

LATAM Market Update

- **Chile:** New measures by the banking regulator and more restrictions to flatten the curve
- **Peru:** More measures announced, both for containment and to provide stimulus
- **Colombia:** BanRep announces its QE; New government measures to face COVID-19

CHILE: NEW MEASURES BY THE BANKING REGULATOR AND MORE RESTRICTIONS TO FLATTEN THE CURVE

The banking regulator (CMF) announced a package of measures to facilitate the flow of credit to companies and households. (1) Regulatory treatment that facilitates the possibility of deferring up to three installments in the payment of mortgage loans; (2) Facilities for banks to make loan terms for SME debtors flexible up to 6 months, without this being considered a renegotiation; (3) Possibility of using surplus mortgage guarantees to guarantee loans to SMEs; (4) Extension of terms for the sale of real estate; (5) Revised treatment of the margin of variation of derivatives. Finally, the regulator indicates that it is carrying out a review of the implementation process of Basel III, having the regulatory capacity to make the gradualness of certain components of the implementation more flexible. These measures are taken in a context where banks have begun to experience the negative effects of the depreciation of the peso on capital ratios and, also, a deterioration in the loan portfolio is expected in the coming months.

The government has taken more restrictive measures to ensure a lower contagion rate. Among these measures, in addition to the closure of borders, a curfew has been established from 10pm to 5am.

—Jorge Selaive

PERU: MORE MEASURES ANNOUNCED BOTH FOR CONTAINMENT AND TO PROVIDE STIMULUS

Finance Minister María Alva stated that the government is preparing a S/ 16b (US\$4.5b) fiscal package to bolster control of COVID-19 and to provide for fiscal stimulus once COVID-19 is contained. The figure presumably includes the cost of all measures given so far, and represents nearly 2% of GDP. Given the current level of 2% of GDP deficit, this could take the deficit to 4% of GDP if it were all spent this year, which is not likely.

The government began today to provide S/ 380 to approximately three million low-income families. The stipend is being provided through major private banks. The total cost is about S/ 1b (US\$282m).

The government created a S/ 300m (\$85m) Business Support Fund to help small businesses. The purpose is to provide support for at least 10,000 small business to obtain loans from, and/or restructure their debt with, private banks.

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The Central Bank on Friday injected S/ 400m into the financial system to boost liquidity. The liquidity was provided through a two-year Repo auction at 3.24%. The tax administration agency will accelerate returning S/ 200m of excessive tax payments to 200,000 taxpayers.

—Guillermo Arbe

COLOMBIA: BANREP ANNOUNCES ITS QE

Banco de la Republica announced in an extraordinary meeting (the third in one week) new measures of permanent liquidity expansion. The board decided:

- To allow the Central Bank to purchase private debt from financial entities with maturities up to 3 years. The first action, of COP 2 tn, will be on Tuesday, March 24th. The total purchase program would be around of COP 10 tn. Authorized counterparties are credit institutions, insurance companies, trusts, stock brokerage firms, and investment management companies.
- To purchase TES up to COP 2 tn for the rest of the month, through SEN platform—Sistema Electrónico de Negociación.
- To continue auctioning Repos backed by private debt for COP 5bn in days without auctions to purchase those assets. Previously scheduled auction is canceled, next auction will be on April 1st

OUR TAKE:

Banrep's action complements the previous program of temporal liquidity through Repos program. However, now the intervention is permanent and we think that it tries to contain recent private debt deterioration due to forced liquidation by entities like trust companies that are facing significant investors' outflows. TES purchases program comes after a sudden jump in yield curve and would improve liquidity conditions in the local market in a context of high international volatility.

It is worth noting that since the Coronavirus/oil prices shock started, BanRep has been acting to guaranty liquidity to the system but has not yet cut policy rate. We still expect that BanRep will cut the policy rate this Friday, March 27th by 25bps to 4% in the ordinary meeting.

NEW GOVERNMENT MEASURES TO FACE COVID-19 IN COLOMBIA

On Friday night, the Colombian government announced Mandatory Preventive isolation, which starts on March 25 until April 13. Decree 457 was signed on March 22nd and limited the free movement of people and vehicles in the national territory with 34 exceptions to some activities that guarantee the right to life, health, and survival of the population. Additionally, president Duque suspended commercial national and international flights for 30 days.

Furthermore, the Government announced decree 444 that regulates the financing to face the emergency of COVID-19. Decree 444 creates a special fund—Fondo de Mitigación de Emergencias FOME—which will be financed by National Budget money borrowed from Fund of Savings and Stabilization (FAE) created as a fund to mitigate fluctuation in royalties, and borrowing funds from FONPET (which is a fund with pension savings from territorial entities). FOME will be managed by the Ministry of Finance to contain economic and social impacts of the coronavirus.

—Sergio Olarte & Jackeline Piraján

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