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Covid-19 and economic recovery policies in Latin America

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1. Introduction[1]

The Covid-19 pandemic has affected the entire world, both directly and indirectly. Since the onset of the pandemic, to restrict the movement of people, reduce crowding and contain the virus outbreak, countries have adopted a range of measures such as lockdowns, curfews, school closures, and the suspension of non-essential economic and social activities. These measures have deeply affected national economies and international trade, as reported by international bodies that project GDP growth, such as the IMF, OECD, and the World Bank.

By 28 March 2021, Argentina, Brazil, Colombia, Mexico, and Peru had already each registered more than 1 million cases of Covid-19.[2] With 9.8% of confirmed cases and 11.2% Covid-19-related deaths in the region, Brazil is the second country with the most deaths and confirmed cases in the world, just behind the USA. In Latin American countries, the pandemic has occurred at a time of economic fragility and a smaller fiscal space than in the 2008 financial crisis.

In response to the devastating economic impact, countries have implemented stimulus policies to increase activity levels and prevent a global recession that could be worse than the Great Depression.

This paper tracks and discusses the main measures implemented in 2020 to recover the real economy in the five biggest economies in Latin America: Argentina, Brazil, Colombia, Mexico, and Peru. In 2019, these countries accounted for 76% of Latin America's GDP (Union Nations, December 2020). We focus mostly on economic recovery policies in Brazil, as it is the largest Latin American economy, and in terms of the number of recorded cases and deaths it is the developing country most impacted by Covid-19.

The IMF projected a decline of Brazilian GDP by -9.1% in June 2020, which was revised to 4.1% in April 2020 (IMF, 2020, 2021a). Among the countries analysed, Brazil had the best GDP growth in 2020, and saw the most significant improvement in relation to the June IMF projection (see section 3.4 for details). Since March 2020, Brazil’s authorities have adopted comprehensive and diverse stimulus measures to minimise the pandemic's economic and social effects.

We identified that many public policies helped people who lost their jobs or were unable to work (mainly informal workers), and avoided bankruptcies and employee dismissals. Some of the measures tracked can be applied in other countries with similar contexts in terms of the unemployment rate, income inequality, the informal sector and poverty levels.

Section 2 of this policy brief covers Brazil’s fiscal, monetary, and credit policies, while section 3 focuses on other Latin American countries. Section 4 concludes.

[1] We would like to thank Elvis Korku Avenyo for comments and suggestions that have improved the quality of this policy brief.
[2] https://www.worldometers.info/coronavirus/#countries

2. Economic policy responses in Brazil

This section covers the fiscal measures, and the monetary and credit policies implemented by national authorities to boost the real economy after March 2020.

2.1 Fiscal policies[3]

In 2020, the fiscal measures implemented amounted to 14.3% of GDP. Here we discuss the measures in relation to the social programmes (support for workers and companies, corporate taxes, transfers to states and municipalities) and the impacts of these policies on socioeconomic outcomes.

2.1.1 Social programmes

Emergency aid

Emergency aid is a financial benefit granted by the Federal Government of Brazil to informal workers, individual microentrepreneurs, the self-employed and the unemployed, and aims to provide emergency protection during the period of the crisis caused by Covid-19. Created in April 2020, emergency aid covered 67.8 million beneficiaries[4] with an executed budget of 4.0% of the GDP of 2019. It was paid in five monthly instalments of BRL 600 (equivalent to 57.4% of the minimum wage) between April and August and four instalments of BRL 300 between September and December, totalling a maximum of nine instalments. Single-parent mothers received two monthly instalments.[5]

Table 1: Measures with a social focus

Actions	BRL (Billion)	% 2019 GDP
Emergency aid for families	293.1	4.0
Salary advance bonus (13th salary) for retirees and pensioners	47.2	0.64
Emergency withdrawal from Brazilian Government Severance Fund for	36.2	0.47
Advance salary bonus allowance	6.5	0.09
Expansion of the Conditional Cash Transfer *Bolsa Familia* Program	0.4	0.01
TOTAL	383.4	5.21

Source: Ministry of Economy.

Other measures with a social focus totalled 1.21% of GDP in 2020, as shown in Table 1. Of the total Brazilian population of 211 million people, salary advances for retirees and pensioners reached about 35 million people, the emergency withdrawal from the severance fund (FGTS) reached 60 million beneficiaries, and about 8 million people received the salary advance bonus allowance. The *Bolsa Familia* programme was expanded to include an additional 1 million people.

[3] For the values of the measures mentioned in this section, see Tesouro Nacional (2021) and Brazil's Ministry of Economy (2020). For additional details, we consulted publications and analyses from the Brazil's Ministry of Economy and news from national newspapers (Valor, Folha de Sao Paulo, Estadão and O Globo).
[4] It is equivalent to 43% of the population over the age of 18 years.
[5] On 1 April 2020, the Brazilian minimum wage (BRL 1.045) corresponded to ZAR 3.618. The purchasing power of the Brazilian minimum wage is similar to South Africa.

2.1.2 Support for workers and companies

Emergency employment maintenance programme

This programme, created in April 2020, allowed the reduction of working hours and wages or the suspension of contracts for formally employed workers, and aimed to prevent mass layoffs during the pandemic. According to the rules, workers with a suspended contract or reduced working hours and wages received compensation (partial compensation in most cases) paid by the government, with payments reaching up to 100% of what they would receive from unemployment insurance in case of dismissal (which ranges from between 1 and 1.73 times the minimum wage). In return, the worker was ensured job stability for the same period for which the contract was changed. So, if a company fired workers in the grace period, it would pay a higher indemnity.

The amount of government compensation would depend on the company's revenue and working hours. In the case of contract suspension, companies earning more than BRL 4.8 million per year had to cover 30% of the salary, while the government paid a benefit amounting to 70% of the unemployment insurance to which the worker would be entitled. On the other hand, smaller companies with gross annual revenues of up to BRL 4.8 million would not need to pay salaries, while the government would pay the suspended worker a monthly benefit, which was the full amount of unemployment insurance to which the worker would be entitled. In the case of reduced hours and wages, the amount paid for the employee's working hours had to be maintained. The benefit paid by the government could vary from 25% to 75% of the unemployment insurance, according to the number of reduced hours agreed with the company. Only in agreements where there was a reduction of less than 25% in the working day, the worker would not receive compensation from the government.

Initially, the programme allowed the contract to be suspended for two months, but due to the severity of the pandemic and company's claims, the programme was extended, with a maximum term of eight months and ending in December 2020. The measure had a fiscal impact of BRL 51.5 billion (0.70% of 2019 GDP). In just over eight months, 20.1 million agreements to suspend employment contracts or reduce working hours and wages were signed, covering 9.85 million workers and 1.46 million companies.

Of the total number of formalised agreements, 11.2 million dealt with a reduction in wages and hours. The service sector was one of the sectors most affected by the pandemic, accounting for more than half of the agreements (10.38 million). In the wholesale and retail trade sector, 4.9 million agreements were signed, and in the industry sector, 4.1 million agreements were signed. Although more beneficial for companies than for workers as companies could pay their employees less, the programme has preserved the employment and income of around 25% of private-sector workers.

2.1.3 Taxes

Most tax measures put in place in Brazil refer to the deferment of tax payments by companies, which generated temporary relief in companies' working capital in the worst months of the pandemic. Business debts with the government have also been suspended, deferred, and renegotiated. In a few cases, the government has temporarily reduced the tax

rate, such as the three-month exemption from the Financial Operations Tax (IOF) on credit operations. Table 2 summarises these measures.

Table 2: Federal tax measures

Actions	BRL (Billion)	% of 2019 GDP
Suspension, deferment, and renegotiation of acts of charging of the active debt with the Government	242.8	3.28
Deferment in the collection of federal taxes* between 3 and 6	159.8	2.16
Temporary reduction (3 months) of taxes on financial	19.1	0.26
Deferment (60 days) of the income tax declaration of families	10	0.14
Deferment of taxes on telecommunications services companies	3.3	0.04
50% reduction in System S contributions for 3 months	2.2	0.03
TOTAL	437.2	5.9

* PIS/COFINS, FGTS, Simples Nacional, Special instalments (RFB e PGFN).
Source: Ministry of Economy.

Besides these measures, the Federal Government also created tax debt renegotiation programmes. In these programmes, the initial instalments were lower and the subsequent instalments had longer payment terms, of up to 84 months for medium and large companies, and 145 months for micro and small companies. Discounts of up to 70% were offered for micro and small companies and 50% for medium and large companies, which allowed the debt settlement of thousands of companies.

2.1.4 Transfers to states and municipalities

To compensate for the loss of revenue caused by the pandemic in states and municipalities, the Federal Government launched the emergency financial aid programme, with a value of 0.81% of GDP, paid in four monthly instalments from June to September 2020. In return, states and municipalities were prohibited from increasing civil servants' salaries and personnel expenses until the end of 2021. Of the total resources, 20% would be exclusively for health and social assistance and 80% for discretionary use. The help package for states and municipalities also included the suspension and renegotiation of debts with the Federal Government (0.48% of GDP), public banks (0.19% of GDP), and international organisations that the Federal Government endorses (0,14% of GDP). The Federal Government also deferred the collection of social security taxes for three months (0.07% of GDP).

The Federal Government transferred approximately 0.5% of GDP to states and municipalities to strengthen public health services. In addition, the Federal Government reserved another BRL 16 billion (0.22% of GDP) to maintain the transfers already established by law to the Municipality and State Participation Fund.

Table 3 shows the measures equivalent to 2.5% of Brazilian GDP.

Table 3: Federal government aid to states and municipalities

Actions	BRL	% of 2019
Federal emergency financial aid (4 months)	60.2	0.81
Suspension of state and municipal debts with the Federal	35.3	0.48
Transfers to states and municipalities for health actions	25.9	0.35
Securitisation of state and municipal debts guaranteed by the	20	0.27
Compensation of the municipality and state participation fund	16	0.22
Restructuring of credit operations with public banks	14	0.19
Restructuring of credit operations with international institutions	10.7	0.14
Deferment of federal taxes for 3 months*	5	0.07
TOTAL	187.1	2.5

* Worker's Support Fund (Pasep) and employer contribution. Source: Ministry of Economy.

2.1.5 The impact of fiscal policies

Emergency aid had the greatest fiscal impact in combating the adverse effects of the pandemic in 2020. In its absence, estimated GDP would have varied between -8.4% and -14.8% (Sanches et al., 2021); however, in 2020, GDP growth was -4,1% (IBGE, 2021). Sanches et al. (2021) also estimated a drop of at least 5.5 percentage points greater in household consumption and an additional increase of 3 percentage points in public debt if the programme had not been in place. At least 44% of the country's households received aid, which temporarily reduced the number of people living below the poverty line (Duque, 2020). Brazilian primary deficit dropped by 8.7 percentage points of GDP – mainly due to emergency measures – reaching 10% of GDP in 2020 (Pires, 2021). Because of the scale and reach of the programme, it was relatively expensive. These measures could not be implemented again under the same conditions because of the tighter fiscal space in the public budget. Nevertheless, this programme has been essential for generating minimal levels of demand to keep markets active and for avoiding additional bankruptcies, mainly in industries producing consumer goods.

The employment maintenance programme was less costly (0.70% of GDP), preserving around 10 million jobs. The programme had national coverage, reached all economic sub-sectors, and provided more incentives to SMEs in 2020 – so it was widely accepted by companies. If the pandemic continues to hit Brazil hard, this programme could be reissued without major changes.

Although the deferred taxes and debts did not influence the fiscal result, they were vital for companies' working capital. These measures have been essential in lockdown periods or reduced movement at the peak of the pandemic, as revenues decreased considerably at these points.

Transfers to states and municipalities sought to keep cities and public health systems functioning. Due to the severity of the outbreak in regions with weaker public health services such as the Amazonas and other states in the North and North-East, more resources should be allocated to these areas, (Ferraz et al., 2021).

In brief, the expansionary fiscal policy supported families, businesses, and public health services in the first year of the pandemic.

2.2 Monetary and credit policies[6]

In this section, we will address the multiple policies of the Central Bank of Brazil (BCB) and the National Monetary Council (CMN) implemented to provide liquidity and capital relief to banks, adjust the capitalisation level of the National Financial System (SFN), and expand the supply of bank credit, especially to small and medium-sized enterprises (SMEs).

2.2.1 Liquidity support

Table 4 summarises liquidity measures adopted by the Federal Government.

Table 4: Liquidity support

Actions	BRL (Billion)	% of 2019 GDP
Loans backed by financial letters guaranteed by credit	670	9.05
New term deposit with special guarantees (NTDSG)	200	2.70
Reduction in reserve requirement ratio on term deposits	117	1.58
BCB loans for financial institutions backed by	91	1.23
Regulation enhancement on liquidity coverage ratio	86	1.16
Deduction on reserve requirement conditional on loan	55.8	0.75
Repurchase operations in foreign currency	50	0.68
TOTAL	1,269.8	17.1

Source: Central Bank of Brazil.
Note: The values represent the potential amount and not necessarily the amount released for loans, which depend on banks and borrowers' decision (both companies and families).

The measures discussed below are organised according to their potential impact on GDP, from the largest to the smallest.

Loans backed by financial letters guaranteed by credit operations or securities
The CMN allowed the BCB to grant loans to financial institutions backed by financial letters that were collateralised by loan pools or securities through the Special Temporary Liquidity Facility (LTEL-LFG). In practice, the money leaves the BCB for banks offering financial letters as collateral and returns to the BCB within a year.

New term deposit with special guarantees
The new term deposit with special guarantees (NTDSG) was created as an alternative fundraising instrument for all financial institutions that are members of the Credit Guarantee Fund (FGC). The mechanism allows institutions to take higher deposits guaranteed by the FGC, which contributes to the continuity of the credit provision to the economy. The new regulation increased the coverage from BRL 20 million to BRL 40 million per depositor (if the depositor is not an FGC member institution).

Reserve requirement ratio on term deposits
The minimum reserve requirement ratio on term deposits was reduced from 31% to 25% in February 2020, and later to 17% on March 31, 2020, valid until April 2021.

[6] For all measures and their values mentioned in this section, see BCB (2021a, 2021c, 2021b).

BCB loans for financial institutions backed by debentures

BCB created the temporary liquidity line in domestic currency to grant loans backed by financial institutions' debentures. This temporary facility is expected to guarantee liquidity and the normal functioning of the private corporate credit market during the crisis.

Enhancement of reserve requirements regulation

The BCB has increased the share of reserve requirements to be considered in the leverage coverage ratio. Some requirements that were not eligible will now be part of the banks' high-quality liquid assets, so the measure reduces liquidity requirements.

Deduction on reserve requirement conditional on loan to small and medium enterprises

Financial institutions can deduct up to 30% of their reserve requirements on savings, for up to three years, provided that the deducted amount is used in credit operations for SMEs. The deduction may also be applied to the balance of interbank transfers made by cooperative banks to individual cooperatives. Financial institutions should have given 5% of the loans to SMEs by August 2020, and another 5% by September 2020 in order to receive a remuneration of 30% on its savings-reserve balance until the end of 2020.

Repurchase operations in foreign currency

The BCB started to offer liquidity operations in dollars through the purchase of sovereign dollar-denominated Brazilian bonds held by national financial institutions. The BCB purchased bonds with a 10% discount compared to market prices. The objective was to provide long-term liquidity, which will offset the demand for very short-term liquidity by households and companies.

2.2.2 Capital relief

Table 5 summarises the measures of capital relief, organised according to their potential impact on GDP.

Table 5: Capital relief

Actions	BRL	% of 2019
Releasing the capital conservation buffer	640	8.64
Over hedge of investments (tax effects)	520	7.02
Reduction in capital requirement for credit operations for	35	0.47
Temporary reduction of capital requirement for smaller	16.5	0.22
Reduction of capital requirement on NTDSG exposures	12.5	0.17
TOTAL	1,224.0	16.5

Source: Central Bank of Brazil.

Note: The values represent the potential amount and not necessarily the amount released for loans, which depend on banks and borrowers' decision.

Releasing the capital conservation buffer

The capital conservation buffer was reduced from 2.5% to 1.25% of risk-weighted assets (RWA) up to March 2021, with an additional year to re-establish the initial buffer rate. This measure strengthened banks' willingness to provide credit and improve the conditions for renegotiations, helping financial institutions to maintain or expand the flow of credit provision.

Hedging of equity held abroad

The measure dictates that the tax effects arising from banks' foreign exchange hedge operations are not deducted from their equity. Banks hedge their investments on equity held abroad to obtain protection against exchange rate fluctuations. The measure aims to providing confidence to financial institutions to maintain and expand their credit provision plans.

Fostering credit for small and medium-sized enterprises (SMEs)

BCB decreased the minimum capital requirement of credit operations for SMEs. The amount of RWA relative to credit risk exposures of these operations was decreased from 100% to 85%, a criterion also valid for new or restructured operations carried out from April to December 2020.

Temporary reduction of capital requirement for smaller financial institutions

This measure reduces the capital requirement for financial institutions allocated in the regulatory Segment 5 (S5), including those with a smaller and simplified risk profile. The return to the initial capital requirement will be gradual over the period May 2021 to May 2022.

Reduction of capital requirement on NTDSG exposures

BCB determined the reduction of the capital risk-weighting factor for exposures in NTDSG, from 50% to 35%. The measure aims to encourage a better distribution of liquidity, fostering the funding to small financial institutions which often operate in segments that large financial institutions do not serve.

2.2.3 Credit directed to SMEs

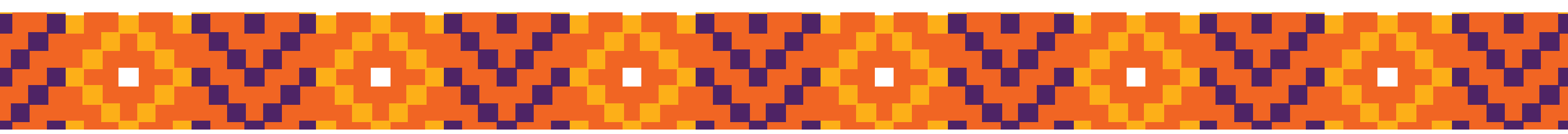
It is a challenge for SMEs to obtain new loans in times of economic crisis due to uncertainty about their financial sustainability and the risk of them defaulting on repayments. Financial institutions generally adopt stricter criteria for loan eligibility and reduce the supply of credit. To support SMEs through the crisis, the government created five specific credit lines, valid until December 2020. These are summarised in Table 6, and each is explained bellow.

Emergency credit access programme – investment guarantee fund

The PEAC – FGI programme, created in June 2020, provided financing without collateral for companies with revenues of up to BRL 300 million. Interest rates were lower than market rates for companies in this revenue bracket, while grace periods and financing were higher than the other SME lines. Financing operations, limited to BRL 10 million in each financial institution, have been larger than the other SME lines.

National support programme for micro and small enterprises

The PRONAMPE programme, created in May 2020, provided credit with the lowest interest rates in the market for micro and small companies. In return, companies preserved the number of employees up to 60 days after receiving the last instalment. Up to 30% of the companies' revenue could be financed. The programme has been expanded three times. This credit line has been in high demand by companies, rapidly depleting the resources of the first two phases.



Working capital programme to preserve business continuity

The CGPE programme provided working capital to SMEs in 2020. It is based on the optimisation of regulatory capital allocation of institutions licensed by the BCB (except credit unions and consortium administrators), which will be able to use the capital related to contingent fiscal liabilities for new loans. Without negatively affecting the fiscal situation and financial stability (since the lending institutions will bear the credit risk and use their own resources), the CGPE will partially complement and support other government programmes such as PRONATE, FGI and PESE.

Table 6: Credit lines for SMEs

Requirements	Lines				
	PEAC-FGI	PRONAMPE-FGO	CGPE	PESE	PEAC-MAQUININHAS
Potential credit granting	BRL 100 billion	BRL 43 billion	BRL 120 billion	BRL 40 billion	BRL 10 billion
Credit granted until December 31, 2020	BRL 92.1 billion (1.24% of GDP)	BRL 37.5 billion (0.51% of GDP)	BRL 14.4 billion (0.19% of GDP)	BRL 7.95 billion (0.11% of GDP)	BRL 3.2 billion (0.04% of GDP)
Target	Companies with revenues between BRL 360,000 and BRL 300 million	Companies with revenues of up to BRL 4.8 million	Companies with revenues of BRL 100 to 300 million, with a minimum of 50% of the credit for companies with revenues of up to BRL 100 million	Companies with revenues between BRL 360,000 to BRL 10 million	Entrepreneurs and companies with revenues of up to BRL 4.8 million
Risk assumed by the Federal Government	80%	85%	0%	85%	100%
Risk assumed by the financial institution	20%	15%	100%	15%	0%
Interest rate	average of 0.89% a.m. (11.2% p.a.)	1.25% p.a. + base rate (2.0 to 3.25% p.a.)	Market rate	3.75% p.a.	6% p.a.
Operation term	12 to 60 months (grace period 6 to 12 months)	36 months (grace period 8 months)	36 months (a minimum grace period of six months for amortisation)		
Credit contract term	31 Dec. 2020	19 Nov. 2020	12 Nov. 2020	31 Oct. 2020	31 Dec. 2020

Source: BCB, Ministry of Economy and BNDES.

2.2.4 The impact of monetary and credit policies

In 2020, the stock of credit grew by 15.2%, compared to 2019, and from 47.0% to 54.2% of GDP (BCB, 2021a). Credit has seen an annual expansion of 21.1% for companies and 10.4% for families. In 2020, compared to 2019, credit grew by 51.5% for micro-enterprises, 37.7% for small companies, 29.6% for medium-sized companies, and 14.6% for large companies (BCB, 2021a). The five new credit lines granted credit of 2.1% of GDP to SMEs in 2020 (BCB, 2021a). Credit for working capital saw an annual expansion of 46.3%. Also, the granting of credit has expanded in most sub-sectors (BCB, 2021a). In 2020, the interest rate was reduced from 4.5% to 2.0% between January and August, stabilising at this level. As the inflation rate halted at 4.5% in 2020, the real interest rate was negative, a situation that has rarely occurred in the last 30 years.

In summary, throughout 2020, monetary policy was reasonably expansionary in the context of extreme economic uncertainty. The Brazilian monetary authorities acted quickly to lower interest rates, depreciate the exchange rate, and they adopted various measures that increased liquidity and credit for companies and families. However, in our view, credit release to SMEs took too long at the beginning of the crisis, and some programmes, such as CGPE, PESE, PEAC-MACHININHAS, were poorly implemented (see Table 6). For this reason, the way SME-oriented policies are designed needs to be improved and some programmes need to be reinstated so that SMEs can continue to be supported.

3. Economic policy responses in Argentina, Colombia, Mexico and Peru

At the end of March 2020, every country in Latin America had reported cases of Covid-19. In response, all governments started to adopt a range of policies that focused on public health and the economy. Countries have implemented different measures such as travel restrictions, social distancing, school closures, and shutdowns of non-essential activities in a variety of ways. Apart from the risks to human health, it is clear that the crisis has had considerable socioeconomic impacts on the region due to its overall reliance on tourism, services, and commodities exports, and the high number of SMEs in these economies (OECD, 2021).

In the following section, we aim to summarise the main economic responses adopted by the governments of four key economies in the Latin American region (Argentina, Colombia, Mexico and Peru) to limit the economic impact of the Covid-19 pandemic and for their economies to recover. We use data and information collected from institutions such as the IMF (2021b), OECD (2021b), ILO (2021), and Yale University (2021).

We first discuss the central fiscal policies developed by these countries, and then the main monetary policies. This is followed by a discussion of other support measures, such as direct public investment policies and the facilitation of purchases.

3.1 Fiscal policies

Salary compensation

Government support for workers has been a common response to the pandemic across Latin America, though implemented in different ways in individual countries. For example, the Argentinean government provided a salary compensation of 50% to companies that presented a negative annual nominal variation in turnover (counting at least one minimum wage – 18,900 Argentine Pesos or USD 210). And Peru proposed a wage subsidy programme to cover between 35% and 55% of the wage bill of firms that reported a fall in sales (at least 30% during April/May 2020) and readmitted workers who were on leave or created new jobs. This intervention is expected to have benefited 350,000 workers.

Colombia, like Brazil, created the emergency mitigation fund (*Fondo de Mitigación de Emergencias*) for workers with suspended contracts or who were on unpaid leave (USD 45, for three months), which is expected to have reached around 600,000 people.

Protection for the unemployed

In Colombia, unemployed workers affiliated with the family compensation funds received one minimum wage (COP 980,000 or USD 270) monthly. Additionally, they could receive the family allowance for a person with disabilities and partial withdrawals of severance payments. In Mexico, the National Institute for Workers' Housing covered the payments for workers who become unemployed by three to six months. In Argentina, the government allowed companies to temporarily suspend contracts as long as the company paid at least 75% of the net wages of suspended workers.

Emergency family income

Argentina, Colombia and Peru created cash transfer programmes for families to survive the pandemic's critical phases. As with programmes implemented in Brazil, these aim to maintain consumption and ensure the recovery economic activity.

Argentina set up a monthly support package of 6,000 to 10,000 Argentine pesos (USD 67 to 112) per family, with the aim of covering approximately 3.6 million families. It includes those who have lost their jobs, the self-employed, those in the informal sector and domestic workers.

Colombia set up a solidarity income programme to 3 million vulnerable households that are in poverty and are not part of the state's cash transfer programmes. This constitutes a transfer of COP 160,000 monthly per beneficiary.

Peru created a universal family bonus, which is an unconditional cash transfer of 760 Peruvian Nuovo Soles (USD 227) to 8,685 million households (80% of the country's total population), including families previously registered in national programmes and over 2.3 million households not in formal employment.

Taxes

Apart from Brazil, Argentina was the only country in the group that adopted a tax deferment policy. The government has allowed companies to split and defer debts through six-monthly instalments, including reprogramming financial payments without additional

interest. It also prohibited the suspension of utility services like electricity, gas, water, and telephone and internet services.

Grants and savings

Colombia and Peru also adopted a measure to release resources without this having an adverse fiscal impact. The Colombian government decided to pay old-age pensions three months in advance – 80.000 Colombian pesos monthly. It has impacted more than 1.6 million elderly adults across the country.

In Peru, the measure to release income focused on individual savings from the compensation fund for the period of service (*Compensación por Tiempos de Servicio*). It authorised withdrawals of up to 25% of the accumulated funds or a maximum of 12,000 Peruvian nuevo sole (USD 3,300). In addition, the payment of 10% of the mandatory monthly contribution of members of the private pension system was suspended.

3.2 Monetary and credit policies

Liquidity and interest rates

Monetary policy has been considerably loosened to boost liquidity in Argentina, Colombia, Peru and Mexico. Among the measures taken by the respective Central Banks are cuts in the basic interest rate, reduction in interest rates for overnight deposits, and reduction of the reserve requirement for commercial banks.

Support to SMEs

Many Latin American countries have been intent on providing financial relief to enterprises, particularly SMEs. Argentina has provided loans for salary payments at a fixed rate (24%) for a year, facilitated SMEs' access to loans, and established public credit guarantees for bank lending.

In Colombia, to reopen their businesses, SMEs have received resources to finance costs associated with implementing safety protocols (up to 80 million Colombian pesos or USD 22,300 per company, accounting for USD 2,115 million in total). Additionally, the national guarantee fund has also created the "sectors most affected SMEs" line to cover the expenses of personnel, fixed costs, and other resources that they require to continue operating — seeking also to support small merchants, and independent and micro-entrepreneurs.

Peru has created specific credit lines for SMEs. The React Plan (*Plan Reactiva Peru*) has granted guarantees of up to PEN 30 billion (USD 9 billion) to cover payments and payroll and maximum loan amounts for enterprises to the value of up to three months of average monthly sales. For enterprises that cannot demonstrate a level of sales, they can use their credit history to qualify for PEN 40,000 (around USD 11,750). The business aid fund (*Fondo de Ayuda Empresarial*) was also created to support SMEs to secure working capital and refinance debts (PEN 800 million in total – around USD 236 million), with credit guarantees up to PEN 4 billion (around US$ 1,2 billion) and a grace period of 12 months. There was also an expansion of 90% of the growth fund (*Fondo Crecer*) to allow access to capital for SMEs to the amount of PEN 820 million (US$ 225 million).

The Mexican government has also focused on SMEs. It has created credit lines to support SMEs to the value of USD 1 billion through the *Nacional Financiera* development bank, granted microcredits for small family businesses with interest-free payments, payable within 12 months, and with a three-month grace period (each small business could apply for up to three loans). The *Nacional Financiera* development bank also has provided USD 150 million to support SMEs working capital and investment.

Credit to entrepreneurs

To support small merchants, and independent and micro-entrepreneurs, Colombia has established a credit line that is oriented to working capital needs when they reopen and resumed their commercial operations. It allows loans of between COP 1 to 22 million (up to USD 6,120), with an initial contribution of COP 60 billion in total.

In Argentina, a credit line was created for self-employed workers whose revenues have strongly decreased, for interest-free loans of up to 150,000 Argentine pesos (USD 2,300), to be repaid in 12 instalments, starting six months after the loan was issued. The total cost to the fiscus is about 11 billion Argentine pesos (US$ 168 million), and the government has provided loan guarantees of ARS 26 billion (about US$ 400 million).

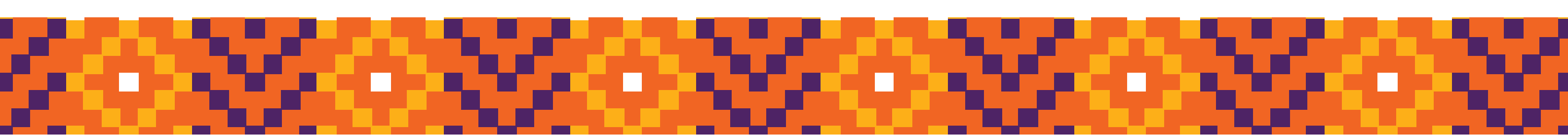
In Mexico, for small family businesses and SMEs in the agro-industrial sector, the government has launched credit lines to improve their short-term financial capacity, releasing an amount of around of USD 100 million for loans.

Credit lines for large companies

In Argentina, public and private banks have offered loans for working capital for up to 180 days. A portion of these was directed to companies producing food, medicaments, hygiene products, and equipment for remote working. Rates were set at around half of the current rate of inflation, and soft-credit lines guaranteed by the Argentinean guarantee fund – at an estimated cost to the fiscus of 0.33% of GDP.

The United for Colombia programme (*Unidos por Colombia*) created by the national guarantee fund, has allocated COP 5 billion (US$ 1,4 million) to guarantee credits for working capital up to 12% of the company's sales or a maximum of COP 100 billion (around US$ 28 million). It has terms of up to 60 months and a minimum grace period of six months, and a commission of 70% guaranteed by the State. For the hospitality and rental and entertainment sectors, loans for working capital will be up to COP 36 billion, with terms of 60 months and a minimum grace period of one year and a commission of 75% guaranteed by the State.

To support companies, the Mexican National Banking and Securities Commission has allowed partial or total deferral of capital and/or interest payments for up to four months, with the option of extending it for two additional months. Credit balances that considered productive loans were frozen.



3.3 Other forms of support for recovery

Public investment

In Argentina, to reactivate the economy and improve the living conditions of the most vulnerable population the government launched a public investment plan of around 0.5% of GDP (ARS 100 billion or USD 1.5 billion), mainly for road infrastructure, housing, building schools, and infrastructure for tourism. A specific infrastructure programme focused on social housing, gas, electricity, and sanitary infrastructure in disadvantaged neighbourhoods.

Mexico has also elaborated the Agreement for Economic Reactivation, involving infrastructure projects financed by private capital (at least 50% of the total cost) in communications, transportation, energy, water and sanitation, and environment sectors. There are 68 projects with an investment of 525 billion pesos (representing 2.3 % of GDP), and they are expected to generate between 370,000 to 400,000 direct and indirect jobs.

To spur economic activity, Peru has launched the "Speed up Peru" (*Arranca Peru*) programme to the value of USD 1,8 billion. It focuses on four key sectors: transportation, housing and sanitation, education, and agriculture, and it is expected to create more than 1 million jobs.

Online platforms for shopping

Argentina extended its "Now 12" programme (*Ahora 12*) to January 2022. The programme allows consumers to make online purchase and at affiliated stores throughout the country with a credit card issued by both financial and non-financial institutions. The terms of repayments are 3 to 30 instalments at a fixed rate. The purchases are made online or through affiliated stores and cover products such as medical supplies and medicines, food, beverages and personal hygiene and cleaning products, games, computers and motorcycles.

In Mexico, a platform called "Solidarity Market" (*Mercado Solidario)* created by the government offers a virtual space where SMEs can find consumers for their products and services through online or on-site channels. Companies have to register through a simple process.

3.4 Discussion of all the measures in Latin America

Our review suggests that wage compensation has been one of the most significant measures in minimising the adverse effects of Covid-19 for workers with suspended contracts or on unpaid leave. This is in addition to the payments for those who have lost their jobs during the pandemic period. Argentina, Colombia, Peru and Brazil have also taken action to financially support workers who depend on income transfer programmes to survive.

We noticed a greater targeting of actions for SMEs in the period of less demand and reduced mobility in all countries, such as the expansion of liquidity and the reduction of bureaucracy to increase the credit supply. For companies to continue to operate, governments have created special credit lines to cover the payment of salaries (Argentina), expenses of personnel and fixed costs (Colombia), payments and working capital (Peru), and

working capital and investment (Mexico), as in Brazil. In Argentina, Mexico, and Peru governments have launched public investment plans to reactivate the economy – policies that were not adopted in Brazil or Colombia.

Overall, the swift response of governments in Latin America has prevented what could have been a far worse outcome. According to the IMF (2021a), "last year's severe collapse could have been three times worse had it not been for such support". Although the projections are not positive, the countries in our review – except Colombia – managed to reduce or stabilise the fall in GDP in 2020. Although the policies have involved high fiscal costs, they have been essential for countries with unemployment rates exceeding two digits, and a large informal market (IMF, 2021a, Ulyssea, 2018).

Table 7 shows the projections of the 2020 GDP growth rate at two points in the year. As the IMF (2021a) indicates, while the measures have been helpful in mitigating the shock effects, the level of recovery is different for each country. Brazil, which has adopted a broader set of stimulus policies, looks set to reverse part of the projected decline in GDP, with GDP falling by less than half of what had been expected.

Table 7: 2020 GDP growth rate projected in June 2020 and revised in early 2021

Country	2020 GDP growth rate projected in June 2020	2020 GDP growth rate revised in early 2021
Brazil	-9.1%	-4.1%
Argentina	-9.9%	-10.0%
Colombia	-4.9%	-7.5%
Mexico	-10.5%	-8.2%
Peru	-12.0%	-12.0%
Latin America and the Caribbean	-9.4%	-7.0%

Source: IMF (June 2020) and IMF (April 2021a), except for Colombia and Peru in which the World Bank (June 2020) and World Bank (January 2021) was used.

4. Final considerations

State interventions in Latin American countries has so far proven to be essential in the recovery process from the Covid-19 pandemic. The measures have largely sought to preserve family incomes and companies' survival. The renegotiation of business debt, the availability of abundant and less costly credit, and family emergency aid, have all contributed significantly to supporting the vulnerable, keeping markets functioning and preventing bankruptcies. However, as is the case across the globe, individual countries' responses and the pace of recovery in Latin America have been uneven (IMF, 2021a).

This policy brief evaluates the policy actions of five Latin American countries. We find that Brazil implemented the most comprehensive stimulus package. In 2020, fiscal and monetary policies in Brazil were expansionist: in addition to supporting companies, the extensive programme of emergency aid to Brazilian families has significantly stimulated economic activity. Although Argentina, Colombia, Peru and Mexico also adopted expansionary monetary policies, they had less powerful economic stimulus packages than Brazil and showed worse GDP performance in the same period.

Although the fiscal space for new stimulus is smaller in the pandemic's second year, the pandemic will continue to hit countries into 2021–2022. New stimulus packages should therefore be targeted at families and companies most affected by the crisis, reformulating measures such as emergency aid, job maintenance programmes, the deferment of taxes and credit lines. In economies with a small fiscal space, it will be essential to increase revenues from progressive taxes on income, property and inheritances, and to reallocate fewer essential expenditures.

To conclude, public policies in Latin America have been vital in the economic recovery process during Covid-19, and in protecting workers, families and the most vulnerable strata of the population. An understanding of the measures taken can help similar countries to point the way to overcoming the socioeconomic impact of the pandemic more effectively, as more countries start to emerge from it.

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