

Latin America:

An Overview of Select Markets' Government Response to COVID-19 and State-Sponsored Relief Programs

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Brazil

Currently, Brazil is Latin America's hardest hit country and is on the run-up to becoming one of the world's next COVID-19 hot spots. The health crisis has and continues to profoundly impact the country's economy, which only recently had come out of one of its worst recessions in recent history.

As of May 2020, Economic Minister Paulo Guedes projects an economic downturn of at least 4.7% in GDP contraction in 2020. Deutsche Bank, JP Morgan, and Soci t  G n rale projected GDP contraction of 6.2%, 7.0%, and 7.4%, respectively.

On May 7, 2020, after approval by the Senate, the Lower House of Congress approved on a first vote the Constitutional Amendment 106/2020, known as the "War Budget." If finally passed, the War Budget will segregate public spending to combat COVID-19 from the Federal Government's budget and its Constitutional ceiling, creating an extraordinary regime that would allow expansion of governmental spending. In addition, the special budget bill would authorize the Federal Government to issue bonds to pay interests on public debt, and the Brazilian Central Bank (BACEN) to buy and sell Treasury bonds in the secondary market.

- A USD60b swap line with the US Federal Reserve for at least six months;
- A set of central bank measures to release USD640bn to the economy, including special guarantees for bank borrowings, flexibility on agribusiness credit, anti-exchange rate volatility measures, and relaxing banks' capital requirements to increase overall credit availability;
- Deferral or suspension of certain federal debts, including those of states and municipalities;
- A relief package for airlines and airport concessionaires with postponement of air tariffs collection and concession fees;
- A new credit line for the health care & life sciences manufacturers for the production of ventilators, health monitors, medical masks, and new ICU units provided by the State-owned development bank, BNDES;
- Facilitated access to credit and deferred payments to businesses in the tourism sector;
- USD100m relief plan to small agricultural producers and family-owned farms;
- USD1b federal government program (PROGER/FAT) for the development and modernization of micro and small businesses;
- USD29.8b credit line to small and medium-sized businesses for working capital and payroll loans provided by the State-owned Federal Savings Bank, Caixa Econ mica Federal, including grace periods and flexible payment conditions;
- USD20b credit line provided by State-owned bank, Banco do Brasil, for working capital, investments, prepayment of receivables, agribusiness and credit to individuals;
- USD1b BNDES credit for small and medium-sized businesses;
- BNDES also committed to a six-month suspension of outstanding loan payments with no late interest payment;
- Federal Government emergency credit line to finance payroll in exchange for companies committing not to fire employees for two months, including grace period, low interest rates, and flexible payment conditions;
- Temporary exemption of tax on financial transactions (IOF) on credit operations;
- Reduction or deferral of certain employee-related social contributions to support companies avoid layoffs;
- Relaxation of federal labor laws to authorize reduction of working hours and wages;
- Three months emergency aid of BRL600 (USD120) to informal workers and unemployed individuals of low-income families;
- Granting of other labor financial support to individuals, such as anticipation of the legally mandatory 13th salary, bonus allowance, and unemployment insurance for certain individuals;
- Exemption for approximately 9,000,000 low-income families from paying electricity bills between April 1, 2020 and June 30, 2020;
- Expansion of Bolsa Familia, a social welfare program of the federal government, to low-income families with the inclusion of more than one million new beneficiaries;
- Postponement of the income tax filing for two months.

Mexico

The Mexican government reportedly downplayed and resisted taking aggressive actions to fight the crisis caused by the pandemic, generating criticism from health experts, the business community, and analysts who hoped for earlier and more assertive responses.

The forecasts of local economic pundits and credit agencies paint an alarming prognosis for the Mexican economy, with GDP expected to contract by at least 6.7% in 2020, according to Citibanamex analysts at the end of April, 2020.

Experts believe that Mexico delayed response—it officially declared a state of emergency at the end of March—may have severe consequences on how the economic downturn unfolds. But, despite the rising number of cases, the President has recently announced that the government is preparing to reopen the economy.

- A USD60b swap line with the US Federal Reserve for at least six months;
- Grants of one million loans of MXN25,000 to entrepreneurs without any charge;
- Temporary suspension of labor obligations due to sanitary emergency on the grounds of force majeure;
- Banco de México, the Mexican central bank, unveiled a support program of approximately USD31b for the financial system, including the cut of borrowing costs and other stimulus to banks lending to small and medium-sized businesses and individuals;
- The central bank reduced the benchmark interest rate by 50 basis points in April to a three-year low of 6% and lowered the cost of repos to provide banks with additional liquidity;
- The central bank has taken provisional measures to support financial institutions, including extending the term for compliance with certain periodic reporting obligations and agreeing to a limited standstill on certain administrative procedures;
- Larger banks have deferred credit payments between four and six months. The Inter-American Development Bank (IDB) and the Mexican Business Council (CMN), in turn, announced a loan that will provide up to USD12b a year to small and medium-sized businesses and offer revolving credit lines with an average term of 90 days;
- The deadline to file individual tax returns for 2019 was extended until June 30. The government is considering deferring social security payments for up to 48 months with low interest rates to both employers and workers;
- A fund of MXN35b from the Institute of Security and Social Services for State Workers (ISSSTE - Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado) is expected to be available to grant personal loans ranging from MXN20,000 to MXN56,000 to 671,000 workers at the service of the State;
- MXN175b to housing loans aimed at benefiting 442,500 workers;
- VAT reimbursements to taxpayers;
- Advance pension payments in the sum of MXN42b to the elderly, in the amount of MXN5,240 each;
- Some local authorities are also taking additional measures. In Mexico City, for example, the mayor announced a support line of MXN200m to small businesses, including grants of 50,000 microcredit loans of up to MXN10,000 each with 0% interest for a period ranging from four months to two years.