



BOX II.1:

Business-support policies during the Covid-19 crisis

The Chilean authorities responded to the Covid-19 crisis by deploying a range of policies to mitigate its economic impacts. This box analyzes the effects of two of these policies that were directly targeted at firms: the Fogape-Covid program of state guarantees for loans to businesses, and the Employment Protection Law (EPL) that allowed firms to temporarily suspend relations with their workers^{1/}. This analysis is based on anonymized microdata at the firm level and complements the analysis presented in the Monetary Policy Report September 2020 and the Financial Stability Report of the second half of 2021, as well as the evaluation of policies using the Central Bank's models presented in the September 2021 MP Report^{2/}.

The Fogape-Covid credit policy^{3/}

Companies accessed the Fogape-COVID program on a massive scale. Since its inception (May 2020), to May this year, close to 250,000 companies had obtained a loan, with a large proportion of them doing so during the first three months of the program (figure II.11). Most were micro and small enterprises, with the commerce and manufacturing sectors leading access. In aggregate terms and up to May 2021, loans granted under the Fogape-COVID program amounted to almost 6% of 2020 GDP.

One consequence of the broad access to this program was the rise in corporate leverage. The figures show that, although the debt-to-sales ratio expanded substantially, the distribution of credit among firms meant that macroeconomic risk and the risk of the banking system as a whole did not rise significantly, since most of the program's amount was channeled to lower-risk firms^{4/}.

^{1/} The Fogape-Covid credit program was complemented with the Central Bank of Chile's FCIC program with regulatory flexibilization, which eased access to credit.

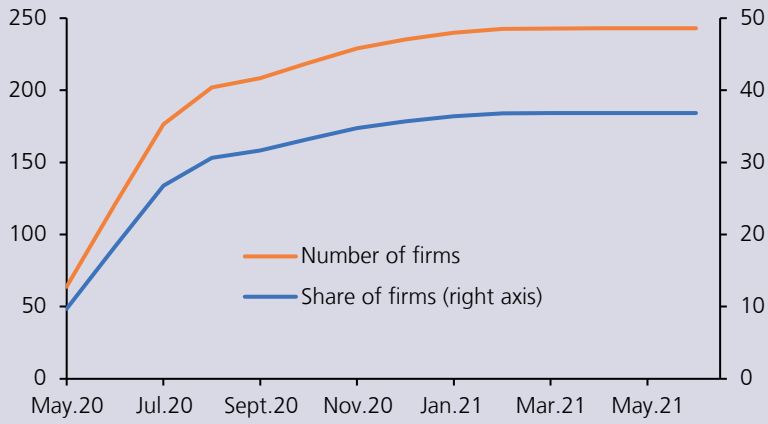
^{2/} The results presented herein summarize the evidence found by [Albagli et al. \(2021\)](#).

^{3/} The Fogape-Covid program provided state collaterals for credits to firms with up to one million UF in annual sales. Loans ranged between 5,000 UF for small enterprises and a top of 250,000 UF for big ones. The program guaranteed between 60% and 85% of the amount of each loan, depending on the size of the firm. The interest rate for Fogape-Covid-guaranteed loans was equal to the MPR plus three percentage points.

^{4/} See the forthcoming supplement "Financial Intermediation and Central Banking in Chile" and the Financial Stability Report for the second half of 2021 (chapter 2).

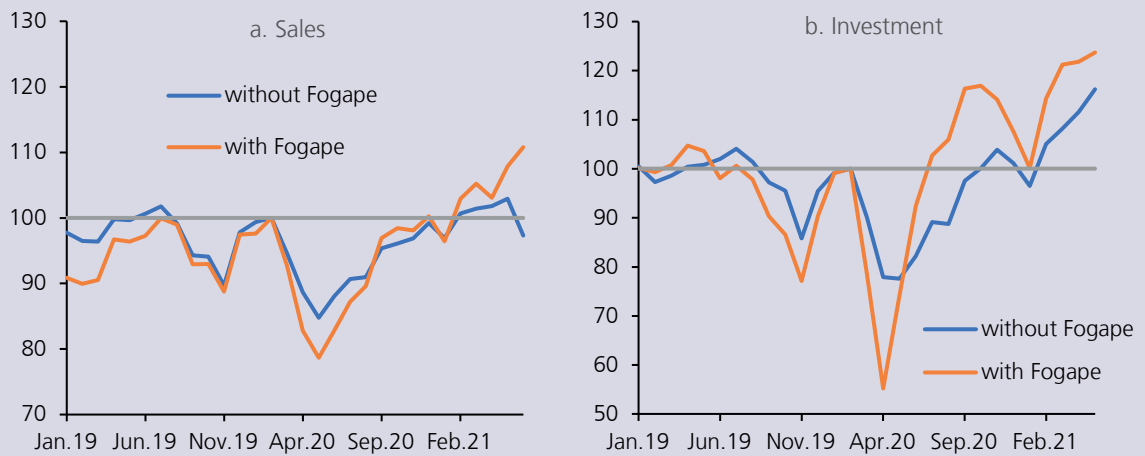


FIGURE II.11 FIRM ACCESS TO FOGAPE-COVID LOANS (*)
(thousands; percentage)



(*) Cumulative number and proportion of firms that obtained at least one Fogape-Covid credit. The proportion is calculated with respect to the number of firms that reported positive sales in February 2020.
Source: Albagli et al. (2021).

FIGURE II.12 PERFORMANCE OF FIRMS WITH ACCESS TO FOGAPE-COVID LOANS (*)
(index Feb.20 = 100, seasonally-adjusted series)



(*) Total sales and investment of firms that never took a Fogape-Covid credit and those that did take a Fogape-Covid credit at some point.
Source: Albagli et al. (2021).



The data shows that the firms that received a Fogape-Covid loan were those that saw their sales fall more compared with those that did not (figure II.12). Also, their sales recovered faster^{5/}. Investment showed a qualitatively similar behavior, with firms that received a Fogape-Covid loan showing a more pronounced fall and rebound than those that did not access the policy (figure II.12).

The evidence also shows that firms that accessed the Fogape-Covid program at the start of Covid were less likely to stop reporting sales in the following months, and more likely to resume reporting if they had stopped after the onset of the pandemic (September 2020 Report and updates in Albagli et.al, 2021). This is indicative of the effectiveness of the program in reaching the businesses facing the greatest difficulties and its ability to support them in their recovery during the reopening of the economy. To a large extent, this is explained by the intermediary role of the banks, which used their knowledge of their clients to channel the loans^{6/}.

Employment Protection Law (EPL)^{7/}

As of December 2020, around 120,000 companies had at least one worker under the EPL. Most of the companies that accessed the EPL did so in the first three months of the policy's operation (figure II.13). As with the Fogape-Covid loans, micro and small enterprises used it in the greatest number. Among the firms that accessed the policy, an average of between 60% and 80% of the payroll was covered by the policy at different times. In aggregate terms, the number of labor relations under the LPE is substantial, accumulating more than 800 thousand as of December 2020, which represents around 15% of the labor relations registered in the Unemployment Insurance base, and around 10% of the total employment estimated by the INE's National Employment Survey^{8/}.

^{5/} This was also documented in the Financial Stability Report for the second half of 2020 (box II.1).

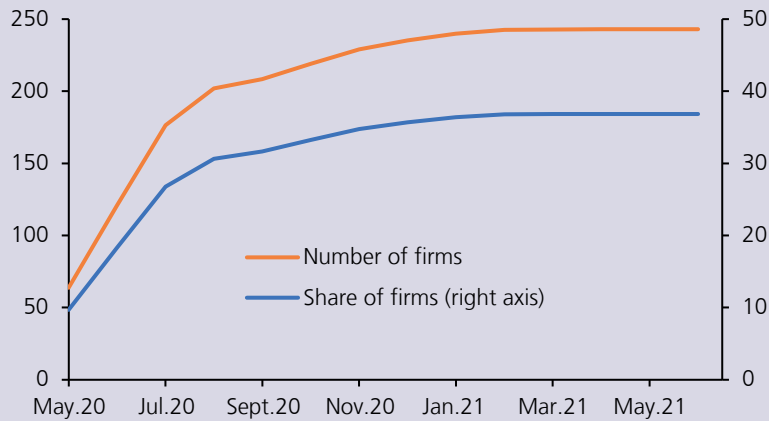
^{6/} The forthcoming supplement "Financial Intermediation and Central Banking in Chile" shows that aspects such as the duration and concentration of bank-firm relationships were important factors in the allocation of credit during the Covid-19 crisis.

^{7/} The EPL allowed workers contributing to the Unemployment Insurance to have access to the benefits of the Insurance without the need to terminate their contract. The specific requirements regarding the number of contributions varied according to the type of EPL benefit; for example, whether it was a suspension of contract or a reduction in working hours. In order to take workers under the EPL, companies were obliged to continue paying their social security and health care contributions.

^{8/} Labor relations under the EPL and total labor relations in the Unemployment Insurance base exclude household help. The total number of labor relations in the Unemployment Insurance base in December 2020 was 5,114,887 persons. For the October-December 2020 moving quarter, the INE reported slightly more than 8 million employed. This total does include household help, so the estimate that labor relations under EPL in this analysis represents about 10% of the employed in the economy is a slight underestimation.



FIGURE II.13 FIRM ACCESS TO EMPLOYMENT PROTECTION LAW (EPL) (*)
(thousands; percentage)



(*) Cumulative number and proportion of firms that applied to the EPL. The proportion is calculated with respect to the number of firms at reported positive sales in February 2020 and had at least one worker.
Source: Albagli et al. (2021).

Figure II.14 illustrates the sales and employment performance of firms that accessed the EPL. Panel (a) shows that those that benefited from the EPL had experienced a substantially larger drop in sales than those that did not. At the point of greatest impact of the crisis, the drop in sales of those firms that availed themselves of EPL was three times stronger than that of those that did not. Panel (b) shows a much smaller difference in total employment performance for firms that accessed the policy relative to those that did not, suggesting that the EPL contributed significantly to mitigating the impact of the crisis on employment^{9/}.

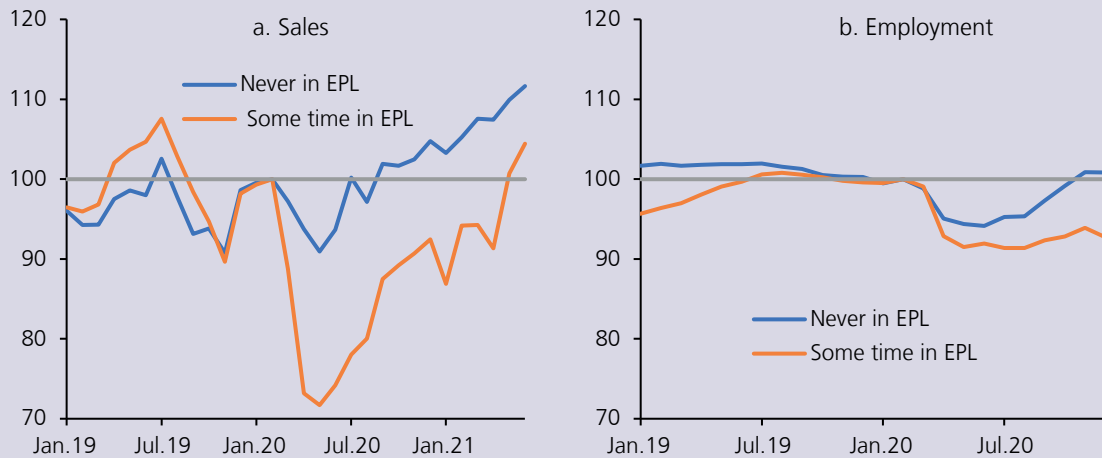
The evidence also indicates that, of the labor relationships that availed themselves of the EPL between March and May 2020, more than 75% were still active within the firm in December of that year, with more than 50% having left the EPL, i.e., with workers reintegrated back into their jobs. This retention is similar to that observed in the same period of months in a normal year, reinforcing the conclusion that the EPL helped mitigate the impact of the crisis^{10/}.

^{9/} Workers under the EPL are considered employed.

^{10/} Albagli et al. (2021) document that there was complementarity between the policies as 21% of the companies accessed both, while 54% accessed only Fogape-Covid and 25% accessed only the EPL. See also the Financial Stability Report for the second half of 2021.



FIGURE II.14 PERFORMANCE OF FIRMS WITH ACCESS EMPLOYMENT PROTECTION LAW (EPL) (*)
(index Feb. 20 = 100, seasonally-adjusted series)



(*) Total sales and employment of firms where no worker benefited from the EPL, and of firms where at least one worker did at some point in time.

Source: Albagli et al. (2021).

Finally, more formal evaluations of the effect of the EPL also find that access to the policy in the first few months is associated, all else constant, with a smaller fall in employment at the firms (Albagli et al., 2021)^{11/}.

Conclusion

At least two of the policies deployed to respond to the Covid-19 crisis were business-oriented: the Fogape-Covid program and the Employment Protection Law. Based on anonymized microdata, this box documents that: (1) there was widespread access to these programs, with significant participation of micro and small firms; (2) the available evidence suggests that both policies contributed to significantly mitigate the adverse effects of the crisis on the situation of firms and their ability to retain employment.

^{11/} Para evaluar el impacto de la LPE en el empleo de las empresas, Albagli *et al.* (2021) controlan por características de las empresas como tamaño, sector económico, edad, y comuna.