



Fiscal Stimulus Plan

The Chilean Government




GOBIERNO DE CHILE
MINISTERIO DE HACIENDA

Plan objectives

- For the proposed measures to rapidly mitigate the impact of the international financial crisis on our economy.
- To achieve economic growth in 2009 of 2% to 3%.
- To achieve continued job growth.

Pillars of the stimulus plan

- To Stimulate investment and consumer demand.
- To improve access to financing for business.
- To provide economic support for individuals.
- To boost employment and promote training.

The image features a tall, curved building with many windows on the left side. In the foreground, a group of people is walking on a street. The background is a light blue sky. The title "Stimulation of investment and demand" is centered in the middle of the image.

Stimulation of investment and demand

Stimulation of investment and demand

- US\$ 700 million increase in public investment.
 - Funds will be directed to a massive urban and rural plan for road and highway maintenance and later for irrigation and housing projects nationwide that have already been planned and approved.
 - This initiative will generate some 60,000 new jobs.
- To Eliminate stamp tax on all loans in 2009 and reduce the stamp tax on loans in the first half of 2010 by half (0.6 percent of capital).
 - Cost in 2009: US\$ 628 million in reduced tax revenue.

Stimulation of investment and demand

- Temporarily increase the benefits under DL 701 to promote forestation by increasing the area eligible to receive bonuses and including additional species.
 - Cost in 2009: US\$ 20 million.
- Extraordinary contribution of US\$ 41 million to the Municipal Common Fund to support services and investment in local communities.
- \$1 billion in additional capitalization for miner Codelco as part of a project to modernize its corporate governance.

A tall, curved building with many windows and a group of people walking on a street in the foreground. The building is light-colored with dark window frames. The people are in the lower left corner, some wearing backpacks. The background is a clear blue sky.

Improved access to financing for business

Improved access to financing for business

- Temporary reduction in withholding tax of 15% for small and medium businesses, and of 7% for larger businesses in 2009.
 - Cost in 2009: US\$ 460 million in reduced tax revenue
- An increase of US\$ 50 million to fund Corfo financing for bank and non-bank factoring.

Improved access to financing for business

- US\$ 50 million for Corfo to guarantee debt refinancing.
 - To provide financial institutions an incentive to refinance small business debt.

The image features a tall, curved building with many windows on the left side. In the foreground, a group of people is walking. The background is a light blue sky. The text "Economic support for individuals" is centered in the middle of the image.

Economic support for individuals

Economic support for individuals

- A special bonus of 40,000 pesos per dependent for families eligible for the Single Family Subsidy or the government family stipend, and for the families in the Chile Solidario system.
 - This is a one-time bonus to be paid in March to help families with back-to-school expenses such as school uniforms and supplies.
 - The bonus will be paid through the INP and banks that have agreements with the INP.
 - The bonus will benefit more than 3.5 million people.
 - Cost: US\$ 224 million.

Economic support for individuals

- Advance payment (in September) of income tax refunds due in 2010 to individuals who have received refunds in prior tax years:
 - will benefit more than 1 million taxpayers;
 - be equal to about 50% of the average refund received in prior years, with a maximum payment of 250,000 pesos;
 - imply a temporary reduction in tax revenue in 2009 of about US\$ 220 million.
- A temporary subsidy for public transportation nationwide, subject to approval of a proposed law currently in Congress.

The image features a tall, curved building with many windows on the left side. The building has a light-colored facade and dark window frames. Below the building, a group of people is walking on a street. The background is a clear blue sky. The text "Promoting employment and training" is centered in the middle of the image.

Promoting employment and training

Promoting employment and training

- Creation of a work subsidy for entry level workers, ages 18 to 24.
 - Workers will receive a benefit equal to 20% of salary and employers a subsidy equal to 10%.
 - Cost: US\$102 million in 2009.

Promoting employment and training

- Two training initiatives to make employee training more attractive given the outlook for slower growth:
 - To increase the maximum subsidy eligible for tax credit under the SENCE plan for courses given at accredited institutions to 500,000 pesos from 190,000 pesos.
 - To allow monthly training costs to be deducted from company withholding tax.
 - Cost : US\$147 million in reduced tax revenue in 2009.

Budget summary for 2009

- Sources of funding for increased public spending:
 - Increase in revenue due to peso depreciation and a temporary reduction in the structural surplus rule (equal to 0.5% of GDP).
- Because of a temporary revenue reduction, lower taxes will not affect structural (long-term) revenue.

Budget summary for 2009

- The counter cyclical plan to stimulate employment and growth will involve funding in excess of US\$ 4 billion, equal to about 2.8% of GDP.
- For 2009 the government predicts structurally balanced fiscal accounts, a real increase in public spending of 10.7%, and an effective budget deficit equal to 2.9% of GDP.
- The plan will be financed with funds from the Economic and Social Stabilization Fund and bond issues authorized in the 2009 budget law.

Final thoughts

- The government's priority is to protect employment and maintain economic growth.
- A broad national consensus has allowed us to build fiscal institutions capable of confronting a complex global economic scenario.
- The economic plan is capable of protecting employment and growth.