SUMMARY

Dirección de Presupuestos
Gobierno de Chile

CLOSING OF THE 2022 MACROECONOMIC AND FISCAL SCENARIO

World growth slowed to an annual rate of 3.4% in 2022 (versus 6.3% in 2021), according to International Monetary Fund data for January of this year. The drop primarily reflects the Russian invasion of Ukraine and the repeated lockdowns in China over the course of last year, which triggered supply restrictions and an increase in commodity prices, mainly fuel and food. According to the World Bank, global inflation peaked at 9.3% annually in July 2022 and closed the year at 8.8%, the highest rate of the last 25 years.

In the face of this high inflation, the central banks increased their monetary policy rates. While the emerging economies in general had started this process in 2021, the more developed countries began raising their benchmark rates in 2022. The more restrictive monetary policy worldwide, combined with high inflation, a lower growth outlook, and an increase in global uncertainty, caused financial conditions to tighten across the board starting early last year.

The Chilean economy grew 2.4% in 2022, in line with the adjustment of the accumulated macroeconomic imbalances. Due to the monetary and fiscal stabilization, domestic demand and economic activity fell over the course of the year, converging with their estimated potential, albeit more moderately than initially forecast. Thus, GDP recorded seasonally adjusted quarterly contractions of –0.4%, –0.7%, and –1.1%, respectively, in the first three quarters of the year, to then close the year with fourth-quarter growth of 0.1%.

With regard to inflation, the upward trend of 2021 continued through August, driven by excess spending and external pressures. Total annual inflation peaked at 14.1% that month, ending at 12.8% in December and averaging 11.6% in 2022. With respect to the fiscal accounts, the total revenues of the total central government were CLP 68,649,375 million (26.1% of GDP) in 2022, which implies a real annual increase of 6.2% relative to 2021. The biggest component of this growth was net tax revenues, particularly non-mining tax revenues. On the spending side, the accrued expenses of the total central government were CLP 65,690,848 million (25.0% of GDP), representing a real decrease of 23.0%. This result is explained by the end of the massive government subsidies implemented the previous year, a more targeted approach for government support programs, and the containment of other spending pressures.

As a result of these trends, the overall balance of the total central government registered a surplus of CLP 2,958,527 million (1.1% of GDP), which represents the first surplus since 2012. The cyclically adjusted balance (CAB) was CLP 644,834 million, equivalent to 0.2% of GDP. This confirms that public finances have begun to normalize, following the structural deficit of 10.8% of GDP recorded in 2021. The CAB surplus exceeded the target set in Ministry of Finance Decree N°755, published in June 2022, by 3.5 percentage points (see table 1).

Table 1
Total Central Government: Overall and Structural Balance, 2022
(millions of 2022 CLP and % of GDP)

		IFP 1Q 2022		
		CLP MM	% OF GDP	%. REAL ANNUAL CHANGE
(1)	Total overall revenue	68,649,375	26.1	6.2
(2)	Total cyclically adjusted revenue	66,335,682	25.3	17.6
(3)	Total expenditures	65,690,848	25.0	–23.0
(1) - (3)	**OVERALL BALANCE**	**2,958,527**	**1.1**	
(2) - (3)	**CYCLICALLY ADJUSTED BALANCE**	**644,834**	**0.2**	

Note: Includes Fonasa electronic vouchers.
Source: Dipres.

•At the close of the 2022 budget period, the central government's gross debt totaled USD 116,021 million, equivalent to 38.0% of effective GDP in the period, while the net financial position reached –31.9% of 2022 GDP. This allowed a pause in the continuous expansion of the debt-to-GDP ratio since the 2008–09 International Financial Crisis.

UPDATE OF THE 2023 MACROECONOMIC AND FISCAL SCENARIO

Global inflation has fallen, mainly due to the reversal of food and energy prices. The main economies have demonstrated greater resilience than expected, with tight labor markets in both advanced and developing countries. The United States Federal Reserve (Fed) and the European Central Bank (ECB) adopted a more restrictive stance in the first quarter of 2023, initiating a cycle of substantial rate hikes that continues today. The rapid hardening of monetary policy in the advanced countries, after a prolonged period of very low interest rates, has generated problems in more exposed sectors and put downward pressure on commodity prices. Copper, however, has followed a less unfavorable trend thanks to better economic conditions in China. Given the current scenario, the world growth forecasts in the last World Economic Outlook (WEO) still point to a slowdown in 2023, but with variability among regions.

With regard to the national economy, the good output performance in the first months of the year and a lower comparison base have led to an upward revision in the growth estimates for GDP and domestic demand. After recording positive growth in the first quarter of the year, output will contract slightly in the second, to then return to its growth path starting in the third. With this trend, the economy will grow 0.3% in 2023, versus a forecast of –0.7% in the PFR for the fourth quarter of 2022. At the same time, the monetary and fiscal contraction, the global drop in commodity prices such as food and energy, the appreciation of the peso, and the adjustment of domestic demand will ensure a steady drop in inflation during the year. The inflation forecast is 4.6% in December and an average of 7.9% in the year.

Table 2
2023 Macroeconomic Assumptions

	PFR 4Q22	PFR 1Q23
GDP (real annual change, %)	–0.7	0.3
MINING GDP (real annual change, %)	5.5	4.9
NON-MINING GDP (real annual change, %)	–1.7	–0.5
DOMESTIC DEMAND (real annual change, %)	–3.7	–3.5
CPI (annual change, % average)	7.3	7.9
EXCHANGE RATE (CPL/USD, average, nominal value)	850	814
COPPER PRICE (USD cents/lb, average, LME)	374	386
WTI OIL PRICE (USD/bbl)	77	79

Source: Ministry of Finance.

Based on the macroeconomic scenario described above and revenue collections in 2022, the total revenue forecast of the total central government in 2023 is CLP 66,253,556 million. This implies additional income of CLP 2,294,129 million relative to the forecast in the last PFR, equivalent to a 3.6% increase, reflecting a notable expansion in the forecast for non-mining tax revenues, property income, and social security contributions.

Central government expenditures of CLP 70,764,098 million are projected for 2023, which represents an increase of CLP 13,643 million over the spending forecast in the last report, due to the revision of interest expense. Thus, total central government expenditures are projected to grow 0.6% in real terms in 2023, relative to the 2022 budget execution.

Thus, an overall deficit of CLP 4,510,541 million is estimated for 2023, equivalent to 1.6% of projected GDP. This is 0.8 pp lower than in the last report and 1.1 pp lower than the forecast used to prepare the 2023 Budget Bill. In the framework of the structural balance rule, the estimated structural deficit is CLP 5,257,235 million, equivalent to 1.9% of projected GDP, which represents a 0.2 pp reduction in the structural deficit relative to the last report. This is below the target established in the Public Finance Report for the third quarter of 2022, in line with Ministry of Finance Decree N°755, published in June 2022, which establishes a structural deficit of 2.1% of GDP as the fiscal target for 2022. This will support moving forward on the commitment to normalize public finances in order to ensure sustainability.

Table 3
Total Central Government: Balance, 2023
(millions of 2023 CLP and % of GDP(1))

		PFR 4Q22 FORECAST		PFR 1Q23 FORECAST	
		CLP MM	% OF GDP	%. REAL ANNUAL CHANGE	%. REAL ANNUAL CHANGE
(1)	Total overall revenue	63,959,433	22.6	66,253,556	23.4
(2)	Total cyclically adjusted revenue	64,805,193	22.9	65,506,863	23.1
(3)	Total expenditures	70,750,455	25.0	70,764,098	25.0
(1) - (3)	**OVERALL BALANCE**	**−6,791,021**	**−2.4**	**−4,510,541**	**−1.6**
(2) - (3)	**CYCLICALLY ADJUSTED BALANCE**	**−5,945,262**	**−2.1**	**−5,257,235**	**−1.9**

Note: Includes Fonasa electronic vouchers.
Source: Dipres.

It is estimated that at the close of the 2023 budget period, the gross debt stock of the central government will total USD 132,269 million, equivalent to 38.0% of effective GDP in the period, while the net financial position is forecast at –32.8% of GDP in the respective year.

UPDATE OF THE MEDIUM-TERM MACROECONOMIC AND FISCAL SCENARIO: 2024–2027

The medium-term scenario considers that non-mining GDP growth will converge to trend (2.3% according to the most recent forecast by the Trend GDP Advisory Committee) toward the end of the forecast horizon. Thus, non-mining GDP is expected to grow 2.4% in 2024 and 2025 and 2.3% in 2026 and 2027, while total GDP will grow 2.6% in 2024 and 2025 and 2.4% in 2026 and 2027; these forecasts represent a downward revision relative to the last PFR. The growth of domestic demand has also been revised downward for 2024, from 2.8% to 2.3%, given a lower forecast for total consumption and gross fixed capital formation due to a lower comparison base.

Relative to the last PFR, the copper price forecast has been revised slightly upward for 2024, due to the stronger external impetus from a more open China, and is unchanged for 2025 to 2027. Copper is thus projected to end the period at USD 4.07 per pound, consistent with the most recent long-term estimate by the Benchmark Copper Price Advisory Committee. The oil price, in turn, will fluctuate around USD 80 per barrel throughout the medium-term forecast horizon, ending at US$83 in 2027 as in the last PFR forecast. The nominal exchange rate is revised downward for 2024 and upward between 2025 and 2027, settling around 800 pesos to the dollar at the end of the forecast period. Finally, inflation will reach the Central Bank's target of 3.0% toward the end of the third quarter of 2024, and it will then remain anchored to the target until the end of the forecast period.

Table 4
2024–2027 Macroeconomic Assumptions

	2024		2025		2026		2027	
	PFR 4Q22	PFR 1Q23	PFR 4Q22	PFR 1Q23	PFR 4Q22	PFR 1Q23	PFR 4Q22	PFR 1Q23
GDP (real annual change, %)	2.9	**2.6**	2.9	**2.6**	2.8	**2.4**	2.4	**2.4**
MINING GDP (real annual change, %)	3.8	**3.8**	3.5	**3.5**	3.0	**3.0**	3.0	**3.0**
NON-MINING GDP (real annual change, %)	2.8	**2.4**	2.8	**2.4**	2.7	**2.3**	2.3	**2.3**
DOMESTIC DEMAND (real annual change, %)	2.8	**2.3**	2.8	**2.9**	2.8	**2.4**	2.7	**2.7**
CPI (annual change, % average)	3.0	**3.5**	3.0	**3.0**	3.0	**3.0**	3.0	**3.0**
EXCHANGE RATE (CPL/USD, average, nominal value)	838	**821**	819	**821**	799	**807**	792	**800**
COPPER PRICE (USD cents/lb, average, LME)	380	**382**	388	**388**	394	**394**	407	**407**
WTI OIL PRICE (USD/bbl)	79	**81**	80	**81**	81	**82**	83	**83**

Source: Ministry of Finance.

The revenue forecast for the total central government in the 2024–2027 period considers the macroeconomic scenario described above, the current tax structure, changes in tax revenue related to Law N°21,210, the tax measures implemented due to the pandemic, and the projected surpluses transferred from public companies consistent with their current strategic plans and the profit distribution policies defined by the authority.

Additionally, the updated estimates of committed expenditures for the 2024–2027 period are based on the committed expenditures outlined in the last PFR, plus the estimated expenditures included in the Financial Reports on new bills presented between January and March 2023, such as the draft bill promoting economic security measures, and the new estimate of interest expense in line with the debt requirements estimated in this report.

Table 5 presents the total central government balance forecasts for the 2024–2027 period and describes the annual target path for the cyclically adjusted balance. This path corresponds to a convergence target (row 4) for reducing the structural deficit from 1. 8% of GDP in 2024 to 0.3% in 2026.

The new spending compatible with the structural balance target is lower in 2024 than estimated in the 4Q22 PFR, but it is higher in the following years (see table 5). The former revision is due to the projection of lower structural revenues due to the smaller contraction of non-mining output in 2023 and throughout the forecast horizon, which puts non-mining output at a near-trend level, narrowing the gap and thus reducing the cyclical adjustment of fiscal revenues. From 2025 onward, the result is explained by the forecast of higher overall fiscal revenues, which are largely structural. This effect dominates both the lower cyclical adjustment toward higher structural revenues due to the smaller non-mining output gap and the higher cyclical adjustment toward lower structural revenues due to the larger copper price gap for Codelco.

Table 5
Total Central Government: Overall and Structural Balance, 2024–2027
(millions of 2023 CLP and % of GDP)

		2024	2025	2026	2027
(1)	Total overall revenues	69,867,971	73,194,602	74,783,414	75,919,902
(2)	Total committed expenditure	72,554,193	73,791,741	74,594,279	74,986,231
(3)	Cyclically adjusted revenues	69,906,020	73,012,852	74,347,699	75,012,235
(4)	**CAB TARGET (% OF GDP)**	**−1.8**	**−1.1**	**−0.3**	**−0.3**
(5)	Spending level compatible with the target	75,137,724	76,289,254	75,260,150	75,946,780
(6)	Buffer: Difference in expenditure (5)–(2)	2,583,531	2,497,513	665,871	960,549
(7)	Difference in expenditure (USD MM)	3,259	3,244	906	1,359
(8)	Difference in expenditure (% of GDP)	0.9	0.8	0.2	0.3
(9)	**OVERALL BALANCE COMPATIBLE WITH THE TARGET (1)–(5) (% OF GDP)**	**−1.8**	**−1.0**	**−0.2**	**0.0**

Source: Dipres.

Thus, the current PFR estimates that the central government's gross debt, consistent with the structural balance target, will be USD 181.301 million at year-end 2027, equivalent to 41.1% of GDP, while the net financial position is forecast at –37.2% in the same period (see table 6).

Table 6
Total Central Government: Net Financial Position, Year-end 2024–2027
(millions of USD and % of GDP, 31 December of each year)

	2024		2025		2026		2027	
	USD MM	% OF GDP	USD MM	% OF GDP	USD MM	% OF GDP	USD MM	% OF GDP
Total Public Treasury assets	17,913	4.9	17,789	4.6	17,625	4.3	17,403	3.9
Total gross debt	148,113	40.4	160,985	41.6	171,387	41.4	181,301	41.1
NET FINANCIAL POSITION	**−130,200**	**−35.5**	**−143,196**	**−37.0**	**−153,762**	**−37.1**	**−163,898**	**−37.2**

Source: Dipres

In general terms, in the high-growth scenario, the overall balance would improve throughout the forecast horizon, especially in 2024, while the structural balance forecasts would deteriorate in 2024 and 2025, in line with the lower expected structural revenues in millions of pesos, and then be more favorable than in the baseline scenario for the remainder of the period. In contrast, in the low-growth scenario, the overall balance would decline by 0.4 pp. of GDP in 2024 and approximately 0.3 pp. over the rest of the forecast horizon, and the structural balance would similarly decline nearly 0.2 pp. of GDP per year between 2025 and 2027. Finally, under both scenarios, the fiscal buffer is expected to be lower than the baseline in 2024 and 2025, to then grow slightly larger under the optimistic scenario and increasingly smaller under the pessimistic scenario. This is consistent with the path of structural revenues in pesos and with the structural balances.

Additionally, this PFR continues to institutionalize the use of alternative medium-term scenarios, in line with international best practices, in order to explore the sensitivity of the results presented earlier. The different macroeconomic scenarios generate different dynamics for the gross debt in the forecast period (through 2027). Specifically, the optimistic scenario leads to a debt path below the baseline scenario, reaching 40.7% of GDP toward the end of the projection horizon. In contrast, the pessimistic scenario leads to gross debt of around 41.9% in 2027.

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