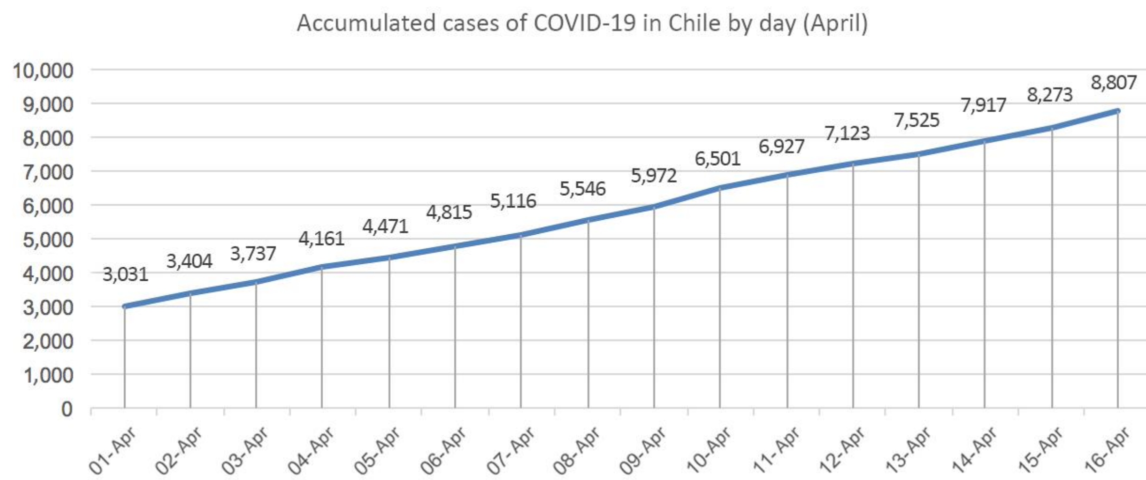
The measures taken by the CMF seek to complement those already announced by the Finance Ministry and the Central Bank and are as follows:

- **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.

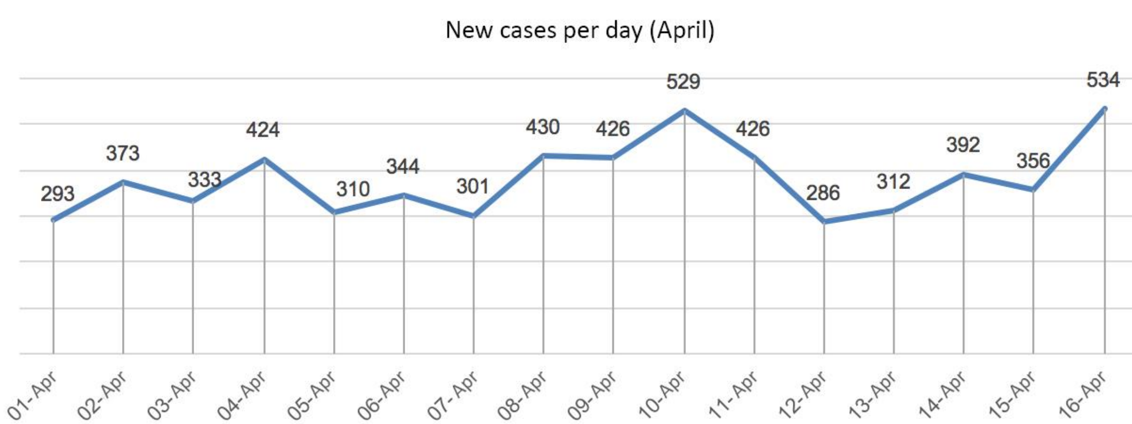
- **Facilities for banks to reschedule loans repayments by SMEs for up to six months, without this being considered a renegotiation.** Similarly, the CMF has eased regulation so that banks can extend the period for repayment of consumer loans in installments by SMEs and individuals for up to six months, 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 modified regulation to permit the use of excess mortgage guarantees to safeguard 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.

APPENDICES

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 for 7 days as from April 16.
- Health checkpoints in each region from the Coquimbo Region northwards.

Central Chile

- **Santiago Metropolitan Region**: Health checkpoints on the main access roads to the city of Santiago to enforce quarantine.
- **Ñuñoa municipal district north of Avenida Grecia and Santiago municipal district north of Avenida Matta/Blanco Encalada**: Lockdown from March 26 to April 23.
- **Las Condes municipal district**: Lockdown from March 26 to April 16.
- **Lo Barnechea, Vitacura and Providencia municipal districts, Ñuñoa municipal district south of Avenida Grecia and Santiago municipal district south of Avenida Matta/Blanco Encalada**: Lockdown from March 26 to April 13.
- **Puente Alto municipal district**: Lockdown to the west of Avenida Vicuña Mackenna/Avenida Concha y Toro from April 9 to April 23.
- **El Bosque municipal district**: Lockdown for 7 days as from April 16.
- **Northeast of San Bernardo municipal district**: Lockdown for 7 days as from April 16, from Autopista Central south to Avenida Colón and from Avenida Colón to the north.
- **Easter Island**: Lockdown from March 20 to April 6.

Southern Chile

- **City of Chillán and Chillán Viejo**: Health barrier in place indefinitely as from March 23; lockdown from March 30 to April 23.
- **Hualpén and San Pedro de la Paz municipal districts**: Health barrier in place indefinitely as from March 25; lockdown from April 6 to April 16.
- **City of Temuco**: Health barrier in place indefinitely as from March 28; lockdown from March 28 to April 23.
- **Padre Las Casas municipal district**: Health barrier in place indefinitely as from March 28; lockdown from March 28 to April 16.
- **Urban area of the town of Nueva Imperial**: Lockdown from April 9 to April 16.
- **City of Osorno**: Health barrier in place indefinitely as from March 30; lockdown from March 30 to April 23.
- **Island of Chiloé**: Health barrier in place indefinitely as from March 25.
- **Town of Caleta Tortel**: Lockdown from March 13 to March 27.
- **City of Punta Arenas**: Health barrier in place indefinitely as from April 8; lockdown from April 1 to April 23.

- **Town of Puerto Williams**: Health barrier in place indefinitely as from April 6; 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, are 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.[25]

1. Latin America

1.1 Argentina[26]

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;

[25] Taken directly from the compilation of key policy responses by the International Monetary Fund.
[26] Key policy responses as of April 8, 2020.

- Credit guarantees for bank lending to micro, small and medium-sized enterprises (SMEs), 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 [27]

Fiscal Policy

To mitigate the impact of COVID-19, the authorities 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 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 health spending and broader social assistance. 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);

[27] Key policy responses as of April 8, 2020.

- Employment support (partial compensation for employees who are temporarily suspended or have a cut in working hours, as well as temporary tax breaks and credit lines for companies not laying off personnel);
- Lower taxes and import duties 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 new transfers to compensate for revenue shortfalls, a temporary stay on debt payments, debt renegotiation and support for credit operations through government guarantees;
- Expansion of public banks' credit lines for businesses and households, with a focus on supporting working capital (these lines of credit total over 3% of GDP) and government backing for a credit line, equivalent to 0.5% of GDP, to cover payroll costs; a program of the simultaneous auctions (buying and selling) of government securities announced by the National Treasury in response to pressures in the interest rate futures market.

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 the next 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 15% since mid-February and by 21% since end-2019. The Central Bank has intervened in the foreign exchange market on several occasions since mid-February (through sales of both spot and derivative contracts), with the interventions totaling US$23,000 million (6.4% of gross reserves). The Central Bank is also resuming repo operations of Brazilian sovereign bonds denominated in US dollars, which could potentially release US$10,000 million into the money market.

1.3 Colombia [28]

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).

[28] Key policy responses as of April 16, 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; 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;

Monetary and Macro-Financial Measures

The Central Bank has cut its policy rate by 50 bps and has implemented several measures to boost liquidity in the financial and foreign exchange rate markets. These include:

- An extension of access to overnight liquidity and term facilities for fund administrators, stock brokerage companies, trusts and investment companies;
- An expansion of liquidity operations (repos) to 23.5 trillion Colombian pesos;
- A program of 10 trillion pesos to purchase securities issued by credit institutions, and a program of 2 trillion pesos for TES purchases in the secondary market; the Central Bank has also lowered the reserve requirement for savings and checking accounts from 11% to 8% and for fixed-term savings accounts (less than 18 months) from 4.5% to 3.5%.

The Superfinanciera has allowed supervised entities to reprofile all loans that were less than 30 days overdue on February 29. This 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.

Countercyclical provisions have been released and the Superfinanciera has authorized certain related-party transactions for fund managers, including the purchase of time deposits 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.

Exchange Rate and Balance of Payments Measures

To provide liquidity in the foreign exchange market, the Central Bank auctioned US$800 million of swaps in US dollars under which reserves are sold and repurchased in 60 days. In addition, a new exchange-rate hedging mechanism has been introduced through auctions of US$2,000 million of non-deliverable forwards with a 30-day maturity.

1.4 Mexico [29]

Fiscal Policy

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

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; 5) access to borrowing from social security accounts for some workers.

Monetary and Macro-Financial Measures

The monetary policy rate was lowered by 50 bps to 6.5%. The non-deliverable forward hedging program (NDF, in domestic currency) was increased by 10,000 million pesos to 30,000 million pesos; two NDF auctions were conducted, each offering 2,000 million pesos (total allocation of 2,000 million pesos or 0.2% of 2019 GDP). Several government bonds exchanges have been implemented, mainly to shorten maturities, and plans for new government bond issuance have been revised.

Additional measures were also announced to provide the banking system with peso and dollar liquidity and improve the functioning of domestic financial markets:

- Reduction of the mandatory regulatory deposit with Banxico (by 50,000 million pesos, or about 15% of the current stock);
- Halving of the cost of repos;
- Provision of dollar liquidity to banks (via auctions) by drawing on the US$60,000 million swap line with the Federal Reserve;
- In conjunction with the Ministry of Finance, strengthening of market-making in the government bond market; activation of the Federal Reserve swap line of which US$5,000 million has already been auctioned to commercial banks and a second auction announced (US$5,000 million); temporary adjustment of accounting rules for banks and other financial institutions to facilitate debt service rescheduling; recommended suspension of dividend payments and share buybacks.

Exchange Rate and Balance of Payments Measures

The exchange rate has been allowed to adjust flexibly while supporting dollar liquidity.

1.5 Peru [30]

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 to 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 Superintendency of Banks has authorized financial institutions to modify the terms of their loans to households and companies 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.

Exchange Rate and Balance of Payments Measures

The Central Bank has been intervening in the foreign exchange market since late February. By April 14, it had sold approximately US$2,000 million (or 0.9% of GDP) in foreign exchange swaps. International reserves remain significant, at around 30% of GDP.

[30] Key policy responses as of April 15, 2020.

2. Europe

2.1 France [31]

Fiscal Policy

The authorities have announced an increase in fiscal spending to €100,000 million (more than 4% of GDP, including liquidity measures), up from an initial €45,000 in a budget amendment law introduced in March. A new budget law is expected to be introduced in the week of April 13-17.

This is in addition to an existing package of bank loan guarantees and credit reinsurance schemes for €312,000 million (close to 14% of GDP). Key immediate fiscal support measures include:

- Streamlining and boosting of health insurance for the sick or their caregivers;
- Increased spending on health supplies;
- Liquidity support through postponements of social security and tax payments for companies and accelerated refund of tax credits (e.g. CIT and VAT);
- Support for wages of workers under the reduced-hours scheme;
- Direct financial support for affected micro-enterprises, liberal professions and independent workers;
- Postponement of rent and utility payments for affected micro-enterprises and SMEs;
- Facilitation of exceptional bonuses exempt from social security contributions;
- 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.[32]

Monetary and Macro-Financial Measures

The ECB decided to provide monetary policy support through:

- Additional asset purchases of €120,000 million until end-2020 under the existing program (APP);
- 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.

Further measures have included 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 a relaxation of collateral standards for Eurosystem refinancing operations (MROs, LTROs, TLTROs).

Collateral standards were further eased in early April. This included 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 the end of 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

[31] Key policy responses as of April 2, 2020.
[32] See also https://www.economie.gouv.fr/coronavirus-soutien-entreprises.

of the scope of so-called additional credit claim frameworks so that these may also include public-sector guaranteed loans to SMEs, self-employed individuals and households.

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 buffer by the national macroprudential authorities will enhance its capital relief measures.

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 has asked banks to not pay dividends for the financial years 2019 and 2020 or buy back shares during COVID-19 pandemic, from which 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.

Other measures include:

- Reduction of the counter-cyclical bank capital buffer to 0% (an increase from 0.25% to 0.5% was to become effective by April);
- A ban on short-selling stocks until April 16;
- Credit mediation to support renegotiation of SMEs' bank loans.

Exchange Rate and Balance of Payments Measures
No measures.

2.2 Germany [33]

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

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

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.

<u>Monetary and Macro-Financial Measures</u>

The ECB decided to provide monetary policy support through:

- Additional asset purchases of €120,000 million until end-2020 under the existing program (APP);
- 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.

Further measures have included 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 a relaxation of collateral standards for Eurosystem refinancing operations (MROs, LTROs, TLTROs).

Collateral standards were further eased in early April. This included 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 the end of 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 so-called additional credit claim frameworks so that these may also include public-sector guaranteed loans to SMEs, self-employed individuals and households.

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 by the national macroprudential authorities will enhance its capital relief measures.

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 to not pay dividends for the financial years 2019 and 2020 or buy back shares during COVID-19 pandemic, from which 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 authorities extended all ECB-issued regulatory and operational relief to German banks under national supervision. In addition to measures at the euro area level, this included:

- Release of the counter-cyclical capital buffer for banks from 0.25% to zero;
- 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;
- Following the structure of the former Financial Stabilization Fund, €100,000 million was allocated within the WSF to directly acquire equity of larger affected companies and strengthen their capital position.

Exchange Rate and Balance of Payments Measures
No measures.

2.3 Italy [34]

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 are also being considered.

Monetary and Macro-Financial Measures
The ECB decided to provide monetary policy support through:

- Additional asset purchases of €120,000 million until end-2020 under the existing program (APP);
- 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.

Further measures have included an additional €750,000 million asset purchase program of private and public-sector securities (Pandemic Emergency Purchase Program, PEPP) until end-2020, an expanded

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

range of eligible assets under the Corporate Sector Purchase Program (CSPP) and a relaxation of collateral standards for Eurosystem refinancing operations (MROs, LTROs, TLTROs).

Collateral standards were further eased in early April. This included 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 the end of 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 so-called additional credit claim frameworks so that these may also include public-sector guaranteed loans to SMEs, self-employed individuals, and households.

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 by the national macroprudential authorities will enhance its capital relief measures.

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 has asked banks to not pay dividends for the financial years 2019 and 2020 or buy back shares during COVID-19 pandemic, from which 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.

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 the state development bank - Cassa Depositi e Prestiti - to support lending and liquidity to banks to enable them to finance medium-sized and large companies; and a con-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 taken by the ECB and the EBA. These 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.

IVASS (the insurance supervisory authority) followed EIOPA recommendations and called on insurance companies to be prudent about dividends and bonus payments to protect their capital position. Insurance companies are asked to provide updated Solvency II ratios on a weekly basis.

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 listed Italian companies.

Exchange Rate and Balance of Payments Measures
No measures.

2.4 Spain [35]

Fiscal Policy
Key measures announced total €13,900 million or around 1% of GDP (although this could be higher depending on the usage and duration of the measures) include:

- Budget support from the contingency fund for the Ministry of Health (€1,000 million);
- Advance transfer to the regions for the regional health services (€2,800 million); additional funding for research related to the development of drugs and vaccines for COVID-19 (€110 million);
- Entitlement to unemployment benefit for workers temporarily laid off due to COVID-19 under the Temporary Employment Adjustment Schemes (ERTE), with no requirement for prior minimum contribution or reduction of the accumulated entitlement;
- Increased sick pay for COVID-19 infected workers or those quarantined, from 60% to 75% of the regulatory base, paid out of the Social Security budget;
- An allowance for self-employed workers affected by the suspension of economic activity;
- A temporary subsidy equal to 70% of their contribution base for employees from household affected by COVID-19;
- 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;
- Additional budgetary funds of €300 million and further budget flexibility for the provision of assistance to dependents;
- Transfer of €25 million to autonomous communities funding meals for children affected by school closure;
- New rent assistance programs for vulnerable renters whose landlord is not a large property owner;
- Extension of the social benefit for energy provision.

Further measures include:

- Exemptions from social contributions for affected companies that maintain employment under the ERTE;
- Tax payment deferrals for small and medium-sized businesses and the self-employed for six months (€14,000 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;

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

- A six-month interest-free suspension of social security contributions for the self-employed (for April-June), subject to continued activity in May and June;
- 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 the budget surplus from previous years for housing measures;
- 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

The ECB decided to provide monetary policy support through:

- Additional asset purchases of €120,000 million until end-2020 under the existing program (APP);
- 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.

Further measures have included 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 a relaxation of collateral standards for Eurosystem refinancing operations (MROs, LTROs, TLTROs).

Collateral standards were further eased in early April. This included 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 the end of 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 so-called additional credit claim frameworks so that these may also include public-sector guaranteed loans to SMEs, the self-employed and households.

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 by the national macroprudential authorities will enhance its capital relief measures.

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 has asked banks to not pay dividends for the financial years 2019 and 2020 or buy back shares during COVID-19 pandemic, from which 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.

In addition, the Spanish government has extended up to €100,000 million in government loan guarantees for companies and the self-employed; up to €2,000 million in public guarantees for exporters through the Spanish Export Insurance Credit Company; and guarantees for loan maturity extensions to farmers using the special 2017 drought credit lines. These public guarantees could leverage up to €83,000 million of liquidity to support to companies across 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);
- 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 property owner;
- 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;
- Ban of the short-selling Spanish shares in the stock market at least until April 17;
- 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.

Exchange Rate and Balance of Payments Measures

No measures.

2.5 United Kingdom [36]

Fiscal Policy

Tax and spending measures have included:

- Additional funding for the NHS, public services and charities (£5,700 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 (by nearly £7,000 million) by increasing payments under the Universal Credit scheme as well as expanding other benefits;

Together with the British Business Bank, the government has launched the Coronavirus Business Interruption Loan Scheme to support SMEs and has announced a Coronavirus Large Business Interruption Loans Scheme to support larger companies. VAT payments for the next quarter have been deferred until the end of the financial year and the government will pay 80% of the earnings of self-employed workers

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

and furloughed employees (up to a maximum of £2,500 per employee per month) for an initial period of three months. To support the international response, the government has made available £150 million to the IMF's Catastrophe Containment and Relief Trust.[37]

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 the transmission of the rate cut, with additional incentives for lending to the real economy, and 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 Loans Interruption Scheme, makes £330 billion available in loans and guarantees to businesses (15% of GDP);
- 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) has issued a supervisory expectation that banks should not increase dividends or other distributions, such as bonuses, in response to policy actions.[38] The Financial Conduct Authority (FCA) has introduced a package of targeted temporary measures to support customers affected by coronavirus, including by setting the expectation that firms will 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 [39]

[37] See also: https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses.
[38] See also: https://www.bankofengland.co.uk/coronavirus.
[39] Key policy responses as of April 8, 2020.

Fiscal Policy

Key tax and spending measures (8.4% of GDP, CAD 193,000 million) include:

- $3,175,000 million (0.1% of GDP) for the health system to support increased testing, vaccine development, medical supplies, mitigation efforts and greater support for Indigenous communities;
- Around $105,000 million (4.6% of GDP) in direct aid to households, including payments to workers without sick leave and access to employment insurance, an increase in existing GST tax credits and childcare benefits and a new distinctions-based Indigenous Community Support Fund;
- Around $85,000 million (3.7% of GDP) in support for businesses through income and sales 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 $1,000 million from $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, has 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 $150,000 million of insured mortgage pools through the Canada Mortgage and Housing Corporation (CMHC);
- The federal government has announced $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 $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[40]

Fiscal Policy
The Coronavirus Aid, Relief and Economy Security Act ("CARES Act") represents US$2.3 trillion (around 11% of GDP) in measures that include:

- US$250,000 million to provide one-time tax rebates to individuals;
- US$250,000 million to expand unemployment benefits;
- US$24,000 million to provide a food safety net for the most vulnerable;
- US$510,000 million to prevent corporate bankruptcy by providing loans and guarantees and backstopping the Federal Reserve 13(3) program;
- US$359,000 million in forgivable Small Business Administration loans and guarantees to help small businesses that retain workers;
- US$100,000 million for hospitals;
- US$150,000 million in transfers to state and local governments;
- US$49,900 million for international assistance (including SDR 28,000 million for the IMF's New Arrangement to Borrow).

The Coronavirus Preparedness and Response Supplemental Appropriations Act for US$8,300 million and the Families First Coronavirus Response Act for US$83,400 million together represent 0.5% of GDP. Key measures include:

- Virus testing; transfers to states for Medicaid funding; development of vaccines, therapeutics and diagnostics; support for the Centers for Disease Control and Prevention responses;
- Two weeks paid sick leave; up to three months emergency leave for those infected (at 2/3 pay); food assistance; transfers to states to fund expanded unemployment insurance;
- Expansion of Small Business Administration loan subsidies;
- 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;
- Expanded overnight and term repos;
- Reduction in the cost of discount window lending;

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

- Reduction of the existing cost of swap lines with major central banks and an extension of the maturity of foreign exchange operations;
- Broadened 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:

- A Commercial Paper Funding Facility to facilitate the issuance of commercial paper by companies and municipal issuers;
- A Primary Dealer Credit Facility to provide financing to the Federal Reserve's 24 primary dealers collateralized by a wide range of investment-grade securities;
- A Money Market Mutual Fund Liquidity Facility to provide loans to depository institutions to purchase assets from prime money market funds (covering highly rated asset-backed commercial paper and municipal debt);
- A Primary Market Corporate Credit Facility for the purchase of new bonds and loans from companies;
- A Secondary Market Corporate Credit Facility to provide liquidity for outstanding corporate bonds;
- A Term Asset-Backed Securities Loan Facility (TALF) to enable the issuance of securities backed by student loans, auto loans, credit-card loans, loans guaranteed by the Small Business Administration and certain other assets;
- A Paycheck Protection Program Liquidity Facility (PPPLF) to provide liquidity to financial institutions that originate loans under the Small Business Administration's Paycheck Protection Program which provides a direct incentive for small businesses to keep their workers on the payroll;
- A Main Street Lending Program for the purchase of new or expanded loans to small and mid-sized businesses;
- A Municipal Liquidity Facility for the purchase of short-term notes directly from state and eligible local governments.

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. Restrictions on distributions will be gradually phased in when a firm's capital buffer declines.

Other measures include regulatory reporting relief, an extended transition for the Current Expected Credit Loss accounting standard and early adoption of "the standardized approach for measuring counterparty credit risk". The supervisory approach has also been adjusted to temporarily reduce the scope and frequency of examinations and give additional time to resolve non-critical, existing supervisory findings.

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.

Exchange Rate and Balance of Payments Measures
No measures.

4. Asia

4.1 People's Republic of China [41]

Fiscal Policy
An estimated RMB 2.6 trillion (2.5% of GDP) in fiscal measures or financing plans has been announced of which 1.2% of GDP is already being implemented. Key measures include:

- Increased spending on epidemic prevention and control;
- Production of medical equipment;
- Accelerated disbursement of unemployment insurance;
- Tax relief and waived social security contributions.

The overall fiscal expansion is expected to be significantly higher, reflecting the effect of already announced additional measures such as an increase in the ceiling for special local government bonds (1.3% of GDP), improvements to the national public health emergency management system 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:

- Liquidity injection into the banking system via open market operations, including RMB 3 trillion in the first half of February and RMB 170,000 million in late March;
- 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;
- Reduction of the 7-day and 14-day reverse repo rates by 30 bps and 10 bps, respectively, as well as the 1-year medium-term lending facility rate by 10 bps;

[41] Key Policy Responses as of April 9, 2020

- 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;
- Reduction of the interest on excess reserves from 72 to 35 bps;
- Expansion of policy banks' credit extension to micro and small enterprises (RMB 350,000 million).

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

- Delay of loan payments and other credit support measures for eligible SMEs and households;
- Tolerance of higher NPLs in epidemic-hit sectors and among SMEs;
- Support for bond issuance by financial institutions to finance lending to SMEs;
- Additional financing support for companies via increased bond issuance by companies;
- Increased fiscal support for credit guarantees;
- Flexibility in the implementation of the asset management reform;
- 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.

4.2 Japan [42]

Fiscal Policy

On April 7, the Japanese government adopted the Emergency Economic Package against COVID-19, which represents an expenditure of ¥108.2 trillion (20% of GDP), and absorbed into it 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 develop preventive measures against the spread of infection and strengthen treatment capacity (expenditure of 0.5% of GDP);
- To protect employment and businesses (15.1% of GDP);
- To restore economic activities after containment (1.6% of GDP);
- To rebuild a resilient economic structure (3% of GDP);
- To enhance readiness for the future (0.3% of GDP).

The key measures include cash handouts to affected households and firms, the deferral of tax payments and social security contributions and lending by public and private financial institutions.

Japan is the largest contributor to the IMF and to its concessional lending facilities. In early April, Japan pledged an additional US$100 million for the IMF's Catastrophe Containment and Relief Trust as

[42] Key policy responses as of April 16, 2020.

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.

On April 16, Japan also announced that it aims to double its contribution to the IMF's Poverty Reduction and Growth Trust (PRGT) from the current SDR 3,600 million as a means of providing emergency financing for broader emerging markets and developing countries. Japan will make available the first SDR 1,800 million immediately and called on other member countries to follow suit.

Monetary and Macro-Financial Measures

On March 16, the Bank of Japan (BoJ) announced a comprehensive set of measures to maintain the smooth functioning of financial markets (particularly US. dollar funding markets) and encourage the provision of credit. The measures included targeted liquidity provision through an increase in the size and frequency of Japanese government bond purchases, a special financing facility for financial institution to facilitate lending to companies, an acceleration of the BoJ's annual purchases of Exchange Traded Funds (ETFs) and Japan-Real Estate Investment Trusts (J-REITs) and a temporary increase in targeted purchases of commercial paper and corporate bonds.

The BoJ has provided lending support through the special facilities and purchased Japanese government securities, commercial paper, corporate bonds and exchange-traded funds.

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 US dollar liquidity on March 15 by lowering the pricing of the standing US dollar liquidity swap arrangements by 25 basis points. Between April 9 and 16, the BoJ provided US dollar funding through the swap line of US$27,000 million for 84 days and US$6,700 million for seven days. Japan also has several important bilateral and regional swap arrangements with Asian countries.

The government has expanded the volume of concessional loan facilities (interest-free without collateral) primarily for micro, small and medium-sized businesses affected by COVID-19 through the Japan Finance Corporation and other institutions. The government will also enhance access to loans from local financial institutions, such as local banks, under the same conditions.

To support borrowers during this period of stress, the Financial Services Agency has reassured banks that they can assign zero risk weights to loans guaranteed under public guarantee schemes, use their regulatory capital as needed to support the funding of affected businesses, 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 [43]

Fiscal Policy

Direct measures amount to 0.8% of GDP (approximately KRW 16 trillion, including a supplementary budget for KRW 11.7 trillion). The measures include:

- Healthcare measures: Prevention, testing and treatment costs and loans and support for medical institutions;
- Measures for households: Transfers to quarantined households, employment retention support, consumption coupons for low-income households and emergency family care support;
- Measures for companies: Loans and guarantees for business operation, and support for wages and rent for small traders;
- Measures for local communities: Local gift certificates and grants to local governments for the costs of responding to the pandemic;
- Revenue measures: Reduction of consumption tax for car purchases, tax cuts for landlords who reduce rent for commercial tenants, VAT reduction for the self-employed and deferral of payment of a broad range of taxes for small businesses and the self-employed in the medical, tourism, performing arts, hospitality and other affected sectors.

Additional measures for approximately KRW 13 trillion have been announced but not yet approved. They include:

- Direct transfers to low and middle-income households and social security contribution cuts and deferrals for affected companies;
- Support for private consumption and investment by bringing forward government purchases, increasing consumption tax exemption and additional financing for SMEs and start-ups.

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:

- Lowering the base rate by 50 bps from 1.25% to 0.75%;
- Availability of unlimited amounts through open market operations (OMOs);
- Expansion of the list of eligible OMO participants to include selected non-bank financial institutions;
- Expansion of eligible OMO collateral to include bank bonds and the bonds of certain public enterprises and agencies;
- Purchase of Korean Treasury Bonds (KRW 1.5 trillion); to augment the funding available for SMEs, the BOK has increased the ceiling of the Bank Intermediated Lending Support Facility by a total of KRW 5 trillion (about 0.26% 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 of KRW 100 trillion (5.3% of GDP). Its main elements are:

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

- 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;
- A bond market stabilization fund to purchase corporate bonds, commercial paper and financial bonds;
- Financing by public financial institutions of corporate bond issuance through collateralized bond obligations and direct bond purchases;
- Short-term money market financing through stock finance loans, BOK repo purchases and refinancing support from public financial institutions.
- An equity market stabilization fund financed by financial holding companies, leading financial companies and other relevant institutions.

Other measures taken as regards financial market stability include the expansion of BOK repo operations to non-banks, a temporary prohibition on stock short-selling on equity markets and the temporary easing of rules on share buybacks.

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

- 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%);
- Temporary suspension of the 0.1% tax on the short-term non-deposit foreign exchange liabilities of financial institutions;
- Temporary reduction of the minimum foreign exchange liquidity coverage ratio for banks to 70% (previously 80%).

Part IV: COVID-19 Initiatives of Overseas Companies with Operations in Chile

The COVID-19 pandemic has radically changed the world as we know it, inflicting high and rising human and economic costs. Around the world, companies have been hit by production stoppages, a fall in sales, absenteeism or the closure of their operations under the health measures decreed by the authorities. As a result, many have had to lay off employees or go into debt in order to pay them.
At the same time, governments have faced an unprecedented race to obtain the inputs needed for their health systems. Clearly, the current global supply of these inputs is insufficient to cover exponentially growing demand.

Despite this somber situation, many companies in different sectors around the world have managed to maintain operations, safeguard their employees' jobs, adapt to the challenges of working remotely, modify their production lines and provide support to their customers.

In Chile, many companies - both local and foreign - have implemented initiatives along these lines and serve as an example of best practices for other companies in a similar situation.

The summary below, based on official company releases and press articles, sets out some of the practices adopted in Chile by overseas companies to mitigate the negative impacts of the virus on the country and its population. This information is constantly being updated. It does not include the initiatives that overseas companies with operations in Chile are implementing in countries other than Chile.

Measures to produce healthcare inputs and reallocate means of production to combat COVID-19:

AB InBev: In Chile, this brewer will produce around 48,000 units of alcohol in the form of gel and will import around a further 25,000 units from Brazil. They will all be donated to the Health Ministry.

Mowi (Ex-Marine Harvest Group): The company has made its high-tech laboratory and technical personnel available to increase the country's COVID-19 testing capacity.

Unilever: Through an alliance with the Ministry of Housing and Urban Planning, the company donated 47,000 hygiene kits for distribution in over 290 shantytowns from Arica in the north of Chile to the Los Lagos Region in the south. Each kit contains a bar of soap, toothpaste for adults and children, a toothbrush, detergent, washing-up liquid, a cream cleaning product and a cloth.

Measures to protect employees and customers:

AB InBev: Employees in a high-risk category who cannot work remotely are given temporary leave of absence.

Banco Santander: The bank has undertaken not to lay off any of its 11,200 employees or reduce remunerations. In addition, it has launched plans to allow customers to postpone mortgage repayments, refinance consumer loans, reschedule repayment of loans with a state guarantee, pay credit card balances in installments and, in the case of SMEs, restructure borrowing.

Casaideas: This retail chain has undertaken to pay its approximately 1,200 employees for April even though all its stores around Chile are closed.

Cabify: The company will offer drivers micro-loans, ranging from 50,000 to 150,000 pesos, at a 0% real interest rate and with a three-month grace period, subject to evaluation of each individual case. The initiative has an estimated cost of US$100,000. The beneficiaries will be the drivers with the highest mileage over the previous three months and a good evaluation from customers.

Walmart: The company has installed acrylic screens at checkouts to avoid contagion between customers and employees as well as markings in strategic places to reinforce the distance between people that must be maintained both on the sales floor and in areas exclusively for employees. To increase food safety, it has also established a protocol that includes fresh products such as cold meats and bread and has implemented a plan to reinforce the operation of its supermarkets. The latter has meant a 30% increase in their storage capacity, which has been reflected in the dispatch of more than 700,000 boxes each day from its distribution centers.

Mobile Telephony Association, ATELMO (Claro, Entel, GTD Movistar and VTR) and WOM: Thanks to an agreement with the Ministry of Transport and Telecommunications, the companies that form part of ATELMO and WOM have launched a Solidarity Connectivity Plan in a bid to ensure that people do not lose connectivity during the pandemic. In the first two days after its launch, they received 2,455 applications to use the Plan, which is available to active users who cannot pay for their existing plan and belong to the 40% lowest-income segment of the population, according to the Ministry of Social Development's Social Register of Households.

Enel: Customers in the 40% most vulnerable segment of the population can opt to use the following benefits: 1) Postponement of electricity bills generated during the State of Catastrophe and their payment over 12 months starting in July 2020, without fines or interest; 2) Suspension of disconnections because of overdue bills; households already disconnected can request reconnection; 3) In the case of debts of less than 10 UF acquired prior to the State of Catastrophe, rescheduling of payment under the same terms as for bills during the State of Catastrophe.

Didi: This company has offered 200,000 trips at a 50% discount for firefighters and workers combatting COVID-19.

Coursera: This company has waived charges on courses from its catalogue for universities.

CISCO: Through to July 23, the company will waive charges on the online courses of the internationally recognized CISCO Networking Academy and for use of CISCO WebEx for 90 days.

VTR: As from April 1, customers losing their jobs between March 15 and April 30 who use the company's fixed service will be charged only 9,900 pesos a month for three months. In some cases, this represents a reduction of up to 80%.

Measures to support other companies, suppliers and the community

AB InBev: Through its Support a Restaurant campaign, the company is seeking to help over 100 restaurants around Chile through a gift card scheme that enables the Stella Artois brand and its customers to provide the restaurant with immediate liquidity. When a consumer purchases a gift card for 10,000 pesos for use at a restaurant, Stella Artois adds another 10,000 pesos, increasing the amount the consumer can spend at the restaurant once it reopens.

Anglo American: This mining company has adopted a number of measures: 1) Suppliers whose contracts require bank guarantees can replace them with guarantee insurance, helping to improve their liquidity and ensure they can continue to do business. 2) An emergency fund (4,200 million pesos) has been established for the supply of medical inputs and other key items and to support local economic recovery once the pandemic wanes. 3) The company also plans to implement other initiatives to support the vital phase of its communities' economic recovery, such as support for local SMEs through financing alternatives for new enterprises and the unemployed. In addition, the company has donated a state-of-the-art coronavirus testing machine, which provides results in four hours, to the health service of the Tarapacá Region.

Aguas Andinas: This water company has announced an agreement with meter reading and bill distribution companies, undertaking to continue paying for their services even when interrupted by the health crisis, providing they do not lay off employees. The measure will remain in force for three months or as long as the emergency lasts.

BHP: In alliance with the Medicine Faculty of the Catholic University, BHP has announced measures to strengthen the public health network. The strategy consists in increasing the capacity to detect the virus and reinforcing Family Health Centers in the southeastern part of the Santiago Metropolitan Region and the Antofagasta and Tarapacá Regions. The initiative includes rapid testing and the purchase of equipment to maximize the speed with which samples are processed.

In addition, the mining company will implement a program to support communities where it operates and vulnerable groups in the Antofagasta and Tarapacá Regions. The measures also include the supply of key inputs, the disinfection of public spaces, the equipment of community accommodation for the isolation of potential cases and support for the state network to increase medical visits, inputs and the vaccination of people in high-risk categories. In the case of small and mid-sized contractors in a more fragile situation and which are important for local or regional employment, BHP will voluntarily maintain between 70% and 90% of the fixed remunerations and social security contributions corresponding to contracts with BHP through to June 30, 2020. The set of measures adopted by BHP has a cost of US$25 million.

McDonald's: The company has donated over 370 boxes of products to Red de Alimentos, Chile's first food bank which, over the course of ten years, has salvaged over 35 million kilos of food. The donation seeks to benefit different foundations and social organizations that continue to operate, despite the health emergency.

Salmones Camanchaca, Copec, Mowi, AquaChile, Australis Seafood, Fiordo Austral, Cementos Melón, Portuaria Cabo Froward and Astilleros Calbuco: In coordination with the mayor of the Calbuco municipal district, these companies have launched a protocol for the disinfection of public spaces that include police offices, the bus terminal, the public square, the family health center, the offices of the port authorities, the fire station, the local market (*La Vega*) and the hospital.

CPC[44] (Banco Itaú, Grupo Consorcio, Carozzi S.A., Costa S.A., Anglo American, Antofagasta Minerals, BHP, SalmonChile, Andina S.A., Santander, Coca-Cola, KPMG): Chile's Confederation of Production and Commerce (CPC) has established a private health emergency fund, bringing together 39 companies, families and groups who have contributed a total of 78,000 million pesos.

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[44] Includes only overseas companies who contributed to the CPC fund.