

September 29<sup>th</sup>, 2020

# Transitory Employment Subsidies to support the Economic Recovery

**Santiago, September 29<sup>th</sup>, 2020.** The COVID-19 shock has had a major impact on labor markets across the globe. As lockdown measures were implemented in Chile, authorities were quick to implement the Employment Protection Law, that allowed firms and workers to temporarily suspend job contracts and reduce work schedules, thereby mitigating a more permanent impact on employment. In recent months, as social distancing restrictions limited mobility and economic activity, over 700,000 job relationships were suspended.

In this context, as lockdown measures ease and economic activity gradually recovers, the Government has announced transitory employment subsidies that are geared towards boosting prospects for job retention – focused on facilitating the return of workers that had transitorily suspended their job -, and job creation. These employment subsidies are estimated to have a total fiscal cost of USD 2 billion. More details on the policies are provided below.

Looking towards 2021, the exceptional expansionary fiscal stance implemented in 2020 will remain in place, supporting domestic demand and the economic recovery. The employment subsidies complement other policy measures that are being implemented to support the Chilean economic recovery, including a public investment pipeline for 2020-2022 of ~USD 34 billion, sizable transitory tax measures geared towards boosting investment, as well as additional support for SMEs, and the simplification of permits and red-tape.

## 1. Job Retention.

Firms that are eligible and apply to the employment subsidy receive a fixed sum of CLP160,000 (~USD200) for up to 6 months for each worker that returns to their job after having their labor relationship suspended under the Employment Protection Law (EPL).

Companies that have experienced a fall of at least 20% in their sales or gross income during April-July 2020 with respect to the same period in 2019, and fall within certain tax regimes, are eligible. Workers above 18 years of age that have their job suspended under the EPL, with gross wages not greater than CLP961,500 (~USD1,202), are eligible for the subsidy.

## 2. Job Creation.

Firms under certain tax regimes that, as of September 29<sup>th</sup>, make additional hires with respect to their payrolls reported in July 2020 receive a monthly sum equivalent to 50% of the gross monthly wage of the worker, with a limited of up to CLP250,000 (~USD312) per month, for up to 6 months. The subsidy is greater for specific groups of workers, including women, men and women aged 18-23, and disabled persons, which is set at 60% of the gross monthly wage capped at CLP270,000 (~USD338) per month, also up to 6 months.

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The job creation subsidy is available for workers with gross monthly wage not greater than CLP961,500 (~USD1,202), and the worker cannot have worked in a company that is part of the same business group as the beneficiary company.

There are also certain requirements for large companies, that is those with at least 200 workers as of July 2020:

- These firms must keep at least 80% of the same workers who made up their payroll in the month of their first application for the subsidy;
- SENCE, the national training and employment agency, will review this condition every 3 months since the first application of the subsidy;
- Firms will not be able to distribute profits in excess of the legal minimum of 30% during the business year in which they receive the benefit.