LATAM Market Update

- **Chile announces massive fiscal package to contain COVID-19 crisis**
- **Colombia: Imports start 2020 with a mild expansion**

CHILE ANNOUNCES MASSIVE FISCAL PACKAGE TO CONTAIN COVID-19 CRISIS

The Government launched today a massive fiscal stimulus plan to boost the economy and contain the economic effects of the COVID-19. The fiscal package involves USD 11.75 billion, 4.7% of GDP, and aims to address three pillars: (1) Strengthen the Health System Budget; (2) Protect family income; and (3) Protect the jobs and the companies that generate them (measures are detailed below). This is the largest fiscal stimulus plan in the country's history, exceeding the USD 8 billion used during the 2009 financial crisis.

Some of these measures correspond to delays in the collection of corporate taxes and VAT, which make it possible to provide liquidity to companies, but which do not imply greater effective spending during the year. In any case, the Treasury will require liquidity to finance these measures, since it will not have the tax collection for some months.

We estimate that the financing needs of this stimulus plan reach about USD 6 billion, resources that would be obtained from (i) sovereign wealth funds (ESSF: Economic and Social Stabilization Fund) and (ii) from new debt issuances, probably in equal parts. At the same time, the debt should be issued mostly abroad, through sovereign bonds in foreign currency, but we do not rule out that a smaller amount would also be issued in local currency in the national market.

In addition to this, it was announced that the government will make use of the so-called "constitutional 2%", which corresponds to a freely available spending amount that the Constitution provides for exceptional cases. These resources correspond to 2% of the spending approved in the Budget law for the year, that is to say, close to USD 1.2 billion, which will be available in case the Ministry of Health requires them to attend to expenses arising from the health emergency.

Lastly, some current expenses and public investment will be reallocated from this year's budget to finance some measures. Because of the health crisis it will be very difficult to fully execute the budget, especially that destined for investment, given the restrictions imposed to avoid contagions. These reallocations include spending on public works and also spending on health, for example, on operations not related to COVID-19, which will also not be carried out in the short term to make room for the treatment of this pandemic in hospitals and public health centers.

Market Reaction: Due to the Government's need for liquidity to finance these measures in the coming months, and also because a large part of the resources will be obtained in dollars (Sovereign Wealth Fund and Debt issuances), we estimate an appreciative effect on the peso. Although part of the resources would be obtained through debt, it would be issued mostly abroad and in foreign currency. These issuances should take place soon.

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On the other hand, we estimate a downward effect on inflation for April of approximately -0.05pp due to the announcement of the elimination of the stamp and seal tax (currently at 0.8%). Our CPI estimation for April stands at 0% m/m, with a downward bias. Given that the tax effect is a transitional measure (only for 6 months), we should see the opposite effect on the CPI for the month of October, not affecting for now our estimate of the CPI for December, which we maintain at 3% YoY.

DETAIL OF THE MEASURES:

The measures aim to address three pillars: (1) Strengthen the Health System Budget; (2) Protect family income; (3) Protect the jobs and the companies that generate them.

Strengthen the health budget: The public health budget will be reinforced with an additional contribution corresponding to the constitutional 2% (equivalent to USD 1,200 million according to the 2020 budget) to attend to the expenses derived from the health emergency.

Protect the income of Chilean families:

"COVID-19" Bill to protect income from work: The income payment will be guaranteed for those who, due to health emergencies, must remain at home without the possibility of remote work (teleworking). This guarantee will be allowed when: (a) there is a mutual agreement with the employer and; (b) there is a mandate from the health authority. Once these conditions are fulfilled, the worker will receive income from the unemployment insurance, but maintaining the employment relationship and all their labor rights, so the employer will continue to pay their contributions. For this to be possible, up to USD 2,000 million will be injected into the Solidarity Unemployment Fund.

Urgency to the Employment Protection Bill, so it is discussed immediately. This project allows the reduction of the working day, compensating the decrease of the remuneration with resources from the Solidarity Unemployment Fund.

COVID-19 Bonus: A bonus equivalent to the Single Family Subsidy bonus will be promoted, which will benefit 2 million people without formal work. This effort considers resources for USD 130 million.

Solidarity Fund to face the crisis: Creation of a Solidarity Fund of USD 100 million destined to attend social emergencies derived from the drop in sales of the small retailers.

Protect the jobs and the companies that generate them:

a. Tax measures:

Suspension of provisional monthly payments of corporate income tax for the next 3 months. This measure will allow 700 thousand companies to have more resources in their cash flow. This means committing resources for USD 2.4 billion in the next 3 months.

Postponement of VAT payment for the next 3 months for all companies with sales below UF 350,000 a year (about USD 12 million), making it possible to pay them in 12 monthly installments at a real interest rate of 0%. This will allow liquidity of up to USD 1,500 million to be injected into 240,000 companies during the second quarter.

Postponement until July 2020 of the payment of income tax for SMEs according to what they declare in the income operation next April. This will mean a release of cash resources for USD 600 million to 140 thousand SMEs.

Postponement of April tax payments for companies with sales below UF 350,000 yearly (about USD 12 million) and for people with properties with a tax assessment of less than $ 133 million (about USD 160,000). Payment of this fee is allowed at any time of the year by applying a real interest rate of 0%. This involves mobilizing resources for USD 670 million.

Transitory reduction of the stamp and seal tax to 0% for all credit operations during the next 6 months. This will reduce the cost of financing for families and businesses. This measure has a fiscal cost of up to USD420 million.

Relief measures for the treatment of tax debts contracted with the General Treasury of the Republic focused on SMEs and people with lower incomes: i) flexibility to enter into tax debt payment agreements with the General Treasury of the Republic, without interest or fines; ii) temporary suspension of actions for judicial collection and auctions for tax debts.

All the expenses of the companies associated with facing the health contingency will be accepted as a tax expense.

b. Other liquidity measures:

Acceleration of payments to State suppliers: at the beginning of April, all invoices issued to the State and pending payment will be paid in cash, generating immediate liquidity of approximately USD 1 billion. In turn, any invoice that is issued from now on to the State will be paid within 30 days (USD 500 million per month). This is the first stage of the centralized payment agenda.

New capitalization of Banco Estado for USD 500 million: These resources will be used mainly to provide financing to individuals and SMEs. This measure will increase Banco Estado's credit capacity by approx. USD 4.4 billion.

—Carlos Muñoz

COLOMBIA: IMPORTS START 2020 WITH A MILD EXPANSION

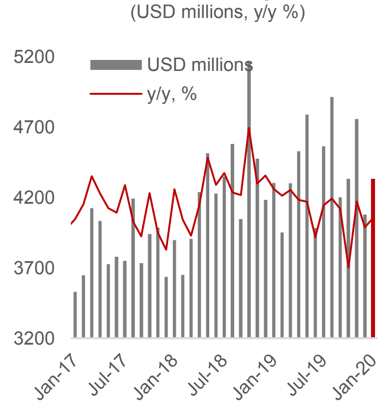
January's imports data came in at USD 4.3bn increasing 0.6% y/y. The agriculture sector explained most of y/y imports variation in January-2020. In fact, fuel-related imports contracted by 15% y/y, partially offsetting the expansion of agriculture imports. Capital imports grew 2.6% y/y, especially on the back of agriculture imports (+27% y/y) and the industrial sector (+5.16%y/y), which offset the contraction in transportation imports (-4.5% y/y).

Consumption imports expanded by 10.4% y/y due to non-durable goods imports (+13.9% y/y), and durable goods imports (+6.09% y/y). Raw material imports contracted by 4.9% y/y due to lower fuel-related imports. As we mentioned in previous reports, a moderation of imports growth is expected since there is a statistical base effect that points to a still-high import level but diminishes the rate of expansion. Additionally, we expect the recent context of interruption of global trade channels and recent FX depreciation to contribute to further moderation in imports.

The external deficit stood at USD 690.3 million, which means a contraction of 32.6% compared with Jan-2019. It is worth noting that in January, exports expanded by 11.6% due to an increase in coal exports, a situation that probably can't be sustained over time. Having said that, the external deficit continues to be a significant concern since the current account deficit could remain above 4.0% for longer. The recent international context is challenging for the external balance. However, there are some automatic stabilizers, such as income account, that could offset further deterioration in a situation of low oil prices and remittances that normally help the current account deficit. However this time could be different on the back of much lower economic activity in the United States and Spain.

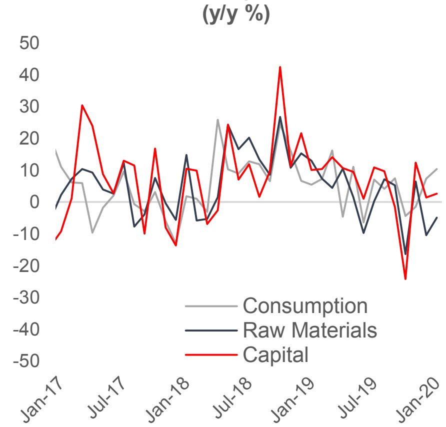
—Sergio Olarte & Jackeline Piraján

Colombia: Imports
(USD millions, y/y %)



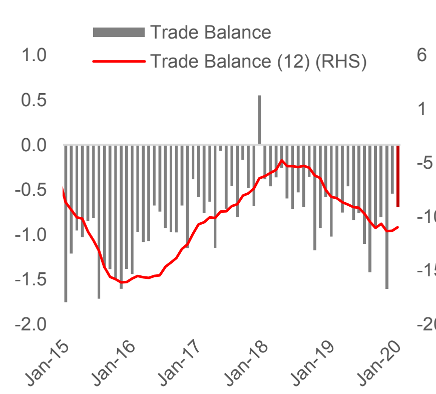
Sources: DANE, Scotiabank Economics.

Colombia: Imports by Economic Sector (y/y %)



Sources: DANE, Scotiabank Economics.

Colombia: Trade Balance
(USD millions)



Sources: DANE, Scotiabank Economics.

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