Recovery at a Crossroads:
How countries spent Covid-19 funds in the Global South

Country report: Chile

Socio-economic context

The partial and total quarantine measures (both for inhabitants and commercial and productive establishments), established to combat the Covid-19 pandemic, increased the levels of poverty and social inequality.

In the second quarter of 2020, Chile's GDP contracted by 14.1%—the worst record in several decades. More than 1.8 million jobs were also lost, the equivalent of jobs created in the last ten years or 21% of the employed population. Informality grew, while inactivity and unemployment skyrocketed (with variations of 23% and 63%), this still disregards the portion under the suspension of employment contracts, promoted by the employment defence law.

The political-social context experienced since the social outbreak of October 2019, as well as the drafting of a new Magna Carta (implemented at the beginning of the crisis), explain the concern of the government and Congress to respond and establish containment and social support mechanisms.

The huge fund injection that meant allowing access to pension funds, complemented by the dynamics of international markets, caused internal inflationary pressures. Accumulated annual inflation escalated from 2.1% (September 2019), to 5.3% (September 2021). These withdrawals were already insufficient given the magnitude and duration of the crisis but this inflationary environment made things worse.

In addition, Chile went through a period of Presidential, Parliamentary and Regional Councilor Elections, which closed with a national change of trend towards left-wing parties.

Recovery Spending: 10,7% of GDP

- Formal private sector

One of the most im[portant interventions was the Employment Protection Law authorizes the access of dependent workers whose employers stopped their activities due to Covid-19 to unemployment insurance, by mutual agreement and guarantees of continuity. It also allowed temporary reductions in the working day by up to 50% and for up to 5 months, without exempting employers from paying social security contributions and other legal benefits. This Law commits fiscal resources for up to USD 2,000 million, but the term of up to ten years for reintegration can be counterproductive since many elements of flexibility are perceived as regressive on the rights of workers.

Corporate stimulus vs MSMEs

The pandemic had a heterogeneous impact on the group of large companies. When we focus on MSMEs, it is clear that micro-enterprises were the most affected throughout the country with an average drop in sales close to 38%. As might be expected, sales declines were steepest in those regions that were locked down the longest and within artistic, entertainment and recreational activities, lodging and food services, and real estate. The most important financial measure for MSMEs enabled the opening of financing lines with State guarantees to finance credits for up to 20 times the previously available lines. In addition to delimiting the extraordinary risk of the context, it facilitated the term and amount conditions.

- Informal private sector

Mandatory quarantines, longer than in the rest of the region, also prevented many workers (particularly informal workers, who at the time represented a quarter of the labour force) from going out to generate resources to cover their basic needs. By 2020, informal employment fell by 23.2%, mainly affected by women (-27.7% vs. -19.6% for men). This came mainly from the cessation of households as employers (-51.6%) and commerce (-16.2%). By category, the decrease fell on self-employed workers (-26.2%) and private employees (-17.8%). As a result, the informal employment rate stood at 25.1% (a decline of 2.8 pp).

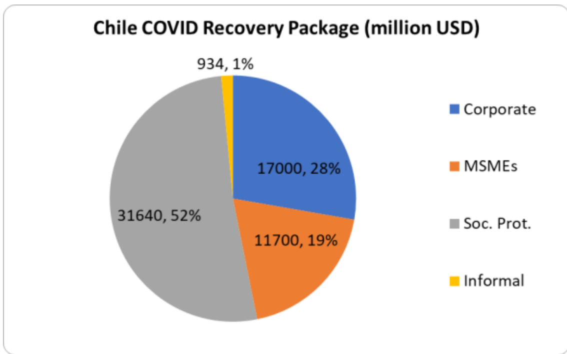
- Social protection

We underline the importance of the three withdrawals of pension funds approved by Congress, deputies and senators, as public policies to strengthen income and aggregate demand. These withdrawals added up to close to 20% of the Chilean GDP, making it necessary for the government to boost AFPs liquidity through the delivery of loans. However, after enabling workers and pensioners to access their savings, no compensatory measures or mechanisms have been proposed, so necessary to support them in the medium and long term.

Public support channelled through monetary transfers was greater than in the rest of the region, both in per capita amount, average coverage and duration. Among these measures, the Emergency Family Income (IFE) and the Middle-Class Bonus (BCM) stood out.

- General comparison (Table and pie chart)

Chile COVID Recovery Package (million USD)			
Corporate	**MSMEs**	**Informal**	**Soc. Prot.**
17,000	11,664	934	31,640



- Highest spending

Social protection received the highest spending (52%), which is highlighted when compared with other countries of the region. It was followed, although not so closely, by actions directed towards big corporations (28%) and MSMEs (19%). Informal workers received the least amount of these resources, with 1.5%.

- Gender aspects

In the case of unemployment, there was almost no difference between men and women, with a slight gap at the time of the crisis to the disadvantage of men (contrary to the rest of the region), while labour participation did show gaps (27 .6 pp in 2020 and 21.9 pp in 2021). Abstention improved in 2021 for both men and women, but this improvement represented a fifth of the increase seen in 2020. Finally, informality is slightly higher for women: 25.6% Vs 24.8%.

Among the implementations, the extension of postnatal leave is the only relevant public policy implemented in the health emergency with a gendered focus..

- Tax-related measures (exemptions, cuts, amnesties, etc.)

In terms of tax-related measures, companies benefited from a suspension of provisional payments of income tax and postponement of VAT payment for three months, as well as a temporary reduction of stamp duty and stamps to 0% for all business credit operations for 6 months.

- Debt (IFI's loans, SDR, etc.)

The level of indebtedness is set annually through the Public Sector Budget Law, but for 2020 and 2021 said authorizations were exceptionally increased by US$4,000 million and US$8,000 million, respectively.

Chile is the country with the largest fiscal space for borrowing in the region. As a consequence of the social confrontation of 2019, public debt was USD 78,761 million or 28.2% of GDP (2.6 pp more than in 2018). In 2020, it increased to USD 82,312 million or 32.54% of GDP; the estimate for 2021 was 36.3% of GDP (with variations mainly coming from bonds issued).

On the other hand, external debt represents more than 80% of the country's GDP.p In 2021, the external debt climbed to US$238,324 million, 14% more than in 2020. Of this increase, 19% corresponded to the General Government, while 52.8% to non-financial companies in the private sector.

Conclusions and recommendations

The pandemic impacted Chile, particularly in the political-social context experienced since the social outbreak of October 2019. This explains the particular concern of the government and congress to respond and establish containment and social support mechanisms, more than in other countries of the region. Nonetheless, the partial and total quarantine measures (both for inhabitants and commercial and productive establishments), to combat the Covid-19 pandemic, increased the levels of poverty and social inequality.

The importance of work flexibilisation through the Employment Defence Law and the pension fund withdrawals for strengthening income and aggregate demand are underlined within the immediate response to the emergency. However, both require compensatory mechanisms to compensate for their medium and long-term impacts.

Finally, Chile stands out as the country within the region with the highest relative spending: 10,7% of its GDP. With this result, it is also the only revised country that achieved the international recommendation of allocating a minimum of 10% of GDPs to face the pandemic and its impacts within countries.

Annexe: Country Summary Table

Ref	Measures taken	Spending Adjustment	Total (USD)	Sources
	Support to formal private sector, total		**17,000,000,000**	
i	Grants and Subsidies	1,000,000,000	1,000,000,000	Faster invoices
ii	Tax Exemptions			
iii	Tax amnesties			
iv	Tax rate changes (cuts or increases)			
v	Tax deferrals			
vi	Loss carry over			
vii	Granting of loans to corporates	16,000,000,000	16,000,000,000	
viii	Granting of loans to SMEs	11,664,000,000	11,664,000,000	Fogape COVID, Fogape reactivates, Employment subs., Tax provision suspension, VAT deferral, TI refund, contribution postponement, employment easing, State credit
ix	Business loan restructuring			
x	Other support to formal private sector			
	Support to informal private sector, total of		**31,640,000,000**	
xii	Granting of loans	196,000,000	196,000,000	Tourist operators
xii	Direct support			
xiii	Other measures to informal	738,000,000	738,000,000	Incentives, tax cuts and deferrals
	Social Protection Measures and Safeguards, total of		**92,761,974,854**	
xiv	Allowance / grant	25,925,000,000	25,925,000,000	IFE, IFE Christmas, 2021, Universal, medium class, haulers and retired, postnatal allowances, support for total withdrawal of retirement funds
xv	Income/ job protection/job guarantee	298,000,000	298,000,000	Health workers bonus, Min. income guarantee
xvi	Unemployment allowance	2,000,000,000	2,000,000,000	Mandatory mixed insurance

xviii	Housing support (subsidy, allowance, no evictions)	670,000,000	670,000,000	Deferral of housing contribution
xviii	Basic Services support (subsidy, deferral, no service cuts)			
xix	Food / nutrition (subsidy, allowance, price regulation)	442,000,000	442,000,000	Familiar bonus and food boxes
xx	Care related measures (subsidy, allowance, policy measures)	285,000,000	285,000,000	Municipal and Federal funds
xxi	Sickness related (e.g. allowance for Covid19 illness, self-isolation)	1,550,000,000	1,550,000,000	COVID subsody
xxii	Loan restructuring support (e.g. student, credit card, mortgage)			
xxiii	Other social protection measures	470,000,000	470,000,000	Medical supplies, vaccines, mental health
	Total fiscal measures		**61,238,000,000**	
	Total as % of GDP		**10.74756268**	