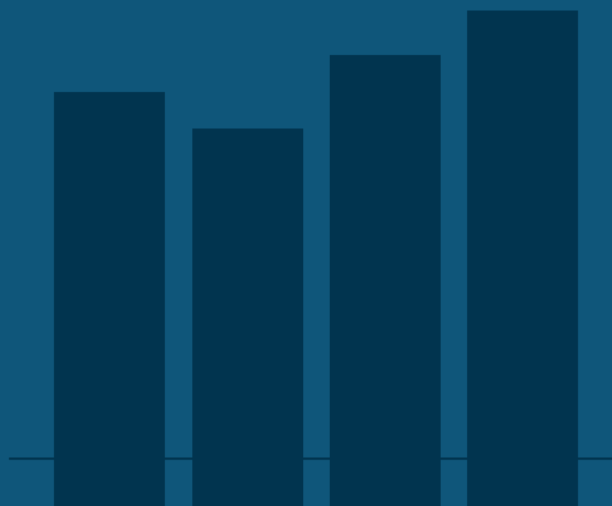
FIRST QUARTER 2021

PUBLIC **FINANCE** REPORT

Dirección de Presupuestos

Gobierno de Chile



This publication, "Public Finance Report: First Quarter 2021," is available on the Budget Office website: www.dipres.cl. Published by the Budget Office of the Ministry of Finance.

Graphic Design and Layout: Cristian Salas L.

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Data cutoff date: 16 April 2021.

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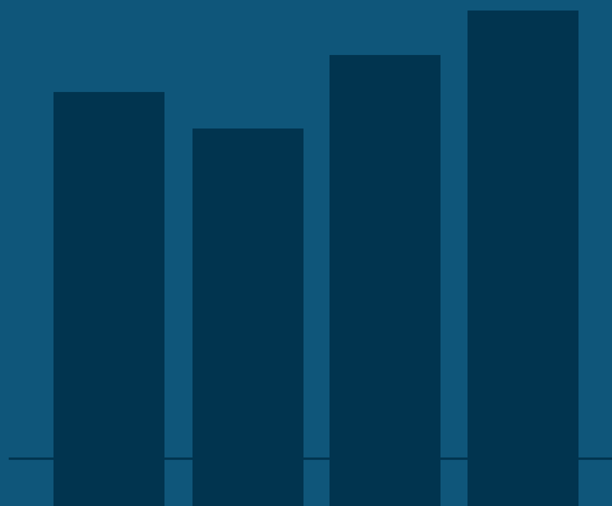

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INTRODUCTION

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The Public Finance Report, which is issued in conjunction with the Public Sector Budget Bill since 2002 and is published quarterly since 2019, constitutes an important input for the budget process, not only for parliamentarians, but also for analysts and the general public. The current issue of the Public Finance Report (PFR), for the first quarter of 2021, reports on the closing of the fiscal position for 2020 and the updated forecasts for 2021, already in execution, as well as the medium-term framework for 2022–2025, based on the most recent financial programming.

The Public Finance Report for the first quarter is structured as follows. After a summary of the main highlights, chapter I describes the current macroeconomic scenario, the fiscal closing for 2020, the resulting overall and structural balance, and the stock of central government assets and debt.

Chapter II provides an update of the macroeconomic and fiscal forecast for 2021, addressing the economic context. It also presents the estimates for total and structural revenues, the overall and structural balance for the year, and the central government's gross debt and net financial position.

Chapter III contains an update of the medium-term framework from the last budget, with the most recent forecasts of revenues and committed expenses for the 2022–2025 period. It also discusses the corresponding overall balances and fiscal space, in accordance with the current objective of converging to the structural balance target, together with an estimate of the central government's gross debt for each year.

Chapter IV addresses efficiency in the use of public resources, reviewing a series of performance indicators and current program evaluations.

This quarter, the report contains five complementary boxes, which cover measures of public spending on climate change; emergency job protection measures; progress on fiscal policy issues, in conjunction with the Autonomous Fiscal Council; the outlook for mining revenues; and updated tax expenditures.

In addition, this PFR includes a set of appendixes that complement the information provided in the body of the report. The document is available at www.dipres.cl, together with the Excel version of the tables presented in the report.

The analysis presented in this report reflects the ongoing effort on the part of the Budget Office of the Ministry of Finance to maintain healthy and sustainable fiscal accounts in the medium and long term. The detail in this publication will allow the reader to understand the current and projected public finance position in the current context, in the framework of the government's permanent commitment to transparency and fiscal responsibility.

HIGHLIGHTS

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HIGHLIGHTS

SUMMARY OF THE 2020 MACROECONOMIC AND FISCAL CONTEXT

- The growth rate of gross domestic product (GDP) was –5.8% in 2020, a slightly smaller contraction than the –6.0% estimated in the previous report. This reflects the COVID-19 health crisis and the consequent implementation of strict sanitary measures to limit mobility and economic activity, especially in sectors that require close personal contact. Second-quarter GDP contracted 14.2% year-on-year, reflecting the significant impact of social distancing measures on the economy. Starting in the third quarter, activity began to recover, favored by the gradual lifting of health measures and by the fiscal and monetary stimulus measures implemented by the authorities.
- In line with the macroeconomic scenario for the year, total central government revenues recorded a drop of 8.4% in real terms relative to 2019 and 10.2% relative to the forecast in the 2020 budget. This was mainly due to the decrease in non-mining tax revenues, which contracted 8.0% relative to the previous year as a result of the economic crisis and the relief measures of the Emergency Economic Plan and the COVID Agreement.
- Total central government spending grew 10.4% in real terms relative to 2019, as the 14.4% growth of budgetary current expenditure more than offset the 11.4% fall of capital expenditure. In this context, the execution rate of budgetary expenditure was higher than the approved Budget Law, recording the maximum value on record.
- As a result, the overall deficit of the total central government was –7.3% of GDP, which is larger than estimated in the 2020 budget (–3.3% of GDP). This difference is due, on the one hand, to the higher expenditure to alleviate the effects of the economic and social crisis deriving from the pandemic and, on the other, to the lower income received by the Treasury during the year, given both the lower economic activity and the tax relief measures implemented in the framework of the Emergency Economic Plan and the COVID Agreement. The structural deficit, in turn, was -2.6% of GDP, after being revised upward with respect to the 2020 budget estimate (–1.4% of GDP) since the increase in fiscal spending more than offset the increase in structural revenue.

UPDATE OF THE 2021 MACROECONOMIC AND FISCAL SCENARIO

- For 2021, this Public Finance Report (PFR) projects a recovery of activity, with GDP growth of 6.0%, as a result of the improvement in the external scenario, the increase in the copper price, the mass vaccination process, the lifting of mobility restrictions, and the stimulus from the countercyclical macroeconomic policies.
- In line with the better outlook for the year, the total revenues of the total central government are projected to grow 28.3% in real terms with respect to 2020. This is explained, on the one hand, by the higher expected collection of non-mining taxes, due to the recovery of economic activity and the automatic reversal of temporary tax relief measures, and, on the other, by the increase in the collection of mining taxes, as a consequence of the higher copper price expected for the year, at USD 3.99 per pound.
- With regard to fiscal spending, the total central government is projected to record an increase of 9.2% in 2021, versus an estimated decrease of 0.2% in the last PFR. The adjustment reflects the announcement of new social and economic protection measures, as well as a higher spending estimate for the solidarity pillar of the pension system. For the budgetary central government, expenditures should increase by 7.9% in real terms this year, while a real decrease of 47.3% is forecast for the extra-budgetary central government.

- Taken together, the adjustments to income and spending translate into a greater fiscal deficit in the 2021 forecast relative to the previous year. The overall balance is projected at –3.8% of GDP (versus –3.3% of GDP estimated in January) and the structural balance at –6.0% of GDP (versus –4.2% of GDP in the last PFR). The latter constitutes a temporary deviation from the target, which implies the de facto use of an escape clause, due to the demands of the pandemic.

UPDATE OF THE 2022–2025 MACROECONOMIC AND FISCAL SCENARIO

- Average GDP growth of 2.9% is projected for the 2022–2025 period, which is above the 1.8% average trend growth estimated by the Committee of Independent Experts in August. Thus, the trajectory projected in this Public Finance Report implies closing the output gap within the period of analysis.
- Total revenues are expected to achieve cumulative growth of 7.6% in 2021–2025 (1.9% annual average). This reflects the real GDP growth trend, which converges to around 2.5%, together with the implementation of the Tax Modernization Law, the tax relief measures of the Emergency Economic Plan and the COVID Agreement, and other factors. In terms of total central government spending, average growth of 0.2% is projected for the 2022–2025 period. In comparison with the 2021 budget estimates, the higher estimated committed expenditures for the period are equivalent to a total of 0.9 points of GDP.
- To meet the target established in the fiscal policy decree—namely, a structural deficit of –3.9% of GDP in 2022—a convergence target has been defined which involves reducing the current structural deficit of –6.0% of GDP by 2.1 percentage points. Thus, an overall deficit of –2.4% of GDP is forecast for 2022, which is consistent with achieving a structural deficit of –3.9 of GDP.

EFFICIENCY IN THE USE OF RESOURCES IN 2020

- During the formulation of the draft Public Sector Budget Law of 2020, 178 institutions formulated 672 strategic products, an average of 3.8 products per institution. Compliance with established targets was assessed from January to March 2021, finding an average compliance of 89%. This reflects the impact of the health emergency on the performance of public institutions, due, for example, to the reduction of in-person services, changes in the scheduling of activities, and the reallocation of resources to support work associated with the pandemic.

- In the first quarter of 2021, the Undersecretariat for Social Evaluation (SES) and the Budget Office (DIPRES) began the program monitoring and tracking process. The joint coordinated process covered all the ministries and national public services. The work involved the development of a single web platform for the entry and processing of information (2020 Monitoreo SES-DIPRES, https://evaluacionymonitoreosesdipres.gob.cl), as well as the harmonization of formats, guidelines, and review criteria between the two institutions.

- Currently, six limited-scope audits are being carried out on programs implemented by CORFO-SERCOTEC, the National Board of School Aid and Scholarships (JUNAEB), and the Ministries of Housing and Urban Planning, Energy, Health, and National Assets. In parallel, 14 impact evaluations are being conducted for programs in the Ministries of Justice, Social Development and Family, Economy, Science, Labor, Education, and Finance. Of the 14 evaluations, nine use an experimental methodology and five use quasi-experimental methodologies.

- In late 2020, the implementation of sectoral assessments was launched, based on a new comprehensive analytical instrument that accounts for how different programs or initiatives jointly contribute to achieving a public policy result. The assessments analyze program interactions, overlap, and performance, both individually and as a whole. Two pilot evaluations are currently underway: job training and empowerment programs for women and export promotion programs.

CHAPTER I
EVALUATION OF PUBLIC SECTOR FINANCIAL MANAGEMENT IN 2020

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CHAPTER I. EVALUATION OF PUBLIC SECTOR FINANCIAL MANAGEMENT IN 2020

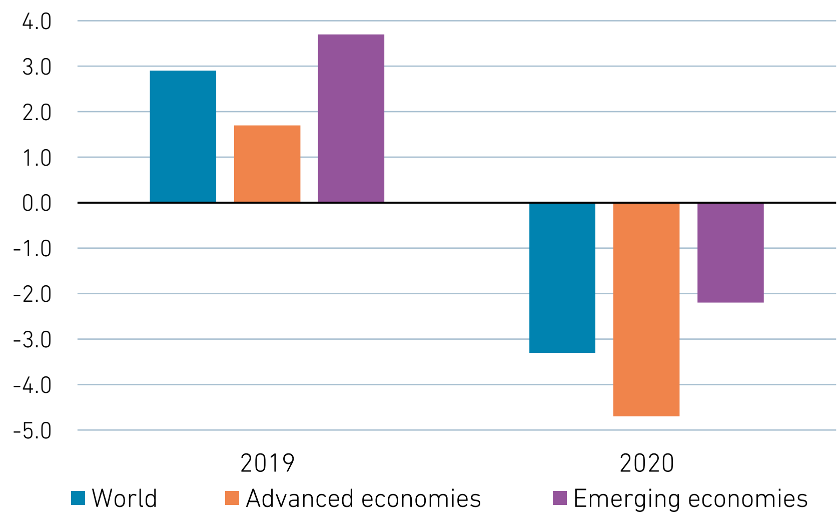
I.1. MACROECONOMIC CONTEXT

Global Economy in 2020

In 2020, the world economy faced the worst health crisis of the last 100 years, due to COVID-19. By March of last year, the pandemic had spread globally, causing a strong impact on activity.

In this scenario, global gross domestic product contracted 3.3% annually, the largest drop since the end of the Second World War. Advanced and emerging economies fell 4.7% and 2.2%, respectively (figure I.1).

Figure I.1:
World Growth
(annual real change,%)



Source: IMF.

The sharp drop in output was due to measures to contain the spread of the virus, which focused on reducing people's mobility in order to increase social distancing, thereby generating a negative shock to both supply and demand. This resulted in a drop in trade flows. The volume of international trade contracted 5.3% in 2020, while global value chains were strongly affected. The output contraction was concentrated in sectors that require social interaction, particularly services. With regard to financial markets, the crisis generated an increase in economic uncertainty and financial volatility, which was attenuated by the actions of central banks, with the injection of significant amounts of liquidity into the markets. Commodity prices collapsed in the second quarter, but gradually recovered toward the end of the year, as economies relaxed their mobility restrictions.

In this context, the labor market was significantly affected, with a reduction in the number of employed people and hours worked, mainly among women and young people. The unemployment rate reached 6.9% in advanced countries and 5.9% in emerging countries in 2020. Inflation stayed in the low end of the target range set by economic authorities, explained by larger output gaps and lower commodity prices for most of the year.

Unlike previous economic crises, this was not caused by fiscal imbalances, monetary contractions, highly volatile capital flows, or abrupt movements in commodity prices. The economic authorities were therefore able to promote a set of countercyclical measures. This made it possible to ensure the flow of liquidity in the market, by reducing monetary policy rates and increasing the balance sheet due to the implementation of unconventional measures, mainly the purchase of assets.

At the fiscal level, the authorities developed multiple programs to reduce tax pressure, support the temporary drop in business revenues, and expand the credit channel. Unconditional cash transfers were made to alleviate the fall in people's disposable income, and investment and spending were increased in the health sector, among other measures. The fiscal stimulus in 2020 generated an increase in the public deficit at the global level, amid falling tax collection given the lower economic activity, with a sharp increase in public debt. According to IMF figures, in 2020 gross public debt increased by about 16 percentage points (pp) of GDP in advanced economies and 10 pp in emerging economies, reaching levels of 120% and 64% of GDP, respectively. Unlike previous crises, favorable financial conditions allowed financing at low interest rates. In this sense, countries that had higher savings and lower debt levels pre-crisis were able to drive and sustain greater fiscal effort.

As the pandemic intensified in the second quarter, the world's major economies supported the pharmaceutical sector, achieving the development of effective vaccines by multiple companies in the sector in less than a year. This led to a significant improvement in growth expectations, becoming one of the main economic policy measures to mitigate the adverse effects of the pandemic.

In the last quarter of the year, economic activity was less dynamic than in the previous quarter, due to the tightening of mobility restriction measures in response to the increase in contagion late in the year. Nevertheless, the effects of countercyclical economic policy measures, rising commodity prices, and increased trade volumes continued to boost activity. Consequently, the decline in output in annual terms was less than projected in the first half of last year, explained by a smaller contraction in advanced economies, especially in the second half, and a stronger-than-expected recovery in China.

In Latin America, the effects of the global crisis have been severe. GDP shrank 7% annually, a bigger drop than in other regions and one of the biggest contractions in the historical series. Among the main economies, Brazil stands out with a smaller output decline of 4.7%. In Chile and Colombia, GDP fell 5.8% and 6.8%, respectively. Finally, Mexico, Argentina, and Peru recorded contractions of 8%, 10%, and 11.1%, respectively. In this context, the region's average growth in the last 10 years was just 1%.

Chilean Economy

In 2020, the economy recorded a 5.8% decline of GDP, the largest annual contraction since the 1982 debt crisis (–11.0%). This drop was somewhat smaller than estimated in the Public Finance Report (PFR) for the fourth quarter of 2020, which projected –6.0% (Table I.1.1). By spending component, domestic demand contracted 9.1% (PFR 2020 Q4: –9.3%), in particular due to private consumption (–7.5%) and gross fixed capital formation (–11.5%). In the latter, machinery and equipment contracted 11.8% and construction investment 11.3%.

By economic sector, the biggest drop was in restaurants and hotels (–31.2%), followed by transportation (–17.5%) and personal services (–15.3%). According to the National Accounts report by the Central Bank of Chile (CBC), the fall in transport services is explained by the strong contraction in passenger transport (both land and air), which was affected by the mobility restrictions. The fall in personal services component of GDP is mainly due to the decrease in public education activities.

Table I.1.1:
2020 Macroeconomic Assumptions

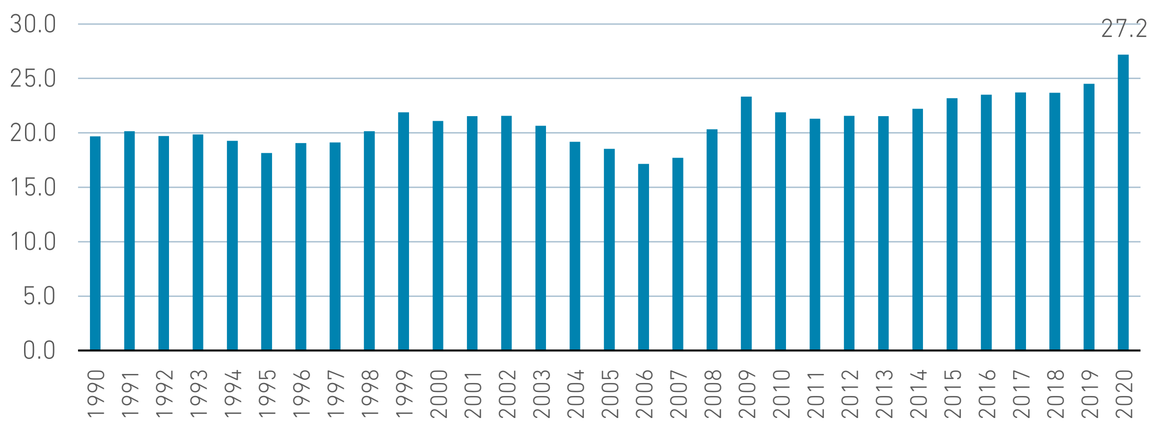
	PFR 2020 Q4	PFR 2021 Q1
GDP (annual change, %)	-6.0	-5.8
DOMESTIC DEMAND (annual change, %)	-9.3	-9.1

Source: Dipres and Central Bank.

Fiscal policy played a significant role in containing the fall in GDP last year, with public spending by the central government equivalent to 27.3% of 2020 GDP, the highest level since at least 1990 (Figure I.1.1). Fiscal spending grew 10.4% from the previous year in real terms, with a 14.4% increase in budgetary current spending. The latter was 110.6% over the approved Budget Law,[1] which is mainly explained by the extraordinary aid implemented in the context of the pandemic.

At the same time, while the increase in the spending level in 2020 has made it possible to mitigate the negative effects of the pandemic on health, economic activity, and employment, the government remains committed to gradually resuming a path of fiscal consolidation, so as to continue to ensure the sustainability of public finances.

Figure I.1.1:
Total Central Government: Expenditures as a Percentage of GDP



Source: Ministry of Finance.

With regard to the external sector, the current account recorded a trade surplus of USD 3,370 million in 2020, equivalent to 1.4% of GDP. This was explained by an increase in the value of exports, reflecting the rise in the copper price. On average, the value of goods exports increased 6.9% over the previous year, driven by the rebound in mining exports, which grew 18.2% in nominal terms thanks to the increase in copper shipments (16.8%).

On the other hand, goods imports fell 15.3%, mainly due to lower import volumes. In this regard, capital goods imports decreased 13.8% in nominal terms, reflecting lower purchases of transport vehicles and mining and construction machinery.

1 Percentage does not include the National Health Fund (FONASA) bonus.

I.2. CENTRAL GOVERNMENT REVENUES IN 2020

In 2020, the total revenues of the consolidated central government were CLP 40,150,115 million, which corresponds to a real annual drop of 8.4% relative to 2019. This figure is 10.2% lower than projected in the 2020 budget. Thus, total central government revenues in the year were equivalent to 20.0% of GDP.[2]

Non-mining tax revenues were the biggest factor explaining the drop in income, with a real annual decrease of 8.0% relative to the equivalent revenue received in 2019. This is mainly explained by the lower activity level in 2020, as a consequence of the health and economic crisis caused by the COVID-19 pandemic, as well as the effect of the Emergency Economic Plan and the COVID Agreement measures, which meant less income for the Treasury on the order of CLP 2,393,851 million (Table I.2.3).

Another important factor was tax revenues from the ten largest private mining companies (GMP-10), which recorded a real annual decrease of 31.6%. Revenues from the state-owned mining company (Codelco) partially offset the reduction in total revenues, with a real increase of 39.2%. This is explained by the advance payment of profits in December 2020, equivalent to USD 200 million, in line with the transfer schedule agreement between the state company and Dipres and with the higher copper price in the last months of the year.

With regard to other central government revenues, generalized decreases were also recorded in donations, property income, operating income, and other revenue (Table I.2.1).

Table I.2.1
Total Central Government: Revenues, 2019 and 2020
(millions of 2020 CLP and % real change)

	2019 EXECUTION	2020 BUDGET	2020 EXECUTION	REAL CHANGE 2020–2019	2020 EXECUTION – 2020 BUDGET
TRANSACTIONS AFFECTING NET WORTH	**43,813,184**	**44,809,172**	**40,135,428**	**–8.4**	**–4,673,744**
Net tax revenues	35,630,869	36,315,245	32,302,484	–9.3	–4,012,760
Private mining taxes	1,957,546	1,518,621	1,338,405	–31.6	–180,216
Other taxes	33,673,323	34,796,623	30,964,079	–8.0	–3,832,545
Gross copper revenues	732,494	1,143,375	1,019,268	39.2	–124,107
Social security contributions	3,085,989	3,026,728	3,104,866	0.6	78,139
Donations	156,914	144,302	113,795	–27.5	–30,507
Property income	1,123,995	952,909	862,363	–23.3	–90,546
Operating income	1,090,437	1,032,788	778,959	–28.6	–253,829
Other revenue [1]	1,992,485	2,193,826	1,953,692	–1.9	–240,133
TRANSACTIONS IN NONFINANCIAL ASSETS	**11,815**	**23,576**	**14,688**	**24.3**	**–8,888**
Sale of physical assets	11,815	23,576	14,688	24.3	–8,888
TOTAL REVENUES	**43,824,999**	**44,832,747**	**40,150,115**	**–8.4**	**–4,682,632**

(1) The 2020 budget includes CLP 280,658 MM corresponding to the FONASA Electronic Bonus, so as to allow comparison with the 2020 execution figure, which includes an equivalent adjustment.
Source: Dipres.

Total revenues were CLP 4,682,632 million less than projected in the approved Budget Law for 2020 due to a sharp reduction in non-mining tax revenues, which were CLP 3,832,545 million below the budget. The other revenue components, with the exception of social security contributions, were also worse than estimated in the budget for the year.

2 These figures are based on the definitive closure of fiscal statistics for 2020, so they differ from the execution reported in the fourth quarter of that year, because they incorporate revisions with respect to the quarterly closure and also include the FONASA Electronic Bonus.

Table I.2.2 shows the breakdown of net tax revenues by type of tax for the 2020 fiscal year. Total taxation receipts fell 9.3% in real annual terms, reflecting a drop in revenues from income taxes, value added taxes (VAT), excise taxes, stamp duties, and foreign trade taxes. In contrast, other taxes increased relative to the 2019 fiscal year.

Table I.2.2
Tax Revenues, 2019 and 2020
(millions of 2020 CLP and % real change)

	2019 EXECUTION	2020 BUDGET	2020 EXECUTION	REAL CHANGE (%) 2020–2019
1. INCOME TAXES	**14,665,684**	**15,930,700**	**12,520,385**	**−14.6**
Annual tax returns	−821,496	−1,198,323	−1,948,843	137.2
Monthly filing and payment	5,266,168	6,101,859	6,097,163	15.8
Monthly provisional payments (PPM)	10,221,012	11,027,164	8,372,065	−18.1
2. VALUE ADDED TAX	**16,846,159**	**15,734,633**	**15,963,032**	**−5.2**
3. EXCISE TAXES	**2,887,350**	**2,944,737**	**2,854,866**	**−1.1**
Tobacco, cigars, and cigarettes	1,002,937	1,030,613	1,021,917	1.9
Fuels	1,866,214	1,892,032	1,799,846	−3.6
Extraction rights (Fishing Law)	18,200	22,092	33,104	81.9
4. STAMP DUTIES	**693,010**	**701,279**	**354,171**	**−48.9**
5. FOREIGN TRADE TAXES	**341,938**	**463,161**	**294,204**	**−14.0**
6. OTHER	**196,728**	**540,735**	**315,827**	**60.5**
NET TAX REVENUES	**35,630,869**	**36,315,244**	**32,302,484**	**−9.3**

Source: Dipres.

Income tax collection declined 14.6% in real annual terms. This performance reflects a real annual drop of 18.1% in monthly provisional payments (PPM), which is explained by the Emergency Economic Plan (EEP), a measure consisting in the deferral of these interim tax payments. This was partially offset by a 15.8% increase in the monthly filing and payment component, which includes an exceptional collection of the **Substitute Tax on the Taxable Profits Fund** (ISFUT) totaling CLP 792,000 million, primarily in the latter months of the year. This amount exceeded the estimate in the tax modernization report (*Informe Financiero de la Modernización Tributaria*).

VAT collection declined 5.2% in real annual terms. This is explained, in part, by the deferral of VAT payments under the Emergency Economic Plan (EEP), which resulted in lower collection of declared VAT (a real annual reduction of 2.2%) and an increase in VAT refunds (5.9% in real annual terms).

Excise taxes recorded a real annual decrease of 1.1%. This is mainly explained by lower collection of fuel taxes, which exceeded the growth of excise taxes on tobacco, cigars, and cigarettes and extraction rights under the Fishing Law.

The collection of stamp duties recorded a 12-month decline in 2020, explained by the EEP measure implementing a temporary stamp tax rate of 0% for some credit operations between April and September. The collection of foreign trade taxes fell 14.0% in real annual terms, mostly associated with a 16.4% reduction in imports relative to 2019, which exceeded the increase in the exchange rate (9.4% in real annual terms). Finally, other taxes grew 60.5% in 12 months, due, in part, to the collection of measures established with the incorporation of the Tax Modernization Law, such as the surtax on real estate assets.

With regard to the effect of the EEP and COVID Agreement measures on tax revenues, collection was 1.2% of GDP lower in 2020, mainly due to the PPM deferral, which accounted for 0.8% of GDP (Table I.2.3).

Table I.2.3
Estimated Impact of the Emergency Economic Plan (EEP) and COVID Agreement Tax Relief Measures on 2020 Revenues
(millions of 2020 CLP and % of GDP)

	2020 CLP MM	% OF GDP
Reduction of stamp duty rate (EEP)	–289,872	–0.1
Deferral of PPM (EEP and COVID Agreement—MTTRA)[1]	–1,583,942	–0.8
Deferral of VAT (EEP and COVID Agreement—MTTRA)	–361,419	–0.2
Refund of withholding taxes for self-employed people (EEP)	–100,354	–0.1
Reduction of first-category tax rate (IDPC) and PPM for small businesses (COVID Agreement)	–51,977	0.0
Refund of VAT tax carryforward for SMEs (COVID Agreement—MTTRA)	–6,287	0.0
TOTAL EFFECT ON 2020 REVENUES	**–2,393,851**	**–1.2**

(1)MTTRA: Temporary tax relief measures that will be automatically reversed.
Source: Dipres.

The information presented in Table I.2.4 allows an analysis of the quarterly dynamics of total revenues over the course of 2020. The sharpest contraction was recorded in the second quarter, which reflects the lower performance of non-mining tax revenues due to the slowdown in economic activity that occurred that quarter, caused by the initiation of lockdowns and other mobility restriction measures to face the pandemic.

Table I.2.4
Total Central Government: Quarterly Revenues, 2020
(% real annual change)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
TRANSACTIONS AFFECTING NET WORTH	**3.0**	**−31.7**	**−12.0**	**7.5**
Net tax revenues	3.7	−37.4	−12.4	10.1
Gross copper revenues	6.0	−1.0	23.7	112.4
Social security contributions	7.2	−0.6	−4.4	0.3
Donations	−14.4	−31.2	12.8	−55.0
Property income	−9.6	43.0	−30.5	−65.2
Operating income	−3.6	−45.9	−39.9	−25.6
Other revenue	−7.6	−10.0	−1.4	12.5
TRANSACTIONS IN NONFINANCIAL ASSETS	**−87.8**	**87.5**	**287.1**	**−63.4**
Sale of physical assets	−87.8	87.5	287.1	−63.4
TOTAL REVENUES	**3.0**	**−31.7**	**−11.9**	**7.5**

Source: Dipres.

I.3. BUDGET VARIANCE: ACTUAL VERSUS BUDGETED REVENUES, 2020

Total consolidated tax revenues for 2020 recorded negative real growth of −9.3%, in line with the economic crisis in the year.[3] This contraction is largely explained by lower collection of both income and VAT taxes (−14.6% and −5.2%; contribution to real total tax revenues of −6.1% and −2.5%, respectively). For income taxes, both the mining component and the other (non-mining) component decreased relative to last year in real terms, at −31.7% and −12.1%, respectively.

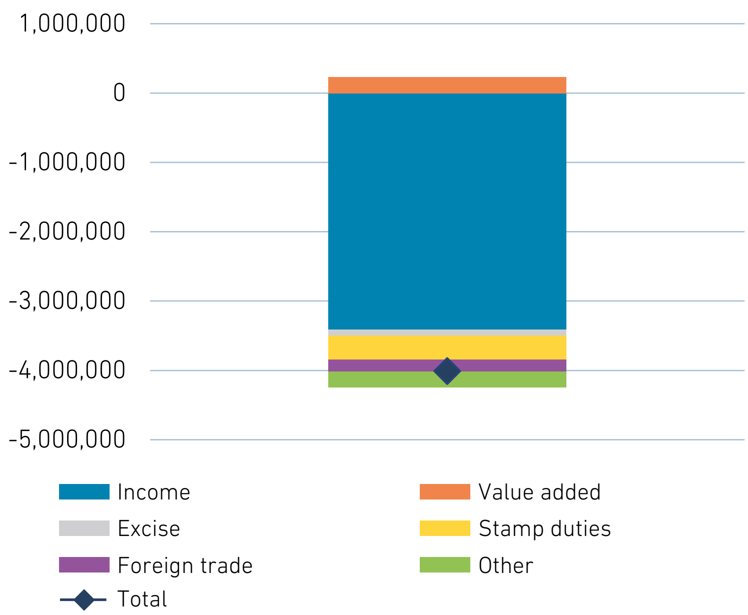
In terms of surprises between actual and budgeted revenues for 2020, total tax revenues surprised to the downside (−12.4% in the actual data), mainly deriving from the income tax line item, as shown in Figure I.3.1. When income taxes are disaggregated into mining and other (non-mining) taxpayers, the latter account for almost all of the surprise (Figure I.3.2.), mainly in the Monthly Provisional Payments component (Figure I.3.3).

The methodology in Cerda, Villena, Luttino, and Beyzaga (2019) was used to quantify the impact of deviations from the macroeconomic forecast on tax collection. Figure I.3.4 shows the contribution of forecast errors by macroeconomic and idiosyncratic source. Of the total forecast error (−12.4%), −9.7% is explained by macroeconomic sources. Here, the most important component was the contraction of the economy, with a downward revision that was partially offset by the higher exchange rate (domestic demand: −12.9%; nominal exchange rate: +3.3%).

In sum, the negative surprise in tax collection primarily originated in less dynamic non-mining tax revenues, specifically in monthly provisional payments. The cause of overestimation is explained, almost entirely, by the unexpected contraction in economic activity over the course of the year.

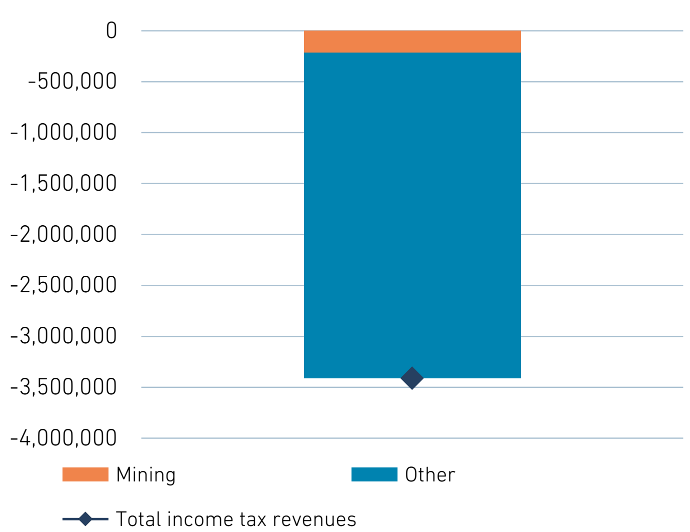
3 Inflation-adjusted series, based on the CPI with base year 2020.

Figure I.3.1
Deviation of Net Tax Revenues in 2020 from the 2020 Budget Law Forecast
(millions of CLP)



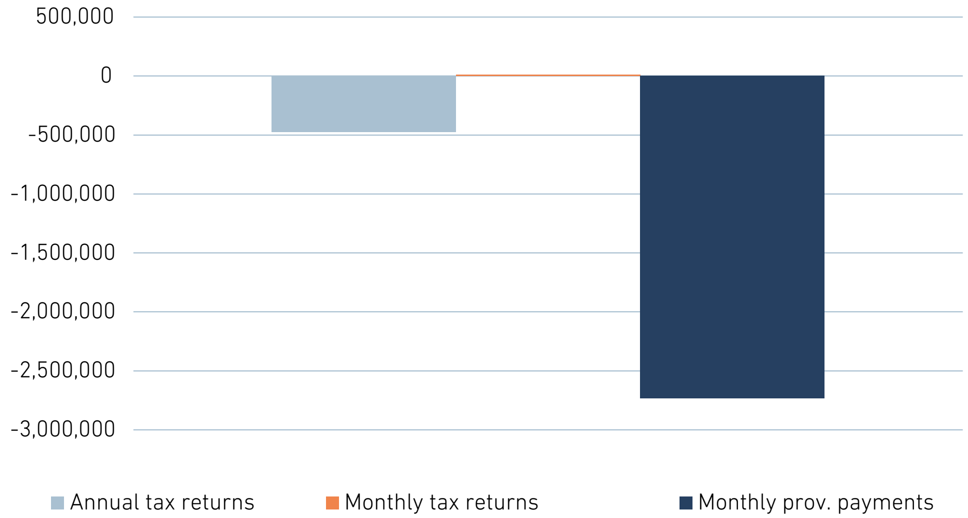
Source: Dipres.

Figure I.3.2
Deviation of Income Taxes in 2020 from the 2020 Budget Law Forecast
(millions of CLP)



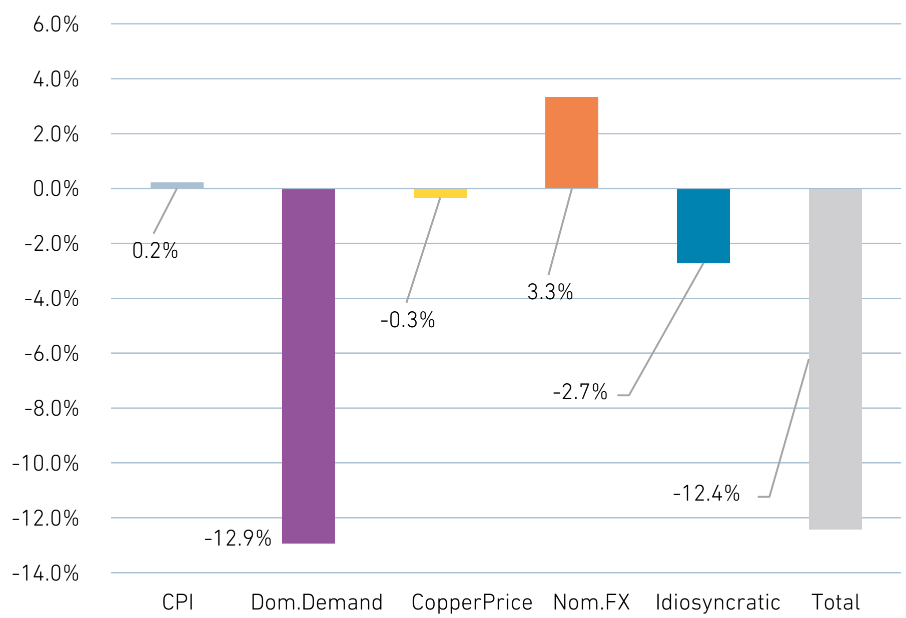
Source: Dipres.

Figure I.3.3
Deviation of Non-mining Income Tax Revenues in 2020 from the Budget Law Forecast
(millions of CLP)



Source: Dipres.

Figure I.3.4
Deviation of Net Tax Revenues in 2020 from the 2020 Budget Law Forecast, by Macroeconomic and Idiosyncratic Components
(percent)



Source: Dipres.

I.4. CYCLICALLY ADJUSTED 2020 CENTRAL GOVERNMENT REVENUES

Since 2001 Chilean fiscal policy has been guided by a structural balance rule for the total central government. This policy is focused on a medium-term horizon, in contrast to the traditional analysis based mainly on the overall balance, which takes a short-term perspective.

In virtue of the structural balance policy, the government's fiscal policy is guided by cyclically adjusted revenues, rather than overall revenues. Thus, variations in overall revenues are not reflected in cyclically adjusted revenues—and therefore do not affect spending—if the variation derives from cyclical fluctuations in GDP or from deviations of the international copper price from the reference price.

Over the course of its application, the rule has been subject to revision in terms of the methodology for estimating the structural balance (also called the cyclically adjusted balance), the fiscal policy target, and the institutional architecture that supports it. The current methodology is systematized in Finance Ministry Decree N° 145, which approves the methodology, procedure, and publication of the calculation of the structural balance.[4]

With regard to the structural parameters—the key indicators for estimating structural revenues—the copper reference price in 2020 was USD 2.86 per pound, down from USD 2.98 per pound in 2019 (Table I.4.1). Additionally, the increase in the LME price in 2020 vis-à-vis 2019 implied an increase in the gap between the actual price and the reference price, causing an increase in cyclical adjustments. This effect is reflected in the mining component of structural revenues, with a real decrease relative to 2019 of 13.9% in structural revenues from private mining and 38.9% in income from Codelco (gross copper revenues).

Trend GDP was revised downward at the November 2019 meeting of the Committee on Trend GDP, with the real annual growth rate going from 2.9% to 2.8% in 2020. As a result, and combined with the level of economic activity recorded in the period, the year closed with a GDP gap of 12.7%, which is substantially larger than forecast when the budget was prepared. The larger output gap produces an increase in the cyclical components of non-mining tax revenues and health care contributions, such that the cyclically adjusted revenues from these items present positive real growth rates of 12.0% and 11.2% in real annual terms, respectively.

Table I.4.1
Structural Parameters, 2019–2020

	2019		2020	
	BUDGET	CLOSE	BUDGET	CLOSE
GDP				
Trend GDP (% real change)	2.9		3.0	2.8
Gap (% of GDP)	0.7	3.5	1.5	12.7
COPPER				
Reference price (US cents/lb)	298		286	

Note: Trend GDP at year-end 2020 is different from the rate used in the budget because it takes into account the extraordinary consultation of November 2019. The copper reference price takes into account the July 2019 consultation, in the context of the preparation of the 2020 budget.
Source: Dipres.

The structural revenues for 2020 are reported below, using the traditional calculation methodology, that is, based on the structural parameters obtained from the Advisory Committees on Copper (from the July 2019 meeting) and Trend GDP (from the extraordinary meeting held in November 2019).

4 Available online at http://www.dipres.gob.cl/598/articles-189332_doc_pdf.pdf.

In 2020, cyclically adjusted revenues were CLP 49,479,923 million, a real annual increase of 6.4% over 2019 (Table I.4.2), This is explained by the increase in structural revenues associated with the GDP gap (non-mining tax revenues and social security contributions), which more than offset the decline in structural copper revenues. In sum, relative to the structural revenue estimate that accompanied the 2020 Budget Law, structural revenues were CLP 1,778,423 million greater.

The component with the greatest difference in structural revenues relative to the 2020 Budget Law is non-mining tax revenues, which were CLP 2,460,728 million higher than expected. The drop in economic activity in the year caused lower taxation in the other (non-mining) sectors, mainly in income taxes. However, this reduction was more than offset by the cyclical adjustment due to the larger output gap relative to trend GDP than was estimated during the preparation of the budget.

Importantly, some of the measures in the new COVID Agreement, which affected tax revenues from non-mining taxpayers in 2020, will be automatically reversed. Note that the calculation methodology used for the cyclically adjusted balance (CAB) distinguishes between two types of temporary measures: those that generate an unrecoverable loss in government revenues (for example, the temporary reduction in stamp duties included in the EEP) and those that are "automatically reversed." The latter are temporary changes in the base or rate of a given tax, which imply a loss or gain in fiscal revenues in the year, but where the impact on fiscal revenues will automatically be reversed in the next period of application. Thus, the effects of the aforementioned measures on the central government's cash flow do not affect structural revenues for 2020.[5]

The increase in non-mining tax revenues more than offset the reduction in the mining and other revenue components, which include income from donations, property income, operating income, other revenue, sale of physical assets, and social security contributions of the Ministry of Labor and Social Security, which are considered structural under the structural balance methodology and which together were CLP 1,081,707 million lower than forecast in the 2020 Budget Law.

Table I.4.2
Total Central Government: Cyclically Adjusted Revenues, 2019 and 2020
(millions of 2020 CLP and % real change)

	2019 EXECUTION	2020 BUDGET	2020 EXECUTION	REAL CHANGE 2020–2019 (%)	2020 EXECUTION – 2020 BUDGET
TOTAL REVENUES	**46,522,342**	**47,701,500**	**49,479,923**	**6.4**	**1,778,423**
Net tax revenues	37,260,994	38,937,062	41,227,548	10.6	2,290,487
Private mining taxes	1,897,739	1,803,674	1,633,432	–13.9	–170,241
Other (non-mining) taxes	35,363,255	37,133,388	39,594,116	12.0	2,460,728
Gross copper revenues	1,694,520	1,361,901	1,036,090	–38.9	–325,812
Health care contributions	2,680,852	2,582,557	2,981,960	11.2	399,402
Other revenue[1]	4,885,976	4,819,980	4,234,325	–13.3	–585,654

(1) The 2020 budget includes CLP 280,658 MM corresponding to the FONASA Electronic Bonus, so as to allow comparison with the 2020 execution figure, which includes an equivalent adjustment.
(2) The data for other revenue are not cyclically adjusted, so overall revenues are equal to the cyclically adjusted revenues. This category includes revenues from donations, property income, operating income, other revenue, sale of physical assets, and social security contributions of the Ministry of Labor.
Source: Dipres.

5 For more details, see "Tratamiento de las medidas tributarias transitorias de reversión automática en el cálculo of the structural balance target," available online at http://www.dipres.cl/598/articles-213717_doc_pdf.pdf.

I.5. CENTRAL GOVERNMENT EXPENDITURES IN 2020[6]

In 2020, the accrued expenditures of the total central government were CLP 54,793,037 million, which represents 10.4% real growth over 2019 (Table I.5.1) and 27.3% of annual GDP. The figure breaks down into CLP 54,758,816 million for the budgetary central government and CLP 34,221 million for the extra-budgetary central government (see Appendix II, Table A.II.5). Current expenditures of the total central government grew 14.4% in real terms, while capital expenditures grew –11.4% in real annual terms.

Table I.5.1
Total Central Government: Expenditures, 2019 and 2020
(millions of 2020 CLP and % real change)

	2019 (CLP MM)	2020 BUDGET (CLP MM)	2020 EXECUTION (CLP MM)	REAL CHANGE 2020–2019 (%)	2020 EXECUTION – 2020 BUDGET (CLP MM)
TRANSACTIONS AFFECTING NET WORTH	**41,930,138**	**43,386,079**	**47,980,214**	**14.4**	**4,594,136**
Personnel expenses	10,101,120	9,888,133	10,615,825	5.1	727,693
Goods and services for consumption and production	3,983,483	3,569,034	4,369,687	9.7	800,654
Interest expense	1,865,490	1,833,608	1,937,135	3.8	103,527
Subsidies and donations	17,812,896	20,149,013	22,110,795	24.1	1,961,782
Social security benefits[1]	8,063,693	7,939,972	8,831,823	9.5	891,850
Other	103,457	6,319	114,949	11.1	108,630
TRANSACTIONS IN NONFINANCIAL ASSETS	**7,686,917**	**8,038,907**	**6,812,823**	**−11.4**	**−1,226,085**
Investment	4,153,740	4,451,991	3,587,010	–13.6	–864,981
Capital transfers	3,533,176	3,586,916	3,225,813	–8.7	–361,103
TOTAL EXPENDITURES	**49,617,055**	**51,424,986**	**54,793,037**	**10.4**	**3,368,051**

(1) The 2020 budget includes CLP 280,658 MM corresponding to the FONASA Electronic Bonus, so as to allow comparison with the 2020 execution figure, which includes an equivalent adjustment.
Source: Dipres.

In the budgetary central government, in turn, expenditures increased 10.9% in real terms during the 2020 fiscal year, which implied an execution rate in excess of the Budget Law approved for that year and were equivalent to 27.3% of 2020 GDP (see Appendix II).[7] Both the execution rate and the GDP share are the highest on record and were influenced by the spending measures implemented to face the economic and social consequences of the COVID-19 pandemic.

Total budgetary expenditures in 2020 breaks down into spending that affects net worth (commonly called current expenditures) of CLP 47,945,994 million and capital expenditures (investment and capital transfers) of CLP 6,812,823 million, which represent 87.6% and 12.4% of total budgetary expenditures, respectively.

6 This information uses data as of the closing of the Public Finance Statistics and thus differs from the Execution Report—Fourth Quarter 2020 and the Public Finance Report—Fourth Quarter 2020, in which the respective indicators are based on the overall 2020 GDP value presented by the Central Bank in mid-March and the FONASA Electronic Bonus expenditure.
7 For details, see "Informe de Ejecución del IV Trimestre 2020," https://www.dipres.gob.cl/598/articles-201613_doc_pdf_Presentacion_IT.pdf.

In terms of share within budgetary expenditures, the annual increase in current expenditures is mainly due to greater outlays in the line items subsidies and donations, social security benefits, and personnel expenses. Budgetary capital expenditures declined 9.0% in real terms relative to 2019, due to a real decrease of 9.2% in investment initiatives and 8.7% in capital transfers.

Table I.5.2

Budgetary Central Government: Expenditures, 2019 and 2020

(millions of 2020 CLP and % real change)

	2019 (CLP MM)	2020 BUDGET (CLP MM)	2020 EXECUTION (CLP MM)	REAL CHANGE 2020–2019 (%)	2020 EXECUTION – 2020 BUDGET (CLP MM)
TRANSACTIONS AFFECTING NET WORTH	**41,874,148**	**43,386,079**	**47,945,994**	**14.5**	**4,559,915**
Personnel expenses	10,101,120	9,888,133	10,615,825	5.1	727,693
Goods and services for consumption and production	3,983,483	3,569,034	4,369,687	9.7	800,654
Interest expense	1,809,499	1,833,608	1,902,914	5.2	69,306
Subsidies and donations	17,812,896	20,149,013	22,110,795	24.1	1,961,782
Social security benefits(1)	8,063,693	7,939,972	8,831,823	9.5	891,850
Other	103,457	6,319	114,949	11.1	108,630
TRANSACTIONS IN NONFINANCIAL ASSETS	**7,482,748**	**8,038,907**	**6,812,823**	**–9.0**	**–1,226,085**
Investment	3,949,572	4,451,991	3,587,010	–9.2	–864,981
Capital transfers	3,533,176	3,586,916	3,225,813	–8.7	–361,103
TOTAL EXPENDITURES	**49,356,896**	**51,424,986**	**54,758,816**	**10.9**	**3,333,831**

(1)The 2020 budget includes CLP 280,658 MM corresponding to the FONASA Electronic Bonus, so as to allow comparison with the 2020 execution figure, which includes an equivalent adjustment

Source: Dipres.

In 2020, current expenditures recorded a higher Budget Law execution rate than in 2019, due to the transfers authorized in the year in association with the extraordinary support measures implemented in the context of the pandemic. Capital expenditures, in turn, presented an under-execution of the approved Budget Law, recording the lowest rate of the 2016–2020 period. This reflects the lockdown measures and mobility restrictions, which impeded normal progress on various projects.

With regard to the execution of current expenditures, Table I.5.3 presents the five ministries with the highest approved expenditures in the 2020 Budget Law, ranked by their execution rate in 2020. The Ministries of Health, Interior, and Labor had the highest growth rates, due to expenditures deriving from the pandemic and the associated social benefits delivered. In contrast, Education and Defense show real twelve-month contractions relative to 2019, with a lower execution rate than the average for current expenditures in 2020 and also lower than the execution rate in the previous year. As usual, the spending execution rates presented in the table are relative to the approved Budget Law; as such, they do not reflect the fact that in 2020, spending was reallocated among line items to finance the greater expenditures in the health sector due to the pandemic, which is not incorporated into this analysis.

Table I.5.3

Current Expenditures: Five Ministries with the Highest Approved Expenditures in 2020 (1) (2)

(millions of 2020 CLP, % real annual change, and % execution vis-à-vis the approved Law)

MINISTRY	APPROVED 2020 BUDGET LAW	2020 EXECUTION	REAL CHANGE (%) 2020–2019	2020 EXECUTION (%)
TOTAL	**43,105,421**	**47,665,336**	**14.6**	**110.6**
Health	8,708,617	11,048,184	18.4	126.9
Interior	2,043,890	2,473,382	13.2	121.0
Labor	7,749,964	8,376,947	8.6	108.1
Defense	1,711,584	1,661,866	–6.0	97.1
Education	10,662,228	10,236,297	–3.1	96.0

(1) After classification by highest approved expenditures in the 2020 Budget Law (excluding the Public Treasury), the ministries are ranked according to their accumulated percent execution. The current expenditures approved for these five ministries represent 71.6% of total current expenditures approved in the 2020 Budget Law.
(2) Excluding the FONASA Electronic Bonus, in the case of both the approved Law and the execution rates.
Source: Dipres.

Table I.5.4 presents the five main investment ministries. As the table shows, only Housing recorded an over-execution of its approved budget, despite a real drop in capital expenditures relative to 2019. Furthermore, the only ministry with a real increase in capital expenditures was Health, even though its execution rate was below 80%. In the case of the Ministry of Public Works, the execution rate relative to the adjusted Law was 98.6%, which is substantially higher than the execution rate of the approved Law (86.8%). The difference is mainly explained by the reduction of this Ministry's budget in the first half of 2020, in anticipation of the lower activity levels deriving from the mobility restrictions imposed to face the pandemic, which caused delays in the implementation timeline of investment projects.

Table I.5.4

Capital Expenditures: Five Ministries with the Highest Approved Expenditures in 2020(1) (2))

(millions of 2020 CLP, % real annual change, and % execution vis-à-vis the approved Law)

MINISTRY	APPROVED 2020 BUDGET LAW	2020 EXECUTION	REAL CHANGE (%) 2020–2019	2020 EXECUTION (%)
TOTAL	**8,038,907**	**6,812,823**	**–9.0**	**84.7**
Housing	2,009,243	2,048,852	–2.3	102.0
Public Works	2,289,207	1,987,248	–13.7	86.8
Health	922,615	736,845	2.0	79.9
Interior	1,505,812	1,160,122	–10.7	77.0
Education	389,039	262,690	–3.4	67.5

(1)After classification by highest approved expenditures in the 2020 Budget Law (excluding the Public Treasury), the ministries are ranked according to their accumulated percent execution. The capital expenditures approved for these five ministries represent 88.6% of total capital expenditures approved in the 2020 Budget Law.
(2)Excluding the FONASA Electronic Bonus, in the case of both the approved Law and the execution rates.
Source: Dipres.

In terms of the quarterly evolution of total central government expenditures in 2020 (Table I.5.5), the third quarter recorded the strongest growth in spending. This trend is associated with the delivery of the various support benefits in response to the pandemic.

Table I.5.5
Total Central Government: Quarterly Expenditures, 2020
(% real annual change)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
TRANSACTIONS AFFECTING NET WORTH	**6.2**	**7.1**	**35.0**	**9.1**
Personnel expenses	4.0	4.9	6.7	4.8
Goods and services for consumption and production	5.6	4.4	7.4	17.9
Interest expense	8.1	8.8	3.2	–40.0
Subsidies and donations	4.5	9.5	77.9	8.1
Social security benefits [1]	11.1	5.8	6.6	14.3
Other	32.9	32.8	17.8	–10.6
TRANSACTIONS IN NONFINANCIAL ASSETS	**–21.4**	**–3.7**	**–14.1**	**–8.9**
Investment	–19.8	–11.0	–16.6	–10.7
Capital transfers	–23.1	5.0	–11.4	–6.6
TOTAL EXPENDITURES	**2.7**	**5.6**	**28.2**	**5.5**

(1) Including the effect of the FONASA Electronic Bonus, which is not incorporated in the quarterly execution publications.
Source: Dipres.

With regard to the implementation of measures with an effect on expenditures under the Framework of Understanding for building an "Emergency Plan for Family Income Protection and Economic and Employment Reactivation, within a Framework for Medium-Term Fiscal Convergence," implemented in the context of the COVID-19 pandemic, the corresponding expenditures are the Special Medical Supplies Fund, which is consolidated with the first fund announced in March, the Emergency Family Income (EFI), the second Municipal Support Fund, the Middle-Class Support, and since the month of October the Emergency Postnatal Leave and the new Temporary Employment Subsidy.

This set of measures also incorporates the Emergency Economic Plan implemented since March 2020, including the first round of the EFI and the March bonus.

Taken together, as of December 2020, the accumulated implementation of the measures with an effect on total central government expenditures represented CLP 5,056,404 million in higher spending, with the Emergency Family Income program accounting for the largest share of the resources (Table I.5.6).

Table I.5.6
Implementation of Measures under the 2020 Emergency Economic Plan and COVID Agreement with Effects on Total Central Government Expenditures, year-end 2020
(millions of CLP and millions of USD) (preliminary estimate)

PANDEMIC-RELATED EXPENDITURES	ACTUAL CLP MM	ACTUAL USD MM
COVID FUND		
Special Medical Supplies Fund: Fund II [1]	505,571	638
Emergency Family Income: Phase II	1,975,507	2,494
COVID Christmas Bonus	231,444	292
COVID Municipal Support Fund	96,000	121
Middle-Class Support	742,572	938
Emergency Postnatal Leave [2]	36,662	46
New Temporary Employment Subsidy	36,711	46
TOTAL COVID FUND	**3,624,467**	**4,576**
OTHER EXPENDITURES, EMERGENCY ECONOMIC PLAN I AND II		
Municipal Solidarity Fund	80,784	102
COVID Family Income Support Bonus	139,392	176
Strengthening the health system	346,104	437
Special Medical Supplies Fund: Fund I [1]	205,920	260
Emergency Family Income: Phase I	659,736	833
TOTAL OTHER EXPENDITURES	**1,431,936**	**1,808**
TOTAL 2020 EXPENDITURES ON COVID MEASURES	**5,056,404**	**6,384**

(1) Preliminary data as of December, as they include preliminary closures of Health Services accounts.
(2) Application of Law N°21,247 which "Establishes benefits for fathers or mothers who are using postnatal parental leave or are caring for children born in 2013 or later, in the context of the COVID-19 pandemic, under the indicated conditions."
Note: Exchange rate: 792 CLP/USD.
Source: Dipres.

I.6. BUDGET VARIANCE: ACTUAL VERSUS BUDGETED EXPENDITURES, 2020

This section presents the differences between the actual expenditure levels of the budgetary central government in the 2020 fiscal year and the approved Budget Law, as well as the current Law, broken down by government entity.

Table I.6.1 presents actual expenditures in 2020 for each government entity, the respective amounts approved in the Budget Law, and the adjusted expenditure amounts under the current law. Execution rates are also shown for each entity, relative to both the approved law and the current law for the fiscal year. Finally, the table includes the differential in millions of 2020 CLP between actual spending and the approved and current laws.

Of the total 30 entities, excluding the Public Treasury, 11 recorded an over-execution of their respective approved budgets, while 19 had some level of under-execution. Taken together, over-execution was 6.5% of the approved Budget, equivalent to CLP 3,334,212 million. Finally, the Public Treasury recorded a substantial over-execution, due to the resources allocated to the delivery of the pandemic benefits.

The entities with the largest over-execution relative to their approved budgets were Health, Labor and Social Security, and the Public Treasury. In particular, Health recorded a 22.4% over-execution of its approved budget. Labor, in turn, had an over-execution rate of 8.0% of its approved budget, while the Public Treasury also contributed significantly to the over-execution of expenditures in the 2020 fiscal year, with a rate of 27.7% (Table I.6.1).

In the aforementioned government entities, the budget over-execution is fundamentally linked to the measures providing subsidies and other expenditures to offset the social effects of lockdown measures and lower economic activity in the context of the pandemic, with a variety of benefits being delivered over the course of the year. Thus, for example, the disbursements explaining the increased spending by the Public Treasury include a range of cash transfers, such as the Emergency Family Income Bonus and the Middle-Class Support Bonus (Law N°21,252). In Health, the growth of expenditures is largely explained by the transfer of resources in the context of the health emergency and by transfers from the Health Services Centers to the Primary Care facilities, as well as by an increase in per capita spending in 2020. Finally, in the case of Labor, the growth is due, in part, to the increase and impact of expenditures on social security benefits during the year, which were affected by the increase in pensions resulting from the implementation of the law to improve the Solidarity Pension System.

Table I.6.1

Budgetary Central Government: Under/Over-Execution of Expenditures by Entity, 2020

(millions of 2020 CLP and %)

GOVERNMENT ENTITY	APPROVED 2020 BUDGET LAW (MM 2020 CLP)	CURRENT 2020 BUDGET LAW (MM 2020 CLP)	2020 EXECUTION (2020 CLP MM)	2020 EXECUTION RATE OVER APPROVED LAW (%)	2020 EXECUTION RATE OVER CURRENT LAW (%)	DIFFERENCE FROM APPROVED 2020 LAW (2020 CLP MM)	DIFFERENCE FROM CURRENT 2020 LAW (2020 CLP MM)
EXECUTIVE OFFICE OF THE PRESIDENT	18,744	18,155	17,919	95.6	98.7	–825	–236
NATIONAL CONGRESS	129,692	129,631	125,679	96.9	97.0	–4,012	–3,951
JUDICIARY	575,052	553,970	552,857	96.1	99.8	–22,195	–1,112
OFFICE OF COMPTROLLER GENERAL	83,040	91,137	90,489	109.0	99.3	7,449	–648
MINISTRY OF THE INTERIOR AND PUBLIC SECURITY	3,549,702	3,688,431	3,633,649	102.4	98.5	83,947	–54,782
MINISTRY OF FOREIGN AFFAIRS	227,666	231,672	214,768	94.3	92.7	–12,898	–16,904
MINISTRY OF ECONOMY, DEVELOPMENT, AND TOURISM	587,610	535,410	529,456	90.1	98.9	–58,155	–5,955
MINISTRY OF FINANCE	472,435	520,975	517,427	109.5	99.3	44,992	–3,547
MINISTRY OF EDUCATION	11,051,267	10,924,020	10,498,987	95.0	96.1	–552,280	–425,032
MINISTRY OF JUSTICE AND HUMAN RIGHTS	1,352,224	1,363,323	1,333,211	98.6	97.8	–19,013	–30,112
MINISTRY OF NATIONAL DEFENSE	1,792,813	1,748,222	1,708,417	95.3	97.7	–84,397	–39,805
MINISTRY OF PUBLIC WORKS	2,530,049	2,264,453	2,233,524	88.3	98.6	–296,526	–30,930
MINISTRY OF AGRICULTURE	514,996	571,578	567,171	110.1	99.2	52,175	–4,408
MINISTRY OF NATIONAL ASSETS	26,006	25,419	24,612	94.6	96.8	–1,394	–807
MINISTRY OF LABOR AND SOCIAL SECURITY	7,758,655	8,422,191	8,380,803	108.0	99.5	622,148	–41,388
MINISTRY OF HEALTH	9,631,232	11,980,965	11,785,028	122.4	98.4	2,153,796	–195,936
MINISTRY OF MINING	49,574	47,192	45,940	92.7	97.3	–3,634	–1,252
MINISTRY OF HOUSING AND URBAN PLANNING	2,191,501	2,254,918	2,235,834	102.0	99.2	44,332	–19,084
MINISTRY OF TRANSPORT AND COMMUNICATIONS	1,106,622	985,470	983,730	88.9	99.8	–122,891	–1,740
MINISTRY GENERAL SECRETARIAT OF GOVERNMENT	31,787	34,805	34,149	107.4	98.1	2,362	–656
MINISTRY OF SOCIAL DEVELOPMENT	504,131	541,338	526,620	104.5	97.3	22,489	–14,719
MINISTRY GENERAL SECRETARIAT OF THE PRESIDENCY	13,308	12,401	11,946	89.8	96.3	–1,361	–455
PUBLIC PROSECUTOR'S OFFICE	201,095	211,998	208,894	103.9	98.5	7,799	–3,104
MINISTRY OF ENERGY	125,653	121,317	119,368	95.0	98.4	–6,285	–1,949

Continuation

GOVERNMENT ENTITY	APPROVED 2020 BUDGET LAW (MM 2020 CLP)	CURRENT 2020 BUDGET LAW (MM 2020 CLP)	2020 EXECUTION (2020 CLP MM)	2020 EXECUTION RATE OVER APPROVED LAW (%)	2020 EXECUTION RATE OVER CURRENT LAW (%)	DIFFERENCE FROM APPROVED 2020 LAW (2020 CLP MM)	DIFFERENCE FROM CURRENT 2020 LAW (2020 CLP MM)
MINISTRY OF THE ENVIRONMENT	60,722	60,434	59,437	97.9	98.3	−1,285	−997
MINISTRY OF SPORT	141,702	113,718	111,659	78.8	98.2	−30,043	−2,059
MINISTRY OF WOMEN AND GENDER EQUALITY	59,992	59,244	58,446	97.4	98.7	−1,546	−798
ELECTORAL SERVICE	59,327	74,401	65,232	110.0	87.7	5,905	−9,169
MINISTRY OF CULTURE, THE ARTS, AND HERITAGE	197,352	175,714	169,352	85.8	96.4	−28,000	−6,361
MINISTRY OF SCIENCE, TECHNOLOGY, KNOWLEDGE, AND INNOVATION	393,143	362,140	348,557	88.7	96.2	−44,586	−13,583
TOTAL BUDGETARY EXPENDITURES (1)	**51,144,328**	**56,008,515**	**54,478,540**	**106.5**	**97.3**	**3,334,212**	**−1,529,975**

(1)Includes the Public Treasury. Expenditures from the Statement of Operations, net of consolidated transfers between public sector agencies.
Source: Dipres.

I.7. CENTRAL GOVERNMENT BALANCE, 2020

For the 2020 fiscal year, the overall or accrued balance of the total central government recorded a deficit of CLP 14,642,922 million, equivalent to −7.3% of GDP (Table I.7.1). This breaks down into deficits of CLP 14,608,701 million for the budgetary central government and CLP 34,221 million for the extra-budgetary central government (Table A.II.4 in Appendix II). This is higher than the estimated deficit in the 2020 budget, which projected an overall deficit of −3.3% of GDP for last year. The difference reflects, on the one hand, the greater fiscal expenditures necessary over the course of the year and, on the other, the lower overall revenues received by the Treasury. Both factors are a consequence of the health crisis deriving from the COVID-19 pandemic.

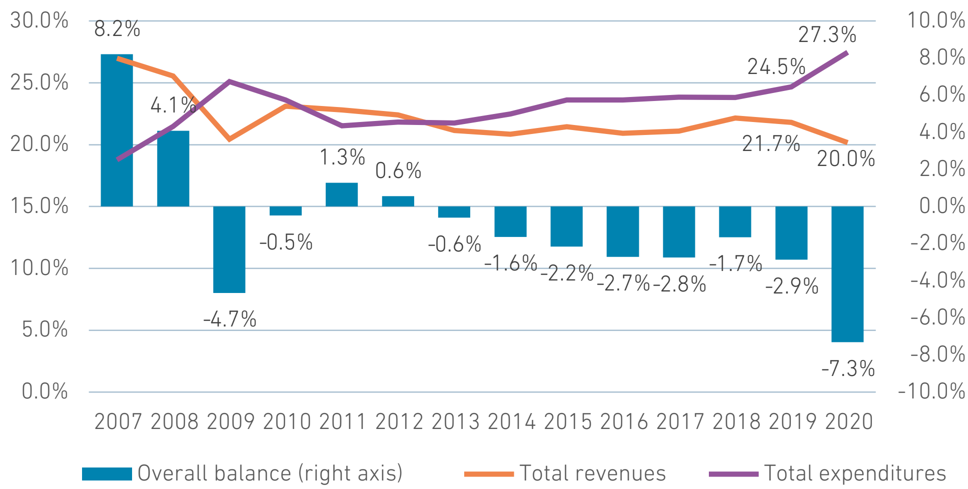
In comparison with the accrued balance in 2019, the larger deficit as a percentage of GDP in 2020 is due to the increase in expenditures as a share of GDP, from 24.5% to 27.3%, together with a reduction in overall revenues relative to GDP, from 21.7% to 20.0% (Figure I.7.1 and Table A.II.4 in Appendix II).

Table I.7.1
Total Central Government: Balance, 2019 and 2020 (1)
(millions of 2020 CLP and % real change)

	2019 EXECUTION	2020 BUDGET	2020 EXECUTION	VAR. % REAL 2019–2020
TOTAL REVENUES	**43,824,999**	**44,832,747**	**40,150,115**	**−8.4%**
Transactions affecting net worth	43,813,184	44,809,172	40,135,428	−8.4%
Transactions in nonfinancial assets	11,815	23,576	14,688	24.3%
TOTAL EXPENDITURES	**49,617,055**	**51,424,986**	**54,793,037**	**10.4%**
Transactions affecting net worth	41,930,138	43,386,079	47,980,214	14.4%
Transactions in nonfinancial assets	7,686,917	8,038,907	6,812,823	−11.4%
NET LENDING / NET BORROWING	**−5,792,056**	**−6,592,239**	**−14,642,922**	
NET LENDING / NET BORROWING (% OF GDP)	**−2.8**	**−3.3**	**−7.3**	

(1) Including the FONASA Electronic Bonus, in both revenues and expenditures.
Source: Dipres.

Figure I.7.1
Total Central Government: Total Revenues, Total Expenditures, and the Overall Balance, 2007–2020
(% of GDP)



Note: Including the FONASA Electronic Bonus, in both revenues and expenditures.
Source: Dipres.

With regard to the structural (or cyclically adjusted) balance of the total central government, Table I.7.2 presents the results of applying the current methodology for calculating the cyclical adjustments that need to be subtracted from total overall revenues. Thus, starting from the overall balance of –7.3% of GDP, we subtract a cyclical effect equivalent to –4.7% of GDP, which implies a structural or cyclically adjusted balance of –2.6% of GDP for the 2020 fiscal year.[8]

Table I.7.2
Total Central Government: Overall and Structural Balance, 2020
(millions of 2020 CLP and % of GDP)

	MILLIONS OF CLP	% OF GDP
OVERALL BALANCE (ACCRUED)	**–14,642,922**	**–7.3**
CYCLICAL EFFECT ON REVENUES	**–9,329,808**	**–4.7**
Cyclical effect on non-mining tax revenues	–8,630,037	–4.3
Cyclical effect on health contributions	–387,922	–0.2
Cyclical effect on gross copper revenues	–16,822	–0.0
Cyclical effect on mining tax revenues	–295,027	–0.1
STRUCTURAL BALANCE	**–5,313,114**	**–2.6**

Note: The cyclical effects on revenues do not add up to the total as a percentage of GDP due to rounding.
Source: Dipres.

8 For details on the application of the calculation methodology and the structural balance results for the 2020 fiscal year, see "Indicador del Balance Cíclicamente Ajustado. Metodología y resultados 2020," available online at www.dipres.cl.

I.8. TOTAL CENTRAL GOVERNMENT FINANCING IN 2020

As mentioned in the previous section, the total central government had a deficit of CLP 14,642,922 million in the 2020 fiscal year. This was financed through a positive flow of net liabilities incurred (CLP 8,247,614 million), due to net internal and external borrowing of CLP 5,092,895 million and CLP 3,551,266 million, respectively, which was partially offset by the payment of pension recognition bonds (CLP 396,547 million) in the same period. Financial assets recorded a negative flow of CLP 6,395,308 million in the period.

Table I.8.1
Total Central Government Financing, 2019–2020
(millions of 2020 CLP)

	2019 EXECUTION	2020 EXECUTION
FINANCING	**–5,792,056**	**–14,642,922**
NET ACQUISITION OF FINANCIAL ASSETS	**–1,303,889**	**–6,395,308**
Loans	–264,963	730,524
Granting of loans	1,012,387	2,185,090
Recovery of loans	1,277,351	1,454,566
Securities	–1,296,438	–6,170,948
Financial investment	5,290,537	8,510,449
Sale of financial assets	6,586,975	14,681,398
Dedicated funds[1]	0	0
Withdrawals	0	0
Deposits	0	0
Adjustments for dedicated fund lags	0	0
Cash, etc.	257,513	–954,883
NET LIABILITIES INCURRED	**4,488,167**	**8,247,614**
Net external debt	1,031,483	3,551,266
Debt	1,804,210	4,942,551
Amortization	772,728	1,391,285
Net internal debt	3,938,351	5,092,895
Debt	7,486,442	12,942,947
Amortization	3,548,091	7,850,051
Pension recognition bonds	–481,666	–396,547

(1) Funds created by Laws N°19,030 and N°20,063; in the latter case, the fund was in effect through June 2010.
Source: Dipres.

In terms of sources and uses of funds (Table I.8.2), in 2020 the total central government obtained resources totaling CLP 24,280,805 million, derived from gross debt of CLP 17,885,497 million and the net sale of financial assets of CLP 6,395,308 million. These resources were used to finance the overall deficit in the period (CLP 14,642,922 million) and to comply with the regular debt amortization program and the payment of pension recognition bonds (CLP 9,241,337 million and CLP 396,547 million, respectively).

Table I.8.2
Sources and Uses of Fiscal Resources, 2020(1)
(millions of 2020 CLP)

SOURCES	24,280,805
Gross debt	17,885,497
Net sale of financial assets	6,395,308
USES	24,280,805
Overall deficit, 2020	14,642,922
Regular amortization	9,241,337
Payment of pension recognition bonds	396,547

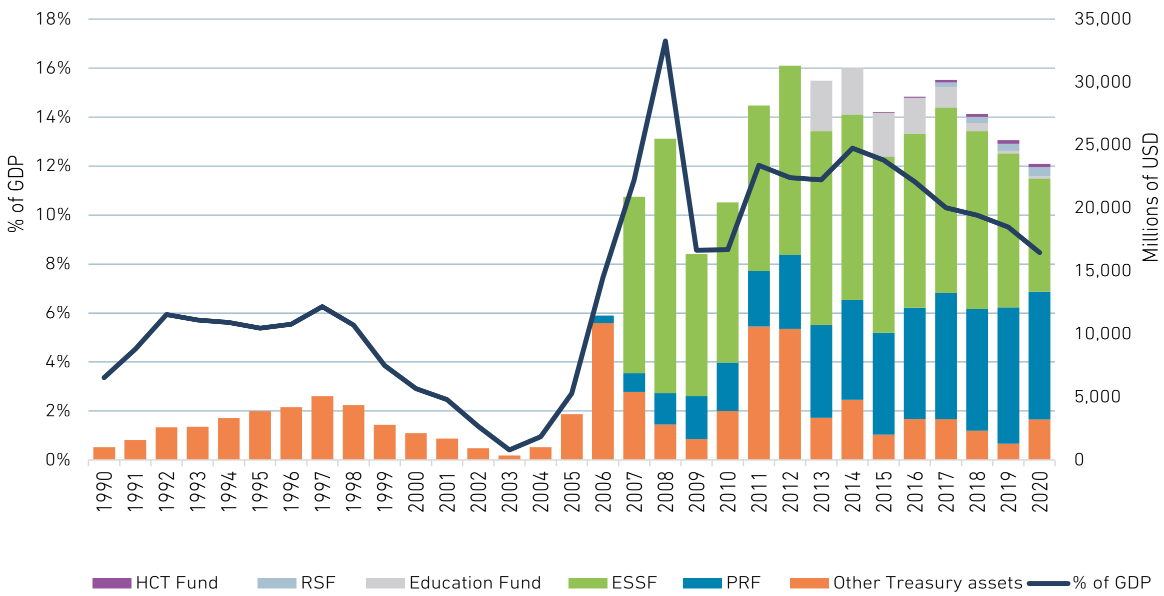
(1) This decomposition corresponds to "transactions in financial assets," taken from the statement of operations, according to IMF definitions.
Source: Dipres.

I.9. CENTRAL GOVERNMENT ASSETS, LIABILITIES, AND NET FINANCIAL POSITION IN 2020

I.9.1 Consolidated Assets of the Public Treasury, 2020[9]

At market prices, the consolidated assets of the Public Treasury totaled USD 23,504 million on 31 December 2020, equivalent to 8.3% of 2020 GDP. Figure I.9.1 graphs the evolution of these assets from 1990 to December 2020.

Figure I.9.1
Consolidated Assets of the Public Treasury, 1990–2020
(millions of USD and % of GDP, 31 December of each year)



Source: Dipres.

9 This section is extracted from the "Reporte de Activos Consolidados del Tesorero Público," published monthly by the Budget Office. For more details, see http://www.dipres.gob.cl/598/w3-propertyvalue-15499.html.

In disaggregated terms, at year-end 2020, the Economic and Social Stabilization Fund (ESSF) and the Pension Reserve Fund (PRF) totaled USD 8,955.2 million and USD 10,156.8 million, respectively. Other Public Treasury assets, the Education Fund (EF), the Regional Support Fund (RSF), and the Fund for High-Cost Diagnosis and Treatment (HCT Fund) were USD 3,221.1 million, USD 202.2 million, USD 714.7 million and USD 253.6 million, respectively. Table I.9.1 shows the evolution of these assets over the 2017–2020 period.

Table I.9.1
Consolidated Assets of the Public Treasury, 2017–2020
(millions of USD and % of GDP)

	2017		2018		2019		2020	
	USD MM	% GDP	USD MM	% GDP	USD MM	% GDP	USD MM	% GDP
ESSF	14,738.8	5.0%	14,133.8	5.2%	12,233.4	4.6%	8,955.2	3.2%
PRF	10,011.0	3.4%	9,663.2	3.5%	10,812.1	4.1%	10,156.8	3.6%
Other Public Treasury assets	3,233.7	1.1%	2,318.0	0.8%	1,296.5	0.5%	3,221.1	1.1%
Education Fund	1,621.6	0.6%	630.7	0.2%	200.6	0.1%	202.2	0.1%
Regional Support fund	381.4	0.1%	497.6	0.2%	575.1	0.2%	714.7	0.3%
HCT Fund	178.6	0.1%	227.0	0.1%	267.9	0.1%	253.6	0.1%
CONSOLIDATED TREASURY ASSETS	**30,165.2**	**10.3%**	**27,470.5**	**10.0%**	**25,385.6**	**9.6%**	**23,503.6**	**8.3%**

Source: Dipres.

With regard to the sovereign wealth funds (ESSF and PRF), the estimated contributions and withdrawals in the 2020 fiscal year were affected by the measures implemented to address the impact of the COVID-19 pandemic on the national economy. Thus, PRF contributions were suspended in 2020 and 2021 (Article 4 of Law N°21,225), and increased withdrawals from the fund were authorized for the same two-year period (Article 19 of Law N° 21,227).

The PRF recorded the following flows in 2020: withdrawals of USD 1,576.5 million,[10] accrued interest of USD 220.4 million, capital gains of USD 709.3 million, and management, custody, and other costs of USD 8.5 million.

Similarly, the ESSF recorded accrued interest of USD 95.4 million, withdrawals of USD 4,090.0 million, capital gains of USD 719.3 million, and management, custody, and other costs of USD 2.9 million. The withdrawals from the fund were allocated to complementing the financing of the current Budget Law, as established in Article 4 of D.F.L. N°1 of 2006, issued by the Ministry of Finance.

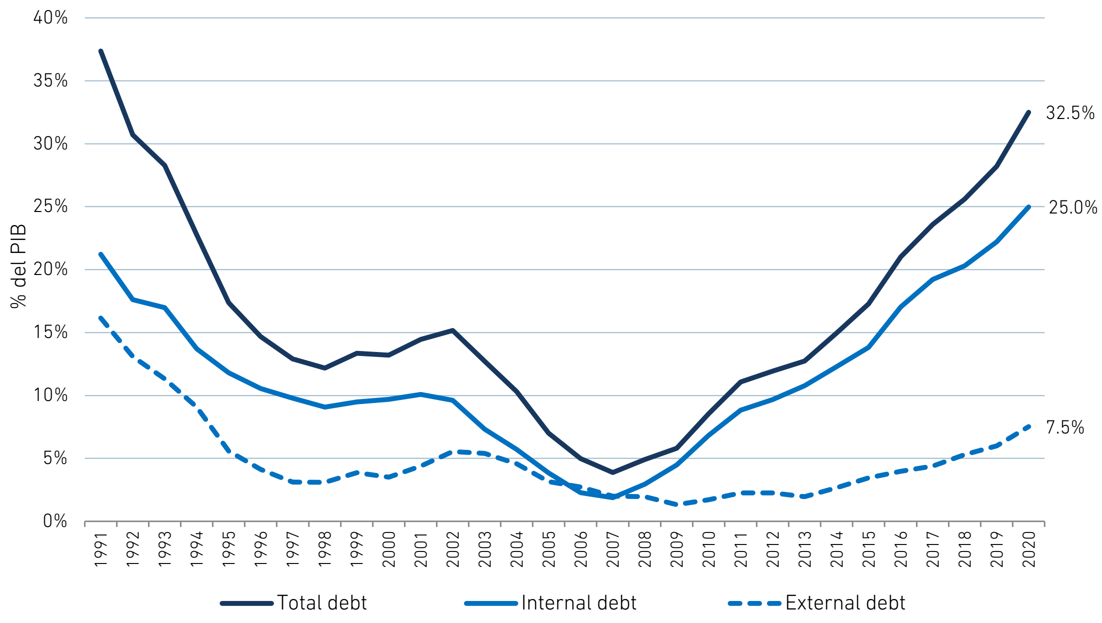
10 For 2020 and 2021, the PRF withdrawal rule was defined as the full difference between total expenditures in each of these years for the payment of obligations stipulated in Article 5 of Law N°20,128, and total expenditures for that line item in 2008.

I.9.2 Central Government Gross Debt, 2020[11]

The gross debt stock of the central government (GDCG) closed the year at CLP 65,167,462 million on 31 December 2020[12], equivalent to 32.5% of 2020 GDP. Figure I.9.2 shows the evolution of the GDCG from 1991 to 2020.

Figure I.9.2
Central Government Gross Debt, 1991–2020

(% of GDP, close of each period)



Source: Dipres.

In 2020, due to the global pandemic, the maximum authorized debt contained in the Budget Law for that year, namely, USD 9,000 million (Article 3, Law N° 21,192), was increased by USD 4,000 million via Law N°21,225, which establishes measures to support families and micro, small, and medium-sized businesses from the impact of COVID-19 in Chile. Thus, the maximum authorized debt for the 2020 budget year was USD 13,000 million. Under that authorization, peso- and UF-denominated bonds totaling CLP 6,210,885 million and UF 58.8 million, respectively, were placed in the local financial market, and dollar- and euro-denominated bonds of USD 3,108 million and €1,941 million, respectively, were placed in the international financial market.

A disaggregation of the GDCG balance at year-end 2020 by type of creditor and instrument reveals that 98.3% corresponds to bonds, which are negotiable securities that are traded in the financial markets. Within this class, 76.9% has been contracted or placed in the local financial market and 23.1% in the international financial market (Table I.9.2).

11 This section is extracted from "Deuda Bruta del Gobierno Central," published quarterly by the Budget Office. For details, see http://www.dipres.cl/598/articles–221546_doc_pdf.pdf.
12 Equivalent to USD 91,625.1 million using the nominal exchange rate at year-end (CLP 711.24).

Table I.9.2
Stock of Central Government Debt by Creditor
(millions of USD)

	MAR 2020	%	JUN 2020	%	SEP 2020	%	DEC 2020	%
TOTAL DEBT	**70,022.0**	**100.0**	**78,071.5**	**100.0**	**82,571.0**	**100.0**	**91,625.1**	**100.0**
Bonds	68,813.3	98.3	76,889.3	98.5	81,400.2	98.6	90,036.1	98.3
IDB	863.1	1.2	862.3	1.1	850.2	1.0	1,280.0	1.4
IBRD	141.6	0.2	133.0	0.2	132.1	0.2	140.2	0.2
Banco Estado	20.9	0.0	21.7	0.0	22.6	0.0	19.4	0.0
Other	183.1	0.3	165.2	0.2	165.8	0.2	149.5	0.2
INTERNAL DEBT	**51,082.5**	**100.0**	**56,974.1**	**100.0**	**62,176.5**	**100.0**	**70,417.1**	**100.0**
Bonds	51,061.3	100.0	56,952.3	100.0	62,153.8	100.0	70,397.6	100.0
Banco Estado	20.9	0.0	21.7	0.0	22.6	0.0	19.4	0.0
Other	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EXTERNAL DEBT	**18,939.5**	**100.0**	**21,097.5**	**100.0**	**20,394.5**	**100.0**	**21,208.1**	**100.0**
Bonds	17,752.0	93.7	19,937.0	94.5	19,246.4	94.4	19,638.5	92.6
IDB	863.1	4.6	862.3	4.1	850.2	4.2	1,280.0	6.0
IBRD	141.6	0.7	133.0	0.6	132.1	0.6	140.2	0.7
Other	182.8	1.0	165.1	0.8	165.8	0.8	149.4	0.7

Source: Dipres.

I.9.3 Net Financial Position 2020

As indicated in previous sections, the net financial position (NFP) at the close of the 2020 fiscal year was USD –68,122 million. This indicator is obtained by comparing the level of Public Treasury financial assets with the gross debt stock, all measured on 31 December 2020. As a percentage of 2020 GDP, the NFP was –24.2% (Table I.9.3).

Table I.9.3
Total Central Government: I.9.3 Net Financial Position, year-end 2017–2020
(millions of USD)

	2017		2018		2019		2020	
	USD MM	% GDP	USD MM	% GDP	USD MM	% GDP	USD MM	% GDP
Total Public Treasury assets	30,165	10.3	27,470	10.0	25,386	9.6	23,504	8.3
Total gross debt	68,936	23.6	70,247	25.6	74,391	28.2	91,625	32.5
NET FINANCIAL POSITION [1]	**−38,771**	**−13.3**	**−42,777**	**−15.6**	**−49,006**	**−18.6**	**−68,122**	**−24.2**

(1) The amount of the NFP differs from the central government's net financial liabilities as published in the Finance Ministry's Public Debt Statistics Report because the Figure Beported by Ministry incorporates other financial asset categories, which are not considered in the indicator reported herein.
Source: Dipres.

I.10. FUNCTIONAL RESOURCE ALLOCATION IN 2020

Costs allocated to social expenditures[13] in 2020 represented 73.9% of total central government disbursements, up from 70.6% in 2019. This reflects the fact that social spending increased more than other expenditures during the 2020 fiscal year. Specifically, social expenditures grew 15.7% in real terms in 2020, whereas total central government expenditures grew 10.4%. For the 2000–2020 period, social expenditures grew 6.6% annually, while total central government expenditures increased 6.2% in the same period. (Table I.10.1).

In 2020, the category with the biggest impact on the growth of social expenditures was social protection, which grew 31.8% in real terms and explained 11.2% of total social spending growth. Furthermore, this category also had the largest share, accounting for 29.7% of total outlays in 2020. Within the category, the line item Family and children grew 216%, due to the Emergency Family Income (EFI) program. Another significant aspect of social protection spending is old-age programs, in particular the Basic Old-Age Solidarity Pension and the Solidarity Pension Support programs of the Social Security Institute (IPS).

The second-largest category in terms of the growth of social expenditures in 2020 was health. Health spending grew 15.7% in real terms and represented 22.1% of total expenditures in the year. The items with the biggest impact include the following: hospital services, with real growth of 11.1%, and public health services, at 36.4%. The latter includes the National Complementary Food Program, the Complementary Food Program for the Elderly, and the extended Immunization Program.

Table I.10.1
Total Central Government: Functional Allocation of Disbursements, 2000, 2019, and 2020
(millions of 2020 CLP, % of total expenditures, and average annual change)

	2000		2019		2020		AVERAGE ANNUAL CHANGE, 2000–2020
	2020 CLP MM	% TOTAL	2020 CLP MM	% TOTAL	2020 CLP MM	% TOTAL	
TOTAL EXPENDITURES	**16,505,033**	**100.0**	**49,617,055**	**100.0**	**54,793,037**	**100.0**	**6.2**
GENERAL PUBLIC SERVICES	**1,077,533**	**6.5**	**3,994,264**	**8.1**	**3,960,005**	**7.2**	**6.7**
Executive and legislative bodies, financial and fiscal affairs, and foreign affairs	594,121	3.6	1,480,385	3.0	1,328,664	2.4	4.1
Exterior economic aid	0	0.0	716	0.0	499	0.0	––
General services	73,314	0.4	292,800	0.6	235,284	0.4	6.0
Basic research	61,079	0.4	341,656	0.7	354,277	0.6	9.2
Other general public services (n.e.c.)	15,184	0.1	69,209	0.1	138,367	0.3	11.7
Public debt transactions	333,834	2.0	1,809,499	3.6	1,902,914	3.5	9.1
DEFENSE	**1,277,730**	**7.7**	**1,572,377**	**3.2**	**1,298,487**	**2.4**	**0.1**
Military defense	1,272,508	7.7	1,567,308	3.2	1,293,883	2.4	0.1
Defense-related research and development	5,221	0.0	5,069	0.0	4,605	0.0	–0.6
PUBLIC ORDER AND SECURITY	**928,487**	**5.6**	**3,357,443**	**6.8**	**3,232,420**	**5.9**	**6.4**
Police services	558,296	3.4	1,606,795	3.2	1,527,643	2.8	5.2
Fire protection services	16,205	0.1	46,519	0.1	46,307	0.1	5.4
Judicial courts	215,237	1.3	1,078,557	2.2	1,041,979	1.9	8.2
Prisons	138,749	0.8	589,635	1.2	576,778	1.1	7.4
Other public order and security (n.e.c.)	0	0.0	35,937	0.1	39,714	0.1	––

13 Social expenditures comprise the following areas: environmental protection; housing and community services; health; recreational, cultural, and religious activities; education; and social protection.

Continuation

	2000		2019		2020		AVERAGE ANNUAL CHANGE, 2000–2020
	2020 CLP MM	% TOTAL	2020 CLP MM	% TOTAL	2020 CLP MM	% TOTAL	
ECONOMIC AFFAIRS	**1,871,262**	**11.3**	**5,677,251**	**11.4**	**5,796,786**	**10.6**	**5.8**
General economic, commercial, and labor affairs	70,267	0.4	210,920	0.4	976,745	1.8	14.1
Agriculture, forestry, fishing, and hunting	304,111	1.8	724,968	1.5	688,385	1.3	4.2
Fuels and energy	21,902	0.1	149,706	0.3	144,566	0.3	9.9
Mining, manufacturing, and construction	22,167	0.1	47,930	0.1	44,229	0.1	3.5
Transport	1,044,373	6.3	3,787,897	7.6	3,261,077	6.0	5.9
Communications	9,273	0.1	39,853	0.1	44,662	0.1	8.2
Other industries	4,849	0.0	35,799	0.1	17,416	0.0	6.6
Economic affairs-related research and development	147,180	0.9	405,603	0.8	378,714	0.7	4.8
Other economic affairs (n.e.c.)	247,139	1.5	274,575	0.6	240,991	0.4	−0.1
ENVIRONMENTAL PROTECTION	**57,381**	**0.3**	**196,943**	**0.4**	**218,291**	**0.4**	**6.9**
Pollution reduction	16,692	0.1	32,564	0.1	34,234	0.1	3.7
Biodiversity and landscape protection	36,857	0.2	106,973	0.2	151,571	0.3	7.3
Other environmental protection (n.e.c.)	3,832	0.0	57,406	0.1	32,485	0.1	11.3
HOUSING AND COMMUNITY SERVICES	**218,852**	**1.3**	**677,145**	**1.4**	**707,113**	**1.3**	**6.0**
Urbanization	162,223	1.0	394,443	0.8	400,307	0.7	4.6
Community development	0	0.0	15,103	0.0	8,273	0.0	--
Water supply	53,746	0.3	267,599	0.5	298,532	0.5	9.0
Other housing and community services (n.e.c.)	2,883	0.0	0	0.0	0	0.0	--
HEALTH	**2,101,951**	**12.7**	**10,446,645**	**21.1**	**12,091,040**	**22.1**	**9.1**
Medical products, supplies, and equipment	3,223	0.0	67	0.0	49	0.0	−18.9
Outpatient services	0	0.0	297,652	0.6	305,615	0.6	--
Hospital services	1,590,187	9.6	8,226,448	16.6	9,136,809	16.7	9.1
Public health services	99,346	0.6	163,539	0.3	223,138	0.4	4.1
Other health (n.e.c.)	409,194	2.5	1,758,939	3.5	2,425,429	4.4	9.3
RECREATIONAL, CULTURAL, AND RELIGIOUS ACTIVITIES	**94,236**	**0.6**	**375,788**	**0.8**	**338,505**	**0.6**	**6.6**
Recreational and sport services	61,158	0.4	187,273	0.4	163,767	0.3	5.0
Cultural services	33,079	0.2	188,515	0.4	174,738	0.3	8.7
EDUCATION	**2,836,350**	**17.2**	**10,958,992**	**22.1**	**10,864,116**	**19.8**	**6.9**
Preschool, primary, and secondary education	2,102,001	12.7	7,552,260	15.2	7,511,949	13.7	6.6
Tertiary education	349,951	2.1	1,822,698	3.7	1,836,762	3.4	8.6
Education not definable by level	13,841	0.1	23,115	0.0	19,835	0.0	1.8
Education support services	168,708	1.0	1,054,023	2.1	1,048,326	1.9	9.6
Other education expenditures (n.e.c.)	201,848	1.2	506,896	1.0	447,245	0.8	4.1
SOCIAL PROTECTION	**6,041,253**	**36.6**	**12,360,207**	**24.9**	**16,286,275**	**29.7**	**5.1**
Disease and disability	45,648	0.3	146,287	0.3	183,502	0.3	7.2
Old age	4,610,455	27.9	7,556,608	15.2	8,173,636	14.9	2.9
Family and children	494,688	3.0	1,346,149	2.7	4,253,962	7.8	11.4
Unemployment	73,200	0.4	103,273	0.2	140,909	0.3	3.3

Continuation

	2000		2019		2020		AVERAGE ANNUAL CHANGE, 2000–2020
	2020 CLP MM	% TOTAL	2020 CLP MM	% TOTAL	2020 CLP MM	% TOTAL	
Housing	609,575	3.7	2,149,100	4.3	2,092,510	3.8	6.4
Social exclusion	45,458	0.3	280,993	0.6	297,684	0.5	9.9
Social protection-related research and development	27,855	0.2	76,340	0.2	83,959	0.2	5.7
Other social protection (n.e.c.)	134,373	0.8	701,457	1.4	1,060,112	1.9	10.9
SOCIAL EXPENDITURES	**11,350,022**	**68.8**	**35,015,719**	**70.6**	**40,505,339**	**73.9**	**6.6**
GROWTH OF SOCIAL EXPENDITURES, 2019–2020			**15.7**				
GROWTH OF TOTAL CONSOLIDATED CENTRAL GOVERNMENT EXPENDITURES, 2019–2020			**10.4**				

Source: Dipres.

BOX 1. PROGRESS ON THE MEASUREMENT OF PUBLIC SPENDING ON CLIMATE CHANGE

One of the challenges facing finance ministries and budget offices at both the global and Latin American levels is ensuring the availability of better information for the design and assessment of public policies, including reviewing the efficiency and effectiveness of public spending. In this context, an issue that has become increasingly important in recent years at the international level is related to improving the quality of information on government policies, programs, and projects that contribute to reducing the negative impacts of climate change, both on the people's well-being and on the economy, in terms of mitigating and/or adapting to climate change. Therefore, the process of identifying, measuring, monitoring, and evaluating fiscal spending on climate change represents a powerful decision-making tool in a context of limited availability of public resources.

While international negotiations in the context of the United Nations Framework Convention on Climate Change (UNFCCC) go back more than a quarter of a century, the incorporation of climate change in public finance is relatively new.

Specifically, the Chilean government has committed to moving forward on compliance with international agreements that promote the reduction of the negative impact of climate change. In the framework of the Twenty-First Conference of Parties (COP-21) of the UNFCCC, Chile's Nationally Determined Contribution (NDC) commitment includes a cross-sectional financing strategy for facing the national challenges posed by climate change, which was ratified in our updated NDC presented at the UNFCCC in April of last year. As part of its commitment in this area, Chile has taken on a leadership role, presiding over the COP-25 and co-presiding over the Coalition of Finance Ministers for Climate Action.

The climate change financing strategy presented by Chile at the COP-25 establishes the need for robust information on government expenditures on mitigation and adaptation activities. In this context, the Budget Office (Dipres), in conjunction with the Finance Ministry, is carrying out an assessment to formulate a methodological proposal for measuring public spending on climate change. Given that one of the institution's mandates is to ensure the efficient use of resources, this analysis will help determine the extent to which public policies are working in conjunction with climate action, which in turn has direct impacts on the economy and people's quality of life. It should also provide an important input for identifying funding gaps with regard to the country's climate commitments under the UNFCCC framework and could help prioritize public investment.

To meet this objective, the Finance Ministry signed a collaboration agreement in 2019 with the United Nations Development Program (UNDP) to develop a fiscal framework for measuring public spending on national climate change. As part of this project, Dipres is being supported in undertaking an assessment of public spending on climate change, taking advantage of UNDP's extensive experience in implementing the Climate Public Expenditure and Institutional Review (CPEIR) and Climate Budget Tagging (CBT). The CPEIR methodology consists in reviewing and assessing public spending on climate change using information from past budgets. The CBT methodology, in turn, aims to implement a system for identifying climate change expenditures within the budget process.

The institution has invested in generating internal capacities through participation in a wide range of international workshops and seminars organized by the Coalition of Finance Ministers for Climate Action and the climate financing sub-group of the Council of Finance Ministers of the Pacific Alliance, in collaboration with multilateral organizations that are spearheading diverse methodological initiatives in this area, including the Organization for Economic Cooperation and Development (OECD), the Inter-American Development Bank (IDB), and the World Bank. At these seminars, participants discuss the experiences of countries that have already made progress on related issues, such as Colombia, Ecuador, France, Ireland, Mexico, Nicaragua, and Peru, so as to extract valuable lessons on the process of designing and implementing measures of this type of expenditure, both ex ante and ex post.

Table B.1.1
Country Experiences in Measuring Public Spending on Climate Change

	ASSESSMENT OF PUBLIC SPENDING ON CLIMATE CHANGE	MARKERS FOR PUBLIC SPENDING ON CLIMATE CHANGE
LATIN AMERICA		
Peru	No	Yes
Mexico	No	Yes
Colombia	2016 and 2018	Partial
Nicaragua	2015 and 2017	Yes
Honduras	2017	Yes
Ecuador	2016	Yes
EUROPE		
France	2019	In process
Netherlands	No	Yes
Finland	2017	Yes
ASIA		
Philippines	2011	Yes
Nepal	2011	Yes
Bangladesh	2012	Yes
Indonesia	2012	Yes

Source: Dipres, based on a presentation by Raúl Delgado (IDB), "Avances de Países en Latino América y el Caribe en identificación y evaluación del gasto público presupuestal en cambio climático."

Table B.1.1 lists some of the international experiences that were studied during this process, indicating if and when the countries carried out an assessment process for public spending on climate change. The table also identifies countries that currently use total or partial budget tagging or are in the process of implementing it. The majority of the Latin American and Asian countries studied have carried out their CPEIR assessments and implemented the OECD Rio markers, adapted to the national reality. As is evident from the table, developing countries have been pioneers in this area. More recently, developed countries have also made major inroads on budget tagging initiatives. It is important to note that the markers have tended to be implemented on an ad hoc basis, adjusted to the reality of each country's budgetary system and geography, given that to date there is no internationally accepted methodology that would allow standardizing public spending on climate change.

The reviewed methodologies and international experiences show that measuring public spending on climate change requires, first, the clear and precise definition of what is understood by climate change expenditures, as well as mitigation and adaptation. In particular, the lessons gleaned suggest that the OECD definitions are often used as a base, but there is a lot of heterogeneity in terms of practices and the nature of activities by sector, which makes comparison difficult. Second, it is necessary to decide what level of government will carry out the analysis: central, subnational, and/or local. Third, another decision is whether the process will be ex ante, when the Budget Bill is presented, and/or ex post, with budget execution data. Fourth, it is necessary to decide whether to classify both current and capital expenditures and at what level of aggregation (program, project, activity, etc.). This mainly depends on the existing breakdown in the government's integrated financial administration system. Finally, conditional on the aggregation level, it is necessary to determine whether addressing climate change is the main or secondary objective of the budget item being analyzed, so as to differentiate between a project that directly attacks climate change and another that simply generates positive externalities.

The main lessons gleaned from the international experience are outlined in Diagram B.1.1. First, finance ministries must be the leaders of these processes, together with the budget offices, given their legal authority and their deep knowledge of spending measurement. Second, the implementation of these initiatives must be gradual, that is, they should start with pilot programs in some ministries or services, so as to allow the identification of obstacles that could arise once the methodology is implemented more generally. In particular, best practices suggest starting the pilot with services that are more closely related to the implementation of projects associated with climate change mitigation and adaptation. Third, it is necessary to work in conjunction with climate change experts and the administrative and finance departments of each sectoral ministry. The former have the specific knowledge of the nature of the ministry's programs, projects, and activities and their association with climate change, and they can collaborate with the latter on the identification of climate change expenditures. Finally, it is essential for the process to be transparent and externally verified by independent experts.

Diagram B.1.1.
Main Lessons from International Experiences

1	Finance ministries must be the leaders of these processes, in conjunction with the budget offices.
2	The implementation of these initiatives must be gradual, to allow the identification of obstacles that could arise once the methodology is implemented more generally.
3	It is necessary to work in conjunction with climate change experts and the administrative and finance departments of each sectoral ministry.
4	It is essential for the process to be transparent and externally verified by independent experts.

Source: Dipres.

Measuring public spending on actions oriented toward climate change mitigation and/or adaptation represents an important challenge, given the variability in the definition of these actions and the complexity of public financing flows. Moreover, budgetary classification in Chile is not designed to identify and measure these flows, so it is necessary to assess how to collect the relevant information and what modifications can be made to the IT systems in order to do so. Additionally, a substantial share of climate action projects receive direct financing from international sources, which is not reflected in the budget. It is therefore essential to be pragmatic and move forward gradually on the necessary changes to internalize this type of policy. Progress in this area will contribute to meeting the country's climate change commitments and thus protect the nation's economy and public finances.

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BOX 2. EMPLOYMENT PROTECTION MEASURES TO ADDRESS THE EMERGENCY AND RECOVERY

CONTEXT

In 2020, several measures were implemented to support employment during the COVID-19 pandemic. These included the Employment Protection Law, which is focused on the emergency phase and aims to prevent job destruction during periods when people's movement is restricted. The Employment Subsidy, in turn, is focused on the recovery phase and promotes job reentry for existing workers, as well as the contracting of new employees by businesses.

This box describes the original legislation and amendments to both measures in 2020 and early 2021, as well as their coverage.

EMPLOYMENT PROTECTION LAW

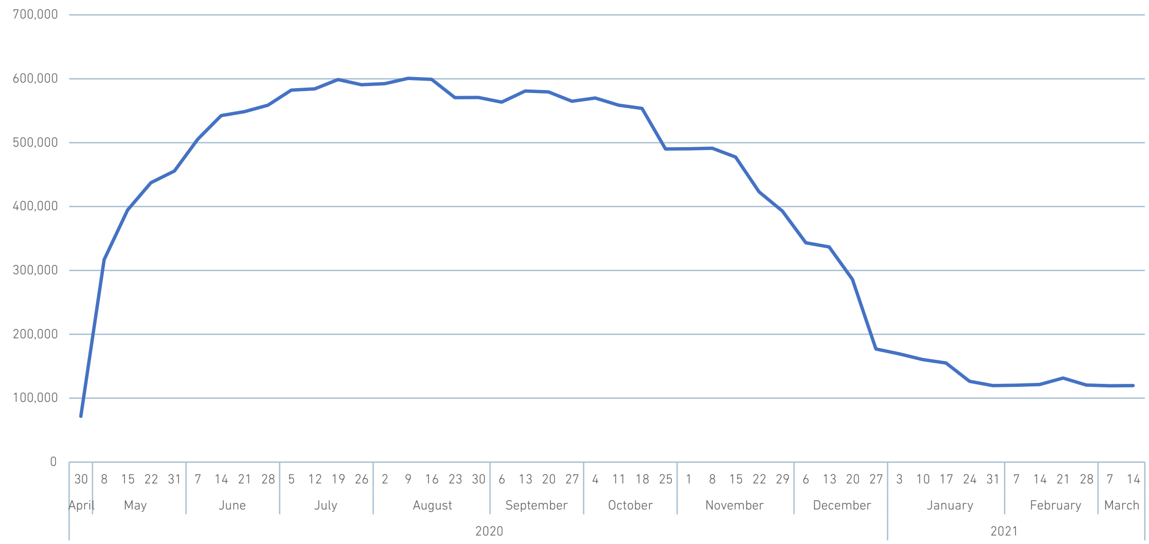
Law N° 21,227 on Employment Protection was published on 6 April 2020, following the presentation of the bill by the Executive on 25 March of the same year. This law granted access to unemployment insurance benefits through individual capitalization-based unemployment accounts (CIC) and the Unemployment Solidarity Fund (FCS), in response to the temporary suspension of job contracts due to the pandemic or the negotiation of a temporary reduction of the workday. Two months after its publication, over 591,000 applications for contract suspension had been approved.

Over the next several months, four initiatives were processed to complement and extend the benefits of the Employment Protection Law. Law N° 21,232, published in June 2020, made clarifications on payment procedures and application requirements. In July, workers with children under their care were given the right to suspend the obligations of their work contract, under Law N° 21,247. In September, the publication of Law N° 21,263 improved unemployment insurance benefits and access conditions, as well as the benefits of the Employment Protection Law. It also authorized additional benefits for more than 29,000 fixed-term employees, who at the time could only make three withdrawals from their individual unemployment accounts. Finally, in February of this year, the publication of Law N° 21,312 empowered the Executive to extend the duration of the law, in terms of the provisions on contract suspension, through December 2021.

As a result of the application of the Employment Protection Law, together with its complements and extensions, as many as 600,000 workers have received payments for contract suspension,[1] peaking in August 2020, and 48,000 workers for workday reduction agreements,[2] in October 2020. In terms of amounts, the average unemployment benefits due to contract suspension paid to employees with a permanent contract were CLP 281,489 a month, while the average benefit for fixed-term employees was CLP 232,338. Figure 1 presents the evolution of benefits paid for temporary contract suspension.

1 Weekly statistics report N°15, Employment Protection Law, 9 August 2020.
2 Weekly statistics report N°25, Employment Protection Law, 18 October 2020.

Figure B.2.1
Number of beneficiaries receiving payment for temporary contract suspension



Source: Superintendence of Pensions.

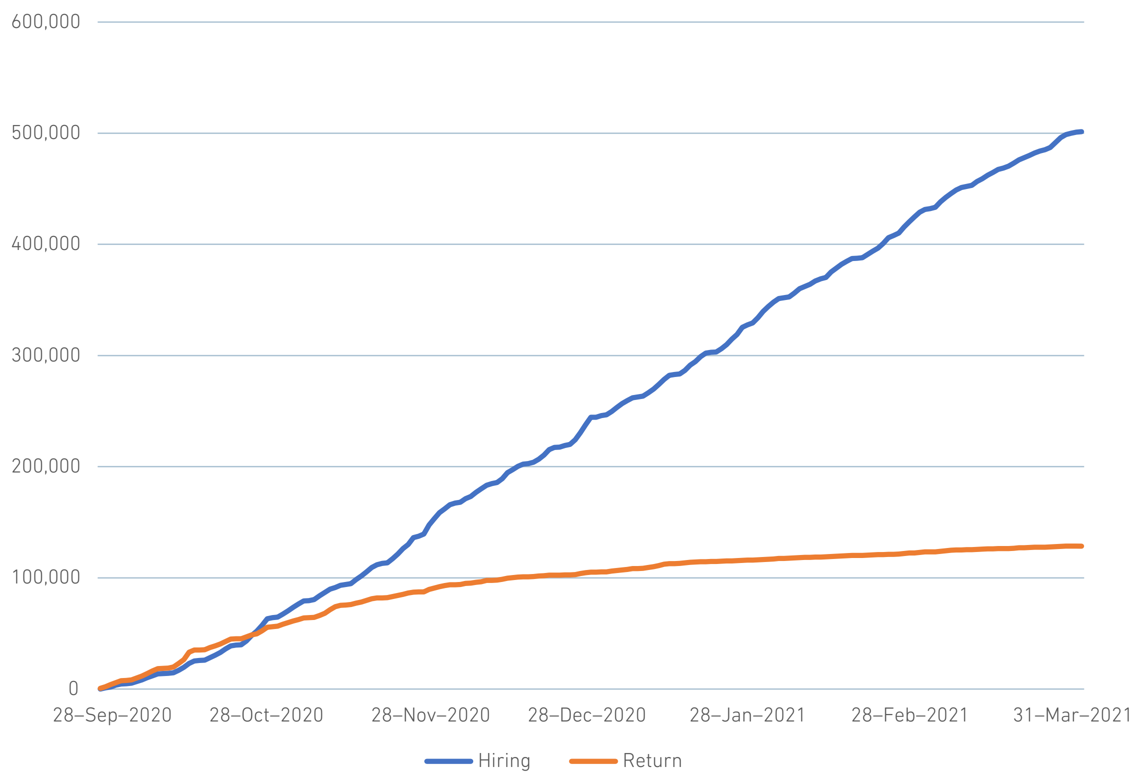
EMPLOYMENT SUBSIDY

The Employment Subsidy was created via Decree N° 31 of the Ministry of Labor and Social Security, published in September 2020. This decree created a new line of action under the framework of Decree N° 28 of 2011, called the COVID-19 Emergency Line for Labor Market Reactivation, which paid a wage rebate of CLP 160,000 for the retention of workers who were previously suspended under Law N° 21,227 (Return Subsidy) and up to 50% of the wages of new hires for six months, to promote the hiring of new workers during the recovery phase (Hiring Subsidy). Additionally, the latter subsidy establishes priority groups with coverage of up to 60%, namely, women, people under 24 years of age, or people with a disability.

In November 2020, this decree was complemented with Decree N° 43, which stipulates that the subsidy will not be extended to cover workers who are owners or shareholders in the applicant firm. Subsequently, a new wage allowance was created via Decree N° 7 of 2021, called the Protection Subsidy, which pays CLP 200,000 to workers caring for children under two years of age. This allowance is paid for three months from the approval date. Finally, Decree N° 12 of 2021, increases the Return Subsidy to CLP 200,000 for women, people under 24 years of age, men over 55 years of age, and people with a disability. It also increased the Hiring Subsidy for priority groups from 60 to 65% of the wage and included men over 55 years of age as an additional priority group. Finally, it increased the duration of Hiring Subsidy payments from six to eight months, or up to ten months in the case of micro, small, and medium-sized enterprises.

As a result of the application of the employment subsidy program, 127,301 workers have been approved for the Return Subsidy, while 485,638 workers have either been approved or are pending approval for the Hiring Subsidy. The Protection Subsidy, in turn, has benefited 16,933 workers.

Figure B.2.2
Approved Applications for Employment Subsidies

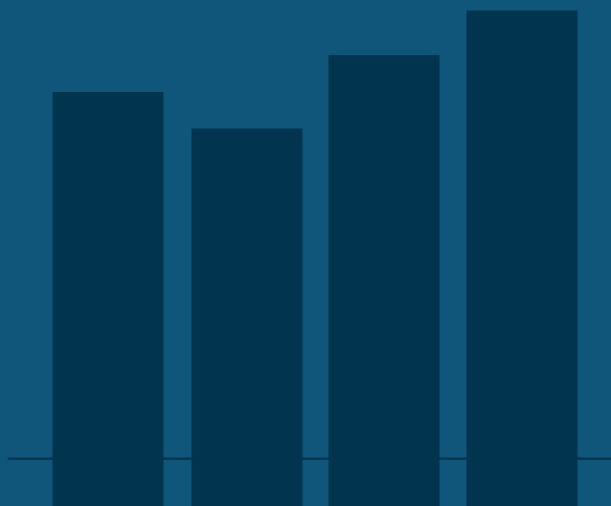


Note: The figure graphs the number of applications for the Hiring and Return Subsidies that have been approved or are pending approval, accumulated on the indicated date. Given the possibility that a single worker could be receiving benefits in multiple firms, the magnitudes do not correspond to the total number of beneficiaries.
Data as of 4 April 2021.
Source: National Training and Employment Service (SENCE).

EMPLOYMENT PROTECTION IN 2021

The two instruments described above will continue playing a key role in mitigating and reversing the adverse effects of the pandemic on the labor market. However, the relative importance of each program will depend on the evolution of the health situation, so adjustment and response mechanisms will be needed to facilitate their timely application. In this sense, and considering the intensification of the pandemic in recent weeks, the President announced a Bill that will allow insured unemployed people or workers with a contract suspension to reinitiate benefit payments from the first payment, together with other benefits paid by the Unemployment Solidarity Fund (FCS) in the case of resignation or mutually agreed termination, among other issues. Additionally, the creation of a labor supply subsidy was also announced, consisting in direct transfers to workers who return to their jobs. Finally, Law N° 21,312, recently approved by Congress, broadens the authorization to extend and improve the provisions of the Employment Protection Law, which can now be implemented through one or more Executive Decrees. These decrees should take into consideration the health situation in the county and labor market conditions, so that this public policy can be adapted to the reality that unfolds over the course of this year.

PUBLIC FINANCE REPORT FIRST QUARTER 2021



BUDGET OFFICE

CHAPTER II.
UPDATE OF THE 2021 FISCAL SCENARIO

BUDGET OFFICE

CHAPTER II. UPDATE OF THE 2021 FISCAL SCENARIO

II.1. MACROECONOMIC SCENARIO

Global Economy in 2021

Economic activity in 2021 is expected to pick up substantially, explained by higher-than-expected growth in the second half of last year, in conjunction with the mass deployment of the vaccination process at the world level, the lifting of mobility restrictions, the boost from countercyclical policies, and higher commodity prices. Even so, uncertainty remains high, considering that the virus continues to spread, reaching more than 138 million cases and around 3 million deaths.

Despite the development of a large number of vaccines with a high level of efficacy, the pharmaceutical companies have faced limits in terms of production capacity, which has made it difficult for them to meet their commitments with numerous countries. There have also been difficulties in the distribution chain, especially in poorer countries. In this sense, the direct negotiation between governments and the pharmaceutical companies has resulted in greater vaccine production for higher-income countries. For example, the United Nations indicated in early February that ten countries had hoarded 75% of the COVID-19 vaccines. Meanwhile, the group of lower-income countries continues to lag behind, despite the COVID-19 Vaccine Global Access (COVAX) Facility implemented by the World Health Organization.

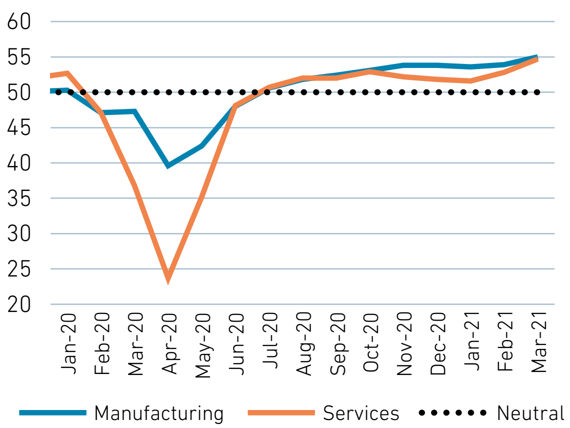
The majority of developed countries and some emerging economies are expected to achieve herd immunity in 2021 and the remainder in 2022. Thus, the virus will continue to be present at the global level at least through next year. As of April, nearly 700 million people have received at least one dose of the vaccine, that is, around 9% of the world population.

That said, achieving herd immunity continues to present multiple challenges. The appearance of new strains of the virus (four major variants have been identified to date) implies significant risks, as it could potentially translate into a faster spread of the virus and/or a reduction in vaccine efficacy. Furthermore, the heterogeneity in the vaccination process at the world level could require maintaining vaccination programs in place for a longer period in order to guarantee the provision of vaccine boosters.

In 2021, the spread of the virus has accelerated mainly in Europe and the Americas, recording higher levels than in the second quarter of 2020, which has required a new round of social distancing measures. Nevertheless, the economic impact has been more limited, since consumer behavior and the productive structure of businesses have adjusted, adopting new technologies such as e-commerce and remote work. In addition, with time the health sector has learned better ways to deal with the virus.

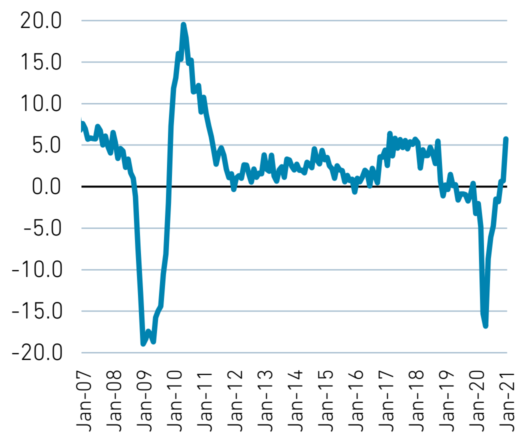
In this context, output is expected to contract in the main economies, in annual terms, in the first quarter of the year. Recent data reflect low levels of consumption, with contractions in nominal sales. However, the manufacturing sector remains dynamic, as seen in high-frequency indicators, with the global manufacturing PMI at 55 points in March. The services PMI, in turn, has also improved, reaching 54.7 points (Figure II.1.1). International trade has shown some important signs of recovery, with an annual growth rate of 5.7% in January, the highest rate since late 2017 (Figure II.2.2).

Figure II.1.1:
PMI
(index, neutral=50)



Source: Bloomberg.

Figure II.1.2:
Volume of World Trade
(annual change, %)



Source: CPB. World Trade Monitor.

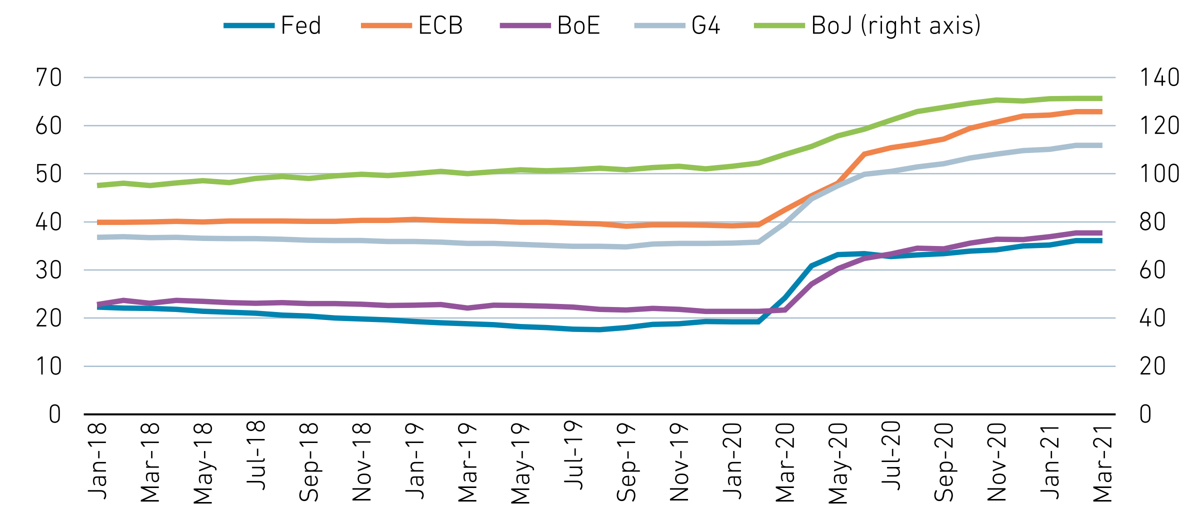
With regard to the labor market, the rate of recovery has been slow, although unemployment rates have declined. The employment level remains lower than before the beginning of the pandemic, which, in conjunction with weak wage growth, has kept down the wage bill and private consumption. In terms of prices, inflation shows an upward trend in several advanced and emerging economies. This is mainly due to supply shocks associated with the increase in food and oil prices. Other factors that play a role in the same direction are the narrowing of the output gap and the increase in inflation expectations, given the better growth outlook and the increase in liquidity in the financial markets.

In relation to economic policies, the scenario is uneven among advanced and emerging economies. While the former group is expected to maintain the fiscal stimulus, the latter has less space for implementing countercyclical fiscal policy due to their large deficits and the higher funding costs as a result of rising interest rates in international markets. Nevertheless, the IMF expects that the fiscal deficit pressure, on average, will ease over the course of this year, due in part to the recovery of tax revenues in line with higher economic growth.

At the country level, the measures implemented by the United States include the fiscal rescue plan approved in March for USD 1.9 trillion, in addition to the USD 900,000 million that Congress approved in December of last year. Thus, the increased spending associated with mitigating the effects of the pandemic could reach USD 4.0 trillion. In the Eurozone, the parliament reached a consensus on the recovery plan and the multiannual budget of €1.8 trillion for the 2021–2027 period. Japan, in turn, approved a third fiscal package equivalent to 13.7% of GDP in late 2020.

Monetary policy will remain accommodative throughout the year, with historically low interest rates in most countries. The U.S. Federal Reserve, at its January and March meetings, confirmed that it will maintain an expansionary stance until it sees significant improvements in its employment and inflation targets. The European Central Bank held the policy interest rate in negative territory and indicated, at its last meeting in March, that it will maintain its accommodative stance as long as necessary. Moreover, the ECB's asset purchase rate is expected to pick up in the second quarter. These trends are reflected in substantial balance sheet growth. The Federal Reserve's balance sheet increased by more than 85%, reaching total assets equivalent to 36% of U.S. GDP. In the case of the European Central Bank, balance sheet assets already equal 62.9% of the region's GDP (60% growth) (Figure II.1.3). This global monetary expansion has caused an increase in inflation expectations. Consequently, investors have moved up their outlook for the start of the monetary normalization process, despite the announcement by the Federal Reserve Chairman, Jerome Powell, that interest rates will stay put for a period of at least three years or until the labor market normalizes.

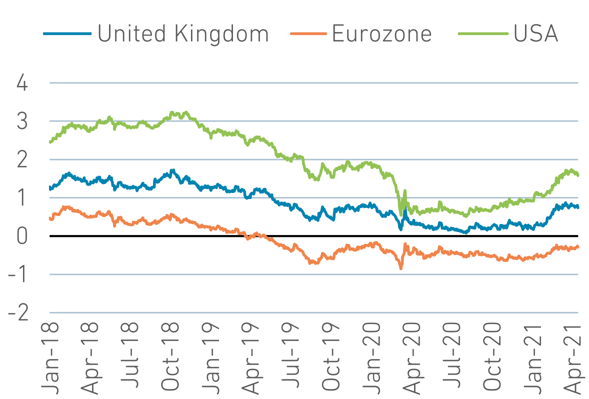
Figure II.1.3
Total Assets of the Main Central Banks
(% of GDP)



Source: Bloomberg.

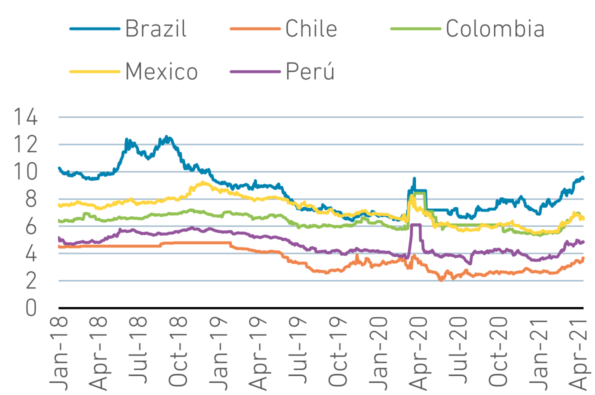
These trends, together with the improvements in the world economic outlook, have put upward pressure on long-term interest rates around the world. Since late 2020, the interest rate on ten-year U.S. Treasury bonds has risen around 66 basis points (b.p.), while the equivalent European bond increased around 28 b.p. in the same period (Figure II.1.4). The Latin American region has not been exempt from this trend. The ten-year rate rose 102 b.p. in Chile (BCP-10), 257 b.p. in Brazil, and 119 b.p. in Colombia (Figure II.1.5).

Figure II.1.4:
Ten-Year Bond Rates
(%)



Source: Bloomberg.

Figure II.1.5
Ten-Year Bond Rates in Latin America
(%)

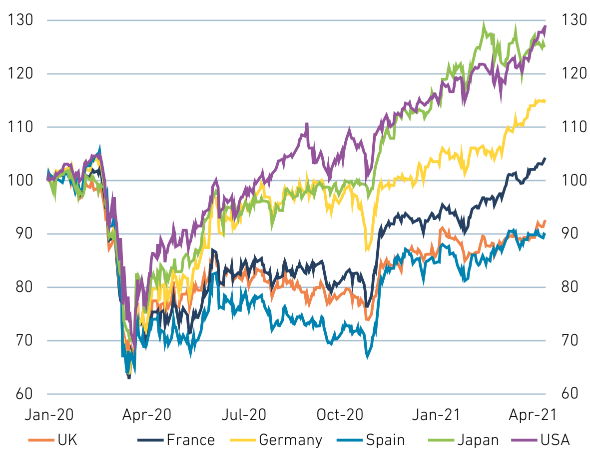


Source: Bloomberg.

The international financial markets have benefited from the improved growth outlook, in line with the pace of the vaccination process in the main world economies. This has been reinforced by the high levels of market liquidity and the expansionary fiscal policy of the United States, Eurozone, and China, among others. In this context, equity markets continue to rise (Figure II.1.6).

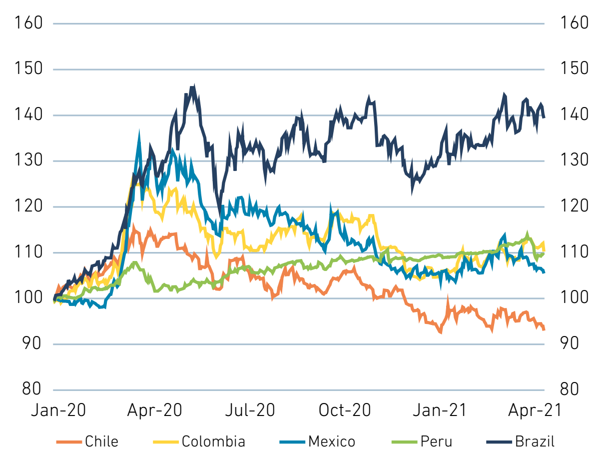
With regard to currencies, the dollar has appreciated in the year, due to the higher growth expectations for the United States and the implementation of greater mobility restrictions, especially in Europe. The Latin American currencies have performed unevenly, with a notable depreciation of the Brazilian real (Figure II.1.7).

Figure II.1.6:
Stock Index in USD
(index: 1-Jan-2020=100)



Source: Bloomberg.

Figure II.1.7
Exchange Rate against the Dollar.
(index: 1-Jan-2020=100)



Source: Bloomberg.

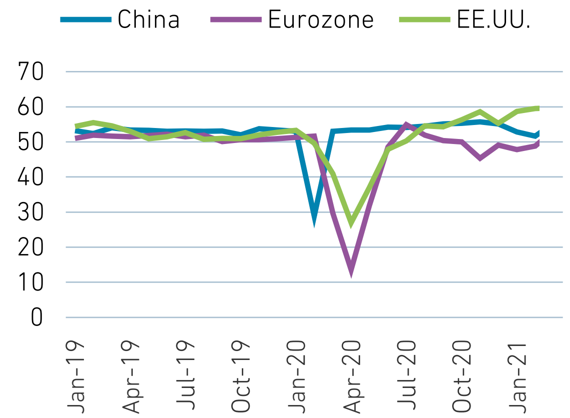
Commodities

Since the last Public Finance Report, there has been something of a reversal in commodity prices, although they remain well above their pre-pandemic levels (Figure II.1.8). The increase in commodity prices mainly reflects the upward revision of the world growth outlook, in particular an acceleration of the Chinese economy in 2021, as reflected in leading indicators of global activity (Figure II.1.9). In particular, this has favored an increase in metal prices, which are currently 35% higher than before the beginning of the COVID-19 pandemic (Figure II.1.10).

Figure II.1.8:
Commodity Index
(index)

Source: Bloomberg.

Figure II.1.9:
Composite PMI
(index, neutral=50)



Source: Bloomberg.

Figure II.1.10:
S&P Metals Index
(index)

Source: Bloomberg.

The copper price, in turn, was around USD 4.10 per pound on the data cutoff date of this Report (Figure II.1.11), averaging USD 3.88 per pound thus far in the year (38.5% above the 2020 average of USD 2.80 per pound). The improvement reflects the increased demand from China, with industrial production growing 17.6% annually in the first three months of the year. This has been reinforced by the lag in the world supply, due to production limitations deriving from the health measures imposed for the pandemic and from a leveling off of technical capacity, which has been essentially unchanged since 2014. Consequently, copper inventories fell to historically low levels in the first quarter of the year, although there are signs of normalization at the margin (Figure II.1.12).

Figure II.1.11:
Copper Price
(USD per pound)

Source: Bloomberg.

Figure II.1.12:
Global Copper Inventories
(index: 2018 average=100)

Source: Bloomberg.

China's industrial production is expected to remain dynamic in 2021, and the United States recently announced the implementation of a vast infrastructure program in the United States, for nearly USD 2 trillion. Together, these trends should sustain the high demand for this commodity, at least in the 2021–2022 period.

The Brent oil price continues along a path of normalization toward its historical average of the last 20 years (USD 65.30 per barrel). Crude oil is currently trading around USD 66 per barrel (Figure II.1.13), with a slight increase toward the end of March in response to the temporary interruption of supply when the Suez Canal was blocked. At the same time, OPEC-Plus recently announced an agreement to gradually increase fuel production. Going forward, to the extent that China remains dynamic and the economic outlook continues to improve for the United States and Europe, the oil price is expected to maintain its recovery trend.

Figure II.1.13:
Brent Oil Price
(USD per barrel)

Source: Bloomberg.

One of the principal negative effects of the crisis has been the impact on the most vulnerable population, with an increase in poverty levels and economic inequality and thus a significant reversal of the progress achieved in recent years. According to ECLAC, in 2020 poverty and extreme poverty in Latin America reached 33.7% and 12.5% of the population, respectively, levels not seen in the last 12 and 20 years in each case. Moreover, the destruction of firms (especially small and medium-sized businesses), the rise in unemployment, the heightened vulnerability of fiscal sustainability, and the increase in private sector debt all constitute an important risk for social stability and economic recovery.

In this context, the coordination of fiscal and monetary policy continues to represent a challenge. On the one hand, withdrawing the stimulus measures prematurely would set back the economic recovery. On the other, maintaining measures that are more expansionary than necessary would accelerate the closure of the output gap, potentially pushing effective output above its trend level and increasing the pressure on prices and inflation expectations, which would force the economic authorities to make severe adjustments to avoid the generation of significant macroeconomic imbalances. In the short term, the main policy tool continues to be ensuring a successful vaccination process over the course of this year, so as to allow greater mobility, increase business and consumer confidence, and thus generate a positive impact on demand and employment.

Economic forecasts have been revised upward significantly, but they are still subject to a high degree of uncertainty. In particular, the speed of the recovery varies widely among economies. Whereas some countries could recover to pre-pandemic output levels this year, others that lag behind in the vaccination process will only manage to close that gap in 2022 or 2023. This asymmetry in the pace of economic recovery will occur not only at the country level, but also at the sectoral level. Sectors with a higher degree of social interaction, which have been hit the hardest by mobility restrictions, will have a later recovery than the other sectors.

Among the main economies, according to the April IMF report, the United States should record GDP growth of 6.4% in 2021, versus 3.3% in Japan and 4.4% in Europe. China, in turn, is expected to grow 8.4%. Finally, the output growth forecast for Latin America is 4.6%.

Table II.1.1
World GDP Growth in 2020 and 2021
(%)

	2020	2021	2021
	IMF	IMF	OECD
WORLD	**−3.3**	**6.0**	**5.6**
ADVANCED ECONOMIES	**−4.7**	**5.1**	**−3.8**
United States	−3.5	6.4	6.5
Eurozone	−6.6	4.4	3.9
Japan	−4.8	3.3	2.7
EMERGING ECONOMIES	**−2.2**	**6.7**	**−3.8**
China	2.3	8.4	7.8
LATIN AMERICA AND THE CARIBBEAN	**−7.0**	**4.6**	**−3.8**

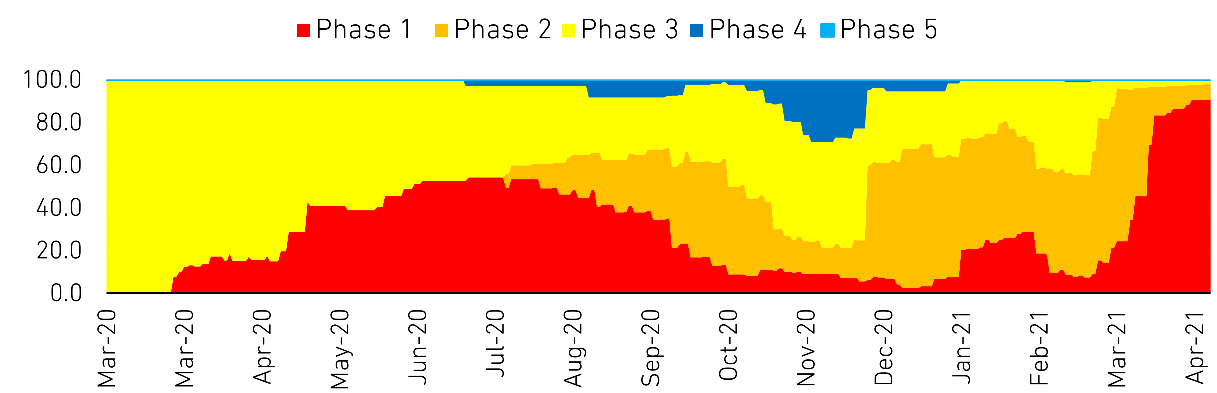
Source: IMF, WEO April 2021; and OECD, March 2021.

Chilean Economy

The Chilean economy closed 2020 in a better position than projected in the Public Finance Report for the fourth quarter, recording a contraction of 5.8%. This provides a better starting point for activity in 2021, when the growth dynamics over the course of the coming months will be strongly influenced by the comparison base from last year, due to the impact of the pandemic. Thus, starting in the second quarter, a strong upturn is expected in the annual output data, including double-digit growth in some months.

Nevertheless, mobility restrictions have been tightened recently in response to the increase in the number of COVID-19 cases. As of the data cutoff of this Report, communities in lockdown account for 90.8% of the country's total population, which vastly exceeds the level of quarantine recorded at the worst point of the pandemic last year (Figure II.1.14).

Figure II.1.14:
Paso a Paso: Phased Lockdown Plan
(% of population)



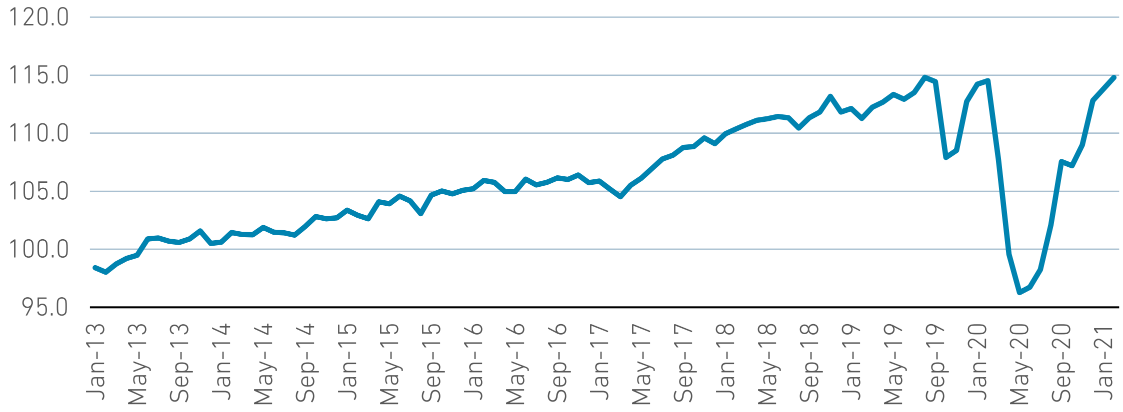
Source: Finance Ministry, based on data from INE and Minsal.

The economy has adapted to the lockdown conditions, strengthening and broadening online sales channels and home delivery options and prioritizing remote work in some services. This has attenuated the negative impact of the lockdowns on economic activity.

In this context, the Monthly Economic Activity Index (IMACEC) started off 2021 with year-on-year drops in January and February. The services sectors recorded the biggest annual contractions—albeit with an important recovery at the margin—affected by the restrictions on people's mobility. In February, the IMACEC contracted 2.2% in annual terms, mainly explained by a 5.2% drop in services activities, which was partially offset by 8.0% growth in trade and 1.8% in industry.

In seasonally adjusted terms, however, in February the economy recovered the output level recorded before the outbreak of social protests and the pandemic (Figure II.1.15). By economic sector, trade and industry were higher than in early 2020; services had recovered its level; and other productive sectors (including construction, electricity, and agriculture) showed the biggest lag.

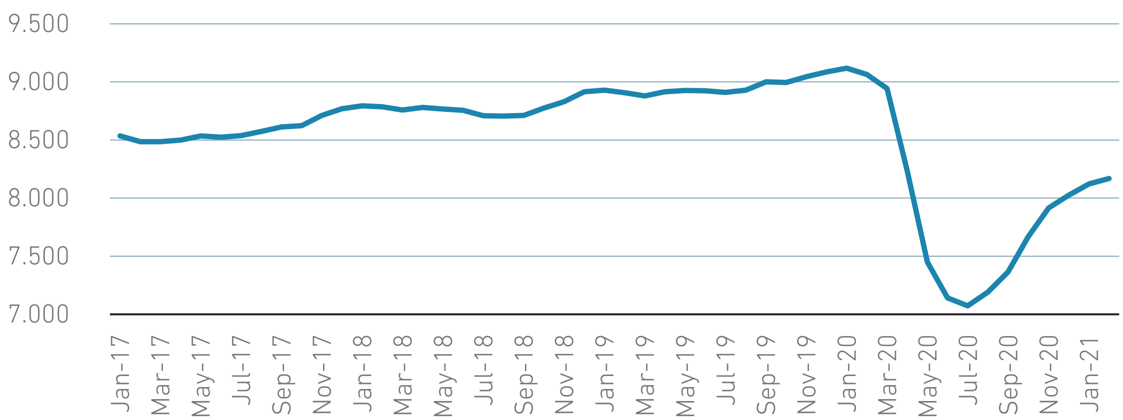
Figure II.1.15:
Seasonally Adjusted IMACEC
(index)



Source: Central Bank of Chile.

The economic recovery has been faster than the jobs recovery, which remains below pre-crisis levels. According to data from the National Statistics Institute (INE), as of the rolling quarter ending in February, almost 1.1 million jobs have been recovered, with an additional 700,000 pending to achieve pre-pandemic levels (Figure II.1.16).

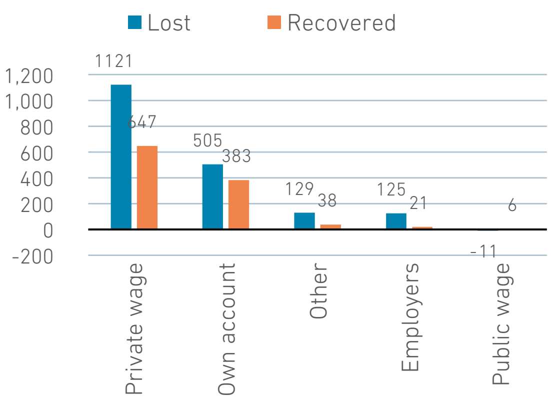
Figure II.1.16:
Total Employment
(thousands of people)



Source: INE.

By occupational category, the majority of the lost jobs were private sector wage employment (1.12 million), of which almost 650,000 have been recovered, representing 58% of the total job destruction. Self-employment has recovered 76% of the 505,000 lost jobs (Figure II.1.17). In this regard, the public sector has played an important role, in various dimensions, to help contain the contraction of employment. Based on INE data, the share of public sector wage employment peaked during one of the worst moments of the pandemic, accounting for 15.6% of total employment. This was mainly due to increased hiring in the health sector, in response to the COVID-19 crisis (Figure II.1.18). This reflects the public sector's commitment to protecting jobs and wage income, which is the main source of regular income for families.

Figure II.1.17:
Job Recovery, by Category
(thousands of people)



Source: INE.

Figure II.1.18:
Share of Public Wage Employment
(% of total employment)

Source: INE.

At the same time, the government continued implementing the Job Protection Law, which was extended through June 2021 and which has given over 873,000 workers access to one or more of the benefits considered in the initiative (Figure II.1.19). The majority of the firms that have taken advantage of this measure have been micro and small businesses.

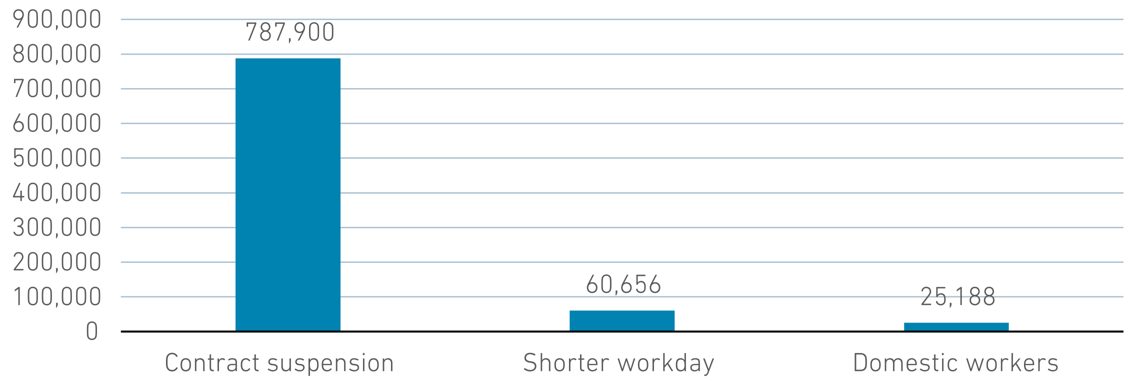
In line with the above, the government has made significant efforts in terms of family income protection. In March, the President announced the strengthening of the social protection network, in five pillars: better family income protection, stronger support for the middle class, greater job protection, stronger support for SMEs, and a stronger health plan.

These measures provide direct support for household income, through increases in the amounts of the Emergency Family Income (EFI) and Middle-Class Support transfers. They also include resources to support SMEs, as well as measures aimed at protecting jobs.

Taken together, the measures announced in March commit USD 5,973 million, equivalent to 2.0% of GDP, and increase the Temporary COVID-19 Emergency Fund approved in mid-2020 by 50%, to USD 18 billion. Additionally, below-the-line measures include the new middle-class loan, which stipulates resources of USD 1,637 million (0.55% of GDP). Thus, considering both above- and below-the-line resources, the total amounts to USD 7,610 million.

As of February 2021, the implementation of the Temporary COVID-19 Emergency Fund reached 7.5% of the resources allocated for 2021, in line with the schedule for the month. In the first half of 2021, the implementation of the recently announced fiscal stimulus package will contribute significantly to containing the negative effects of tighter mobility restrictions on family income.

Figure II.1.19:
Workers Benefiting from the Employment Protection Law
(approved applications, 7 March 2021)



Source: Ministry of Finance.

The vaccination process in the country has also been highly successful, alleviating some of the existing uncertainty as of the data cutoff of the Public Finance Report for the fourth quarter of 2020. To date, 12.5 million doses have been administered, covering over 7.6 million people, of which over 5.1 million have received their second dose. In this regard, Chile has been recognized internationally as one of the countries with the highest rates of administered vaccine doses per 100 inhabitants, led only by Israel, which has led the vaccination process at the global level.

The copper price has stayed above the levels recorded last year, which has provided a boost for exports, mainly mining, and thus contributed to economic growth in the first part of the year. This is reinforced by the better outlook for the global economy. In the April 2021 World Economic Outlook, the IMF revised its world growth forecast upward to 6.0% (from 5.2% in the previous WEO), explained mainly by the positive revision of the growth outlook for countries that include Chile's main trading partners, such as the United States and China.

In the first three months of the year, a scenario of improved economic prospects has evolved. The 2020 close was better than expected; the economy has already recovered its pre-crisis output level; the vaccination process continues at a brisk and steady pace; and the external boost has improved significantly, given the more dynamic performance of our trading partners and the higher copper price, at around USD 4.00 per pound.

Given these trends, the Finance Ministry raised its GDP growth forecast for 2021, from a previous estimate of 5.0% to 6.0% (Table II.1.2).

Table II.1.2:
2021 Macroeconomic Assumptions

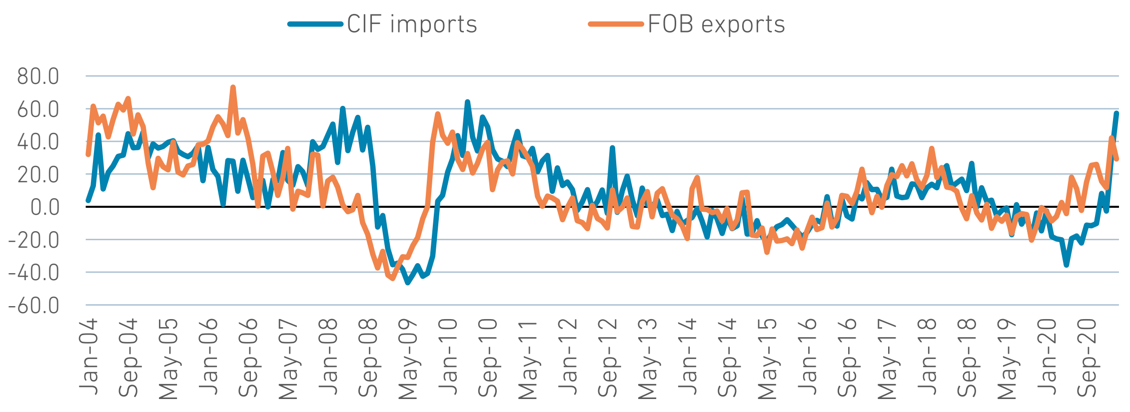
	PFR 2020 Q4	PFR 2021 Q1
GDP (annual change, %)	5.0	6.0
DOMESTIC DEMAND (annual change, %)	8.8	10.7
CPI (var. anual, % promedio)	3.0	3.4
EXCHANGE RATE (CLP /USD, average, nominal value)	723	699
COPPER PRICE (USD cents/lb, average, LME)	335	399

Source: Ministry of Finance.

Domestic demand is projected to grow 10.7% relative to last year, a forecast that incorporates a better performance of both private consumption and gross fixed capital formation, relative to previous estimates. The latter reflects the strong uptick in capital goods imports (33% annually in the first quarter of 2021) and higher levels of business confidence relative to year-end 2020. In private consumption, the better expected performance is based on improved confidence indicators and a gradual recovery projected for the labor market, which will have a positive impact on the growth of real wages. This will be reinforced, in the first part of the year, by the increase in direct transfers by the government.

The terms of trade will be more favorable for the economy in 2021, mainly due to the rise in the copper price, from an estimated annual average of USD 3.35 per pound in the Public Finance Report for the fourth quarter, to USD 3.99 per pound in the current Report. This will translate into a bigger boost to the local economy from the external sector, some of which is already being felt in the most recent period (Figure II.1.20).

Figure II.1.20:
Goods Exports and Imports, in Millions of USD
(% annual change)



Source: Central Bank of Chile.

The new scenario considers a lower nominal exchange rate, consistent with the expected evolution of the copper price and the higher economic growth forecast. The higher inflation forecast, in turn, is explained by the recovery of economic activity in the services sector, mainly in the second half of the year, as well as an increase in the oil price and labor costs, due to the gradual improvement expected in the labor market. While this scenario considers a smaller output gap, core inflation pressures remain low.

The scenario described above is founded on a number of assumptions, including the successful continuation of the vaccination process, in line with the Health Ministry's goal of vaccinating 80% of the target population by the end of the first half of the year. This will have positive impact on personal mobility and, therefore, on economic expectations.

II.2. OVERALL REVENUE FORECAST, 2021

Based on the current macroeconomic scenario and the revenues collected over the course of last year and the first months of this year, the total revenue forecast for the total central government in 2021 is currently CLP 52,902,649 million. This is CLP 3,914,332 million higher than the estimate presented in the Public Finance Report (PFR) for the fourth quarter of 2020, equivalent to an increase of 8.0% (Table II.2.1).

Table II.2.1
Total Central Government: Revenues, 2021
(millions of 2021 CLP)

	PFR 2020 Q4 FORECAST	PFR 2021 Q1 FORECAST	DIFFERENCE	% CHANGE IN FORECASTS 2021 Q1/2020 Q4
	(1)	(2)	(3) = (2) - (1)	(4) = (2) / (1)
TRANSACTIONS AFFECTING NET WORTH	**48,969,424**	**52,883,756**	**3,914,332**	**8.0%**
Net tax revenues	40,305,983	42,860,727	2,554,744	6.3%
Private mining tax revenues	1,673,143	3,015,752	1,342,609	80.2%
Other tax revenues	38,632,840	39,844,975	1,212,135	3.1%
Gross copper revenues	1,530,953	2,962,413	1,431,461	93.5%
Social security contributions	3,322,278	3,127,879	−194,399	−5.9%
Donations (Transfers)	127,274	98,798	−28,476	−22.4%
Property income	1,299,549	1,103,762	−195,787	−15.1%
Operating income	823,481	794,085	−29,396	−3.6%
Other revenue	1,559,906	1,936,091	376,185	24.1%
TRANSACTIONS IN NONFINANCIAL ASSETS	**18,896**	**18,892**	**−4**	**0.0%**
Sale of physical assets	18,896	18,892	−4	0.0%
TOTAL REVENUES	**48,988,320**	**52,902,649**	**3,914,329**	**8.0%**

Source: Dipres.

A comparison of the current overall revenue forecast with the estimate in the last Report shows an increase in projected non-mining (other) tax revenues, as well as in revenues from the mining sector, that is, gross copper revenues (Codelco) and tax revenues from the large private mining companies (GMP10). The former reflects the economic recovery forecast for 2021 and the automatic reversal of the tax relief measures implemented in 2020. With regard to the latter, the increase in the mining components is mainly due to the higher expected copper price in the year (USD 3,99 per pound), relative to the forecast in the last PFR (USD 3.35 per pound). Additionally, based on recently available information, Codelco is expected to once again start paying first-category income taxes and the additional 40% assessed on state-owned companies, following the end of the effect of the company's accumulated tax losses.

The upward revision in the forecast for non-mining tax revenues is based on higher projected collections in most components. This includes, in particular, an expected increase in both VAT and income tax collections. In both cases, the adjustment is consistent with the higher domestic demand expected for this year.

As was the case at year-end 2020, this forecast and the medium-term forecast take into account the Tax Modernization Law, the fiscal effects of the Emergency Economic Plan (EEP), the complementary tax relief measures implemented under the COVID Agreement, and the fiscal effects of the temporary increase in the use of tax-deferred retirement accounts (APV—Régimen B). Notably, the COVID Agreement includes a substantial package of tax measures for reactivating the economy in 2021, which reduces the revenue forecast for this year. The main tax relief measures include the extension of 100% accelerated depreciation at the national level and the reduction of the first-category income tax rate for SMEs (Table II.2.2).

Table II.2.2
Effects of the Emergency Economic Plan and COVID Agreement on Tax Revenues in 2021: Temporary and Permanent Tax Relief Measures [(1)]
(millions of CLP 2021 and % of GDP)

	2021 CLP MM	% OF GDP
Deferral of PPM (EEP and COVID Agreement –MTTRA)	1,637,796	0.7
Deferral of VAT (EEP and COVID Agreement—MTTRA)	373,707	0.2
Refund of withholding taxes for self–employed people (EEP)	103,766	0.0
Reduction of first–category tax rate (IDPC) and PPM for small businesses (COVID Agreement)	–295,373	–0.1
Refund of VAT tax carryforward for SMEs (COVID Agreement—MTTRA)	4,334	0.0
100% instant depreciation (COVID Agreement)	–675,075	–0.3
Deferral of implementation of electronic sales receipts (COVID Agreement)	–50,602	0.0
Increased tax credits for retirement accounts (APV—Régimen B)	–176,531	–0.1
Reduction of stamp duties for FOGAPE loans	–62,859	0.0
TOTAL EFFECT ON 2021 REVENUES	**859,162**	**0.4**

(1) MTTRA: Temporary tax relief measures that will be automatically reversed, which were implemented in 2020 and will have effects in 2021.
Source: Dipres.

With regard to the non-tax revenue categories, the majority show reductions relative to the forecast in the last PFR, with the exception of other revenue (Table II.2.1). Finally, note that the tax revenue forecast for this year will be more precise once the income tax return process for the 2020 fiscal year is completed in the coming months.

II.3. CYCLICALLY ADJUSTED REVENUE FORECAST, 2021

Since 2001, Chilean fiscal policy has been based on a structural balance rule for the total central government. Therefore, in each Budget, government spending is determined based not on overall revenues, but rather on cyclically adjusted revenues, also called structural revenues, consistent with the structural balance target. The estimation of structural or cyclically adjusted revenues discounts the effect of the economic cycle and the copper price from the central government's revenue forecast.

Appendix I of this PFR provides more details on the calculation of structural revenues. Additionally, Table II.3.1 reports the forecast of the structural parameters for 2021, as well as other relevant variables for estimating structural revenues. As the table shows, there have been downward revisions to the GDP gap, due to the new estimate of the activity level in 2021, and the Codelco sales forecast.

Table II.3.1
Reference Parameters for the Cyclically Adjusted Balance, 2021

	PFR 2020 Q4 FORECAST	PFR 2020 Q4 FORECAST
GDP		
Trend GDP (% real change)	1.5%	1.5%
GDP gap (%)	4.2%	3.4%
COPPER		
Reference price (2020 U.S. cents/lb)	288	288
Codelco sales (thousands of metric tons of fine copper)	1,637	1,616
GMP10 production (thousands of metric tons of fine copper)	3,203	3,203

Note: Parameters used by the Trend GDP Committee and the Copper Reference Price Advisory Committee with regard to the preparation of the 2021 budget.
Source: Dipres.

Thus, based on overall revenues and the reference parameters calculated by the Advisory Committees in July 2020, cyclically adjusted revenues are projected at CLP 47,947,075 million, which represents a 1.8% increase relative to the January forecast (Table II.3.2).

Table II.3.2
Total Central Government: Cyclically Adjusted Revenues, 2021
(millions of 2021 CLP)

	PFR 2020 Q4 FORECAST	PFR 2021 Q1 FORECAST	DIFFERENCE	% CHANGE IN FORECASTS 2021 Q1/2020 Q4
	(1)	(2)	(3)=(2)-(1)	(4)=(2)/(1)
TOTAL REVENUES	**47,078,900**	**47,947,075**	**868,175**	**1.8%**
Net tax revenues	39,313,025	40,801,870	1,488,845	3.8%
Private mining tax revenues	1,395,085	2,148,138	753,053	54.0%
Other tax revenues	37,917,940	38,653,732	735,792	1.9%
Gross copper revenues	484,731	–36,848	–521,579	–107.6%
Health care contributions	2,742,344	2,703,662	–38,682	–1.4%
Other revenue[1]	4,538,800	4,478,391	–60,409	–1.3%

(1)Other revenue is not cyclically adjusted, so the overall revenue forecast is the same as the cyclically adjusted forecast.
Source: Dipres.

As shown in Table II.3.2, the cyclically adjusted or structural revenue forecast was revised upward relative to the last PFR, due to the effects of the mining and other (non-mining) tax components.

The adjustment in non-mining tax revenues reflects the economic cycle. The increased estimate of the structural component relative to the last PFR is mainly explained by the recovery of domestic demand, which translates into higher tax collection, especially VAT and monthly provisional payments. This more than offset the negative effect of the reduction of the output gap estimated for 2021.

Mining tax revenues, in turn, are adjusted based on the copper price cycle, considering the reference price of USD 2.88 per pound (in 2021 currency) established by the Committee at its meeting in July 2020. The higher estimated price for the year increases the cyclical component of these revenues, reducing the estimated structural mining revenues. In the case of the large private mining companies (GMP10), factors external to the cycle, such as higher margins associated with the companies production, increase structural revenues in this line item.

With regard to health care contributions, structural revenues are revised downward due to the combination of a smaller output gap and lower projected collections for 2021. Finally, other revenue is not adjusted for the cycle. Rather, the reduction reflects the downward revision in the overall revenue forecast, as discussed in section II.2 of this report.

II.4. PROJECTED EXPENDITURES, OVERALL BALANCE, AND CYCLICALLY ADJUSTED BALANCE, 2021

Central government expenditures in 2021 are projected at CLP 61,561,484 million (Table II.4.1), an increase of CLP 5,506,589 million over the forecast in the PFR for the fourth quarter of 2020. This reflects the ongoing health and economic crisis caused by the COVID-19 pandemic, which led to the announcement of new extraordinary measures with an impact on spending and the extension of the coverage of the Emergency Family Income (EFI) program. Additionally, the estimated expenditure on the solidarity pillar of the pension system has been updated, with an upward revision relative to the last PFR.

The effect of these measures on the spending level implies, first, an increase of CLP 4,589,280 deriving from the new extraordinary measures announced in March. These include the extension of the EFI through June 2021, the middle-class bonus, the CORFO and SERCOTEC economic reactivation programs, the transportation bonus, the hiring subsidy, the extension of the protection subsidy, the expansion of bonuses to people who qualified for other transfers, the bonus for pensioners with a life annuity, and the health support program for strengthening the primary care network, expanding the testing, traceability, and isolation program, and funding the purchase of COVID-19 vaccines.

In addition, the government recently announced the extension of the EFI benefits, with the elimination of the income threshold for people who are in the 80% most vulnerable socioeconomic segment (according to the Social Household Registry) and who do not receive automatic payment, together with the elimination of the distinction based on the lockdown phase of the town in which they live. This implies an estimated increase in coverage to approximately 1,393,300 households, that is, about 2,592,000 people, in addition to the nearly 4,669,000 households that are already receiving this benefit (equivalent to approximately 10,724,000 people).

Second, the higher estimated expenditure for the solidarity pillar, under the Short Law on Pensions approved in 2019, implies an increase in allocated spending of CLP 148,696 million, distributed between the Basic Old-Age and Disability Solidarity Pension and the internal and external Solidarity Pension Support programs.

Thus, the real growth of total central government spending in 2021 is projected at 9.2% relative to the 2020 budget execution. The updated forecast implies an increase of 2.4% of GDP in expenditures relative to the estimate in the PFR for the fourth quarter of 2020, due to the higher net expenditures described above and the change in the average inflation forecast for the year.

Table II.4.1
Total Central Government: Expenditures, 2021
(millions of 2021 CLP and % real annual change)

	MILLIONS OF 2021 CLP	% CHANGE 2021 / 2020 EXECUTION	% CHANGE 2021 / APPROVED 2021 LAW
UPDATED 2021 EXPENDITURES, PFR FOURTH QUARTER 2020[1]	**56,054,895**	**−0.2**	**0.0**
Extraordinary measures with an impact on spending [2]	4,589,280		
Expansion of the Emergency Family Income program	768,990		
Higher estimated spending on the solidarity pillar of the pension system	148,696		
Other[3]	−377		
UPDATED 2021 EXPENDITURES, PFR FIRST QUARTER 2021(4)	**61,561,484**	**9.2**	**9.8**

(1) Assumes inflation of 3.0% and a dollar exchange rate of 723, per the PFR Fourth Quarter 2020.
(2) Includes the EFI extension, middle-class bonus, and other extraordinary direct support measures for employment and economic reactivation, as well as higher expenditures by the Health Ministry to support the health system.
(3) Exchange rate adjustment in the base.
(4) Assumes updated inflation: 3.4% on average in the year.
Source: Dipres

For the budgetary central government, expenditures record an increase of 9.3% in real terms relative to 2020; for the extra-budgetary central government, a reduction of 47.3% in real annual terms.

Thus, combining the 2021 expenditure forecast for 2021 with the updated overall revenue forecast and the updated macroeconomic scenario based on the latest available data, the overall deficit is estimated at CLP 8,658,836 million, equivalent to 3.8% of projected 2021 GDP. This deficit is 0.5 percentage points (p.p.) larger than the estimate in the last PFR, given that the upward revision in committed expenditures for this year is greater than the improvement in the overall revenue forecast for the year (Figure II.4.1).

In the framework of the structural balance rule, after making the cyclical adjustments to expected overall income, the projected structural deficit for 2021 is CLP 13,614,410 million, equivalent to 6.0% of GDP (Table II.4.2). This is 1.3 p.p. over the level stipulated in Decree N° 1,579, published by the Finance Ministry in October 2020, which establishes a structural deficit of 4.7% of GDP as the new fiscal policy target for 2021. The projected deviation from the structural balance target reflects the need for higher spending to face the pandemic, because despite the successful implementation of the vaccination plan, the scenario remains highly uncertain in terms of the end of the mobility restriction measures and the resulting economic and social effects.

Nevertheless, the government remains committed to fiscal responsibility and to the structural balance convergence path established for the government term, which is presented in Section III.6.1.[1]

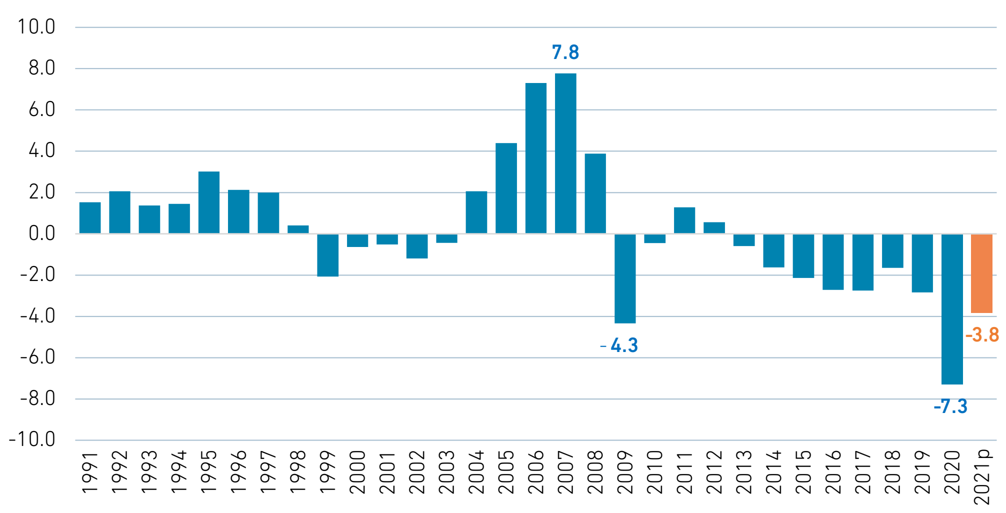
Table II.4.2
Total Central Government: Balance, 2021
(millions of CLP 2021 and % of GDP[(1)])

		PFR 2020Q4 FORECAST		PFR 2021 Q1 FORECAST	
		CLP MM	% OF GDP	CLP MM	% OF GDP
(1)	Total overall revenues	48,988,320	22.8	52,902,649	23.5
(2)	Total cyclically adjusted revenues	47,078,900	21.9	47,947,075	21.3
(3)	Total committed expenditures	56,054,895	26.1	61,561,484	27.3
(1) - (3)	**OVERALL BALANCE**	**−7,066,575**	**−3.3**	**−8,658,836**	**−3.8**
(2) - (3)	**CYCLICALLY ADJUSTED BALANCE**	**−8,975,995**	**−4.2**	**−13,614,410**	**−6.0**

(1) GDP forecast in each report.
Source: Dipres.

Finally, when interest is subtracted from the revenue and expenditure estimates, the overall primary deficit is CLP 6,931,600 million, equivalent to –3.1% of GDP, and the structural primary deficit is CLP 11,887,174 million, equivalent to –5.3% of GDP, estimated for the year.

Figure II.4.1
Total Central Government: Overall Balance
(% of GDP)



Source: Dipres.

1 To contribute to optimizing fiscal policy and in particular the structural balance rule, the Independent Fiscal Council has recently made some proposals in this area, and the Ministry has requested a review of possible proposals that can be implemented quickly, with the objective of including these improvements to the rule in the preparation of the 2022 Budget (see Box 3).

II.5. TOTAL CENTRAL GOVERNMENT GROSS DEBT FORECAST, 2021

It is estimated that at the close of the 2021 budget year, the gross debt stock of the central government (GDCG) will total CLP 74,378,340 million, which equals 33.0% of estimated GDP for the period. Table II.5.1 shows the GDCG estimate, consistent with the spending level compatible with the CAB target presented in this report.

Table II.5.1
Central Government: Gross Debt, Estimated 2021 Close
(millions of 2021 CLP and % of GDP)

		PFR 2020Q4 FORECAST	PFR 2021 Q1 FORECAST
GROSS DEBT BALANCE, PREVIOUS REPORT		**67,120,484**	**67,402,876**
Fiscal deficit of the total central government		7,066,575	8,658,836
Transactions in financial assets		806,411	−1,683,372
FINAL GROSS DEBT BALANCE		**74,993,470**	**74,378,340**
	% GDP	**34.9**	**33.0**

Source: Dipres.

With regard to transactions in financial assets, the April forecast considers the necessary use of financial assets to complement the financing of the current Budget Law and the payment of sovereign bond amortization for the period.

This estimate considers bond placements in the local and international financial markets, to finance the commitments contained in the current Budget Law, for a total of about USD 19,000 million, and the continuation of the local and international Bond Exchange Program, whose objective is to buy back bonds that will mature in the coming years and exchange them for longer-term bonds, allowing a better and more efficient management of the debt structure. As of the date of publication of this report, bonds totaling around USD 5,750 million have been placed in the international financial market.

II.6. NET FINANCIAL POSITION 2021

Table II.6.1 shows the forecast of the central government's net financial position (NFP) for year-end 2021, prepared on the basis of the updated revenues, expenditures, gross debt, etc.

Table II.6.1
Total Central Government: Net Financial Position, Estimated 2021 Close
(millions of USD al 31 December and % of GDP)

	PFR 2020 Q4 FORECAST		PFR 2021 Q1 FORECAST	
	USD MM	% GDP	USD MM	% GDP
Total assets of the Public Treasury	17,765	6.0	18,728	5.8
Total gross debt	103,725	34.9	106,468	33.0
NET FINANCIAL POSITION	**−85,960**	**−28.9**	**−87,740**	**−27.2**

Source: Dipres.

BOX 3. ADVANCES IN THE AREA OF FISCAL POLICY AND JOINT WORK WITH THE FISCAL COUNCIL

Since 2019, when the Fiscal Council (IFC) began operating,[1] and in conjunction with the Finance Ministry and the Budget Office, the IFC has addressed the challenge of implementing a work schedule focused on continuing to optimize various aspects of fiscal policy. With that objective in mind, the Council has conducted analyses and submitted proposals that contribute to strengthening the institutional framework and methodological aspects of fiscal policy, especially the structural balance rule that governs it.

That same year, the IFC completed its installation process and began operating in the first half of the year. Early work included addressing diverse issues within the scope of its legal authority—and in accordance with the tasks set by the Finance Minister—which resulted in a range of publications and Congressional presentations.[2]

In 2020, considering the measures implemented by the fiscal authority to address the economic and social crisis caused by the pandemic, the Finance Ministry asked the IFC to study the criteria that should be taken into account in delineating the fiscal consolidation path once the crisis has ended. This gave rise to the preparation of diverse publications over the course of the year, in addition to the Council's regular publications, which are listed in Table B.3.1.

In the same context, the Finance Ministry asked the IFC to collect the analysis and opinions of diverse experts and institutions regarding the fiscal challenges that will have to be faced after the pandemic. To this end, the IFC held a series of technical meetings to analyze possible ways of financing the resource requirements and fiscal challenges imposed by the COVID-19 pandemic. The meetings featured the participation of experts with different perspectives, in order to obtain a wide range of opinions. The issues addressed included the discussion of proposals for a fiscally sustainable agreement, as well as issues associated with strengthening the fiscal rule and institutional framework.[3]

Table B.3.1
IFC Publications in 2020

REPORTS TO CONGRESS	IFC NOTES	IFC TECHNICAL REPORTS
• Congressional Report N° 2: Report by the Independent Fiscal Council on the Exercise of its Functions and Powers. April 2020. • Congressional Report N° 3: Report by the Independent Fiscal Council on the Exercise of its Functions and Powers. September 2020.	• IFC Note N° 2: Fiscal Responsibility in Adverse Scenarios like the Crisis Caused by the COVID-19 Pandemic. 24 March 2020. • IFC Note N° 3: Elements for a Fiscally Sustainable National Agreement. 08 June 2020. • IFC Note N° 4: Reflections on the Downgrading of Chile's Credit Rating. 16 October 2020.	• IFC Technical Report N° 1: Public Expenditure Reviews: Experiences and Efficiency Considerations. 16 March 2020.

Source: IFC.

1 Through the publication of Law N°21,148.
2 IFC reports are available online at https://www.cfachile.cl/publicaciones/informes-del-cfa.
3 The presentations given by IFC guest speakers are available online at https://www.cfachile.cl/publicaciones/presentaciones-de-invitados.

Thus far in 2021, the IFC issued the IFC Technical Report N°2 "Assessment of the Final Report of the Ministerial Advisory Commission on the Improvement of the Transparency, Quality, and Impact of Public Spending," published on 15 March 2021. With regard to the analysis of fiscal sustainability and public debt, on 07 April the IFC submitted recommendations to the Finance Minister on strengthening the fiscal rule, addressing the concepts of a debt anchor, escape clauses, and correction mechanisms.[4] In the month of April, the IFC will give a presentation to Congress on the exercise of its functions.

Additionally, from a medium-term perspective, in late March of this year the Finance Ministry tasked the IFC with analyzing and formulating proposals on potential improvements to the fiscal rule, in terms of both methodological and institutional aspects. In particular, the Finance Ministry requested that the IFC analyze possible improvements in the calculation of the cyclically adjusted balance indicator, with the objective that, once defined, the changes can be implemented rapidly in the preparation of the 2022 Budget Bill. In particular, the Council was asked to evaluate the following aspects:

- Calculation of the structural parameters: Trend GDP and the reference copper price;
- Calculation of new elasticities for the estimation of cyclically adjusted non-mining tax revenues;
- Treatment of the temporary tax relief measures that will be automatically reversed, as well as other one-time revenues;
- Simplification of the equations for the cyclical adjustment of copper mining tax revenues;
- Complementation of the structural balance fiscal rule with an expenditure rule;
- Communication of information on the changes that could result from this work, to promote understanding on the part of citizens.

The Finance Ministry further asked that—if deemed appropriate by the IFC Board—the Council include additional recommendations that can be applied quickly. However, if the Board determines that there are other possible recommendations that are worthwhile, but that could not be implemented in time for the preparation of the 2022 Budget Bill, the Ministry asks that these also be formulated so as to begin work as soon as possible, with an eye to their future application.

The report containing these proposals is expected to be finalized in the first half of this year, and the Finance Ministry intends to implement the accepted measures deriving from this analysis in time for the preparation of the 2022 Budget Bill.

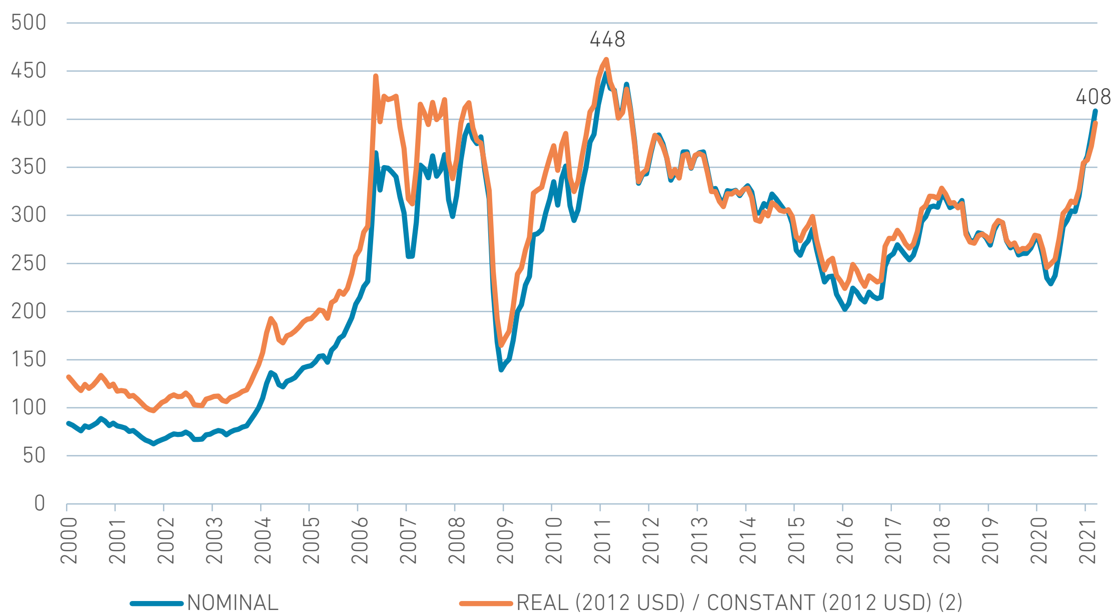
Thus, as described in this box, the work carried out by the IFC constitutes an important contribution to the ongoing analysis and strengthening of fiscal policy.

4 Details on these proposals are provided in IFC Technical Report N°3, 07, April 2021. Available online at https://www.cfachile.cl/publicaciones/informes-del-cfa/informes- tecnicos-del-cfa/informe-tecnico-del-cfa-n-3-informe-para-el-fortalecimiento-de-la-regla-fiscal.

BOX 4. OUTLOOK FOR CENTRAL GOVERNMENT MINING REVENUES

This box reviews and explains in more detail the fiscal mining revenue forecast, particularly copper, and the changes generated as a result of the higher copper price in recent months, which represent a positive surprise in the fiscal forecasts that accompanied the 2021 budget (Figure B.4.1). It also examines some additional factors that determine the earnings of Codelco and the large private mining companies (GMP10), which could affect future central government revenues from this line item.

Figure B.4.1
LME Copper Price, March 2021[1]
(US cents per pound)



Notes:
(1) On the data cutoff date of this Report (16 April), the LME copper price was USD 4.23 per pound.
(2) Deflator: U.S. Producer Price Index (PPI) by Commodity: All Commodities. Fixed-base index: 2012 average=100.
(3) The previously recorded highest average nominal price was USD 4.48 per pound in February 2011, while the average price in March 2021 was USD 4.08 per pound.
Source: Central Bank of Chile.

Figure B.4.1 shows that the copper price, in both nominal and real terms, is around the levels recorded in 2008 and 2011, near the peak of the last 20 years.

To contextualize the factors that determine the copper revenues received by the central government, the next sections briefly explain how Codelco transfers and GMP10 tax revenues are paid.

Note that the effect of the higher copper price in 2021 on the taxes owed by the GMP10 will mainly be reflected in their monthly provisional payments (PPM) of royalties and first-category income taxes, while the final impact will be recorded during the income tax return process in April 2022. In the case of Codelco, the effect of the 2021 price increase is contemporaneous and will be reflected in transfers made by the state-owned company this year.

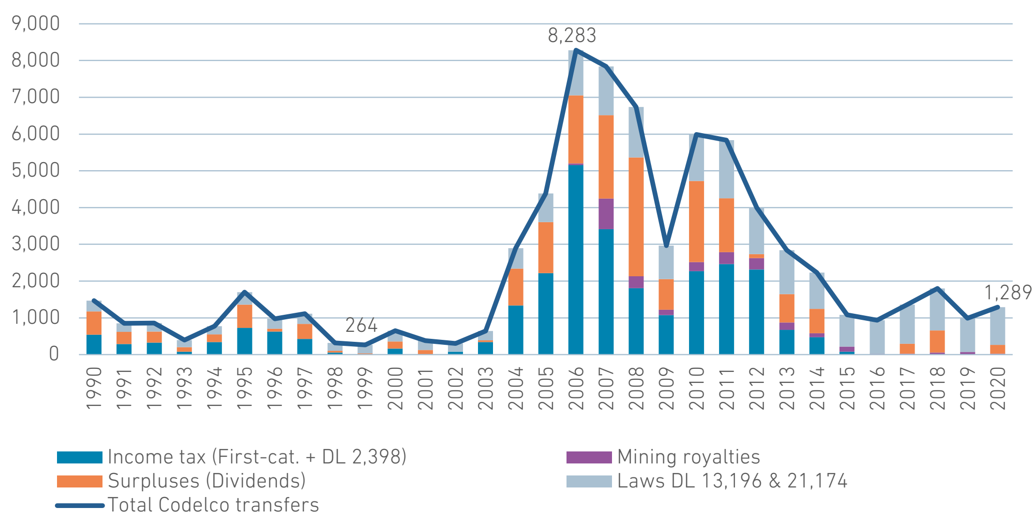
TRANSFERS FROM CODELCO TO THE CENTRAL GOVERNMENT

In a given fiscal period (period t), overall income from gross copper revenues (Codelco) are the result of the sum of the following components:

- Income tax to be paid in period t: First-category income tax and mining royalties.
- 40% tax on state-owned companies (DL 2,398) to be paid in period t.
- 10% tax on overseas sales from the former Copper Reserve Law.[1]
- Transfer of dividends by state-owned companies to be made in period t.

Fiscal revenues from Codelco recorded a decreasing trend in the second half of the last decade due to various factors, including the lower copper price and the absorption of accumulated tax losses (Figure B.4.2). However, this trend is projected to reverse starting this year, albeit temporarily.

Figure B.4.2
Fiscal Revenues from Codelco
(USD MM)



Source: Dipres.

1 Until 2019, the Copper Reserve Law (D.L. 13,196) stipulated that 10% of Codelco's overseas sales of copper and by-products were transferred to the government and allocated to the Armed Forces. This generated another component of fiscal revenues. The law was modified in 2019 and replaced with another funding mechanism for the Armed Forces. Since then, those funds enter the Public Treasury in full.

The reasons behind the change in the composition of fiscal revenues deriving from Codelco were explicitly addressed in a Technical Note by the Technical Secretariat of the former Fiscal Advisory Council (2018).[2] As explained therein, in 2017 Codelco's transfers to the Treasury did not directly reflect the prices and income reported by the company, with the primary reason given being the company's tax situation. Specifically, Codelco recorded tax losses in 2015 and 2016, which affected the calculation of taxes owed starting in 2017, because before it started paying the corresponding first-category income tax and the 40% from public enterprises (DL 2,398), the company had to absorb the loss carryforward. This accumulated tax loss derived from the extensive investment agenda implemented by Codelco, which increased its costs due to the effect of asset depreciation, under the application of the accelerated depreciation framework.

Moreover, this occurred during a period of low copper prices. In 2016–2020, the copper price averaged USD 2.75 per pound, dropping to nearly USD 2.00 per pound throughout much of 2016, which reduced sales for the company and for the industry in general. Thus, for example, Codelco's accumulated tax loss carryforward was approximately USD 1,400 million in January 2018. At the same time, the company's taxable income was low, resulting in a lower income tax assessment. In the context of copper prices under USD 3.00 per pound, this situation was expected to last through approximately early 2030, which, in line with the available information as of February 2021, had been incorporated in all the forecasts presented in the Public Finance Reports in previous years.

However, in contrast to recent years, the copper price is currently on an upward trend, and the average price estimated for Codelco is USD 4.085 per pound in 2021. These price levels will allow the aforementioned tax loss carryforward to be absorbed in a significantly shorter time than previously estimated, such that the Revenue Service will be able to collect the corresponding first-category income tax and the 40% from state-owned companies. In this context, the current forecasts have revised the previous estimates with regard to the tax loss carryforward.

Based on these calculations, Codelco is expected to pay first-category income taxes and the 40% public enterprise tax, as well as the mining excise tax, in 2021.[3] Furthermore, it is currently estimated that Codelco will also make dividend payments in 2021.[4] These higher resources will mean that the level of gross copper revenues received by the central government this year will be higher than in 2020 and higher than previously estimated for this and future years.

For the 2022–2025 period, the current PFR projects that Codelco's transfers to the Treasury will gradually decline to around 2020 levels by 2025, to the extent that the LME copper price converges to the long-term level estimated by the experts on the Copper Reference Price Committee in 2020 (USD 2.88 per pound). After 2025, Codelco's tax payments are again projected to be lower, due to the accelerated depreciation of investments made by the company, which has a direct impact on the taxable income base. Thus, the combined effects of the accelerated depreciation and the copper price forecast of USD 3.055 per pound for 2025 indicate that revenue deriving from transfers by Codelco to the Treasury will once again record a downturn toward the end of the forecast period (2022–2025).[5]

2 For details, see https://www.dipres.gob.cl/598/articles–171785_doc_pdf.pdf.
3 The mining royalty tax rate is applied to the operating margin, specifically to "earnings before income taxes and royalties." However, the actual payment (cash flow basis) made by the company in the year corresponds to the calculation of interim payments (PPM) based on income from copper and by-products.
4 Dividend payments are estimated based on net earnings according to the Statement of Income, less the absorption of the tax loss carryforward (which currently only applies to one subsidiary) and the temporary discount between actual transfers made and the closing balance for the year.
5 For more details on the fiscal forecasts through 2025, see Chapter III of this Report.

GMP10 TAXATION

For the purposes of the analysis and estimation of private mining taxation, based on the available accounting information, the central government considers income taxes from the ten largest mining companies in the country (GMP10).[6]

Currently, the tax regime applicable to large mining companies has three components:

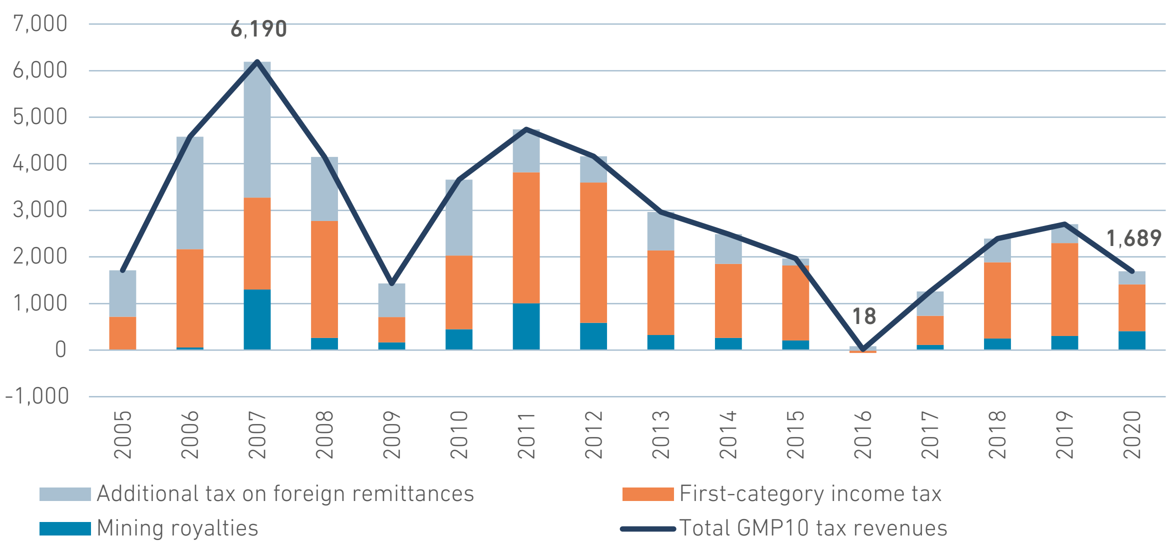
- First-category income tax: The first-category tax rate is 27% on profits earned or accrued, or on presumed income when meeting the conditions stipulated in Article 34 of the Income Tax Law.[7]

- Mining royalties: According to the current law, the royalty rate is applied to taxable operating income from mining activities and, at the same time, to the taxable income base, when annual sales exceed 50,000 metric tons of fine copper, at a progressive rate ranging from 5 to 14%.

- Additional tax: This tax is applied to income earned in Chile by natural or legal persons who are neither domiciled nor resident in Chile, when that income from Chile is at the disposal of the nonresident person overseas. The general rate of the additional tax is 35%, although lower rates are applied to certain types of income that meet the special requirements stipulated in the current tax regulation.

Figure B.4.3 shows historical tax revenues from GMP10. As in the case of Codelco, mining tax revenues have thus far not recovered the higher levels recorded prior to 2013.

Figure B.4.3
Fiscal Revenues from GMP10 Taxation
(USD MM)



Source: Dipres.

6 The companies are as follows: Escondida, Collahuasi, Los Pelambres, Anglo Sur, El Abra, Candelaria, Mantos Copper, Zaldívar, Cerro Colorado, and Quebrada Blanca.
7 In effect since 01.Jan.2016.

Thus, a significant increase in tax revenues from the GMP10 companies is forecast for 2021, explained by the higher average copper price expected this year.

In the medium-term forecasts, the LME copper price is projected to decline to around USD 3.138 per pound in 2025, thereby reducing expected GMP10 taxation that year to around the 2020 levels.

In sum, given these trends, a significant but temporary increase in revenues from Codelco and the GMP10 is expected particularly this year and to a lesser degree in the next three years, declining over time as the copper price converges to its long-term level.

EFFECTS ON THE STRUCTURAL BALANCE

To contextualize the effects of the availability of resources from copper, for the purpose of determining expenditures compatible with the structural balance target, consider that since 2001 Chilean fiscal policy is based on a scheme in which the government's expenditures in each Budget are determined by cyclically adjusted (or structural) revenues—and not by overall revenues. The estimation of structural revenues discounts the effect of the economic cycle and the copper price on the central government's overall revenues.

Thus, the key consideration is not the changes that a new copper price scenario could generate on overall revenues, which function as a source of funding, but rather the evolution of structural revenues from copper, determined based on the copper reference price, costs, the exchange rate, the production level, and so forth. In this sense, the larger the gap between the actual price and the reference price, the bigger the adjustment to overall revenues. The direction of the adjustment (that is, up or down) will depend on the price cycle.

In the current medium-term forecast, cyclical copper revenues have been adjusted upward for 2021–2025 relative to the forecast in the PFR for the fourth quarter of 2020, due to the projection of a higher actual price of copper in the period, while the reference price remains unchanged. However, the future price gap will depend on the estimates made by the Advisory Committee regarding the copper reference price. The Committee will meet in the coming months in preparation of the 2022 Budget Bill, as this is a critical input for estimating structural copper revenue for the 2022–2025 period.

CONCLUSION

The upward trend in recent months has brought the copper price to levels recorded during the commodity boom, although the future duration of the cycle is highly uncertain. The forecasts made using the current scenario include a substantial increase in mining revenues, from both Codelco and the GMP10. Nevertheless, as the LME copper price converges to a level around USD 3.14 per pound toward the end of the forecast horizon, and considering the legislation on accelerated depreciation and tax losses, mining revenues are expected to gradually decrease in 2022–2025 until they return to 2020 levels. Additionally, it is important to bear in mind that the path of structural copper revenues is largely determined by the estimate of the copper reference price, rather than the actual price of copper.

Details on the forecast for overall mining revenues in 2021 are presented in Section II.2 of this Report, while the forecast for the 2022–2025 period is in Section III.4.

PUBLIC FINANCE REPORT FIRST QUARTER 2021

BUDGET OFFICE

CHAPTER III.
MEDIUM-TERM PUBLIC SECTOR FRAMEWORK, 2022–2025

CHAPTER III. MEDIUM–TERM PUBLIC SECTOR FRAMEWORK, 2022–2025

III.1. INTRODUCTION

The State Financial Administration Law establishes that the Chilean budget system is made up of a financial program covering a term of three years or more and a budget for the current fiscal year, and the latter must be approved by law. Since 2018 (with the preparation of the 2019 Budget Bill), the financial program considers the four years following the respective budget. The financial program is published annually in the Public Finance Report (PFR) for the third quarter, in conjunction with the presentation of the Budget Bill to Congress.[1] Additionally, since 2019, in the interest of maintaining fiscal responsibility, the PFRs for the remaining three quarters of the year present updates to the medium-term framework for the annual financial program.

Updating the financial program is the exclusive responsibility of the Budget Office (Dipres). The objective is to obtain an estimate of the fiscal space under a given macroeconomic scenario and a given spending commitment. The exercise is based on the information used to prepare the budget, together with additional assumptions and estimations necessary to make projections in a four-year horizon. This program is prepared for the purpose of maintaining the operational continuity of all the public services, with the incorporation of all current contractual, legal, and programmatic commitments and the estimated impact of bills currently in Congress.

The exercise for updating the medium-term framework presented in this chapter constitutes an effort to monitor the operational continuity of public services and compliance with current commitments, with the goal of detecting the possibility or necessity of making adjustments in a timely manner if needed.

Therefore, the exercise takes into account the new macroeconomic and fiscal information that has become available in the months since the publication of PFR for the fourth quarter of 2020, visualizing possible changes in the fiscal scenario, whether due to a new macroeconomic scenario, changes in revenues or expenditures associated with the approval of new regulations, or changes in the fiscal policy objectives. The aim of this permanent exercise for updating the medium-term framework is to visualize the new outlook for fiscal revenue and the current commitments deriving from measures taken in the past and by the incumbent administration, which have implications for the future.

This section presents the main methodological aspects of the update, the re-estimation of overall and structural revenues, and an updated estimate of committed expenditures and the overall and structural balance in the medium term, namely, the 2022–2025 period. Finally, since 2020, the chapter includes a forecast of the evolution of the central government's gross debt and net financial position for the coming years based on the updated scenario.

1 Article 6 of Law N°19,896 expands the duties of Dipres to include the following: "The Budget Office must submit a report on Public Finances, including a summary of the medium-term financial program, to the Special Commission established under Article 19 of Law N°18,918 (i.e., the constitutional act regulating the National Congress), prior to the processing of the Budget Bill by the Special Commission; the publication of this report is in addition to the Budget Director's required presentation on this issue to the Commission."

III.2. METHODOLOGICAL ASPECTS

The preparation of the financial program is the exclusive responsibility of the Budget Office. The goal is not to give the ministries signals on future spending, but rather to obtain an estimate of the fiscal space under a given macroeconomic scenario and a given spending commitment. The exercise, carried out by Dipres, is based on the information used to prepare the budget, together with additional assumptions and estimations necessary to make longer-term projections.

The exercise produces a forecast of the budgetary central government's "committed" expenditures for the next four years. These projected expenditures, together with extra-budgetary expenditures,[2] the overall and cyclically adjusted revenue forecast, and the limits imposed by the fiscal rule, provide a preliminary determination of the net available resources in the period.

For the medium term, the forecast of committed expenditures incorporates compliance with current legal and contractual commitments, the operational continuity of public agencies, and public policy assumptions with an effect on spending. The application of these criteria is expressed in the following operational definitions:

- Legal obligations, such as pension payments, family allocations, and educational subsidies, are forecast using the current real unit value of the benefits (including committed increases where applicable) and projected changes in the volume of benefits delivered.
- Operational expenditures of the public sector do not take into account special measures, expansion measures, or streamlining measures. In the case of goods and services for consumption, for investment, and capital transfers, costs are assumed to evolve in line with CPI inflation. Wages and salaries are assumed to be stable in real terms.
- The application of current policies considers that program targets are achieved in line with the corresponding legislation or contractual commitments. Similarly, programs that have a fixed horizon are assumed to end on the corresponding date.
- The forecast assumes that, from 2022 onward, all bills with financial consequences that have to date been presented to Congress by the Executive enter into force, whose costs are outlined in their respective financial reports.[3]
- Real investment and capital transfers are forecast considering commitments and project carryovers, including compensation for the depreciation of existing infrastructure.
- Public debt service is forecast as a function of the evolution of the magnitude of the debt and the relevant interest rates, taking into account the financial terms of current debt. Public debt is, in turn, a function of the fiscal balance in the previous period.

The central objective of this revenue and expenditure forecasting exercise is to provide an input for macroeconomic analysis and, especially, to contribute to the decision on the allocation of resources to the different public services and programs for the fiscal year being formulated. That said, the medium-term forecast is subject to change due to changing external conditions or to public policy decisions, such as the decision to discontinue a given program or replace it with a different one.

2 Starting in 2020, extra-budgetary expenditures are made up solely of accrued interest on pension recognition bonds, since the new rules do not consider expenditures by the Armed Forces in accordance with the resources received under Law N° 13,196 (the former Copper Reserve Law).

3 In the current exercise, the estimate of committed expenditures includes the fiscal impact on spending, as estimated in the financial reports, of bills sent to Congress between January and March 2021. Appendix III of this Report provides details on all financial reports with an impact on revenues and expenditures, as well as those with no fiscal impact.

III.3. MACROECONOMIC SCENARIO

Table III.3.1 outlines the macroeconomic assumptions that were used to estimate overall fiscal revenues for the four years after 2021, that is, from 2022 to 2025.

Table III.3.1:
2022–2025 Macroeconomic Assumptions

	2022		2023		2024		2025	
	PFR 2020 Q4	PFR 2021 Q1	PFR 2020 Q4	PFR 2021 Q1	PFR 2020 Q4	PFR 2021 Q1	PFR 2020 Q4	PFR 2021 Q1
GDP (annual change, %)	3.7	3.5	3.3	3.2	2.8	2.7	2.5	2.5
DOMESTIC DEMAND (annual change, %)	5.4	3.4	3.7	3.3	3.1	2.8	2.7	2.7
CPI (annual change, % average)	3.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0
EXCHANGE RATE (CLP/USD, average, nominal value)	722	694	728	696	734	698	740	701
COPPER PRICE (USD cents/lb, average, LME)	320	388	315	358	310	335	310	314

Source: Ministry of Finance.

GDP is projected to record an average growth rate of 2.9% from 2022 to 2025, which is above the trend GDP growth rate estimated by the Committee of Independent Experts in August 2020 (2022–2025 average: 1.8%). The GDP forecast in this Public Finance Report assumes that the output gap will close in the analysis period. Domestic demand will grow at a slightly higher rate than GDP starting in 2023.

Inflation is expected to be 3.0%, on average, throughout the period, which is in the center of the Central Bank's inflation target range.

The exchange rate estimate is lower than the forecast in the Public Finance Report for the fourth quarter of 2020, mainly due to the better outlook for the copper price, which will average USD 3.88 per pound in 2022 and then gradually converge to USD 3.14 per pound in 2025.

III.4 OVERALL AND CYCLICALLY ADJUSTED REVENUE FORECAST, 2022–2025

Table III.4.1 presents the total central government revenue forecast for the 2022–2025 period. The forecast considers the macroeconomic scenario described above, the current tax structure, the changes in taxable income related to the Tax Modernization Law that entered into effect in 2020, and the projected surpluses transferred from public companies consistent with their current strategic plans and the profit distribution policies defined by the authority. The forecast also takes into account the estimated effects on tax revenues of the measures implemented under the Emergency Economic Plan (EEP) due to COVID-19, and the effects of estimated changes in income as a result of the measures under the COVID Agreement, for the protection of family income and the reactivation of the economy and employment.

Table III.4.1
Total Central Government: Revenues, 2022–2025
(millions of 2021 CLP)

	2022	2023	2024	2025
TOTAL REVENUES	**50,590,956**	**53,090,295**	**55,548,766**	**56,939,447**
TRANSACTIONS AFFECTING NET WORTH	**50,577,275**	**53,076,606**	**55,535,119**	**56,925,762**
Net tax revenues	40,612,228	43,260,963	46,533,144	48,170,421
Private mining tax revenues	2,948,820	2,199,133	2,006,118	1,685,222
Other tax revenues	37,663,408	41,061,829	44,527,026	46,485,199
Gross copper revenues	2,960,062	2,565,821	1,527,427	1,058,375
Social security contributions	3,211,857	3,314,028	3,402,057	3,485,445
Donations	111,852	115,410	118,475	121,379
Property income	1,329,556	1,354,087	1,405,815	1,480,211
Operating income	741,915	757,270	770,974	784,097
Other revenue	1,609,806	1,709,027	1,777,227	1,825,834
TRANSACTIONS IN NONFINANCIAL ASSETS	**13,681**	**13,688**	**13,647**	**13,686**
Sale of physical assets	13,681	13,688	13,647	13,686

Source: Dipres.

Under this scenario, total revenues will reach CLP 56,939,447 million in 2025, which implies accumulated growth of 7.6% in the 2021–2025 period (an annual average of 1.9%). This increase reflects the interaction of real GDP growth, which converges to around 2.5%, and implementation of the Tax Modernization Law and the EEP and COVID Agreement tax relief measures, among other factors.

The change in the medium-term revenue forecast relative to the January estimate is affected by the results of the 2020 execution, which modified the forecast base for the period, and the change in the macroeconomic scenario (Table III.4.2). The drop in revenues in 2022 is due to the high comparison base deriving from the reversal of the the tax relief measures in 2021.

Table III.4.2
Total Central Government: Updated Revenue Forecast, 2022–2025,
National Currency + Foreign Currency
(millions of CLP 2021 and % real change)

	2022	2023	2024	2025
TOTAL PROJECTED REVENUES IN JANUARY PFR	**47,518,419**	**50,613,767**	**54,157,502**	**56,424,223**
Projected real growth	–3.0	6.5	7.0	4.2
+ Change in the macroeconomic scenario and updated 2020 execution	3,072,537	2,476,528	1,391,263	515,224
TOTAL PROJECTED REVENUES IN APRIL PRF	**50,590,956**	**53,090,295**	**55,548,766**	**56,939,447**
Projected real growth	–4.4	4.9	4.6	2.5

Source: Dipres.

In virtue of the structural balance policy, changes in revenues associated with deviations of GDP growth from the trend and with fluctuations of the overall copper price are adjusted for the cycle. Thus, based on the trend GDP growth forecast and the reference copper price estimated by the Committee of Independent Experts in July 2020 (Table III.4.3), cyclically adjusted (or structural) revenues are expected to record a positive growth rate over most of the forecast period, accumulating total real growth of 14.8% in 2021–2025, or an annual average of 3.6% (Table III.4.4).

Table III.4.3
CAB: Reference Parameters
2022–2025

	2022	2023	2024	2025
GDP				
Trend GDP (real growth rate)	1.6%	1.7%	1.8%	1.9%
GDP gap (%)	1.5%	0.0%	–0.7%	–1.2%
COPPER				
Reference price (US cents/lb)	288	288	288	288

Source: Dipres.

Table III.4.4
Total Central Government: Cyclically Adjusted Revenues, 2022–2025
(millions of CLP 2021)

	2022	2023	2024	2025
TOTAL REVENUES	**46,990,354**	**49,947,738**	**53,047,627**	**55,066,714**
Net tax revenues	39,198,589	41,615,951	44,991,836	46,730,888
Private mining tax revenues	1,220,392	747,994	972,968	1,024,176
Other tax revenues	37,978,197	40,867,958	44,018,868	45,706,713
Gross copper revenues	727,318	1,066,998	591,732	666,063
Health care contributions	2,704,260	2,731,456	2,765,350	2,803,434
Other revenue [1]	4,360,187	4,533,333	4,698,709	4,866,328

(1) Other revenue is not cyclically adjusted, so the overall revenue is the same as the cyclically adjusted revenue. This item includes income from Donations, Property income, Operating income, Other revenue, Sale of physical assets, and Social security contributions excluding FONASA.
Source: Dipres.

III.5. COMMITTED EXPENDITURE FORECAST, 2022–2025

Table III.5.1 presents the updated estimates of committed expenditures for the 2022–2025 period, based on the committed expenditures outlined in the Public Finance Report (PFR) for the 2021 Budget Law, plus the estimated expenditures included in the Financial Reports (IF) on new bills or Instructions on bills that were sent to Congress for discussion between October and December 2020 (information presented in the PFR for the fourth quarter of 2020), plus bills that were being processed in Congress between January and March 2021, and plus the new estimate of interest expense in line with the debt requirements estimated in this Report.

As the table shows, the updated expenditure of the total central government presents a decrease of 1.0% in 2022 relative to the Budget Law approved for 2021; a real decrease of 0.4% in 2023 relative to the 2022 forecast; a real increase in 0.4% in 2024 relative to the 2023 forecast; and a real increase of 1.3% in 2025 relative to the current 2024 forecast of committed expenditures. Relative to the estimate for each year included in the preparation of the PFR that accompanied the 2021 budget, updated expenditures increased 1.3% in 2022, 0.9% in 2023, 0.8% in 2024, and 0.7% in 2025. In terms of the change relative to the estimate for the preparation of the budget this year, the higher committed expenditures for the full 2022–2025 period accumulate a total of 0.9% of GDP.

Table III.5.1
Total Central Government: Updated Committed Expenditures, 2022–2025
(millions of 2021 CLP, % real change, and % of GDP)

	2022	2023	2024	2025
(1) 2021 Budget Bill	54,754,611	54,738,575	55,027,196	55,793,585
(2) FORECAST: PFR 2021 Q1	**55,476,900**	**55,244,638**	**55,471,283**	**56,207,898**
REAL ANNUAL CHANGE (% CHANGE)	**−1.0**	**−0.4**	**0.4**	**1.3**
(3)=(2)–(1) Change in expenditures (CLP MM)	722,289	506,063	444,087	414,313
(3)=(2)–(1) Change in expenditures (%)	1.3	0.9	0.8	0.7
(3)=(2)–(1) Change in expenditures (% of GDP)	0.3	0.2	0.2	0.2

Note: The real annual change in projected expenditures for 2022 corresponds to the change relative to the approved 2021 Budget Law (and not relative to the previous 2022 forecast).
Source: Dipres.

Note that expenditures in 2022, like expenditures in 2021, were established in the COVID Agreement and in the consolidation plan. According to this commitment, primary spending in 2022 must not exceed 109% of primary spending in 2019. The rest of the period corresponds to the baseline expenditures in the Financial Program of the PFR prepared for the Budget Bill for the current year, adjusted for the spending associated with new bills or instructions processed in Congress from October to March 2021, plus the new estimate of interest on central government debt.

Table III.5.2 presents the composition of committed expenditures corresponding to the budgetary and extra-budgetary central government.

Table III.5.2
Committed Expenditures, 2022–2025
(millions of 2021 CLP 2021)

	2022	2023	2024	2025
TOTAL CENTRAL GOVERNMENT EXPENDITURES	**55,476,900**	**55,244,638**	**55,471,283**	**56,207,898**
Budgetary central government expenditures	54,245,338	55,234,441	55,465,207	56,204,519
Extra-budgetary central government expenditures	1,231,562	10,197	6,076	3,379

Source: Dipres.

Details on the estimated expenditures for 2022–2025 contained in financial reports issued between January and March 2021 are presented in Appendix III of this report, while the respective expenditures contained in financial reports issued from October to December 2020 are in Appendix III of the PFR for the fourth quarter of 2020.[4]

4 See http://www.dipres.cl/598/articles-215735_Informe_PDF.pdf (págs. 123–126).

III.6. TOTAL CENTRAL GOVERNMENT BALANCE, 2022–2025

Table III.6.1 presents the projected total central government balances for the 2022–2025 period. Rows (1) and (2) show estimated overall revenues and projected committed expenditures, respectively, while row (3) provides the estimate for cyclically adjusted or structural revenues for the period.

The table also shows the path of the annual targets for the cyclically adjusted balance (CAB), according to the latest available update. This path represents a convergence target (row 4) for reducing the structural deficit by approximately 2.1% of GDP in 2022 and by one percentage point a year thereafter. In 2021 the structural deficit is estimated at –5.7%, which is higher than stipulated in the most recent fiscal policy decree, due to the implementation of the fiscal stimulus to face the pandemic and address its social and economic consequences. In 2022, the target is in line with the fiscal policy decree, which calls for a structural deficit of 3.9% of GDP. For the following years, which correspond to a future administration, the table identifies a convergence scenario in which the structural deficit is reduced by one percentage point of GDP per year.

The above information is used to calculate the amount of expenditures that is compatible with the CAB targets for each year, shown in row (5). With this information, it is possible to calculate the fiscal space or buffer, which corresponds to the difference between the spending level compatible with the target and committed expenditures for the year (row 6). This is expressed both in millions of USD (row 7) and as a percentage of GDP (row 8).

Finally, row (9) presents the overall balances derived from the spending level compatible with each target, as a percentage of estimated GDP.

Table III.6.1
Total Central Government: Balance, 2022–2025
(millions of CLP 2021 and % of GDP)

		2022	2023	2024	2025
(1)	Total overall revenues	50,590,956	53,090,295	55,548,766	56,939,447
(2)	Total committed expenditures	55,476,900	55,244,638	55,471,283	56,207,898
(3)	Cyclically adjusted revenues	46,990,354	49,947,738	53,047,627	55,066,714
(4)	**CAB TARGET (% OF GDP)**	**–3.9**	**–2.9**	**–1.9**	**–0.9**
(5)	Spending level compatible with the target compatible con meta	56,230,457	56,959,398	57,755,444	57,399,240
(6)	Buffer: difference in expenditures: (5)–(2)	753,557	1,714,760	2,284,161	1,191,342
(7)	Difference in expenditures (millions of USD)	1,120	2,620	3,594	1,932
(8)	Difference in expenditures (% of GDP)	0.3	0.7	0.9	0.5
(9)	**OVERALL BALANCE COMPATIBLE WITH TARGET (1)–(5) (% OF GDP)**	**–2.4**	**–1.6**	**–0.9**	**–0.2**

Source: Dipres.

For 2022–2025, committed expenditures take into account compliance with all current legal and contractual obligations, operational continuity of public agencies, and other commitments to date. Meeting the targets identified for the period would achieve a structural balance of –0.9% of GDP in 2025, consistent with an overall balance of –0.2% of output.

The new spending levels compatible with the structural balance targets from 2022 to 2024 are higher than estimated in the last PFR (Table III.6.2). This is because actual revenues in 2020 had a larger share of noncyclical revenues, which led to an upward revision of the structural revenue forecast for the whole period. This, together with maintaining the structural balance targets for the period, results in a higher spending level that is compatible with the target, generating an estimated accumulated fiscal buffer of approximately USD 9,266 million.

Table III.6.2
Spending Level Compatible with the Structural Balance Target, 2022–2025
(millions of CLP 2021 and % real change)

	2022	2023	2024	2025
SPENDING COMPATIBLE WITH TARGET, JANUARY 2021	54,805,295	54,585,741	54,799,600	55,504,871
Real annual change	–2.2%	–0.4%	0.4%	1.3%
Change in compatible spending	1,425,162	2,373,657	2,955,844	1,894,369
SPENDING COMPATIBLE WITH TARGET, APRIL 2021	56,230,457	56,959,398	57,755,444	57,399,240
Real annual change	–3.8%	1.3%	1.4%	–0.6%

Source: Dipres.

III.7 TOTAL CENTRAL GOVERNMENT GROSS DEBT FORECAST, 2022–2025

The medium-term forecast for the stock of central government debt is based on the period's estimated spending level compatible with the structural balance target defined by the authority, the payment of pension recognition bonds, the purchase of the government-backed portfolio from financial institutions, and price-level and foreign exchange adjustments. It also takes into account the contributions or resource transfers necessary to comply with the Emergency Economic Plan, the Emergency Protection and Reactivation Plan, the expansion of the Social Protection Network, the Strengthening of the Emergency Family Income program, and the repeal of the Copper Reserve Law (contained in various laws, such as Laws N°21,225, N°21,227, N°21,229, N°21,174, and N°21,323).

Thus, the estimated gross debt of the central government in 2025, consistent with the structural balance target of –0.9% of GDP in the same period, is 39.5% of GDP.

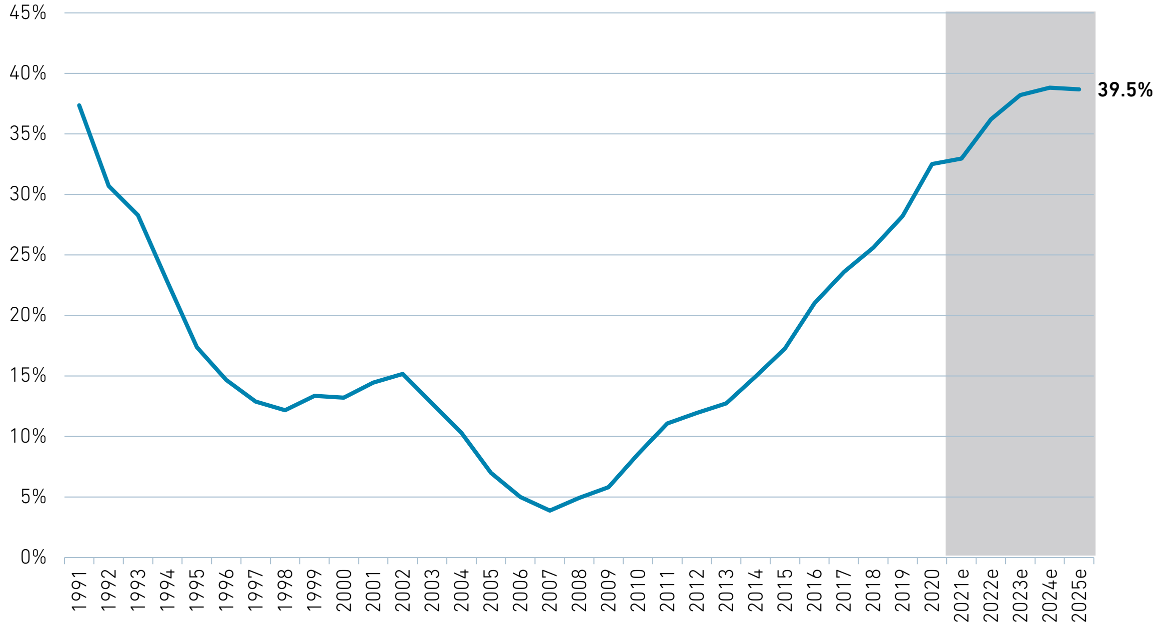
Table III.7.1
Central Government: Gross Debt, Estimated 2022–2025 Close
(millions of CLP 2021 and % of estimated GDP)

	2022	2023	2024	2025
GROSS DEBT BALANCE, PREVIOUS PERIOD	74,378,340	85,885,421	93,095,308	96,614,171
Total central government fiscal deficit	4,885,944	2,154,343	–77,483	–731,549
Transactions in financial assets	6,621,137	5,055,544	3,596,346	2,717,209
FINAL GROSS DEBT BALANCE	85,885,421	93,095,308	96,614,171	98,599,830
% GDP	36.6%	39.0%	39.7%	39.5%

Source: Dipres.

Figure III.7.1 shows the evolution of the central government's gross debt from 1991 to 2025 (Figure III.7.1). As mentioned, the estimated gross debt for 2022–2025 was calculated based on the spending level compatible with the CAB target.

Figure III.7.1
Central Government: Gross Debt, 1991–2025
(% of GDP, 31 December of each year)



Source: Dipres.

III.8 NET FINANCIAL POSITION FORECAST, 2022–2025

Table III.8.1 presents the estimated net financial position (NFP) corresponding to the level of revenues, expenditures, and structural balance presented in the previous sections. As the table shows, the estimated NFP for 2025 is –34.4% of GDP.

Table III.8.1
Total Central Government: Net Financial Position, Estimated 2022–2025 Close
(31 December of each year, millions of USD and % of estimated GDP)

	2022		2023		2024		2025	
	USD MM	% GDP	USD MM	% GDP	USD MM	% GDP	USD MM	% GDP
Total Public Treasury assets	17,618.2	5.1	18,259.1	5.0	19,313.8	5.1	20,413.6	5.1
Total gross debt	127,466.2	36.6	141,902.8	39.0	151,250.3	39.7	154,940.8	39.5
NET FINANCIAL POSITION	**−109,848.0**	**−31.5**	**−123,643.7**	**−34.0**	**−131,936.5**	**−34.6**	**−134,527.2**	**−34.4**

Source: Dipres.

BOX 5. TAX EXPENDITURES: 2020 UPDATE AND 2021 ESTIMATE

1. BACKGROUND

Every year, the Economic and Tax Research Department of the Chilean Internal Revenue Service (IRS) prepares a Tax Expenditure Report that includes the Public Sector Budget Law.

At the request of the Finance Ministry, a team from the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) carried out a remote mission in the months of April and October 2020, with an eye to improving that report, adapting it to international best practices. The work culminated with the publication of the report "Tax Expenditures and Corrective Taxes in Chile: A Joint IMF/OECD Assessment" (IMF/OECD Report), in October 2020. The main objective of the mission was to carry out a technical assessment of the practices and methodology used to calculate tax expenditures (TE) in Chile for the preparation of the annual TE report by the IRS.

Following the recommendations made in the IMF/OECD Report, a working group was formed with representatives of the IRS, Dipres, and the Finance Ministry, in order to incorporate the recommendations into the IRS TE report. To date, several improvements have been implemented, both at the level of the benchmark framework used to identify and estimate tax expenditures and in the estimation methodologies for several items reviewed by the mission from the international organizations.

As reported in the PRF for the fourth quarter of 2020, this box describes the main results of the new TE estimates for 2021, which incorporate most of the recommendations from the IMF/OECD Report. A complete report on the new TE data will be published on the IRS website this month.

Note that the estimation methodology considers each item separately, without considering changes in agents' behavior or interaction among TE items. Thus, while the tax expenditure information is encapsulated in the summation of the items, this amount does not precisely represent the total cost of tax exemptions or allowances included in the TE report.

The next section outlines the main differences in 2020 tax expenditures deriving from the methodological review and other factors. The box then presents the estimated TE included in the 2021 budget.

2. ADJUSTMENTS IN THE TE ESTIMATE FOR 2020

The last TE report, prior to the IMF/OECD mission, was published in September 2019, with estimated tax expenditures of USD 9,333 million for 2020.

Before the incorporation of the adjusted methodologies, the TE estimate was affected by the performance of the main macroeconomic variables. In particular, there were important differences between the September 2019 forecast and the real data at year-end, primarily due to the COVID-19 crisis. Thus, the initial TE estimate of USD 9,333 million was revised downward to USD 7,801 million (Table B.5.1).

Table B.5.1
Macroeconomic Assumptions in the 2019 Report versus Actual Macro Scenario

MACROECONOMIC PARAMETERS FOR 2020	2019 REPORT FORECAST SCENARIO	ACTUAL MACRO SCENARIO
Real GDP growth rate	3.26%	–5.77%
Nominal GDP growth rate	6.39%	2.10%
Average CPI inflation rate	2.59%	3.05%
U.S. dollar exchange rate	CLP 680	CLP 792
2020 TAX EXPENDITURE FORECAST IN THE 2019 REPORT	**USD 9,333 MM**	**USD 7,801 MM**

Source: IRS.

Next, the methodological changes in the TE estimation are applied to the updated amount that incorporates the macroeconomic scenario at year-end 2020. To clarify the changes suggested by the mission, Table B.5.2 disaggregates the analysis into the TE budget prepared in September 2020, the data incorporating the closing macroeconomic scenario, and finally the estimate using the new methodology. After applying the new methodology, the 2020 TE estimate USD 5,624 million.

Table B.5.2
Tax Expenditures, 2020
(Millions of USD)

ITEM	2019 TE REPORT: FORECAST 2020 SCENARIO (1)	2019 TE REPORT: ACTUAL 2020 SCENARIO (2)	APRIL 2021 TE REPORT: ACTUAL 2020 SCENARIO (3)	DIFFERENCE (USD MM) (3) – (2)	DIFFERENCE (%)
INCOME TAX	**6,825**	**5,734**	**3,175**	**–2,559**	**–45%**
Special regimes	209	176	104	–72	–41%
Exemptions	684	581	1,247	666	115%
Deductions	1,060	878	206	–673	–77%
Tax credits	435	367	382	16	4%
Tax deferrals	4,429	3,724	1,234	–2,490	–67%
Reduced rates	9	8	1	–6	–81%
VAT	**2,407**	**1,984**	**2,404**	**421**	**21%**
Exemptions and exclusions	1,582	1,304	1,744	440	34%
Credits	687	566	533	–33	–6%
Tax deferrals	138	114	128	14	12%
FUEL EXCISE TAX	**101**	**83**	**45**	**–38**	**–46%**
Refunds	101	83	45	–38	–46%
TOTAL	**9,333**	**7,801**	**5,624**	**–2,177**	**–28%**

Source: IRS

The main categories that explain the reduction are deferrals and deductions. Tax deferrals decreased 67%. A first factor contributing to this reduction is the change in the treatment of the deferral of final tax payments, as a result of retained earnings at the firm level, which is now part of the benchmark recommended by the commission. This change eliminated one of the largest items in the historical estimation of tax expenditures.

Second, the mission suggested methodological changes to the treatment of corporate deferrals. These improvements implied adjusting the methodologies for leasing contracts, tax depreciation, amortization of intangibles, and other temporary differences, where the previous use of the estimated deferral amount (based on information from Form 1926 and an expansion rate to simulate the effect for the whole economy) was replaced with the amount actually declared by the taxpayers in Form 1926. Specifically, for depreciation, the deferral adjustment amount is the difference between financial and tax depreciation. In the case of leasing, the adjustments of both the lessor and the lessee are considered. In the case of amortizations and other deferrals, the same adjustment accounts considered above are used, but the values are not projected for the whole economy.

With regard to deductions, the new benchmark proposed by the IMF/OECD mission implies removing from the estimation all items associated with legally established mandatory social contributions. Thus, the report eliminates the estimation of contributions linked to health care, unemployment insurance, disability insurance, and presumptive expenses for independent workers.

Finally, exemptions partially offset the decline in the estimation, with an increase of 115%. This is explained by methodological changes incorporated for tax expenditures from capital gains from stock exchange transactions and the sale of real estate. The former now uses information from Form 1926. In the case of the latter, the benchmark was modified, replacing the 10% rate with the complementary global tax (Table B.5.3).

Table B.5.3
Main Changes in Tax Expenditure Estimates
(Millions of USD)

ITEM	EXPENDITURE	DIFFERENCE (USD MM)	REASON FOR CHANGE
Deferrals	Amortization of intangibles, etc.	–512	Methodological improvement
	Leasing contracts	–501	
	Tax depreciation	+256	
	Untaxed corporate retained earnings	–698	Elimination of item
	Pension fund investment income	–590	
	Deduction of social contributions	–464	
Deductions	Employee health contributions	–292	Elimination of item
	Unemployment insurance contributions	–242	
Exemptions	Capital gains from real estate, up to 8,000 UF	+302	Methodological improvement
	Capital gains allowed under Art. 107	+269	

Source: IRS.

3. TAX EXPENDITURE FORECAST, 2021

Based on the new TE estimation methodology, and using the macroeconomic assumptions described in this Public Finance Report, Table B.5.4 shows the TE forecast for this year. A comparison of 2020 and 2021 reveals an increase of USD 2,219 million. Thus, tax expenditures in 2021 are estimated at USD 7,843 million.

Table B.5.4
Tax Expenditure Forecast, 2021
(Millions of USD)

ITEM	2020 TAX EXPENDITURE (1)	2021 TAX EXPENDITURE (2)	DIFFERENCE (USD MM) (2)–(1)	DIFFERENCE (%)
INCOME TAX	**3,175**	**4,758**	**1,583**	**50%**
Special regimes	104	1,359	1,254	1,201%
Exemptions	1,247	1,464	217	17%
Deductions	206	238	32	16%
Tax credits	382	426	43	11%
Tax deferrals	1,234	1,270	35	3%
Reduced rates	1	2	0	16%
VAT	**2,404**	**3,068**	**664**	**28%**
Exemptions and exclusions	1,744	2,225	482	28%
Credits	533	680	147	28%
Tax deferrals	128	163	35	28%
FUEL EXCISE TAX	**45**	**18**	**–27**	**–60%**
Refunds	45	18	–27	–60%
TOTAL	**5,624**	**7,843**	**2,219**	**39%**

Source: IRS.

With regard to the increase in 2021, the primary factor is special regimes, which recorded a percentage change of 1,201%. This is explained by the incorporation of the General Pro-SME Regime, which comprises two estimations: (1) with the general regime, which uses a 27% rate, as the baseline, the tax expenditure is estimated by comparing the baseline with the reduced rate of 25% (+USD 391 million); and (2) the 25% reduced rate is used as a benchmark to estimate the tax expenditure from the temporary reduction in the income tax rate to 10% (+USD 871 million).

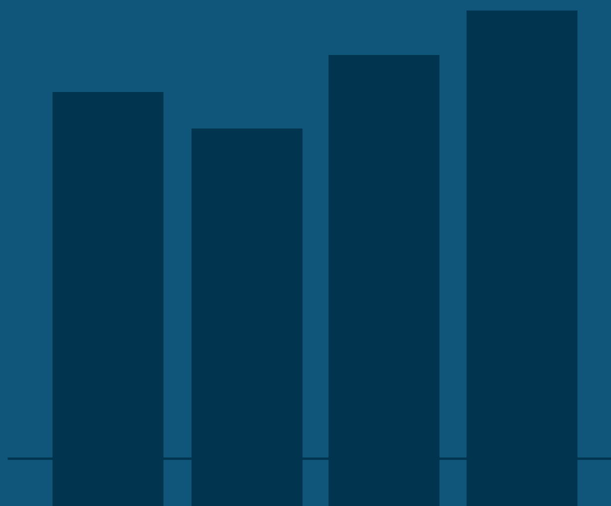
Finally, Table B.5.5 shows a summary of the main measures with the largest tax expenditures in 2021.

Table B.5.5
Largest Tax Expenditure Items, 2021

EXPENDITURE ITEM (1)	CATEGORY	SECTOR	MILLIONS OF CLP	MILLIONS OF USD (2)	% OF GDP
(1) General Pro-SME Regime, special first-category tax rate of 10%	BIT, special regimes	Promotion of SMEs	608,394	871	0.27%
(2) Tax depreciation	BIT, deferrals	Savings-investment	605,954	867	0.27%
(3) Special credit for housing construction	VAT, credits	Real estate	467,391	669	0.21%
(4) Various services	VAT, exemptions and exclusions	Other	319,011	457	0.14%
(5) Capital gains from real estate, up to 8,000 UFs	PIT, personas, exemptions*	Savings-investment	317,586	455	0.14%
(6) Educational establishments	VAT, exemptions and exclusions	Education	281,680	403	0.12%
(7) General Pro-SME First-Category Tax Regime	PIT, special regimes	Promotion of SMEs	272,955	391	0.12%
(8) Passenger transport	VAT, exemptions and exclusions	Transport	252,833	362	0.11%
(9) Housing rental income under DFL 2	PIT, exemptions *	Real estate	247,613	354	0.11%
(10) Capital gains under Art. 107	CIT, exemptions and exclusions	Savings-investment	245,197	351	0.11%

1 Excluding negative tax expenditure items. PIT: Personal income tax; BIT: Business income tax; CIT: Corporate income tax.
2 Exchange rate of 698.6 CLP/USD for 2021 (Finance Ministry forecast).
Source: IRS.

PUBLIC FINANCE REPORT FIRST QUARTER 2021



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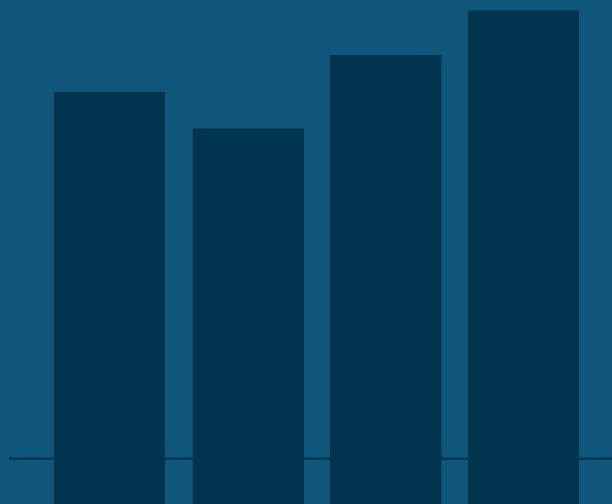


CHAPTER IV.
EFFICIENCY IN THE USE OF RESOURCES IN 2020

CHAPTER IV. EFFICIENCY IN THE USE OF RESOURCES, 2020

Since 2000, the Management Control and Evaluation System provides information on the performance of public institutions, thereby supporting decision-making in the budget cycle. The system currently incorporates a variety of instruments, including strategic definitions and performance indicators, program monitoring, ex ante and ex post evaluation, and cost reviews.

IV.1. STRATEGIC DEFINITIONS AND PERFORMANCE INDICATORS

Strategic definitions provide important information for supporting the strategic management of an institution, a better budget formulation, the elaboration of relevant performance indicators, and the quality of spending. Budget formulation considers information from the strategic definitions of public services since 2001.

In the 2020 Public Sector Budget Law, 178 institutions formulated 672 strategic products, for an average of 3.8 products per institution. Furthermore, 165 institutions formulated 425 products (goods and/or services) with performance indicators to meet their strategic objectives. For 160 of these services, the performance of 839 indicators and their targets were monitored. From January to March 2021, compliance with these targets was evaluated, finding average compliance of 89% (Table IV.1). This result was mainly due to the effect of the pandemic on the performance of public institutions, due to the drop in in-person services, changes in activity schedules, or the reallocation of resources to support work associated with the pandemic.

Table IV. 1.1
Achievement of Performance Indicators in 2018–2020, by Ministry

MINISTRY	2018			2019			2020		
	NUMBER OF INSTITUTIONS	TOTAL INDICATORS EVALUATED	AVERAGE ACHIEVEMENT (%)	NUMBER OF INSTITUTIONS	TOTAL INDICATORS EVALUATED	AVERAGE ACHIEVEMENT (%)	NUMBER OF INSTITUTIONS	TOTAL INDICATORS EVALUATED	AVERAGE ACHIEVEMENT (%)
MINISTRY OF AGRICULTURE	6	41	99	6	39	96	6	39	96
MINISTRY OF NATIONAL ASSETS	1	6	96	1	6	94	1	5	92
MINISTRY OF SCIENCE, TECHNOLOGY, KNOWLEDGE, AND INNOVATION	-	-	-	1	7	95	1	6	100
MINISTRY OF NATIONAL DEFENSE	8	41	88	8	44	91	8	44	77
MINISTRY OF SOCIAL DEVELOPMENT	7	44	100	7	42	93	7	33	75
MINISTRY OF ECONOMY, DEVELOPMENT, AND TOURISM	14	64	98	14	61	95	14	57	85
MINISTRY OF EDUCATION	7	41	97	7	35	93	7	32	81
MINISTRY OF ENERGY	4	24	100	4	23	95	4	22	85
FINANCE MINISTRY	12	66	99	11	61	95	11	53	97
MINISTRY OF JUSTICE AND HUMAN RIGHTS	6	39	99	6	39	98	7	38	88
MINISTRY OF WOMEN AND GENDER EQUALITY	1	6	83	1	6	100	2	9	94
MINISTRY OF CULTURE, ARTS, AND HERITAGE	2	12	100	2	12	92	2	12	71
MINISTRY OF MINING	3	19	100	3	19	98	3	19	89

Continuation

MINISTRY	2018			2019			2020		
	NUMBER OF INSTITUTIONS	TOTAL INDICATORS EVALUATED	AVERAGE ACHIEVEMENT (%)	NUMBER OF INSTITUTIONS	TOTAL INDICATORS EVALUATED	AVERAGE ACHIEVEMENT (%)	NUMBER OF INSTITUTIONS	TOTAL INDICATORS EVALUATED	AVERAGE ACHIEVEMENT (%)
MINISTRY OF PUBLIC WORKS	14	79	97	14	75	96	14	69	91
MINISTRY OF FOREIGN AFFAIRS	5	28	100	4	22	95	4	17	82
MINISTRY OF HEALTH	7	47	95	7	46	89	7	34	92
MINISTRY OF TRANSPORT AND TELECOMMUNICATIONS	3	20	95	3	21	86	3	17	94
MINISTRY OF HOUSING AND URBAN PLANNING	17	91	97	17	103	95	18	104	91
MINISTRY OF SPORT	2	12	100	2	11	90	2	10	79
MINISTRY OF THE INTERIOR AND PUBLIC SECURITY	21	144	98	21	143	94	21	132	90
MINISTRY OF THE ENVIRONMENT	3	15	100	3	16	98	3	15	99
MINISTRY OF LABOR AND SOCIAL SECURITY	11	62	94	11	61	96	11	55	87
MINISTRY GENERAL SECRETARIAT OF GOVERNMENT	2	11	92	2	10	94	2	9	100
MINISTRY GENERAL SECRETARIAT OF THE PRESIDENCY	1	5	100	1	5	80	1	5	100
EXECUTIVE OFFICE OF THE PRESIDENT	1	3	100	1	3	100	1	3	100
TOTAL	**158**	**920**	**97**	**157**	**910**	**94**	**160**	**839**	**89**

Source: Dipres.

IV.2. 2020 PROGRAM PERFORMANCE MONITORING

In the first quarter of 2021, the Undersecretariat for Social Evaluation and the Budget Office issued Circular N°22 OF 28 December 2020, launching the process of monitoring or tracking the performance of identified programs. The objective of this process is to collect and analyze information on the performance and budget execution of public programs in 2020. In the current year, this process was developed in conjunction and coordination with the Undersecretariat for Social Evaluation (SES) of the Ministry of Social Development and Family and covered all the ministries and services under state administration with public programs.

This work implied the development of a dedicated website for data input and processing (Monitoreo 2020 SES–DIPRES, https://evaluacionymonitoreosesdipres.gob.cl), as well as the harmonization of formats, guidelines, and review criteria between the two institutions.

In the process, special emphasis was placed on investigating and taking into account the effects of pandemic-related health conditions and mobility restrictions on program implementation.

The results of the 2020 program performance monitoring process, for both social and non-social programs, will be published in the second quarter of this year and will be used as an input for the formulation of the 2022 budget.

IV.3. EX POST EVALUATION

One important source of information to support management, analysis, and decisionmaking in the allocation and use of public resources is the implementation of ex post evaluation of programs, public institutions, and specific expenditure lines. The current system has six lines of evaluation: government program evaluations (GPE), impact assessments (IA), institutional spending evaluations (ISE), limited-scope audits (LSA), public spending reviews (PSR), and sectoral assessments (SA). These lines are based on protocols of agreement signed by the Executive and the National Congress and are oriented toward timely reporting for the budget formulation. Depending on the line, the implementation of the evaluation is awarded to independent agencies via public tender, contracted out to teams of external consultants outside the public sector via public tender, or conducted directly by Dipres teams with collaboration and verification by an external and independent consultant. This section summarizes the status of evaluations that are currently in progress.

Government Program Evaluations (GPE)

In 2021, seven evaluations of 13 government programs are being conducted, and the final reports will be available in the first half so as to be taken into consideration in the 2022 budget formulation process. The reports will be published on the Dipres website and sent to the Joint Budget Committee.

Limited-Scope Audits (LSA)

There are currently six limited-scope audits underway: namely, the CORFO–SERCOTEC Agency Model of the Ministry of Economy, Development, and Tourism; the National Student Card initiative of the National Student Aid and Scholarships Board; the Participative Paving Program of the Ministry of Housing and Urban Planning; the Energy Efficiency Action Plan Programs of the Ministry of Energy; the Community Support Centers for People with Dementia Program of the Ministry of Health; and the Asset Management and Title Regularization Programs of the Ministry of National Assets. The first two evaluations are focused on costs, while the rest concentrate on design and/or implementation. All of these audits will be available for the 2022 budget formulation process.

Impact Assessments (IA)

Fourteen impact assessments are being carried out on programs in the Ministries of Justice, Social Development and Family, Economy, Science, Labor, Education, and Finance. Of the 14 assessments, nine use an experimental methodology, while the remaining five use quasi–experimental methodologies.

The impact assessments of the following programs are expected to be finalized in the first half: "My Lawyer," in the Ministry of Justicia; "I Choose My PC," in the National Student Aid and Scholarships Board; and the post-graduate scholarships granted through the Advanced Human Capital Program of the Ministry of Science, Technology, Knowledge, and Innovation. The results will be an input for the 2022 budget formulation process. In the second half, the assessment results should be published for the Ultra-Accelerated and Instant Depreciation Policies and the Tax Exemption policy of the Ministries of Finance and Labor, respectively.

The current Budget Law establishes that public program assessments can be awarded through an application process, which is the basis for the implementation of the 2021 Impact Assessment Fund. The objective of this fund is to finance proposals that present solid arguments on the technical feasibility of identifying causal effects of public programs using experimental or quasi-experimental methodologies, and whose results will be of interest for resolving key questions for public policy.

The 2021 Impact Assessment Fund is the third version of this initiative. Currently, two projects that were awarded during the first initiative are preparing their final report, which will provide inputs for the 2022 budget process. These are "Design and Assessment of Nudges to Promote Saving in Public Procurement," carried out by a team from the School of Industrial Engineering of the University of Chile; and "Return on Innovation: Impact of CORFO investment in Innovation-Promotion Instruments," by the ICuantix consulting firm, in conjunction with Matías Cattaneo. Additionally, two projects from the second version of the fund are in the implementation phase. These are "Impact Assessment of Providing Information on Neighborhood Quality on the Use of the Rent Subsidy and Residential Mobility," by a team from the School of Government of the Catholic University of Chile; and "Impact Assessment of the Preventive Patrolling Initiative in Priority Areas," by the Foundation for Social Peace.

Public Spending Reviews (PSR)

In 2019 and 2020, a detailed cost review was carried out on consumption goods and services in the public sector (Subtitle 22) for 157 public services,[1] with the objective of analyzing the expenditures allocated to supporting the functions performed by these services.[2] This review was used as an input in the 2021 budget process, where the total budget for the services included in the cost review decreased 8.4% in the 2021 Budget Law relative to the initial 2020 Budget Law. [3] Given the size of this adjustment, in 2021 spending on consumption goods and services will only be reviewed for some specific public services.

Sectoral Assessments (SA)

Sectoral assessments are a new comprehensive analytical tool, which look at how different programs or initiatives, as well as other institutional definitions, contribute jointly to achieving a public policy result. This assessment requires a holistic view of the set of programs that interact to solve a collective problem, so as to analyze their interactions, overlaps, and performance both individually and as a whole. The analysis has two levels: a strategic assessment, which mainly focuses on decisions regarding policy preferences and the key elements of planning/programming; and the administrative-operational assessment of the implementation of these decisions, which focuses on the program supply. In late 2020, work in this line began on two pilot assessments:

1 Support and administration goods and services are used by public services in the production of goods and services, but they are not directly delivered to the citizenry.
2 "Revisión del Gasto Público en Chile: Bienes y Servicios de Consumo de Soporte del Sector Público" (DIPRES, 2021). http://www.dipres.cl/598/articles–215733_doc_pdf.pdf.
3 "Evaluación y Formulación del Presupuesto 2021" (DIPRES, 2021). http://www.dipres.cl/598/articles–215732_doc_pdf.pdf.

1. Job training and preparation for women: Programs whose objective is to support the labor insertion of women, including mainly programs implemented by the National Service for Women and Gender Equality (SERNAMEG) and the Foundation for the Promotion and Development of Women (PRODEMU). The first phase of this assessment was conducted jointly by teams from DIPRES and the Undersecretariat for Social Evaluation (SES).

2. Export promotion: Programs whose objective is to promote exports and the positioning of Chile overseas, which are mainly channeled through ProChile.

Compliance with Commitments by Evaluated Programs

The review of institutional commitments is the foundation of a rigorous follow-up process, which is implemented after the evaluation process. In this phase, monitoring is oriented toward the implementation of the measures agreed on at the end of the evaluation, by the institution responsible for the program and Dipres.

As shown in Table IV.3.1, the results of the commitment follow-up reveal that out of a total of 97 programs with established commitments in the 2015–2020 period, 41% have graduated from the system (40). Of those that are still being monitored, only 19% (11) have complied with all their agreed commitments, 61% (35) have partially complied, 9% (5) have unmet commitments, and 11% (6) have not yet complied with any commitment that was due on or before December 2020.

Table IV.3.1
Summary of Compliance by Year of Protocol, December 2020
2015–2020 period

YEAR OF PROTOCOL	LEVEL OF COMPLIANCE					N° PROGRAMS AND INSTITUTIONS**
	GRADUATED	COMPLIED	PARTIALLY COMPLIED	NOT COMPLIED *	UNDER EVALUATION	
2015	14		1			15
2016	9	3	6	1		19
2017	9	2	7	2		20
2018	6	2	7			15
2019	2	1	11			14
2020		3	3	2	6	14
GENERAL TOTAL	**40**	**11**	**35**	**5**	**6**	**97**

Note:
* Programs with outstanding commitments that did not report on the process as of December 2020.
** Not all of the evaluated programs and institutions are under commitment follow-up. The table only considers those that made commitment agreements and that are being monitored through the commitment follow-up platform.
Source: Dipres.

With regard to commitment compliance by ministry (Table IV.3.2), the Ministry of Education has the largest number of evaluated programs and institutions under follow-up (16), of which 34% have graduated (7). Next is the Ministry of Economy, Development, and Tourism with 11 programs under follow-up; and the Ministry of Health and Ministry of Social Development and Family, each with 10 evaluated programs under follow-up. The ministries with the fewest evaluations are the Ministry of Mining, Ministry of the Environment, Ministry of National Assets, Ministry of Transport and Telecommunications, and Ministry General Secretariat of Government, each with on evaluated program under follow-up.

Table IV.3.2
Summary of Compliance by Ministry, December 2020
2010–2020 period

MINISTRY	LEVEL OF COMPLIANCE					N° PROGRAMS AND INSTITUTIONS**
	GRADUATED	COMPLIED	PARTIALLY COMPLIED	NOT COMPLIED*	UNDER EVALUATION	
MINISTRY OF AGRICULTURE			2			2
MINISTRY OF NATIONAL ASSETS	1					1
MINISTRY OF SCIENCE, TECHNOLOGY, KNOWLEDGE, AND INNOVATION	2					2
MINISTRY OF SOCIAL DEVELOPMENT	7	1	2			10
MINISTRY OF ECONOMY, DEVELOPMENT, AND TOURISM	8	2	1			11
MINISTRY OF EDUCATION	7	1	5		3	16
MINISTRY OF JUSTICE AND HUMAN RIGHTS	1		4			5
MINISTRY OF WOMEN AND GENDER EQUALITY	1		2			3
MINISTRY OF CULTURE, ARTS, AND HERITAGE	1	2	2			5
MINISTRY OF MINING	1					1
MINISTRY OF PUBLIC WORKS			2			2
MINISTRY OF FOREIGN AFFAIRS	1		1			2
MINISTRY OF HEALTH	1	1	6	2		10
MINISTRY OF TRANSPORT AND TELECOMMUNICATIONS					1	1
MINISTRY OF HOUSING AND URBAN PLANNING	1	3	2	1	1	8
MINISTRY OF SPORT	3		1			4
MINISTRY OF THE INTERIOR AND PUBLIC SECURITY	2		2	2	1	7
MINISTRY OF THE ENVIRONMENT		1				1
MINISTRY OF LABOR AND SOCIAL SECURITY	3		2			5
MINISTRY GENERAL SECRETARIAT OF GOVERNMENT			1			1
GENERAL TOTAL	**40**	**11**	**35**	**5**	**6**	**97**

Note:
* Programs with outstanding commitments that did not report on the process as of December 2020.
** Not all of the evaluated programs and institutions are under commitment follow-up. The table only considers those that made commitment agreements and that are being monitored through the commitment follow-up platform.
Source: Dipres.

Table IV.3.3 provides details on the seven programs that graduated from the commitment follow-up system in December 2020. Of these, the Comprehensive Learning-Support Services Program left the system because it is not being continued in the 2021 budget.

Table IV.3.3
Programs That Graduated from the Commitment Follow-Up System in December 2020

MINISTRY	SERVICE	PROGRAM
MINISTRY OF SOCIAL DEVELOPMENT	UNDERSECRETARIAT FOR CHILDREN	Crece Contigo Comprehensive Learning-Support Services Program
MINISTRY OF SOCIAL DEVELOPMENT	UNDERSECRETARIAT OF SOCIAL SERVICES	School Achievement Scholarship
MINISTRY OF DESARROLLO SOCIAL	UNDERSECRETARIAT OF SOCIAL SERVICES	Families in a Situation of Extreme Poverty and Vulnerability—Security and Opportunities Subsystem
MINISTRY OF ECONOMY, DEVELOPMENT, AND TOURISM	ECONOMIC DEVELOPMENT AGENCY (CORFO)	Early Financing for Entrepreneurs Program
MINISTRY OF EDUCATION	NATIONAL STUDENT AID AND SCHOLARSHIPS BOARD	President's Scholarship
MINISTRY OF EDUCATION	National Board of Early Education (JUNJI)	JUNJI Day Care Program
MINISTRY OF JUSTICE AND HUMAN RIGHTS	PRISON SERVICE (GENDARMERÍA DE CHILE)	Intervention and/or control of the convicted population subject to Law 18,216

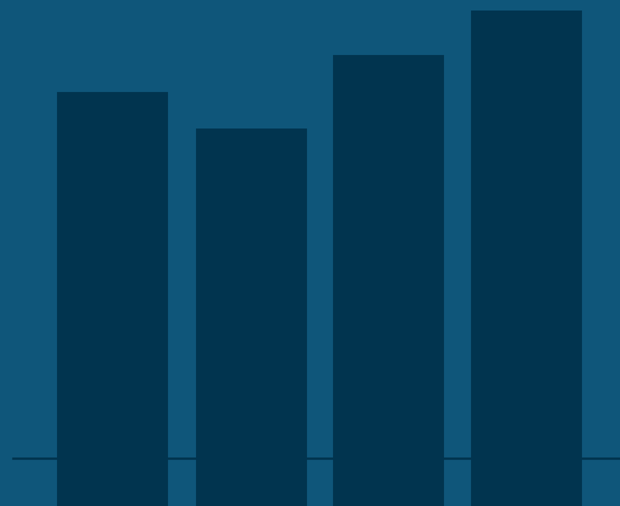
Source: Dipres.

With regard to programs listed as noncompliant, two received this rating because the Public Service that manages the program did not report any progress during the December 2020 commitment review process. Table IV.3.4 provides details.

Table IV.3.4
Programs Classified as Noncompliant, December 2020

PROGRAM/SERVICE/MINISTRY	COMMITMENT RATING				TOTAL COMMITMENTS
	COMPLIED	PARTIALLY COMPLIED	NOT COMPLIED	FUTURE DUE DATE	
COMPREHENSIVE HEALTH CARE FOR PEOPLE WITH SEVERE DEPENDENCE Undersecretariat of Health Care Networks Ministry of Health		1	4		5
PREVENTIVE DENTAL HEALTH PROGRAM (SEMBRANDO SONRISAS) Undersecretariat of Health Care Networks Ministry of Health	3		1		4
IMPROVEMENT AND REGENERATION OF SOCIAL CONDOMINIUMS Undersecretariat of Housing and Urban Development Ministry of Housing and Urban Development	7		1	1	9
SPECIAL DEVELOPMENT PLAN FOR EXTREME ZONES Undersecretariat of Regional Development and Administration Ministry of the Interior and Public Security			2	2	4
URBAN IMPROVEMENT AND COMMUNITY INFRASTRUCTURE Undersecretariat of Regional Development and Administration Ministry of the Interior and Public Security			6	3	9

Source: Dipres.



BUDGET OFFICE

GLOSSARY AND ACRONYMS

BUDGET OFFICE

GLOSSARY AND ACRONYMS

GLOSSARY

Budgetary central government: Comprises the Central government accounts subject to the Budget Law, including ministries, independent state entities (National Congress, Judiciary, Office of the Comptroller General, and Public Prosecutor's Office), and decentralized public institutions (public services).

Central Bank of Chile (CBC): Independent technical organization, whose objective is to safeguard the stability of the currency, that is, maintain stable inflation around a target rate of 3% in a two-year horizon. The CBC also promotes the stability and efficiency of the financial system, monitoring the normal functioning of internal and external payments.

Codelco: National Copper Corporation, an independent copper mining company that is owned by the state.

Committee of Independent Experts: Committee that estimates the key parameters for the estimation of the central government's structural revenues, that is, for the calculation of the structural balance target. There are two committees: the Trend GDP Committee and the Copper Reference Price Committee. Also known as Advisory Committees.

Consumer price index (CPI): Headline inflation index of products in the local market, calculated monthly by the National Statistics Institute (INE).

Consumer price index excluding food and energy (CPIEFE): Core inflation index of products in the market, excluding food and energy, calculated monthly by the INE.

Copper reference price: The long-term (10-year) copper price, estimated by experts on the copper reference price advisory committee. It is normally estimated once a year.

Copper Reserve Law: Law N° 13,196, which allocates 10% of Codelco's copper sales to the Chilean Armed Forces.

Coronavirus: A new virus detected in humans, with the first cases occurring in Wuhan, China. Causes disease with symptoms ranging from a common cold to more serious illnesses, such as acute respiratory failure.

COVID Agreement: Framework of Understanding for an Emergency Protection and Reactivation Plan, with resources of up to USD 12,000 million in 24 months. The plan has three main pillars: (1) 24-month fiscal framework and a posteriori fiscal consolidation; (2) economic and employment reactivation plan; and (3) family income protection.

Cyclically adjusted balance (CAB) or Structural balance (SB): An estimation of the fiscal balance that would be produced if output evolved according to its trend and the copper price were at its long-term level. Operationally, it corresponds to the difference between the estimated structural revenues and expenditures of the total central government in one fiscal year.

Economic and Social Stabilization Fund (ESSF): A sovereign wealth fund whose objective is to finance potential fiscal deficits and amortize public debt, thereby contributing to shielding fiscal revenues from the fluctuations of the world economy and the volatility of tax, copper, and other revenues.

Emergency Economic Plan (EEP): An economic plan announced by the government in March 2020, which consists in a set of extraordinary economic measures to protect family health, income, and employment across the country. A second phase was announced in April of the same year, with the objective of protecting business activity in the country, as well as people's income, especially in the most vulnerable segments.

Eurozone: The group of 19 countries that have adopted the euro as their official currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Extra-budgetary central government: Comprises the central government accounts for the Copper Reserve Law and interest on Pension Recognition Bonds.

Federal Reserve (Fed): Central Bank of the United States.

Financial Program (FP): The central government's budgetary spending forecast, which under the State Finance Administration Law is estimated for a four-year period and presented in the Public Finance Report.

FUT: The Taxable Profits Fund (Fondo de Utilidad Tributaria) is an accounting registry maintained by businesses and corporations that pay first-category income taxes, for recording retained earnings subject to the additional global complementary tax.

Gross copper revenues: Revenues received by the Treasury from Codelco as a result of copper sales, including the payment of taxes, transfer of profits, and payments associated with the Copper Reserve Law.

Gross debt of the central government: The debt instruments included in the line item Gross debt of the central government include bonds placed in the local and international financial markets, loans from international organizations (such as the IMF, the World Bank, etc.), and credits, promissory notes, or other debt securities recognized under a given law. The aforementioned debt instruments together make up the item "Gross debt of the central government."

Gross domestic product (GDP): The total value of goods and services produced in a country's national territory in a given period, free of duplications. It can be calculated as the difference between the gross value of production and the goods and services consumed during the production process, at wholesale prices (intermediate consumption). This variable can also be obtained in net terms by subtracting value added and fixed capital consumption of capital goods used in production.

Fiscal Council (CFA): The objective of the CFA is to contribute responsibly to the central government's fiscal policy, through the following roles and functions: evaluate and monitor the calculation of the cyclical adjustment of overall revenues by Dipres, according to the methodology, procedures, and other standards established by the Finance Ministry; participate as an observer in the procedures established for gathering the opinion of independent experts regarding the structural parameters; and review these calculations and express an opinion thereon.

International Monetary Fund (IMF): International financial organization with 189 member countries, which promotes financial stability and international monetary cooperation and establishes accounting standards for fiscal and national accounts.

ISFUT: Substitute Tax on the Taxable Profits Fund. A tax benefit that allows companies that pay first-category income taxes and that maintain an accumulated balance of income generated through 31 December 2016, with deferred taxation of the final taxes, in either the taxable profits fund (FUT) or the reinvested profits fund (FUR), to pay a Substitute Tax with a reduced rate, which can be offset by the first-category income tax credit, when applicable.

Joint Budget Committee: A mixed committee of senators and representatives, including the members of the Senate and House Finance Committees, which analyzes the Budget Bill. This commission, which has special processing rules governed by the Constitution of Chile and by the Organic Constitutional Act regulating Congress, is divided into five subcommittees that analyze different parts of the budget, corresponding to resources allocated to different public agencies.

Large private mining (GMP10): The ten largest private mining companies: Escondida, Collahuasi, Los Pelambres, Anglo American Sur, El Abra, Candelaria, Anglo American Norte, Zaldívar, Cerro Colorado, and Quebrada Blanca.

Management improvement programs (MIP): Pay incentive programs for public management and administration. A committee of three ministries (Ministry of the Interior, Ministry of Finance, and Ministry General Secretariat of the Presidency) is responsible for approving and evaluating service commitments, with Dipres acting as Technical Secretary.

Monthly Economic Activity Indicator (IMACEC): An estimate that summarizes activity in the different economic sectors in a given month, published by the Central Bank of Chile (CBC).

Monthly provisional payments (Pagos Provisionales Mensuales, PPM): Estimated interim tax payments paid monthly by taxpayers to cover their annual tax liability. The amount paid is generally determined according to a legally established mechanism, specifically Articles 84 et seq. of the Income Tax Law (DL 824 of 1975).

Monetary policy rate (MPR): The Central Bank of Chile's target interest rate for interbank operations.

MTTRA: Temporary tax relief measures that will be automatically reversed. Temporary modifications to the base or rate of a given tax that imply a loss or gain in fiscal revenues in the year, the impact of which will be automatically reversed in the fiscal year following their application.

Net financial position (NFP): Difference between the Public Treasury's financial assets (ESSF, PRF, other Public Treasury assets, and the Education Fund) and the gross debt stock at the close of the period.

Net tax revenues: Mandatory cash payments that the government requires of individuals and firms that are not subject to direct consideration, in order to fund the administration of the state and the provision of public goods and services. They are net to the extent that they are adjusted for refunds owed to taxpayers for excess taxes paid, either for exempt activities or by judicial resolution.

Organization of Petroleum-Exporting Countries (OPEC): The following countries are members of OPEC: Angola, Algeria, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

Overall balance: Net lending/Net borrowing. Revenues minus expenditures minus net investment in nonfinancial assets; or inflows minus outflows; or the net operating result minus net investment in nonfinancial assets; or the gross operating result minus gross investment in nonfinancial assets. Net lending/Net borrowing also equals total financing. The overall balance considers the total central government, which comprises the budgetary central government and the extra-budgetary central government.

Paso a Paso Recovery Plan: A plan implemented by the government to safely and gradually open up the country and reactivate the economy, based on four pillars: (i) work incentives; (ii) investment; (iii) support for SMES; and (iv) simplification and expedition of permits.

Primary balance: Net lending/Net borrowing excluding interest payments or net interest payments. For the gross debt sustainability analysis, Net lending/Net borrowing excluding interest payments is used. For the net debt sustainability analysis, Net lending/Net borrowing excluding net interest payments is used.

Purchasing Managers' Index (PMI): An economic index based on surveys of firms in given economic sectors. The most common PMI surveys are manufacturing and services, which are published in the United States and many other developed countries around the world, including members of the Eurozone.

Pension Reserve Fund (PRF): A sovereign wealth fund whose objective is to finance fiscal liabilities deriving from the state guarantee of basic old-age and disability solidarity pensions. It thus contemplates the funding of future pension-related contingencies.

Sovereign wealth funds: Funds whose objective is to contribute to macroeconomic stability and to finance certain contingent liabilities. The Chilean sovereign wealth funds are the Pension Reserve Fund (PRF), created in late 2006, and the Economic and Social Stabilization Fund (ESSF), created in early 2007.

Tax return process: The tax filing process conducted by the Internal Revenue Service, which takes place in the month of April of each year, when taxpayers pay their income taxes for the previous year.

Temporary Emergency Fund: A fund allocated to financing the measures implemented under the COVID Agreement (temporary expenditure).

Transactions in financial assets and liabilities: Correspond to financing and involve the net acquisition of financial assets and incurrence of liabilities. These transactions do not imply changes in net worth.

Transactions in nonfinancial assets (Capital expenditures): Transactions that do not affect net worth, where a change to the entry of a nonfinancial asset (real estate, vehicles, machinery, etc.) is offset with a corresponding entry of a financial asset and liability. The acquisition of nonfinancial assets is also known as capital expenditure.

Transactions that affect net worth (Current expenditures): Transactions that reduce the net worth of the government, namely, expenditures on wages, services, inputs, interest, maintenance, etc., incurred in the performance of the ordinary activities in the government's expenditure execution. Also known as current expenditures.

Transactions that affect net worth (Revenues): Transactions the increase the net worth of the government, including revenues received from taxes, donations, transfers, etc.

Treasury bonds (BTU and BTP): Public funding instruments issued by the Treasury of Chile. BTPs are nominal bonds expressed in pesos (BTP); BTUs are inflation-linked bonds denominated in unidades de fomento (an inflation-indexed unit of account).

Total central government: Comprises the budgetary and extra-budgetary central government.

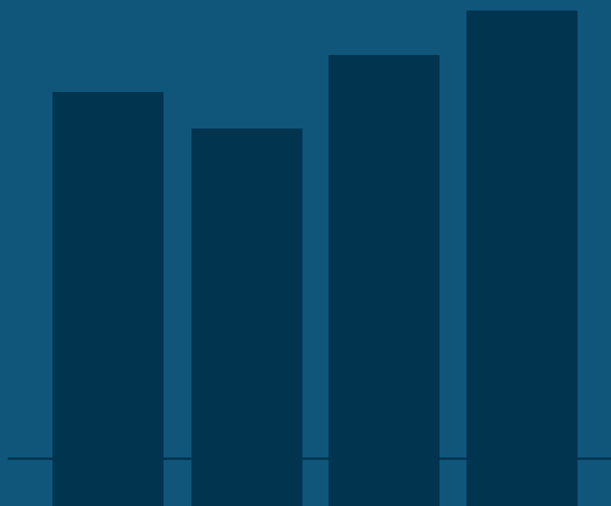
ACRONYMS

ACRONYM	DEFINITION	ACRONYM	DEFINITION
APR	Rural Potable Water Program	FOGAPE	State Guarantee Fund for Small Businesses
APS	Primary health care services	FONASA	National Health Insurance Fund
APV	Voluntary pension savings	FR	Financial Report
BTM	Women's work bonus	FSCU	Solidarity University Loan Fund
CAB	Cyclically adjusted balance	FUT	Taxable Profits Fund
CAE	State-guaranteed loans	GDCG	Gross debt of the central government
CBC	Central Bank of Chile	GDP	Gross domestic product
CBT	Climate Budget Tagging	GORE	Regional Government
CENABAST	National public health sector procurement agency	GPE	Government program evaluations
CEP	Center of Public Studies	GRD	Groups of related diagnoses
CG	Central government	HR	Human resources
CJS	Center of Justice and Social Studies	IDB	Inter-American Development Bank
CNP	National Productivity Commission	IDPC	First–category income tax rate (businesses and corporations)
CNR	National Irrigation Commission	IMF	International Monetary Fund
CNTV	National Television Council	IMG	Guaranteed minimum income
CONADI	National Indigenous Development Corporation	INDAP	Agricultural Development Institute
COP	Conference of Parties	IPoM	Monetary Policy Report
CORE	Regional Council	ISFUT	Substitute Tax on the FUT
CORFO	Economic Development Agency	ISUC	Institute of Sociology, Catholic University of Chile
COSAM	Community Mental Health Centers	JUNJI	National Board of Early Education
COVID	Coronavirus disease	LME	London Metal Exchange
CPEIR	Climate Public Expenditure and Institutional Review	LSA	Limited-scope audits
CPI	Consumer price index	MDSyF	Ministry of Social Development and Family
CPP	Centralized payment processing	MEPCO	Oil Price Stabilization Fund
CRUCH	Council of Rectors of Chilean Universities	MINSAL	Ministry of Health
CUECH	Consortium of State Universities of Chile	MINVU	Ministry of Housing and Urban Development
DGA	Water Authority	MOP	Ministry of Public Works
Dipres	Budget Office	MSMEs	Micro, small, and medium-sized enterprises
DL	Decree Law	NDC	Nationally Determined Contribution
DOH	Hydraulic Works Department	NNA	Children and adolescents
EBRD	European Bank for Reconstruction and Development	OECD	Organization for Economic Cooperation and Development
EEC	Early education centers	OPEC	Organization of Petroleum-Exporting Countries
EEP	Emergency Economic Plan	OPEP	Program content/supply
EFI	Emergency Family Income	PACAM	Complementary Food Program for the Elderly
ESSF	Economic and Social Stabilization Fund	PAO	Voluntary care program
FAEP	Public Education Support fund	PBS	Basic solidarity pension
FCM	Common Municipal Fund	PDA	Environmental cleanup plans
FIC–R	Innovation Fund for Regional Competitiveness	PEDZE	Special Development Plan for Extreme Zones
FMC	Chilean Financial Market Commission	PFR	Public Finance Report

ACRONYM	DEFINITION	ACRONYM	DEFINITION
PMAS	Maxim pension with solidarity contribution	SIGFE	Government's integrated financial management system
PMI	Purchasing Managers' Index	SMEs	Small and medium-sized enterprises
PNAC	National Complementary Food Program	SUBDERE	Undersecretariat of Regional Development and Administration
PPM	Monthly provisional tax payments	UF	Unidad de Fomento, an inflation-indexed unit of account
PRAS	Environmental and Social Recovery Programs	UNDP	United Nations Development Program
PRF	Pension Reserve Fund	UNFCCC	United Nations Framework Convention on Climate Change
RF	Favorable recommendation	USD	U.S. dollars
RO	Official recognition	UTA	Unidad Tributaria Anual, an inflation-indexed unit of account
SEJ	Young workers' subsidy	UTM	Unidad Tributaria Mensual, an inflation-indexed unit of account
SENCE	National Training and Employment Service	VAT	Value-added tax
SENDA	National Service for the Prevention and Rehabilitation of Drug and Alcohol Consumption	VTF	Via transfer of funds
SERCOTEC	Technical Cooperation Service	WB	World Bank
SERVIU	Housing and Urban Development Service	WEO	World Economic Outlook

Source: Dipres.

PUBLIC FINANCE REPORT FIRST QUARTER 2021



BUDGET OFFICE

APPENDIXES

BUDGET OFFICE

APPENDIX I. BACKGROUND FOR CALCULATING THE CYCLICALLY ADJUSTED BALANCE, 2020 AND 2021

I. ORGANIZING PRINCIPLES

Starting in 2001, Chilean fiscal policy has been guided by a structural balance rule, which means that each year the government determines its spending based on medium-term parameters. Essentially, the structural balance indicator is a cyclically adjusted balance (CAB). This consists in defining the public spending level consistent with a fiscal revenue level that is free from the cyclical fluctuations of gross domestic product (GDP) and copper prices, variables over which the authority has little influence.

The institutional coverage applied in the construction of the cyclically adjusted balance indicator is the overall balance of the total central government,[1] as this aggregate is the basis for fiscal policy formulation and execution. Thus, the coverage excludes state-owned companies, municipalities, and public universities.

The estimation of the CAB must take into account the fact that the central government receives revenues from various sources. Thus, cyclical adjustments are made depending on the different revenue items, which can be grouped into two broad categories:[2]

(a) Revenues that are related to the cycle of the local economy (GDP), that is, non-mining tax revenues and health care contributions made to the National Health Care Fund (FONASA); and

(b) Revenues that that are tied to the international price of copper, that is, income tax revenues collected from the large private mining companies (GMP10) and revenue transfers from Codelco to the Treasury (gross copper revenues).

In addition to points (a) and (b) above, the central government receives revenues that, for the purposes of calculating the structural balance indicator, are assumed to have no direct link to either of these two cycles and are thus accounted directly as "structural revenues." These include social security contributions other than health care; donations; operating income; property income; and other revenue such as income from the sale of physical assets. Nevertheless, these types of revenue can be subject to temporary changes or shocks and affect the evolution of what are understood to be structural revenues, complementarily to the evolution of the structural parameters.

The variables that alter the evolution of overall fiscal revenues include the exchange rate, international interest rates, mining production costs, and the schedule of transfers from Codelco to the Treasury. Shocks in any of these variables could cause changes in structural revenues from one year to the next, given that the calculation of the overall balance does not correct revenues for these effects. In addition to the above factors, which are independent of decisions by the fiscal authority, a range of policy measures can affect overall revenues, such as the implementation of tax reforms that modify the tax structure by changing tax rates or restructuring the tax payment calendar, which have a complementary effect on structural revenues.[3]

1 That is, the set of institutions subject to the same budget planning and execution, which are directly related to the Executive Power, plus extra-budgetary operations tied to this level of government.

2 See "Indicador del Balance Cíclicamente Ajustado. Metodología y resultados 2019" (Dipres, 2020).

3 For the purposes of the CAB calculation methodology, the only exclusion from structural revenues is revenues from the temporary tax relief measures that will be automatically reversed. For more details, see http://www.dipres.cl/598/articles-213717_doc_pdf.pdf.

This appendix describes the inputs and results of the calculation of the structural balance target for 2020 and the estimate for 2021, in accordance with the methodology outlined in detail in the Dipres publication series on the cyclically adjusted balance indicator.[4] The calculation is based on macroeconomic and fiscal information available to date, as well as the structural parameters determined by the Advisory Committees of Independent Experts, which met in July (copper reference price) and November (trend GDP) of 2019 for the 2020 overall balance; while the overall balance estimated for 2021 is calculated with the structural parameters estimated by the Advisory Committees in July 2020.

II. APPLICATION OF THE CYCLICALLY ADJUSTED BALANCE METHODOLOGY FOR 2020[5]

II.1 Structural and Cyclical Economic Variables 2020

The calculation of the cyclically adjusted balance for the 2020 budget considers the following structural economic variables (Table A.I.1) and cyclical economic variables (Table A.I.2):

Table A.I.1
Structural Variables for 2020

VARIABLE	VALUE	SOURCE
Gap between actual and trend GDP, 2020	12.7%	Finance Ministry/ Committee of Experts, November 2019 meeting
Gap between actual and trend GDP, 2019	3.3%	Finance Ministry/ Committee of Experts, November 2019 meeting
Copper reference price 2020 (US cents per pound)	286	Committee of Experts, July 2019 meeting
Copper reference price 2019 (US cents per pound)	298	Committee of Experts, July 2018 meeting

Sources: Finance Ministry and Dipres.

4 The series of publications on the CAB calculation methodology, entitled Indicador del Balance Cíclicamente Ajustado, is available at http://www.dipres.cl/598/w3-propertyvalue-22011.html.
5 In contrast to the Public Finance Report for the fourth quarter of 2020, the calculation of the 2020 CAB indicator in this PFR includes overall revenues and expenditures associated with the FONASA Electronic Bonus and the closing of the fiscal accounts for the 2020 year, as well as real GDP for that year, reported by the Central Bank in March.

Table A.I.2
Cyclical Economic Variables: 2020 Forecast

VARIABLE	PERIOD	VALUE
GDP (real growth rate)	Average 2020	–5.8%
CPI (average inflation rate / average)	Average 2020	3.0%
Nominal exchange rate (pesos to the dollar)	Average 2020	792
	Average 2019 (2020 CLP)	724
LME copper price (US cents per pound)	Average 2020	280
	Average 2019	272
Difference: copper reference price – Codelco copper price (US cents per pound)	Average 2020	–1
Codelco copper sales (thousands of tons)	Total 2020	1,599
GMP10 copper production (thousands of tons)	Total 2020	2,983
	Total 2019	3,007
Mining royalty rate	Average 2019	5.00%
Effective first-category income tax rate	Average 2019	25.65%
Effective additional tax rate	Average 2020	33.25%
Share of GMP10 profits distributed overseas (Z)	Average 2020	54.7%
Total GMP10 operating costs (millions of USD)	Total 2020	19,694
	Total 2019	16,383

Sources: Finance Ministry and Dipres.

II.2 Cyclical Effect on Revenues, 2020

Table A.I.3 disaggregates the cyclical component calculated using the parameters described in the previous section, the CAB methodology, and the corresponding elasticities. It also shows the level of overall and cyclically adjusted revenues for each item in 2020.

Table A.I.3
Overall Revenues, Cyclical Component, and Cyclically Adjusted Revenues, 2020
(millions of 2020 CLP)

ITEM	OVERALL REVENUES	CYCLICAL COMPONENT	CYCLICALLY ADJUSTED REVENUES
(1) NON-MINING TAX REVENUES (NMTR)	**30,964,079**	**−8,630,037**	**39,594,116**
(1.1) Annual tax returns (April)	9,188,640	−496,317	9,684,957
(1.2) Payment system (refunds, April 2020)	−11,047,029	777,423	−11,824,452
(1.3) Monthly tax returns (additional, second-category, etc.)	5,877,811	−1,422,921	7,300,731
(1.4) PPM	7,162,558	−4,464,554	11,627,112
(1.5) Indirect taxes	19,466,273	−2,983,716	22,449,989
(1.6) Other	315,827	−39,952	355,779
(2) HEALTH CARE CONTRIBUTIONS	**2,594,038**	**−387,922**	**2,981,960**
(3) CODELCO COPPER TRANSFERS	**1,019,268**	**−16,822**	**1,036,090**
(4) GMP10 TAX REVENUES	**1,338,405**	**−295,027**	**1,633,432**
(4.1) GMP10 mining royalties	321,375	−59,853	381,228
(4.1.1) Annual royalties (April 2020)	180,797	−62,049	242,846
(4.1.2) Monthly payments (PPM)	207,779	−4,189	211,967
(4.1.3) Refund (April 2020)	−67,200	6,385	−73,585
(4.2) GMP10 first-category income tax	797,678	−218,790	1,016,467
(4.2.1) Annual first-category tax (April 2020)	1,162,382	−318,312	1,480,694
(4.2.2) Monthly payments (PPM)	1,001,729	−30,303	1,032,032
(4.2.3) Refund (April 2020)	−1,366,433	129,826	−1,496,259
(4.3) Additional tax GMP10	219,352	−16,385	235,737
(5) OTHER UNADJUSTED REVENUES	**4,234,325**	**0**	**4,234,325**
(6) TOTAL = (1+2+3+4+5)	**40,150,115**	**−9,329,808**	**49,479,923**

Note: The calculation of the estimated cyclical component includes the discount for the automatically reversed tax relief measures in 2021, as indicated in the current methodology. The corrected amounts are as follows: CLP −1,583,942 million estimated in line (1.4) for the suspension of PPM payments; CLP −367,706 million estimated in line (1.5) for VAT payment deferrals and carryforward refunds; CLP −100,354 million estimated in line (1.2) for withholding tax refunds for independent workers; and CLP −266 million estimated in line (1.5) for MSME support measures. All these amounts correspond to benefits granted under Law N° 21,207, Finance Ministry Decree N° 420, and the COVID Agreement. Calculations include the FONASA Electronic Bonus.
Source: Dipres.

II.3 Calculation of the Cyclically Adjusted Balance, 2020

The cyclically adjusted balance (CAB) of the total central government for the 2020 fiscal year is determined by taking the accrued or overall balance (OB) and subtracting the cyclical adjustment (CA) for the year. Table A.I.4 presents the CAB for the 2020 fiscal year in millions of CLP and as a percentage of GDP. Additionally, following the recommendations of the Advisory Committee for the design of a second-generation structural-balance-based fiscal policy for Chile,[6] the table presents not only the traditional measure of the central government's overall and cyclically adjusted balance, but also the primary balance, which reflects the fiscal situation excluding interest income and expense.

6 See Corbo et al. (2011).

Table A.I.4
Total Central Government: Cyclically Adjusted Balance, 2020
(millions of 2020 CLP and % of GDP)

	MILLIONS OF 2020 CLP	PERCENTAGE OF GDP
(1) OVERALL BALANCE (OB2020)	**−14,642,922**	**−7.3**
(2) CYCLICAL ADJUSTMENT (CA2020)	**−9,329,808**	**−4.7**
(2.1) Non-mining tax revenues	−8,630,037	−4.3
(2.2) Health care contributions	−387,922	−0.2
(2.3) Codelco revenues	−16,822	0.0
(2.4) GMP10 tax revenues	−295,027	−0.1
(3) = (1−2) CYCLICALLY ADJUSTED BALANCE (CAB2020)	**−5,313,114**	**−2.6**
(4) Interest income	433,252	0.2
(5) Interest expense	1,937,135	1.0
(6) OVERALL PRIMARY BALANCE = (1−4+5)	**−13,139,038**	**−6.6**
(7) CYCLICALLY ADJUSTED PRIMARY BALANCE = (3−4+5)	**−3,809,231**	**−1.9**

Source: Dipres.

III. APPLICATION OF THE CYCLICALLY ADJUSTED BALANCE METHODOLOGY FOR 2021

III.1 Structural and Cyclical Economic Variables

The calculation of the cyclically adjusted balance for the 2021 budget considers the following structural economic variables (Table A.I.5) and cyclical economic variables (Table A.I.6).

Table A.I.5
Structural Variables for 2021

VARIABLE	VALUE	SOURCE
Gap between actual and trend GDP, 2021	3.4%	Ministerio de Hacienda/ Comité de expertos, reunido en julio de 2020.
Gap between actual and trend GDP, 2020	8.0%	Ministerio de Hacienda/ Comité de expertos, reunido en julio de 2020.
Copper reference price 2021 (US cents per pound)	288	Comité de expertos, reunido en julio de 2020.
Copper reference price 2020 (US cents per pound)	286	Comité de expertos, reunido en julio de 2019.

Sources: Finance Ministry and Dipres.

Table A.I.6
Cyclical Economic Variables: 2021 Forecast

VARIABLE	PERIOD	VALUE
GDP (real growth rate)	Average 2021	6.0%
CPI (average inflation rate / average)	Average 2021	3.4%
Nominal exchange rate (pesos to the dollar)	Average 2021	699
	Average 2020 (2021 CLP)	819
LME copper price (US cents per pound)	Average 2021	399
	Average 2020	280
Difference: copper reference price – Codelco copper price (US cents per pound)	Average 2021	–121
Codelco copper sales (thousands of tons)	Total 2021	1,616
GMP10 copper production (thousands of tons)	Total 2021	3,203
	Total 2020	2,983
Mining royalty rate	Average 2020	5.00%
Effective first-category income tax rate	Average 2020	25.65%
Effective additional tax rate	Average 2021	33.25%
Share of GMP10 profits distributed overseas (Z)	Average 2021	79.2%
Total GMP10 operating costs (millions of USD)	Total 2021	17,728
	Total 2020	19,694

Sources: Finance Ministry and Dipres.

III.2 Cyclical Effect on Revenues, 2021

Table A.I.7 disaggregates the cyclical component calculated using the parameters described in the previous section, the CAB methodology, and the corresponding elasticities. It also shows the level of overall and cyclically adjusted revenues for each item in 2021.

Table A.I.7
Overall Revenues, Cyclical Component, and Cyclically Adjusted Revenues, 2021
(millions of CLP 2021)

ITEM	OVERALL REVENUES	CYCLICAL COMPONENT	CYCLICALLY ADJUSTED REVENUES
(1) NON-MINING TAX REVENUES (NMTR)	**39,844,975**	**1,191,243**	**38,653,732**
(1.1) Annual tax returns (April)	7,377,320	–982,226	8,359,546
(1.2) Payment system (refunds, April 2020)	–8,825,039	3,866,951	–12,691,990
(1.3) Monthly tax returns (additional, second-category, etc.)	5,807,039	–359,994	6,167,034
(1.4) PPM	10,307,896	–847,179	11,155,075
(1.5) Indirect taxes	24,692,215	–469,994	25,162,209
(1.6) Other	485,544	–16,314	501,858
(2) HEALTH CARE CONTRIBUTIONS	**2,601,117**	**–102,544**	**2,703,662**
(3) CODELCO COPPER TRANSFERS	**2,962,413**	**2,999,261**	**–36,848**
(4) GMP10 TAX REVENUES	**3,015,752**	**867,614**	**2,148,138**
(4.1) GMP10 mining royalties	534,672	72,917	461,755
(4.1.1) Annual royalties (April 2020)	461,770	–15,223	476,993
(4.1.2) Monthly payments (PPM)	301,147	83,539	217,608
(4.1.3) Refund (April 2020)	–228,245	4,601	–232,846
(4.2) GMP10 first-category income tax	1,704,701	466,350	1,238,351
(4.2.1) Annual first-category tax (April 2020)	1,199,755	–78,093	1,277,848
(4.2.2) Monthly payments (PPM)	1,863,892	517,049	1,346,843
(4.2.3) Refund (April 2020)	–1,358,946	27,394	–1,386,341
(4.3) Additional tax GMP10	776,379	328,346	448,032
(5) OTHER UNADJUSTED REVENUES	**4,478,391**	**0**	**4,478,391**
(6) TOTAL = (1+2+3+4+5)	**52,902,649**	**4,955,574**	**47,947,075**

Note: The calculation of the estimated cyclical component includes the discount for the automatically reversed tax relief measures in 2021, as indicated in the current methodology. The discounted amounts are as follows: CLP 1,637,796 million estimated in line (1.2) for the suspension of PPM payments (the measures that implied a reduction in PPM collections in 2020, which were automatically reversed in 2021, are reflected in the item "Payment system," since they translate into lower tax refunds for firms during the 2021 tax return process, due to lower provisional payments over the course of the previous year); CLP 378,041 million estimated in line (1.5) for VAT payment deferrals and carryforward refunds; CLP 103,766 million estimated in line (1.2) for withholding tax refunds for independent workers; and CLP 2,090 million estimated in line (1.5) for MSME support measures. All these amounts correspond to benefits granted under Law N° 21,207, Finance Ministry Decree N° 420, and the COVID Agreement.
Source: Dipres.

II.3 Calculation of the Cyclically Adjusted Balance, 2021

The cyclically adjusted balance (CAB) of the total central government for the 2021 fiscal year is determined by taking the accrued or overall balance (OB) and subtracting the cyclical adjustment (CA) for the year. Table A.I.8 presents the CAB for the current year in millions of CLP and as a percentage of GDP. Additionally, following the recommendations of the Advisory Committee for the design of a second-generation structural-balance-based fiscal policy for Chile,[7] the table presents not only the traditional measure of the central government's overall and cyclically adjusted balance, but also the estimated 2021 primary balance, which reflects the fiscal situation excluding interest income and expense.

7 See Corbo et al. (2011).

Table A.I.8
Total Central Government: Cyclically Adjusted Balance, 2021
(millions of CLP 2021 and % of GDP)

	MILLIONS OF 2021 CLP	% OF GDP
(1) OVERALL BALANCE (OB2021)	**−8,658,836**	**−3.8**
(2) CYCLICAL ADJUSTMENT (CA2021)	**4,955,574**	**2.2**
(2.1) Non-mining tax revenues	1,191,243	0.5
(2.2) Health care contributions	−102,544	0.0
(2.3) Codelco revenues	2,999,261	1.3
(2.4) GMP10 tax revenues	867,614	0.4
(3) = (1−2) CYCLICALLY ADJUSTED BALANCE (CAB2021)	**−13,614,410**	**−6.0**
(4) Interest income	321,962	0.1
(5) Interest expense	2,049,198	0.9
(6) OVERALL PRIMARY BALANCE = (1−4+5)	**−6,931,600**	**−3.1**
(7) CYCLICALLY ADJUSTED PRIMARY BALANCE = (3−4+5)	**−11,887,174**	**−5.3**

Source: Dipres.

APPENDIX II. COMPLEMENTARY STATISTICAL INFORMATION

Table A.II.1
Gross Copper Revenues, 2019–2020

	ACTUAL 2019	2020 BUDGET	ACTUAL 2020
BUDGETARY CENTRAL GOVERNMENT			
Thousands of USD	71,430	1,524,500	1,311,964
Millions of 2020 CLP	51,886	1,143,375	1,019,268
EXTRA- BUDGETARY CENTRAL GOVERNMENT			
Thousands of USD	935,438	−3.8	−3.8
Millions of 2020 CLP	680,609	−3.8	−3.8
CONSOLIDATED CENTRAL GOVERNMENT			
Thousands of USD	1,006,868	1,524,500	1,311,964
Millions of 2020 CLP	732,494	1,143,375	1,019,268

Source: Dipres.

Table A.II.2
Total Central Government: Quarterly Expenditures, 2020
(% variación real anual)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
TOTAL EXPENDITURES	**2.7**	**5.6**	**28.2**	**5.5**
ON TRANSACTIONS AFFECTING NET WORTH	**6.2**	**7.1**	**35.0**	**9.1**
Personnel expenses	4.0	4.9	6.7	4.8
Goods and services for consumption and production	5.6	4.4	7.4	17.9
Interest expense	8.1	8.8	3.2	–40.0
Subsidies and donations	4.5	9.5	77.9	8.1
Social security benefits [1]	11.1	5.8	6.6	14.3
Other	32.9	32.8	17.8	–10.6
ON TRANSACTIONS IN NONFINANCIAL ASSETS	**–21.4**	**–3.7**	**–14.1**	**–8.9**
Investment	–19.8	–11.0	–16.6	–10.7
Capital transfers	–23.1	5.0	–11.4	–6.6

(1)Amounts include the effect of the FONASA Electronic Bonus, which is not taken into account in the quarterly budget execution publications.
Source: Dipres.

Table A.II.3
Consolidated Central Government: Expenditures, 2019 and 2020
(millions of 2020 CLP)

	2019 (2020 CLP MM)	2020 BUDGET	2020 EXECUTION	% REAL CHANGE 2019–2020	EXECUTION – BUDGET
TOTAL EXPENDITURES	**49,617,055**	**51,424,986**	**54,793,037**	**10.4**	**3,368,051**
ON TRANSACTIONS AFFECTING NET WORTH	**41,930,138**	**43,386,079**	**47,980,214**	**14.4**	**4,594,136**
Personnel expenses	10,101,120	9,888,133	10,615,825	5.1	727,693
Goods and services for consumption and production	3,983,483	3,569,034	4,369,687	9.7	800,654
Interest expense	1,865,490	1,833,608	1,937,135	3.8	103,527
Subsidies and donations	17,812,896	20,149,013	22,110,795	24.1	1,961,782
Social security benefits [1]	8,063,693	7,939,972	8,831,823	9.5	891,850
Other	103,457	6,319	114,949	11.1	108,630
ON TRANSACTIONS IN NONFINANCIAL ASSETS	**7,686,917**	**8,038,907**	**6,812,823**	**–11.4**	**–1,226,085**
Investment	4,153,740	4,451,991	3,587,010	–13.6	–864,981
Capital transfers	3,533,176	3,586,916	3,225,813	–8.7	–361,103

(1) The 2020 budget includes CLP 280,658 MM corresponding to the FONASA Electronic Bonus, so as to allow comparison with the 2020 execution figure, which includes an equivalent adjustment.

Table A.II.4
Budgetary, Extra-Budgetary, and Consolidated Central Government: Balance, 2020 and 2019 (1)
(Millions of CLP 2020 and % of GDP)

	CONSOLIDATED 2019		2020					
			BUDGETARY		EXTRA-BUDGETARY		CONSOLIDATED	
	MILLIONS OF CLP 2020	% OF GDP	MILLIONS OF CLP 2020	% OF GDP	MILLIONS OF CLP 2020	% OF GDP	MILLIONS OF CLP 2020	% OF GDP
TOTAL REVENUES	**43,824,999**	**21.7**	**40,150,115**	**20.0**	**0**	**0.0**	**40,150,115**	**20.0**
Transactions affecting net worth	43,813,184	21.7	40,135,428	20.0	0	0.0	40,135,428	20.0
I. Tax revenues	35,630,869	17.6	32,302,484	16.1	0	0.0	32,302,484	16.1
II. Gross copper revenues	732,494	0.4	1,019,268	0.5	0	0.0	1,019,268	0.5
III. Other revenues	7,449,820	3.7	6,813,676	3.4	0	0.0	6,813,676	3.4
Transactions in nonfinancial assets	11,815	0.0	14,688	0.0	0	0.0	14,688	0.0
TOTAL EXPENDITURES	**49,617,055**	**24.5**	**54,758,816**	**27.3**	**34,221**	**0.0**	**54,793,037**	**27.3**
Transactions affecting net worth	41,930,138	20.7	47,945,994	23.9	34,221	0.0	47,980,214	23.9
Transactions in nonfinancial assets	7,686,917	3.8	6,812,823	3.4	0	0.0	6,812,823	3.4
NET LENDING / NET BORROWING	**−5,792,056**	**−2.9**	**−14,608,701**	**−7.3**	**−34,221**	**0.0**	**−14,642,922**	**−7.3**

(1) Both revenue and expenditure amounts include the effect of the FONASA Electronic Bonus.
Source: Dipres.

Table A.II.5
Budgetary, Extra-Budgetary, and Total Central Government: Statement of Operations, 2019–2020
(millions of 2020 CLP and % of GDP)

	MILLIONS OF 2020 CLP		% OF GDP	
	2019	2020	2019	2020
BUDGETARY CENTRAL GOVERNMENT				
TRANSACTIONS AFFECTING NET WORTH				
REVENUES	**43,046,346**	**40,135,428**	**21.3**	**20.0**
Net tax revenues	35,630,869	32,302,484	17.6	16.1
Gross copper revenues	51,886	1,019,268	0.0	0.5
Social security contributions	3,085,989	3,104,866	1.5	1.5
Donations	156,914	113,795	0.1	0.1
Property income	1,037,766	862,363	0.5	0.4
Operating income	1,090,437	778,959	0.5	0.4
Other revenue	1,992,485	1,953,692	1.0	1.0
EXPENDITURES	**41,874,148**	**47,945,994**	**20.7**	**23.9**
Personnel expenses	10,101,120	10,615,825	5.0	5.3
Goods and services for consumption and production	3,983,483	4,369,687	2.0	2.2
Interest on debt	1,809,499	1,902,914	0.9	0.9
Subsidies and donations	17,812,896	22,110,795	8.8	11.0
Social security benefits	8,063,693	8,831,823	4.0	4.4
Other	103,457	114,949	0.1	0.1

Continuation

	MILLIONS OF 2020 CLP		% OF GDP	
	2019	2020	2019	2020
BUDGETARY GROSS OPERATING INCOME/LOSS	**1,172,198**	**−7,810,566**	**0.6**	**−3.9**
NET ACQUISITION OF FINANCIAL ASSETS	**7,470,933**	**6,798,135**	**3.7**	**3.4**
Sale of physical assets	11,815	14,688	0.0	0.0
Investment	3,949,572	3,587,010	2.0	1.8
Capital transfers	3,533,176	3,225,813	1.7	1.6
TOTAL REVENUES	**43,058,161**	**40,150,115**	**21.3**	**20.0**
TOTAL EXPENDITURES	**49,356,896**	**54,758,816**	**24.4**	**27.3**
BUDGETARY NET LENDING / NET BORROWING	**−6,298,735**	**−14,608,701**	**−3.1**	**−7.3**
EXTRA-BUDGETARY CENTRAL GOVERNMENT				
TRANSACTIONS AFFECTING NET WORTH				
Oil Price Stabilization Fund	0	0	0.0	0.0
Law N° 13,196	766,838	0	0.4	0.0
Revenues from Law 13,196	766,838	0	0.4	0.0
Expenditures	0	0	0.0	0.0
Accrued interest, pension recognition bonds	55,991	34,221	0.0	0.0
EXTRA-BUDGETARY GROSS OPERATING INCOME/LOSS	**710,847**	**−34,221**	**0.4**	**0.0**
NET ACQUISITION OF FINANCIAL ASSETS	**204,168**	**0**	**0.1**	**0.0**
TOTAL REVENUES	**766,838**	**0**	**0.4**	**0.0**
TOTAL EXPENDITURES	**260,159**	**34,221**	**0.1**	**0.0**
EXTRA-BUDGETARY NET LENDING / NET BORROWING	**506,679**	**−34,221**	**0.3**	**0.0**
TOTAL CENTRAL GOVERNMENT				
REVENUES	43,824,999	40,150,115	21.7	20.0
EXPENDITURES	49,617,055	54,793,037	24.5	27.3
NET LENDING / NET BORROWING (BUDGETARY + EXTRA- BUDGETARY)	**−5,792,056**	**−14,642,922**	**−2.9**	**−7.3**

Source: Dipres.

Table A.II.6
Special Funds, 2011–2020,
National Currency + Foreign Currency
(millions of USD and pesos, as indicated)

A. FOREIGN CURRENCY										
MILLIONS OF USD	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Pension Reserve fund										
Contributions	443.32	1,197.37	1,376.75	498.93	463.88	462.29	505.15	541.58	563.89	0.00
Change in market value (1)	126.01	281.52	79.46	114.28	−290.90	291.83	962.52	−359.49	1,168.92	929.68
Withdrawals (2)	0.43	1.23	4.35	4.63	4.47	4.24	318.80	529.79	583.97	1,584.94
Balance on 31 December	**4,405.60**	**5,883.25**	**7,335.11**	**7,943.70**	**8,112.21**	**8,862.07**	**10,010.95**	**9,663.25**	**10,812.08**	**10,156.83**
Social and Economic Stabilization Fund										
Contributions	0.00	1,700.00	603.39	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Change in market value (1)	437.70	142.18	−179.61	−228.68	−255.79	270.68	969.57	−60.58	666.62	814.70
Withdrawals (2)	1.16	1.30	2.17	501.62	466.76	464.90	2.80	544.39	2,567.06	4,092.86
Balance on 31 December	**13,156.64**	**14,997.52**	**15,419.13**	**14,688.82**	**13,966.28**	**13,772.06**	**14,738.82**	**14,133.85**	**12,233.41**	**8,955.24**
Oil Price Stabilization Fund										
Deposits	5.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Application	45.64	2.07	0.00	0.00	0.00	0.00	0.28	0.00	0.00	0.00
Balance on 31 December	**3.49**	**1.43**	**1.43**	**1.43**	**1.43**	**1.43**	**1.15**	**1.15**	**1.15**	**1.15**
Petroleum Fuels Price Stabilization Fund										
Deposits										
Application										
Balance on 31 December										
Education fund										
Deposits			4,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Application			0.00	269.79	243.63	665.93	1,283.88	997.15	416.30	0.00
Change in market value (1)			1.34	8.42	0.40	47.40	27.32	6.24	−13.86	1.60
Balance on 31 December	**0.00**	**0.00**	**4,001.34**	**3,739.96**	**3,496.74**	**2,878.21**	**1,621.65**	**630.73**	**200.57**	**202.17**
B. NATIONAL CURRENCY										
MILLIONS OF CLP	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Infrastructure Fund (3)										
Contributions	41,541	44,193	51,139	54,582	54,992	65,281	63,900	65,029	54,268	26,128
Capitalized interest	0	0	0	0	0	0				
Withdrawals	41,541	44,193	51,139	54,582	54,992	65,281	63,900	65,029	54,268	26,128
Currency conversion	0	0	0	0	0	0	0	0	0	
Balance on 31 December	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Reconstruction Fund										
Contributions	4,400	864	2,215	546	0	0	0	0	0	0
Withdrawals	841	596	1,021	2,267	171	29	0	0	0	0
Balance on 31 December	**3,776**	**4,044**	**5,238**	**3,516**	**3,346**	**3,317**	**3,317**	**3,317**	**3,317**	**3,317**
Fund for High-Cost Diagnosis and Treatment										
Contributions	0	0	0	0	30,000	60,000	100,000	101,910	106,432	107,624
Withdrawals	0	0	0	0	0	33,531	52,960	58,852	71,851	130,074
Change in market value (1)	0	0	0	0	0	2,587	3,807	4,992	6,953	3,340
Balance on 31 December	**0**	**0**	**0**	**0**	**30,000**	**59,056**	**109,903**	**157,954**	**199,487**	**180,377**

(1) Considers accrued interest and capital gains (or losses).
(2) Considers payments for management, custody, and other costs, as well as withdrawals.
(3) Created in September 1998, under a Protocol between the Ministers of Finance and Public Works.
Source: Dipres.

Table A.II.7
Consolidated Budget Execution: Tax Revenues, 2013–2020
(millions of CLP of each year)

	2013	2014	2015	2016	2017	2018	2019	2020
1. INCOME TAXES	**9,074,479**	**9,280,179**	**11,694,613**	**11,432,248**	**12,502,020**	**14,380,856**	**14,232,826**	**12,520,385**
Annual tax return	−743,906	−1,268,674	−650,606	−867,278	−974,089	−669,315	−797,250	−1,948,843
Taxes	6,200,912	6,737,355	7,555,764	7,559,898	8,179,108	8,899,011	10,486,820	10,531,818
Payment system (refunds)	−6,944,818	−8,006,030	−8,206,370	−8,427,176	−9,153,197	−9,568,326	−11,284,070	−12,480,662
MONTHLY FILING AND PAYMENT	**3,453,434**	**3,725,530**	**4,898,247**	**4,814,532**	**5,463,380**	**5,841,360**	**5,110,737**	**6,097,163**
MONTHLY PROVISIONAL PAYMENTS	**6,364,951**	**6,823,323**	**7,446,972**	**7,484,993**	**8,012,730**	**9,208,811**	**9,919,338**	**8,372,065**
2. VALUE ADDED TAX	**11,170,794**	**12,133,710**	**13,273,958**	**14,073,050**	**15,069,540**	**16,211,646**	**16,348,944**	**15,963,032**
Declared VAT	17,168,775	18,425,683	19,729,838	20,196,246	21,162,615	22,834,272	24,079,793	24,260,708
Special credit for construction cos.	−329,976	−350,916	−395,198	−432,415	−342,328	−390,788	−415,812	−314,552
Refunds	−5,668,005	−5,941,057	−6,060,683	−5,690,781	−5,750,748	−6,231,838	−7,315,038	−7,983,124
3. EXCISE TAXES	**1,987,475**	**2,224,209**	**2,379,386**	**2,521,070**	**2,620,006**	**2,728,472**	**2,802,130**	**2,854,866**
Tobacco, cigars, and cigarettes	815,991	856,595	982,609	1,009,034	978,696	981,456	973,335	1,021,917
Fuels	1,171,483	1,361,724	1,388,218	1,502,039	1,629,561	1,727,392	1,811,132	1,799,846
Fishing extraction rights	0	5,890	8,558	9,998	11,749	19,623	17,662	33,104
4. STAMP DUTIES	**247,373**	**273,559**	**272,118**	**459,834**	**518,645**	**587,721**	**672,555**	**354,171**
5. FOREIGN TRADE TAXES	**303,393**	**337,839**	**343,491**	**308,871**	**321,156**	**347,555**	**331,846**	**294,204**
6. OTHER	**169,529**	**235,560**	**−285,750**	**203,093**	**−277,300**	**47,808**	**190,922**	**315,827**
Debtor fluctuation and pending differences	−195,378	−138,722	−828,989	−420,983	−1,052,320	−864,174	−533,049	−464,887
Other	364,907	374,282	543,239	624,076	775,020	911,982	723,971	780,713
NET TAX REVENUES	**22,953,043**	**24,485,056**	**27,677,816**	**28,998,167**	**30,754,067**	**34,304,059**	**34,579,222**	**32,302,484**

Source: Dipres.

Table A.II.8
Consolidated Budget Execution: Tax Revenues, 2013–2020
(millions of CLP 2020)

	2013	2014	2015	2016	2017	2018	2019	2020
1. INCOME TAXES	**11,315,714**	**11,084,249**	**13,386,870**	**12,608,498**	**13,494,549**	**15,153,108**	**14,665,684**	**12,520,385**
ANNUAL TAX RETURN	**−927,638**	**−1,515,305**	**−744,751**	**−956,511**	**−1,051,422**	**−705,257**	**−821,496**	**−1,948,843**
Taxes	7,732,427	8,047,100	8,649,113	8,337,728	8,828,443	9,376,888	10,805,752	10,531,818
Payment system (refunds)	−8,660,065	−9,562,405	−9,393,865	−9,294,238	−9,879,865	−10,082,145	−11,627,248	−12,480,662
MONTHLY FILING AND PAYMENT	**4,306,371**	**4,449,774**	**5,607,043**	**5,309,894**	**5,897,114**	**6,155,041**	**5,266,168**	**6,097,163**
MONTHLY PROVISIONAL PAYMENTS	**7,936,981**	**8,149,780**	**8,524,579**	**8,255,115**	**8,648,856**	**9,703,325**	**10,221,012**	**8,372,065**
2. VALUE ADDED TAX	**13,929,782**	**14,492,508**	**15,194,752**	**15,521,010**	**16,265,902**	**17,082,212**	**16,846,159**	**15,963,032**
Declared VAT	21,409,158	22,007,643	22,584,824	22,274,215	22,842,704	24,060,473	24,812,124	24,260,708
Special credit for construction cos.	−411,475	−419,134	−452,384	−476,905	−369,505	−411,773	−428,458	−314,552
Refunds	−7,067,901	−7,096,001	−6,937,688	−6,276,299	−6,207,297	−6,566,488	−7,537,507	−7,983,124
3. EXCISE TAXES	**2,478,346**	**2,656,596**	**2,723,692**	**2,780,460**	**2,828,007**	**2,874,991**	**2,887,350**	**2,854,866**
Tobacco, cigars, and cigarettes	1,017,527	1,023,117	1,124,797	1,112,852	1,056,394	1,034,160	1,002,937	1,021,917
Fuels	1,460,819	1,626,444	1,589,099	1,656,582	1,758,931	1,820,153	1,866,214	1,799,846
Fishing extraction rights	0	7,035	9,797	11,026	12,681	20,677	18,200	33,104
4. STAMP DUTIES	**308,470**	**326,739**	**311,494**	**507,146**	**559,820**	**619,282**	**693,010**	**354,171**
5. FOREIGN TRADE TAXES	**378,325**	**403,515**	**393,196**	**340,651**	**346,652**	**366,219**	**341,938**	**294,204**
6. OTHER	**211,399**	**281,353**	**−327,099**	**223,989**	**−299,315**	**50,376**	**196,728**	**315,827**
Debtor fluctuation and pending differences	−243,633	−165,690	−948,947	−464,297	−1,135,863	−910,580	−549,261	−464,887
Other	455,033	447,043	621,848	688,287	836,549	960,956	745,989	780,713
NET TAX REVENUES	**28,622,037**	**29,244,960**	**31,682,906**	**31,981,755**	**33,195,616**	**36,146,187**	**35,630,869**	**32,302,484**

Source: Dipres.

Table A.II.9
Consolidated Budget Execution, Excluding Private Mining:
Tax Revenues, 2013–2020
(millions of CLP of each year)

	2013	2014	2015	2016	2017	2018	2019	2020
1. INCOME TAXES	**7,606,479**	**7,858,853**	**10,406,661**	**11,420,149**	**11,684,393**	**12,848,056**	**12,333,057**	**11,181,979**
ANNUAL TAX RETURN	**−667,890**	**−1,190,174**	**−855,702**	**−385,403**	**−968,536**	**−960,509**	**−1,386,746**	**−1,858,389**
Taxes	4,985,507	5,423,702	6,101,106	7,123,743	7,736,393	7,957,794	8,983,415	9,188,640
Payment system (refunds)	−5,653,397	−6,613,876	−6,956,808	−7,509,146	−8,704,930	−8,918,303	−10,370,161	−11,047,029
MONTHLY FILING AND PAYMENT	**3,043,940**	**3,357,939**	**4,800,084**	**4,759,236**	**5,051,628**	**5,514,841**	**4,824,036**	**5,877,811**
MONTHLY PROVISIONAL PAYMENTS	**5,230,429**	**5,691,088**	**6,462,278**	**7,046,316**	**7,601,301**	**8,293,724**	**8,895,767**	**7,162,558**
2. VALUE ADDED TAX	**11,170,794**	**12,133,710**	**13,273,958**	**14,073,050**	**15,069,540**	**16,211,646**	**16,348,944**	**15,963,032**
Declared VAT	17,168,775	18,425,683	19,729,838	20,196,246	21,162,615	22,834,272	24,079,793	24,260,708
Special credit for construction cos.	−329,976	−350,916	−395,198	−432,415	−342,328	−390,788	−415,812	−314,552
Refunds	−5,668,005	−5,941,057	−6,060,683	−5,690,781	−5,750,748	−6,231,838	−7,315,038	−7,983,124
3. EXCISE TAXES	**1,987,475**	**2,224,209**	**2,379,386**	**2,521,070**	**2,620,006**	**2,728,472**	**2,802,130**	**2,854,866**
Tobacco, cigars, and cigarettes	815,991	856,595	982,609	1,009,034	978,696	981,456	973,335	1,021,917
Fuels	1,171,483	1,361,724	1,388,218	1,502,039	1,629,561	1,727,392	1,811,132	1,799,846
Fishing extraction rights	0	5,890	8,558	9,998	11,749	19,623	17,662	33,104
4. STAMP DUTIES	**247,373**	**273,559**	**272,118**	**459,834**	**518,645**	**587,721**	**672,555**	**354,171**
5. FOREIGN TRADE TAXES	**303,393**	**337,839**	**343,491**	**308,871**	**321,156**	**347,555**	**331,846**	**294,204**
6. OTHER	**169,529**	**235,560**	**−285,750**	**203,093**	**−277,300**	**47,808**	**190,922**	**315,827**
Debtor fluctuation and pending differences	−195,378	−138,722	−828,989	−420,983	−1,052,320	−864,174	−533,049	−464,887
Other	364,907	374,282	543,239	624,076	775,020	911,982	723,971	780,713
NET TAX REVENUES	**21,485,043**	**23,063,730**	**26,389,863**	**28,986,068**	**29,936,439**	**32,771,258**	**32,679,454**	**30,964,079**

Source: Dipres.

Table A.II.10
Consolidated Budget Execution, Excluding Private Mining: Tax Revenues, 2013–2020
(millions of 2020 CLP)

	2013	2014	2015	2016	2017	2018	2019	2020
1. INCOME TAXES	**9,485,145**	**9,386,617**	**11,912,546**	**12,595,154**	**12,612,010**	**13,537,996**	**12,708,138**	**11,181,979**
ANNUAL TAX RETURN	**–832,847**	**–1,421,544**	**–979,525**	**–425,057**	**–1,045,428**	**–1,012,089**	**–1,428,920**	**–1,858,389**
Taxes	6,216,838	6,478,072	6,983,961	7,856,697	8,350,582	8,385,127	9,256,625	9,188,640
Payment system (refunds)	–7,049,685	–7,899,616	–7,963,486	–8,281,753	–9,396,010	–9,397,216	–10,685,546	–11,047,029
MONTHLY FILING AND PAYMENT	**3,795,739**	**4,010,723**	**5,494,675**	**5,248,908**	**5,452,674**	**5,810,988**	**4,970,748**	**5,877,811**
MONTHLY PROVISIONAL PAYMENTS	**6,522,252**	**6,797,438**	**7,397,395**	**7,771,303**	**8,204,764**	**8,739,097**	**9,166,311**	**7,162,558**
2. VALUE ADDED TAX	**13,929,782**	**14,492,508**	**15,194,752**	**15,521,010**	**16,265,902**	**17,082,212**	**16,846,159**	**15,963,032**
Declared VAT	21,409,158	22,007,643	22,584,824	22,274,215	22,842,704	24,060,473	24,812,124	24,260,708
Special credit for construction cos.	–411,475	–419,134	–452,384	–476,905	–369,505	–411,773	–428,458	–314,552
Refunds	–7,067,901	–7,096,001	–6,937,688	–6,276,299	–6,207,297	–6,566,488	–7,537,507	–7,983,124
3. EXCISE TAXES	**2,478,346**	**2,656,596**	**2,723,692**	**2,780,460**	**2,828,007**	**2,874,991**	**2,887,350**	**2,854,866**
Tobacco, cigars, and cigarettes	1,017,527	1,023,117	1,124,797	1,112,852	1,056,394	1,034,160	1,002,937	1,021,917
Fuels	1,460,819	1,626,444	1,589,099	1,656,582	1,758,931	1,820,153	1,866,214	1,799,846
Fishing extraction rights	0	7,035	9,797	11,026	12,681	20,677	18,200	33,104
4. STAMP DUTIES	**308,470**	**326,739**	**311,494**	**507,146**	**559,820**	**619,282**	**693,010**	**354,171**
5. FOREIGN TRADE TAXES	**378,325**	**403,515**	**393,196**	**340,651**	**346,652**	**366,219**	**341,938**	**294,204**
6. OTHER	**211,399**	**281,353**	**–327,099**	**223,989**	**–299,315**	**50,376**	**196,728**	**315,827**
Debtor fluctuation and pending differences	–243,633	–165,690	–948,947	–464,297	–1,135,863	–910,580	–549,261	–464,887
Other	455,033	447,043	621,848	688,287	836,549	960,956	745,989	780,713
NET TAX REVENUES	**26,791,467**	**27,547,328**	**30,208,581**	**31,968,411**	**32,313,078**	**34,531,075**	**33,673,324**	**30,964,079**

Source: Dipres.

Table A.II.11
Consolidated Budget Execution, Private Mining Only: Tax Revenues, 2013–2020
(millions of 2020 CLP)

	2013	2014	2015	2016	2017	2018	2019	2020
1. INCOME TAXES	**1,830,569**	**1,697,632**	**1,474,325**	**13,344**	**882,539**	**1,615,112**	**1,957,546**	**1,338,405**
ANNUAL TAX RETURN	**−94,791**	**−93,761**	**234,774**	**−531,454**	**−5,994**	**306,831**	**607,424**	**−90,455**
Taxes	1,515,589	1,569,028	1,665,153	481,031	477,861	991,761	1,549,127	1,343,178
Payment system (refunds)	−1,610,380	−1,662,789	−1,430,379	−1,012,485	−483,855	−684,929	−941,703	−1,433,633
Monthly filing and payment	510,632	439,051	112,368	60,986	444,440	344,053	295,420	219,352
Monthly provisional payments	1,414,729	1,352,342	1,127,183	483,812	444,092	964,228	1,054,701	1,209,508
NET TAX REVENUES	**1,830,569**	**1,697,632**	**1,474,325**	**13,344**	**882,539**	**1,615,112**	**1,957,546**	**1,338,405**

Source: Dipres.

Table A.II.12
Projected Gross Copper Revenues, 2021
(thousands of USD)

	BUDGET LAW	FORECAST
Budgetary central government	1,661,700	4,240,500
Extra-budgetary central government	−3.8	−3.8
TOTAL CENTRAL GOVERNMENT	**1,661,700**	**4,240,500**

Source: Dipres.

Table A.II.13
GMP10 Tax Revenues, National and Foreign Currency, 1997–2021*
(thousands of dollars)

	ANNUAL TAX RETURN	MONTHLY FILING AND PAYMENT	MONTHLY PROVISIONAL PAYMENTS	ADDITIONAL TAX WITHHELD	TOTAL INCOME TAX PAYMENTS
1997	–27,361	402,938	150,829	252,109	375,577
1998	–5,381	185,156	77,437	107,719	179,775
1999	–73,261	174,596	54,027	120,569	101,335
2000	–5,846	218,960	57,655	161,305	213,114
2001	9,034	128,986	56,085	72,901	138,020
2002	–39,450	88,047	31,853	56,194	48,597
2003	–3,781	114,136	38,089	76,047	110,355
2004	123,324	473,144	172,579	300,565	596,468
2005	455,179	1,264,244	613,158	651,087	1,719,424
2006	496,109	4,078,835	1,998,692	2,080,143	4,574,943
2007	1,152,330	5,054,366	3,299,200	1,755,167	6,206,696
2008	–336,375	4,680,595	3,220,332	1,460,263	4,344,220
2009	–560,889	2,068,563	1,316,425	752,138	1,507,674
2010	–117,735	3,783,052	2,155,592	1,627,460	3,665,316
2011	817,724	3,965,765	3,033,472	932,293	4,783,490
2012	891,034	3,278,909	2,712,763	566,147	4,169,943
2013	–135,651	3,129,199	2,302,008	827,191	2,993,549
2014	–139,897	2,642,657	1,989,508	653,149	2,502,760
2015	332,752	1,675,909	1,523,611	152,298	2,008,661
2016	–724,579	725,718	643,367	82,351	1,139
2017	–7,168	1,279,022	637,366	530,656	1,271,853
2018	485,932	1,920,003	1,419,532	500,471	2,405,935
2019	868,110	1,852,384	1,452,312	400,071	2,720,494
2020	–114,942	1,814,638	1,533,603	281,035	1,699,696
2021 BUDGET LAW	**5,325**	**1,657,835**	**1,373,478**	**284,357**	**1,663,159**
2021 FORECAST	**106,404**	**4,210,447**	**3,099,112**	**1,111,335**	**4,316,851**

* Figures for 2021 are projections based on information available as of the data cutoff of this Report.
Source: Dipres.

Table A.II.14
Budgetary, Extra-Budgetary, and Total Central Government: Statement of Operations, 2021
(millions of 2021 CLP and % of GDP)

	MILLIONS OF CLP	% OF GDP
BUDGETARY CENTRAL GOVERNMENT		
TRANSACTIONS AFFECTING NET WORTH		
REVENUES	**52,883,756**	**23.4**
Net tax revenues	42,860,727	19.0
Gross copper revenues	2,962,413	1.3
Social security contributions	3,127,879	1.4
Donations	98,798	0.0
Property income	1,103,762	0.5
Operating income	794,085	0.4
Other revenue	1,936,091	0.9
EXPENDITURES	**52,094,479**	**23.1**
Personnel expenses	10,431,624	4.6
Goods and services for consumption and production	4,299,681	1.9
Interest expense	2,030,536	0.9
Subsidies and donations	27,678,512	12.3
Social security benefits	7,648,838	3.4
Other	5,289	0.0
BUDGETARY GROSS OPERATING INCOME	**789,277**	**0.3**
NET ACQUISITION OF FINANCIAL ASSETS	**9,429,451**	**4.2**
Sale of physical assets	18,892	0.0
Investment	5,584,164	2.5
Capital transfers	3,864,179	1.7
TOTAL REVENUES	**52,902,649**	**23.5**
TOTAL EXPENDITURES	**61,542,822**	**27.3**
BUDGETARY NET LENDING / NET BORROWING	**−8,640,174**	**−3.8**

Continuation

	MILLIONS OF CLP	% OF GDP
EXTRA-BUDGETARY CENTRAL GOVERNMENT		
TRANSACTIONS AFFECTING NET WORTH		
Oil Price Stabilization Fund	–3,8	
Law N° 13,196	–3,8	
Revenues from Law N° 13,196	–3,8	
Interest income from Law	–3,8	
Expenditures	18,662	0.1
Accrued interest, pension recognition bonds	18,662	0.1
EXTRA-BUDGETARY GROSS OPERATING LOSS	**–18,662**	**–0.1**
NET ACQUISITION OF FINANCIAL ASSETS	**–3,8**	
TOTAL REVENUES	**–3,8**	
TOTAL EXPENDITURES	**18,662**	**0.1**
EXTRA-BUDGETARY NET LENDING / NET BORROWING	**–18,662**	**–0.1**
TOTAL CENTRAL GOVERNMENT		
TOTAL REVENUES	**52,902,649**	**23.5**
TOTAL EXPENDITURES	**61,561,484**	**27.3**
NET LENDING / NET BORROWING (TOTAL)	**–8,658,836**	**–3.8**

Source: Dipres.

APPENDIX III. FINANCIAL REPORTS AND INSTRUCTIONS ISSUED FOR DRAFT BILLS, JANUARY TO MARCH 2021

Table A.III.1

Financial Reports on Draft Bills with Effects on Fiscal Expenditures, January to March 2021

(thousands of pesos 2021)

FR N°	YEAR	BULLETIN N°	MESSAGE N°	TITLE	MINISTRY	EFFECT ON SPENDING				
						2021	2022	2023	2024	2025
2	2021	13.991–07	496–368	Bill to create the National Service for Access to Justice and the Defense of Victims of Crime	Justice and Human rights	891,641	886,787	886,787	886,787	886,787
7	2021	14.020–06	498–368	Bill to amend Organic Constitutional Law N°18,583 on the staffing of the Electoral Service, whose text was consolidated, coordinated, and systematized by Statutory Decree DFL N°6 of 2017, from the Ministry General Secretariat of the Presidency, due to the creation of the Ñuble Region	Electoral Service	3,966	3,966	3,966	3,966	3,966
8	2021	14.007-10	500-368	Bill to approve the Treaty on the Prohibition of Nuclear Weapons, adopted in New York on 7 July 2017	Foreign Affairs	1,579	-	1,579	-	4,637
11	2021	14.030-07	514-568	Bill to establish the right to severance pay for employees of the National Service for Minors	Social Development and Family	3,991,156	2,220,417	4,062,280	3,951,639	
14	2021	13.600-13 13.743-13	512-368	Replacement Financial Report on the bill to complement the provisions of Title VII of Law N°16,744, which establishes the need for work health safety protocols for the gradual and safe return to work, in the framework of the state of constitutional exception caused by the health crisis deriving from the outbreak of the COVID-19 virus in the country	Labor and Social Security	26,608,000				
18	2021	11.077-07	530-368	Instructions on the bill regarding women's right to live a violence-free life	Women and Gender Equality		104,734			
19	2021	14.068-01	499-368	Bill to amend and delay the entry into force of Law N°18,450, which approves the guidelines to promote private investment in irrigation and drainage works	Agriculture				100,000	
21	2021	13.729-06 13.772-06	511-368 527-368	Bill to amend Organic Constitutional Law N°18,700, on popular voting and vote counting, to enable early voting for people who, for health, mobility, or other reasons, are unable to go to their polling place	Electoral Service	2,804,000				
23	2021	13.863-11	534-368	Replacement instructions on the bill to reform the National Health Care Fund (FONASA) and create a Universal Health Plan	Health		159,231,000	129,691,000	133,514,000	136,633,000

Continuation

FR N°	YEAR	BULLETIN N°	MESSAGE N°	TITLE	MINISTRY	EFFECT ON SPENDING				
						2021	2022	2023	2024	2025
25	2021	14.077-18	537-369	Bill to amend Law N°14,908, on family abandonment and the payment of child support, and to create the National Registry of Child Support Debtors	Justice and Human rights		402,495	81,642	81,642	81,642
26	2021	12.212-13	538-368	Instructions on the bill to improve pensions in the solidarity and individual capitalization pension systems, create pension benefits for the middle class and for women, and create a subsidy and dependence insurance	Labor and Social Security	601.653.000	911.664.000	893.932.000	889.552.000	918.386.000
30	2021	14.137-05	004-369	Bill to modernize Law N°19,886 and other laws, to improve the quality of public spending, increase standards of probity and transparency, and introduce circular economy principles into public procurement	Finance		83.728	254.339	189.339	189.339
33	2021	7.550-06	N/A	Bill to establish the national public expenditure system, increase standards of probity and transparency, and introduce circular economy principles into public procurement	Interior and Public Security		1,222,644	706,262	732,302	758,343
34	2021	14.117-05	010-369	Bill to establish a bonus for the middle class and a solidarity loan for middle class income protection	Finance	1,440.000,000				
35	2021	12.712-24	019-369	Replacement instructions on the cultural heritage bill	Culture, Arts, and Heritage		4,296,720	8,610,240	13,493,634	17,182,271
37	2021	14.020-06	023-369	Instructions on the bill to amend Organic Constitutional Law N°18,583 on the staffing of the Electoral Service, as a result of the creation of the Ñuble Region	General Secretariat of the Presidency	383,199				
38	2021	14.128-03	025-369	Bill to delay the entry into force of the free trade zone regime for the city of Iquique and to improve the administration of the industrial free trade zone regime of Arica and other free trade zones in the country	Finance		174,650	174,650	174,650	174,650
40	2021	14.117-05	027-369	Instructions on the bill to establish a bonus for the middle class and a solidarity loan for middle class income protection	Finance	162,775,000				
45	2021	14.117-05	035-369	Instructions on the bill to establish a bonus for the middle class and a solidarity loan for middle class income protection	Finance	136,592,000				

Note: Values with a positive sign indicate higher fiscal spending; values with a negative sign indicate lower fiscal spending. Replacement financial Reports (FR) replace the costs identified in previous FRs. Therefore, the corresponding earlier reports considered in this table include zero (0) expenditures.
Source: Dipres.

Table A.III.2
Financial Reports on Draft Bills with Effects on Fiscal Revenues, January to March 2021
(thousands of pesos 2021)

FR N°	YEAR	BULLETIN N°	MESSAGE N°	TITLE	MINISTRY	EFFECT ON REVENUES				
						2021	2022	2023	2024	2025
6	2021	13.970-05		Instructions on the bill to amend the State-Guarantee Fund for Small and Medium-Sized Enterprises (FOGAPE), to stimulate the reactivation and recovery of the economy	Finance	$-62,874,000				

Note: Values with a positive sign indicate higher fiscal revenues; values with a negative sign indicate lower fiscal revenues. Replacement financial Reports (FR) replace the costs identified in previous FRs. Therefore, the corresponding earlier reports considered in this table include zero (0) expenditures.
Source: Dipres.

Table A.III.3
Financial Reports on Draft Bills with No Effect on Fiscal Expenditures or Revenues, January to March 2021

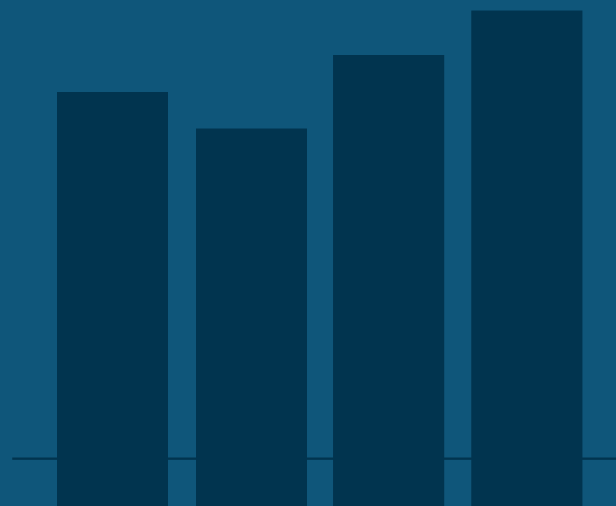
N°FR	YEAR	BULLETIN N°	MESSAGE N°	TITLE	MINISTRY
1	2021	13.654-03	503-368-504-368	Instructions on the bill to regulate the interchange rate on payment cards	Finance
3	2021	13.987-21	497-368	Bill to establish an exception to the General Fishing and Aquiculture Law with regard to carrying over unused annual catch quotas in 2020	Economy, Development, and Tourism
4	2021	12.436-04	501-368	Instructions on the bill to establish a subsidy scheme for early education	Education
5	2021	11.174-07	502-368	Instructions on the bill to create the National Service for Youth Social Reintegration and introduce amendments to Law N° 20,084 on the Criminal Responsibility of Adolescents and other specified regulations	Justice and Human Rights
9	2021	12.661-31	508-368	Instructions on the bill to establish the comprehensive protection network system	Social Development and Family
10	2021	8.335-24	519-368	Instructions on the bill to regulate artistic exhibition and execution in national assets for public use	Culture, Arts, and Heritage
12	2021	14.021-13	513-368	Bill to extend the duration of the benefits established in Laws N°21,227 and N°21,263	Labor and Social Security
13	2021	11.174-07	515-368	Instructions on the bill to create the National Service for Youth Social Reintegration and introduce amendments to Law N° 20,084 on the Criminal Responsibility of Adolescents and other specified regulations	Justice and Human Rights
16	2021	13.853-13	518-368	Instructions on the bill to establish a benefit for pensioners and pension affiliates with terminal illnesses	Labor and Social Security
17	2021	14.032-06	520-368	Bill to amend various pieces of legislation to improve the regulations on contracting, providing, and paying for household solid waste removal	Interior and Public Security

Continuation

20	2021	14.056-10	517-368	Bill to approve Annex VI to the Protocol on Environmental Protection to the Antarctic Treaty: Liability Arising From Environmental Emergencies, adopted as an annex to Measure 1 (2005) at the XXVIII Antarctic Treaty Consultative Meeting in Stockholm, Sweden, 17 June 2005	General Secretariat of the Presidency
24	2021	9.993-25	505-368	Instructions on the bill to amend Law N°17,798 on gun control, sanctioning the carrying of firearms in public places	Interior and Public Security
27	2021	13.982-25	544-368	Bill to modernize the definition of crimes associated with organized crime and establishes special investigation techniques	Justice and Human Rights
29	2021	13.823-06	546-368	Instructions on the bill to adequately implement the country's decentralization process	Interior and Public Security
31	2021	14.096-15	005-369	Bill to amend the temporary provision of Law N°21,213, which amends the specified legislation to define the violation consisting in driving a vehicle without an electronic toll device, in order to extend its duration	Public Works
41	2021	14.142-10	014-369	Bill to approve the agreement between the governments of Chile and Armenia on abolishing visa requirements for diplomatic and official passport holders, signed in Yerevan on 27 April 2018	Foreign Affairs
42	2021	14.143-10	015-369	Bill to approve the agreement between the governments of Chile and Antigua and Barbuda on abolishing visa requirements for diplomatic and official passport holders, signed in St. John's on 20 June 2016	Foreign Affairs
43	2021	14.145-10	016-369	Bill to approve the agreement between the governments of Chile and Azerbaijan on abolishing visa requirements for diplomatic and official passport holders, signed in Santiago, Chile, on 13 September 2018	Foreign Affairs

Source: Dipres.

PUBLIC FINANCE REPORT FIRST QUARTER 2021



BUDGET OFFICE

Dirección de Presupuestos

Gobierno de Chile