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Chile | The economy will expand 7.5% in 2021, driven by consumption in the first half and investment in the second half of the year

New fiscal package for USD 6 bn. (2.4 pp of GDP)

At a time when a possible third withdrawal of pension funds is being discussed, President Piñera announced a series of economic aid measures for the middle class and the most vulnerable sectors for a total of USD 6 billion (2.4% of GDP). These measures expand existing support measures and improve those recently announced on March 11. These new measures or improvements will be financed with an increase in the Covid-19 Transitory Emergency Fund from USD 12,000 million to USD 18,000 million, with resources coming largely from the Economic and Social Stabilization Fund (about USD 2,000 million) and other treasury assets.

With this new fiscal package, the total resources mobilized by the government during the pandemic reach USD 30,232 million (around 12% of GDP: 2.5% of direct transfers and 9.5% of indirect or conditioned supports), of which USD 8,160 million have already been executed (3.2% of GDP).

The initiatives include increases in the Middle-Class Bonus, the Solidarity Loan, in addition to increasing credit for SMEs, the Emergency Family Income, a bonus for passengers' carriers, more resources for health and the postponement of real estate tax, among other initiatives. The President's announcement was released hours after the Government announced that 42 communes will back down in the "Paso a Paso" Plan next Thursday and, with this, almost 14 million people in the country will be under confinement.

Summary of the measures announced:

- **Emergency Family Income:**
 - Increase in the benefit for households in quarantine: \$60,000 (~ USD 85) if they were at least one day in quarantine, and \$100,000 (~ USD 140) if they were 14 or more days in quarantine.
- **Support for the Middle Class:** the proposal announced on March 11 is improved, reducing the requirements to qualify for the benefits.
 - **Middle-Class Bonus, for those with income between the minimum wage (~ USD 450) and \$ 2,000,000 (~ USD 2,780).**
 - Bonus amounts: Increases from \$400,000 (~ USD 560) to \$500,000 (~ USD 700) for incomes up to \$1,500,000 (~ USD 2100).
 - Income fall requirement: Incomes between the minimum wage and \$ 408,000 (~ USD 570) do not have an income drop requirement to access the bonus. Those with incomes greater than \$408,000 must have a drop in income equal to or greater than 20%.

- **Solidarity loan, without interest rate (nominal interest rate equal to zero), of a maximum of \$650,000 (~ USD 840) each installment**, for all those who have suffered a drop in income equal to or greater than 10%. Those who accessed the Middle-Class Bonus are entitled to 2 installments. Those who did not access the Middle-Class Bonus, on the other hand, are entitled to 3 installments.
- **Support for passengers' carriers, through the delivery of a bond of up to \$350,000 (~ USD 490), and a new loan in the same conditions as the one delivered in 2020.**
- **Postponement of real estate tax:** municipalities are empowered to postpone the payment of real estate tax from 2021, to properties with a tax assessment of up to ~ USD 203,000.
- **Employment Protection**
 - Extension of Unemployment Insurance withdrawals: those who have already made Unemployment Insurance withdrawals, may restart access to the amount and number of withdrawals according to the initial replacement rates.
 - New Subsidy for the Formalization of Employment: 15% of the minimum wage (~ USD 70) that will be paid directly to workers who enter the labor market. This will increase for women, youth and people with disabilities, reaching 20% (~ USD 90).
- **Support for SMEs**
 - Forgiveness of interest and fines for late payment of tax and land taxes.
 - Empower mayors to extend the payment of commercial and alcohol patents.
 - Postponement of up to 3 installments of commercial loans to SMEs from Banco Estado at zero rates.
- **Health Support**
 - Delivery of additional resources to health care for USD 300 million.

Based on this new fiscal package and the strong recovery observed during the last months we updated our above consensus forecast for GDP growth 2021 from 6.0% to 7.5%. We estimate that the new fiscal package along with the strong recovery observed recently will more than offset the negative effect on growth of the quarantine measures.

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