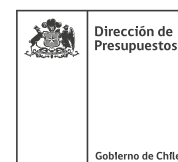


SUMMARY



UPDATE OF THE 2023 MACROECONOMIC AND FISCAL SCENARIO

In the second quarter, economic growth surprised to the high side in the United States, while China recorded positive growth but below market expectations. Thus, U.S. economic activity remains dynamic, characterized by a strong labor market and robust consumption, and the bank stress has been contained. In China, the weak performance reflects economic as well as structural factors. The crisis of confidence, both internally and externally, has affected the economy. The real estate sector is facing a structural change, as demographic shifts have generated an excess of supply, which has been aggravated by high unemployment, especially among young people. In the Eurozone, output has stagnated after contracting in the final quarter of 2022, and expectations continue to be affected by the monetary tightening and the effects of the energy crisis. Among the Latin American economies, performance was mixed in the second quarter, with contractions in Colombia and Peru, a slowdown in growth in Brazil, and a slight acceleration in Mexico.

Inflation, in turn, continues to follow a downward path after peaking in 2022, although core measures show a higher degree of persistence. The reduction in food and commodity prices observed through the second quarter of this year contributed to the drop in inflation rates. However, in the United States and the Eurozone, core inflation measures have been slower to come down. With regard to monetary policy, some advanced countries are expected to continue raising their rates in the second half of this year.

Domestically, inflation has fallen faster than projected this year. From February to August, monthly inflation was below market expectations, with the exception of July when there was a slight surprise to the high side. Thus, annual inflation was 5.3% in August, down 8.8 percentage points from the peak recorded in 2022 (14.1% in August 2022), which is the lowest level since September 2021 (5.3%). In this context, the Central Bank started the process of lowering the monetary policy rate in July, after maintaining a high level since October of last year.

In this Public Finance Report (PFR), national economic activity is expected to close the year with growth near zero, given the stronger boost in the last two quarters. The first half closed with negative growth, relative to the previous year, in which the non-mining component contracted the most. For the third and fourth quarters, the growth forecast is positive, with a recovery in both mining and non-mining GDP. With regard to domestic demand, the forecast for the year is slightly higher than projected last quarter, due to an upward revision in gross fixed capital formation to incorporate the higher real data.

Table 1
2023 Macroeconomic Assumptions

	PFR 2Q23	PFR 3Q23
GDP (real annual change, %)	0.2	0.0
MINING GDP (real annual change, %)	4.0	1.5
NON-MINING GDP (real annual change, %)	-0.5	-0.3
DOMESTIC DEMAND (real annual change, %)	-4.1	-4.0
CPI (annual change, % average)	7.8	7.6
EXCHANGE RATE (CLP/USD, average, nominal value)	811	825
COPPER PRICE (USD cents/lb, average, LME)	385	388
WTI OIL PRICE (USD/bbl)	76	79

Source: Ministry of Finance.

The projected macroeconomic scenario for 2023 and the overall fiscal revenue execution for 2022 and 2023 to date provide the basis for forecasting the total central government's 2023 revenues, which are estimated at CLP 65,203,476 million. This implies a real annual decrease of 11.1% relative to overall revenues in 2022, and it is CLP 286,770 million lower than the estimate in the last PFR. The difference is explained by the downward revision of non-mining tax revenues, which was partially offset by the higher property income forecast, following the recognition of collections through July, in the face of a similar macroeconomic scenario in terms of domestic demand.

Based on the above overall revenue estimate, the forecast for cyclically adjusted revenues in 2023 is CLP 64,260,288 million. This represents a decrease of 0.8% in real terms relative to the last PFR.

Central government expenditures are projected at CLP 71,669,058 million in 2023, which represents an increase of CLP 875,311 million relative to expenditures presented in the last report. This update reflects an increase in emergency spending due to the heavy rains that recently affected the country, as well as expenditures associated with hosting the Pan-American Games and interest expense.

Given these expenditure projections for 2023, together with the updated overall revenue forecast and the updated macroeconomic scenario, the overall deficit is estimated at CLP 6,465,582 million, equivalent to 2.3% of projected GDP for this year.

In the framework of the structural balance rule, after making the cyclical adjustments to overall income, the projected cyclically adjusted deficit for 2023 is CLP 7,408,771 million, equivalent to 2.6% of GDP.

Table 2**Total Central Government: Balance, 2023**(millions of 2023 CLP and % of GDP⁽¹⁾)

		PFR 2Q23 FORECAST		PFR 3Q23 FORECAST	
		CLP MM	% OF GDP	CLP MM	% OF GDP
(1)	Total overall revenue	65,490,247	23.2	65,203,476	23.1
(2)	Total cyclically adjusted revenue	64,799,853	22.9	64,260,288	22.8
(3)	Total expenditures	70,793,747	25.1	71,669,058	25.4
(1) - (3)	OVERALL BALANCE	-5,303,501	-1.9	-6,465,582	-2.3
(2) - (3)	CYCLICALLY ADJUSTED BALANCE	-5,993,894	-2.1	-7,408,771	-2.6

(1) Projected GDP in each report.

Source: Dipres.

The current estimate for the central government's gross debt at the close of the 2023 budget exercise is USD 130,678 million, equivalent to 38.2% of overall GDP for that year, while the net financial position (NFP) is forecast at -34.2% of GDP in the same period.

UPDATE OF THE 2024 MACROECONOMIC AND FISCAL SCENARIO

The increase in interest rates by the majority of the central banks in an effort to control inflation will continue having effects on economic activity in the short term. The IMF has adjusted its world GDP growth estimates downward for 2024, from 3.4% in April of last year to 3.0% in April of this year, which was confirmed in the most recent update in July. Additionally, the last IMF update projects that global inflation, which peaked in 2022, will drop significantly in 2023 and 2024, driven by a sharper slowdown in price increases in the advanced economies.

For the national economy, growth of 2.5% is expected for 2024. Within this scenario, lower growth is forecast for non-mining GDP, which is offset by higher growth for mining GDP. Domestic demand increases to 2.4%. This upward revision relative to the last PFR is explained by increases in total consumption and gross fixed capital formation, both of which are expected to record positive growth in 2024.

The inflation forecast has not changed since the last PFR (3.5%), whereas the exchange rate has been revised upward, to CLP 832. Internationally, the stimulus for the local economy is expected to be less favorable than projected in the last PFR; the downward revision is larger for exports than for imports. Both copper and oil prices are expected to increase, the former slightly and the latter more sharply. This will result in a worsening of the terms of trade. The current account has therefore been adjusted downward, to -4.1%.

Table 3
2024 Macroeconomic Assumptions

	PFR 2Q23	PFR 3Q23
GDP (real annual change, %)	2.5	2.5
MINING GDP (real annual change, %)	3.8	4.5
NON-MINING GDP (real annual change, %)	2.3	2.2
DOMESTIC DEMAND (real annual change, %)	2.3	2.4
CPI (annual change, % average)	3.5	3.5
EXCHANGE RATE (CPI/USD, average, nominal value)	821	832
COPPER PRICE (USD cents/lb, average, LME)	381	385
WTI OIL PRICE (USD/bbl)	78	82

Source: Ministry of Finance.

The 2024 revenue forecast for the total central government is estimated at CLP 71,339,988 million, based on the projected macroeconomic scenario for the year and the execution of overall fiscal revenues in 2023. This implies a real change of 5.7% relative to the overall revenue forecast for 2023.

Based on the above overall revenue estimate and methodological innovations (an adjustment to CORFO lithium revenues and the cyclical adjustment to mining royalties), the projection for cyclically adjusted revenues in 2024 is CLP 71,264,217 million. This represents a decrease of 0.5% in real terms relative to the estimate in the PFR for 2Q23 and a real annual increase of 7.2% relative to the forecast for 2023.

Central Government expenditures, corresponding to the 2024 Budget Bill, are projected at CLP 76,918,639 million—which represents real growth of 3.5% relative to the 2023 Initial Bill + Adjustments and Special Laws—and are mainly focused on public safety, economic security, and social security. The budget has been prepared based on the fiscal responsibility framework defined by the government, taking into account the macroeconomic scenario described above, so as to reconcile public spending commitments with the need to move forward on the government’s proposed fiscal consolidation process.

Based on the overall income and total expenditure forecasts for 2024, the overall deficit of the total central government is estimated at CLP 5,578,651 million, equivalent to 1.9% of projected GDP for the year.

In the framework of the structural balance rule, after making the cyclical adjustments to overall income, the projected cyclically adjusted deficit for 2024 is CLP 5,654,422 million, equivalent to 1.9% of GDP. This structural deficit as a percentage of GDP is the new structural balance target for 2024, established in the Fiscal Policy Decree that is currently in process, which will allow the government to continue the process of reducing the structural deficit, a commitment made at the start of the administration and established in the previous Fiscal Policy Decree.

Table 4**Total Central Government: Balance, 2024**(millions of 2023 CLP and % of GDP⁽¹⁾)

		PFR 2Q23 FORECAST		PFR 3Q23 FORECAST	
		CLP MM	% OF GDP	CLP MM	% OF GDP
(1)	Total overall revenue	71,349,167	23.8	71,339,988	24,0
(2)	Total cyclically adjusted revenue	71,592,407	23.9	71,264,217	24,0
(3)	Total expenditures	76,979,560	25.2	76,918,639	25.9
(1) - (3)	OVERALL BALANCE	-5,630,393	-1.9	-5,578,651	-1.9
(2) - (3)	CYCLICALLY ADJUSTED BALANCE	-5,387,153	-1.8	-5,654,422	-1.9

(1) Projected GDP in each report.

Source: Dipres.

The estimate for the central government's gross debt at the close of the 2024 budget exercise is USD 146,720 million, equivalent to 41.1% of overall GDP for the period, while the net financial position (NFP) is forecast at -36.9% of GDP in the same period.

UPDATE OF THE MEDIUM-TERM FISCAL SCENARIO: 2025–2028

The medium-term scenario considers that output will gradually move toward its trend level. For 2025, total GDP has been adjusted slightly downward, with growth of 2.5%, although the forecasts for the mining and non-mining components are unchanged (3.5% and 2.4%, respectively) (table 5). Domestic demand has been revised downward relative to the previous scenario, while the growth rate of gross fixed capital formation is up and total consumption is stable. Thus, the reduction in domestic demand is explained by a lower change in inventories. From 2026 to 2028, total and non-mining GDP will slowly move toward trend values, reaching that level in 2028. Thus, non-mining GDP will decline from annual growth of 2.3% in 2026 to 2.1% in 2028. In the same period, the growth rate of mining GDP will be stable at 3% a year.

For the copper price, the scenario is the same as in the last PFR, with a slight increase for 2025 and 2027, in the direction of its long-term level. This assumption is based on the transition toward a greener world economy and a projected increase in electromobility. For 2028, the positive trend continues, with a price forecast of USD 4.19 per pound. Oil will stay around USD 85 throughout the forecast horizon, which implies an increase in 2025 and 2027 relative to the last PFR. The exchange rate should reach CLP 799 to the dollar toward the end of the projection horizon, following a slightly more depreciated path in 2025 and 2026 relative to the PFR for the second quarter.

The forecast scenario assumes that inflation will be at the Central Bank's target of 3.0% in 2025, after converging to that level over the course of 2024.

Table 5
2025–2028 Macroeconomic Assumptions

	2025		2026		2027		2028	
	PFR 2Q23	PFR 3Q23	PFR 2Q23	PFR 3Q23	PFR 2Q23	PFR 3Q23	PFR 2Q23	PFR 3Q23
GDP (real annual change, %)	2.6	2.5	2.4	2.4	2.4	2.3	—	2.2
MINING GDP (real annual change, %)	3.5	3.5	3.0	3.0	3.0	3.0	—	3.0
NON-MINING GDP (real annual change, %)	2.4	2.4	2.3	2.3	2.3	2.2	—	2.1
DOMESTIC DEMAND (real annual change, %)	3.2	3.0	2.6	2.6	2.7	2.6	—	2.4
CPI (annual change, % average)	3.0	3.0	3.0	3.0	3.0	3.0	—	3.0
EXCHANGE RATE (CPL/USD, average, nominal value)	822	824	808	811	800	800	—	799
COPPER PRICE (USD cents/lb, average, LME)	388	388	394	398	407	408	—	419
WTI OIL PRICE (USD/bbl)	80	85	82	85	83	85	—	85

Source: Ministry of Finance.

The revenue forecast for the total central government in the 2025–2028 period considers the macroeconomic scenario described above, the current tax structure, the changes in tax revenues related to Law N°21,210, and the projected surpluses transferred from public companies consistent with their current strategic plans and the profit distribution policies defined by the authority.

The updated estimates of committed expenditures for the 2025–2028 period are based on the committed expenditures outlined in the PFR for the 2024 Budget Bill. Specifically, the updated expenditure of the total central government presents an increase of 1.4% in 2025, relative to the 2024 Budget Bill; and real increases of 0.2% in 2026, relative to the 2025 forecast; 0.0% in 2027; and 0.7% in 2028. The results for the total central government's overall and structural balance in the medium term are presented in table 6. These estimates are consistent with the dual rule that guides fiscal policy: that is, based on a debt anchor, the cyclically adjusted balance targets are set to keep the debt forecast below a level considered prudent, namely, 45% of estimated GDP.

Table 6
Total Central Government: Overall and Structural Balance, 2025–2028

(millions of 2023 CLP and % of GDP)

	2025	2026	2027	2028
(1) Total overall revenues	74,682,351	76,832,432	77,623,584	79,345,858
(2) Total committed expenditure	78,017,252	78,191,073	78,184,331	78,757,986
(3) Cyclically adjusted revenues	74,900,621	76,563,206	76,793,050	77,960,869
(4) CAB TARGET (% OF GDP)	-1.1	-0.5	-0.5	-0.5
(5) SPENDING LEVEL COMPATIBLE WITH THE TARGET	78,239,310	78,116,679	78,382,826	79,589,475
(6) BUFFER: DIFFERENCE IN EXPENDITURE (5)-(2)	222,058	-74,394	198,495	831,489
(7) DIFFERENCE IN EXPENDITURE (USD MM)	277	-97	271	1,171
(8) DIFFERENCE IN EXPENDITURE (% OF GDP)	0.1	-0.0	0.1	0.3
(9) OVERALL BALANCE COMPATIBLE WITH THE TARGET (1)-(5) (% OF GDP)	-1.2	-0.4	-0.2	-0.1

Source: Dipres.

Thus, the current PFR estimates that the central government's gross debt, consistent with the structural balance target, will be USD 189,456 million at year-end 2028, equivalent to 41.3% of estimated GDP for that year, while the net financial position is forecast at -38.0% of GDP in the same period.

Table 7
Total Central Government: Net Financial Position, Year-end 2025–2028

(millions of USD and % of GDP, 31 December of each year)

	2025		2026		2027		2028	
	USD MM	% OF GDP	USD MM	% OF GDP	USD MM	% OF GDP	USD MM	% OF GDP
Total Public Treasury assets	14,834	3.9	14,845	3.7	14,895	3.4	14,870	3.2
Total gross debt	157,024	41.4	167,932	41.3	179,328	41.3	189,456	41.3
NET FINANCIAL POSITION	-142,190	-37.5	-153,087	-37.6	-164,433	-37.9	-174,586	-38.0

Source: Dipres.

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. Two scenarios are discussed: one with a higher output growth forecast (optimistic) and one with a lower growth forecast (pessimistic). The report then describes the fiscal results associated with each scenario.

In general, under the high-growth scenario, the overall balance would improve around 0.1 percentage points, on average, over the forecast horizon, turning to a surplus in 2028. The structural balance forecast, in turn, would deteriorate in 2025 and 2026, in line with the lower structural revenues in millions of pesos, and then become more favorable than in the baseline scenario for the remainder of the projection horizon. In contrast, under the low-growth scenario, the overall balance would deteriorate around 0.2 percentage points of GDP, on average, over the projection horizon, while the structural balance would improve in line with the higher structural revenues in millions of pesos in 2025 and 2026, but worsen in 2027 and 2028. Additionally, the fiscal buffers would be lower under the optimistic scenario relative to the baseline in 2025 and 2026, but would be higher in subsequent years; the reverse is found in the pessimistic scenario.

Thus, the different macroeconomic scenarios generate different dynamics for the gross debt in the forecast horizon (through 2028), but they all meet the commitment of maintaining debt below the prudent level of 45.0% of GDP. Specifically, the optimistic scenario leads to a debt path below the baseline scenario, reaching 40.8% of GDP toward the end of the projection horizon. In contrast, the pessimistic scenario leads to gross debt of around 41.4% of GDP in 2028.

MONITORING AND EVALUATION SYSTEM

In the area of program evaluation, this PFR presents the recommendations of the Government Program Evaluation (GPE) finalized in 2023 (ex post evaluation). Eight evaluations were performed, covering ten public programs. Of these, two evaluations were rated as "Average Performance;" one, "Low Performance;" and five, "Poor Performance." Independently of the budgetary effects, the reports detail the main recommendations of the evaluating teams, various of which have already been addressed through recently completed ex ante evaluation processes or will be incorporated into the commitments signed by the services in charge of executing the programs and Dipres.

In the framework of the 2024 round, the ex ante evaluation process was recently completed. This year, 162 programs were reviewed, including 67 nonsocial and 95 social programs. In terms of the results of the process, 45% of the 44 new programs evaluated and 62% of the 118 reformulated programs received a Favorable Recommendation, similar to the results from last year.

While the evaluation results are used to support budgetary decisions, they are not the only determinant of how resources are allocated to the programs. Specifically, when the evaluation involves programs that are legally mandated or that address unmet needs, the results support the mitigation or correction of program failures and do not necessarily lead to a reduction in the budget. Nevertheless, the 2024 budget proposal considers an average reduction of 10% in the resources allocated to a set of 82 programs that had a poor ex post evaluation, technical objections in the ex ante evaluation, and/or unresolved conditional observations that are being monitored. For programs with a good evaluation or at least without conditional observations, the budget proposal considers an average increase of 3% in 2024 relative to the resources allocated in 2023.

INSTITUTIONAL ADVANCES IN FISCAL AND BUDGET TRANSPARENCY

As part of the Better Spending Agenda being developed incrementally by Dipres, this year we are working with the Organization for Economic Cooperation and Development (OECD) on the design of an action plan for implementing targeted spending reviews, which provide a way to quickly generate resource savings that can be reallocated in future budget exercises. This plan is being elaborated taking into account the comparative experience of different OECD countries.

With regard to new advances in the area of budget transparency, this year more than 100 fact sheets were presented detailing the main changes between 2023 and the 2024 budget bill at the level of budget allocation, identifying the reasons for the variation and its link to the results of the Monitoring and Evaluation System tools.

