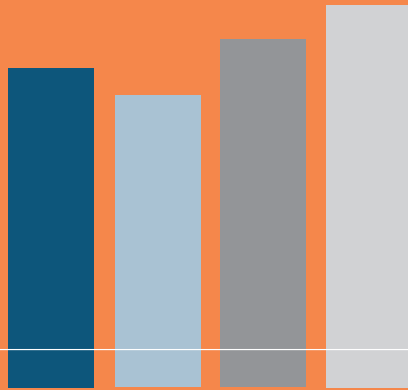


SECOND QUARTER 2021



PUBLIC FINANCE REPORT

(SUMMARY)

SUMMARY

UPDATE OF THE 2021 FISCAL SCENARIO

The international macroeconomic scenario has improved in step with the massive vaccination programs in the developed world, allowing the relaxation of some of the health restrictions that were implemented to contain the spread of COVID-19. Together with the expansionary fiscal and monetary policy measures, this favored the recovery of economic activity in the first half of the year. Nevertheless, uncertainty remains high in the face of the emergence of new mutations of the virus.

The recovery of world activity has benefited the demand for commodities, raising prices in international markets. In particular, the copper price is 47% higher in nominal terms than in 2020, reflecting increased industrial activity in China, the announcement of infrastructure programs by the United States government, and still-limited supply.

In the case of Chile, the economy has greatly exceeded projections, as the different sectors have performed better than expected in terms of adapting to the mobility restrictions adopted since late March. According to OECD forecasts, Chile will be one of the first countries in the world to recover the level of economic activity recorded prior to the start of the pandemic. In fact, the seasonally adjusted IMACEC returned to its pre-pandemic level in May 2021.

In this context, in the current Public Finance Report (PFR), the GDP growth forecast has been revised upward to 7.5% in 2021 (versus 6.0% in the last PFR). This more positive scenario takes into account the more dynamic world economy; the improvement in the terms of trade due to the increase in the copper price, which is projected to average USD 4.11 per pound, versus USD 3.99 in the last PFR; the significant progress on the vaccination plan (as of June, over 80% of the target population has been vaccinated with either the first of two doses or a single dose, while more than 70% have received the second or single dose); and the additional fiscal stimulus approved in recent months. Nevertheless, uncertainty remains higher than normal, so the economic growth forecasts for the coming months should be taken with caution.

Table 1
2021 Macroeconomic Assumptions

	PFR Q1 2021	PFR Q2 2021
GDP annual change, %]	6.0	7.5
DOMESTIC DEMAND [annual change, %]	10.7	12.6
CPI [annual change, % average]	3.4	3.7
EXCHANGE RATE [CLP/USD, average, nominal value]	699	712
COPPER PRICE [USD cents/lb, average, LME]	399	411

Source: Ministry of Finance.

In the fiscal arena, considering the update of the 2021 macroeconomic scenario and real data through May, the current PFR projects overall central government revenues of CLP 55,198,912 million (23.4% of GDP), which implies real growth of 33.5% relative to 2020 and an improvement of 4.3% vis-à-vis the last estimate. This forecast incorporates revenues deriving from the automatic reversal of the temporary tax measures (MTTRA) that have been implemented thus far in response to the pandemic, for an equivalent of 0.1% of GDP.

Among the different revenue components, other (non-mining) tax revenues have been revised upward relative to the last PFR, with real annual growth of 27.4%. This is explained by the better macroeconomic scenario, in particular domestic demand, and the effect of the MTTRA. Private mining tax revenues (122.5% annual) and gross copper revenues (217.0% annual) have also increased, due to the better outlook for the copper price and a more depreciated exchange rate than previously forecast. In the case of gross copper revenues, the forecast incorporates the fact that Codelco has absorbed all accumulated tax losses from previous periods and thus began to pay first-category income taxes, as well as the additional 40% tax assessed on state-owned companies (D.L. 2,398), starting in June of this year (see Box 4 in the PFR for the first quarter of 2021). Finally, social security contributions are projected to be lower, because the recovery of the labor market has been more gradual than forecast. All other revenues are expected to improve, due to an update in the forecast to reflect the high degree of execution observed to date, which is above the previous estimate.

Table 2

Total Central Government: Revenues, 2021

(millions of 2021 CLP, % of GDP, and % real annual change)

	CLP MM	REAL ANNUAL CHANGE(%)	% OF GDP
TRANSACTIONS AFFECTING NET WORTH	55,180,018	33.5	23.4
Net tax revenues	43,994,585	31.3	18.6
Private mining taxes	3,087,851	122.5	1.3
Other taxes	40,906,734	27.4	17.3
Gross copper revenues	3,350,399	217.0	1.4
Social security contributions	2,884,617	-10.4	1.2
Donations	136,041	15.3	0.1
Property income	1,045,908	17.0	0.4
Operating income	1,353,645	67.6	0.6
Other revenue	2,414,823	39.2	1.0
TRANSACTIONS IN NONFINANCIAL ASSETS	18,894	24.1	0.0
Sale of physical assets	18,894	24.1	0.0
TOTAL	55,198,912	33.5	23.4

Source: Dipres.

Cyclically adjusted (or structural) revenues, which are calculated using information provided by the Trend GDP and Copper Reference Price Advisory Committees for the preparation of the 2021 Budget, are forecast at CLP 49,500,578 million, which implies an increase of 3.2% relative to the last PFR. Note that this calculation excludes the MTTRA tax measures implemented in 2020 and 2021.

Table 3
Cyclically Adjusted Balance: 2021 Reference Parameters

	FORECAST PFR Q1	FORECAST PFR Q2
GDP		
Trend GDP (% real change)	1.5%	1.5%
GDP gap (%)	3.4%	1.9%
COPPER		
Reference price (2021 US cents/lb)	288	288
Codelco sales (thousands of metric tons of fine copper)	1,616	1,616
GMP10 production (thousands of metric tons of fine copper)	3,203	3,203

Fuente: Dipres.

Central government expenditures, in turn, are projected to reach CLP 71,951,215 million (30.5% of GDP), which represents real growth of 27.3% relative to 2020 and 16.9% (equivalent to approximately USD 14,600 million) over the forecast in the last PFR. This is explained by the new measures implemented to strengthen the social protection network, including the Universal Emergency Family Income (EFI) program, the relief measures for SMEs, and the strengthening of the health system. This implies that as of September of this year, direct transfers of USD 23,000 million are projected for 2021, such that central government spending will reach USD 101,104 million this year (see Box 1).

Table 4
Total Central Government: Expenditures, 2021
(millions of 2021 CLP and % real change)

	2021 CLP MM	% CHANGE 2021/ 2020 EXECUTION
UPDATED 2020 EXPENDITURES, PFR FIRST QUARTER 2021⁽¹⁾	61,561,484	9.2
Universal EFI ⁽²⁾	7,051,650	
Relief measures for SMEs ⁽³⁾	1,240,560	
CLP 200,000 withdrawal bonus (pensions)	673,200	
Strengthening the health system	1,440,000	
Other ⁽⁴⁾	-15,679	
UPDATED 2020 EXPENDITURES, PFR SECOND QUARTER 2021⁽⁵⁾	71,951,215	27.3

(1) Using the inflation and exchange rate assumptions from the PFR for the first quarter of 2021: namely, 3.4% and 699 CLP.

(2) Emergency Family Income (EFI): Incorporates the universal EFI and an adjustment to the expanded EFI due to updated real data.

(3) Amount in excess of the estimate in the PFR for the first quarter of 2021, implying a total amount of CLP 1,459,107 million, in accordance with Circular IF N° 80 of 7 June of this year.

(4) Change in interest expense.

(5) Using the updated inflation assumption: namely, an average of 3.7% in 2021.

Source: Dipres.

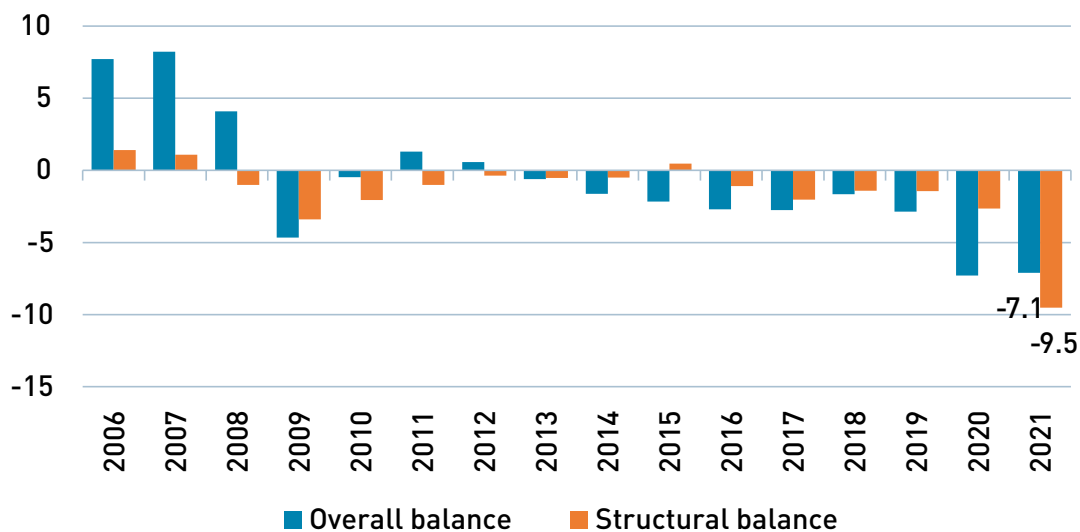
Thus, taking the overall and cyclically adjusted revenue forecasts and the updated expenditures reported in this PFR, an overall balance of -7.1% of GDP is estimated for 2021, which implies an increase in the fiscal deficit of 3.3 percentage points (p.p.) relative to the previous estimate. In turn, the cyclically adjusted (or structural) balance is estimated at -9.5% of GDP, that is, 3.5 p.p. higher than the last forecast. As signaled in the last PFR, the projected deviation from the structural balance target reflects the need for higher spending to support households and SMEs in the face of the pandemic. As discussed in March, this implies a deviation from the target and that we are facing a de facto escape clause due to the impact of the implemented measures, given the size and duration of the health and social emergency.

Table 5
Total Central Government: Balance, 2021
(millions of 2021 CLP and % of GDP)

		CLP MM	% OF GDP
(1)	Total overall revenues	55,198,912	23.4
(2)	Total cyclically adjusted revenues	49,500,578	21.0
(3)	Total expenditures	71,951,215	30.5
(1) - (3)	OVERALL BALANCE	-16,752,303	-7.1
(2) - (3)	CYCLICALLY ADJUSTED BALANCE	-22,450,637	-9.5

Source: Dipres.

Figure 1
Total Central Government: Overall and Structural Balance, 2006–2021
(% of GDP)



Source: Dipres.

Finally, the new funding needs deriving from the implementation of new spending measures—and the resulting increase in the fiscal deficit—will be financed through a combination of a greater use of financial assets and debt. Thus, it is estimated that at year-end 2021, the gross debt stock of the central government will reach 34.1% of GDP, versus 33.0% estimated in the last PFR, while the net financial position will close the year at –29.2% of GDP, compared to –27.2% in the last PFR.

As stated above, the higher spending and the greater resources to fund the new measures implemented in the context of the pandemic will be financed with debt and the use of sovereign wealth funds. Thus, total debt of USD 27,000 million will be issued in 2021. Given the amount issued in the first half, USD 15,100 million remains to be placed in the second half of the year, of which USD 7,100 million corresponds to the annual debt issuance schedule announced in December, while the remaining USD 8,000 million represents new debt, due to the recent measures, and will mainly be denominated in foreign currency. In turn, the use of sovereign wealth funds will reach USD 9,157 million in 2021, of which USD 6,710 million was withdrawn in the first half, while USD 2,447 million will be withdrawn in the second half of the year (see Box 2).

UPDATE OF THE MEDIUM-TERM FISCAL SCENARIO: 2022–2025

With regard to the medium-term macroeconomic scenario, the growth forecast for 2022 was revised downward slightly to 2.9%, due to a more demanding comparison base, while the assumption for the 2023–2025 period considers a gradual convergence toward the long-term growth rate. Similarly, the copper price forecast assumes a gradual convergence toward its long-term level.

Table 6

Macroeconomic Assumptions, 2022–2025

	2022	2023	2024	2025
GDP (annual change, %)	2.9	2.8	2.7	2.5
DOMESTIC DEMAND (annual change, %)	2.5	3.3	3.2	3.1
CPI (annual change, % average)	3.0	3.0	3.0	3.0
EXCHANGE RATE (CLP/USD, average, nominal value)	713	719	731	738
COPPER PRICE (USD cents/lb, average, LME)	395	368	335	314

Source: Ministry of Finance.

In the fiscal arena, the overall revenue forecast for the central government takes into account the current macroeconomic scenario and the updated tax revenue forecast associated with the 2020 Tax Modernization Law. Additionally, the estimation incorporates the tax measures implemented under the COVID-19 Emergency Economic Plan (EEP), the COVID Agreement, and the subsequent measures that were implemented to support SMEs. Thus, the average growth rate of overall revenues is projected to be 1.5% in the 2022–2025 period and 3.2% in the case of structural revenues.

On the side of central government expenditures, it is important to note that spending for 2022 was established in the COVID Agreement in June 2020 and in the consolidation plan. In accordance with this commitment, primary spending in 2022 must not exceed 109% of primary spending in 2019. For the rest of the period, the forecast was updated to incorporate the estimated expenditures included in the Financial Reports (IF) on new bills or Instructions on bills that were submitted to Congress between April and June 2021, plus the updated interest expense.

Table 7**Total Central Government: Balance, 2022–2025**

(millions of 2021 CLP and % of GDP)

	2022	2023	2024	2025
(1) Total overall revenues	53,157,646	54,942,714	57,189,454	58,419,000
(2) Total committed expenditures	55,757,144	55,551,328	55,758,830	56,508,143
(3) Cyclically adjusted revenues	48,187,353	50,950,398	54,057,845	56,032,789
(4) CAB TARGET (% OF GDP)	-3.9	-2.9	-1.9	-0.9
(5) Spending level compatible with the target	57,845,194	58,352,220	59,042,682	58,500,989
(6) Buffer: Difference in expenditure (5)–(2) [2021 CLP MM]	2,088,050	2,800,893	3,283,852	1,992,846
(7) Difference in expenditures (USD MM)	3,023	4,148	4,945	3,072
(8) Difference in expenditures (% of GDP)	0.9	1.1	1.3	0.8
(9) OVERALL BALANCE COMPATIBLE WITH THE TARGET (1)–(5) (% OF GDP)	-1.9	-1.4	-0.7	0.0

Source: Dipres.

In this context, this PFR estimates that the central government's gross debt, consistent with the structural balance target, will reach USD 155,158 million at year-end 2025, equivalent to 38.5% of GDP, while the net financial position will reach –34.8% of GDP in the same period. The downward adjustment of the debt-to-GDP ratio relative to the estimate in the last PFR (39.5%) reflects the improvement in the macroeconomic scenario—in particular, higher GDP and fiscal revenue forecasts—and the greater use of financial assets estimated for the period. In this line, total Public Treasury assets are projected at 3.7% of GDP at year-end 2025 in the current Report, versus 5.1% of GDP in the last PFR.

Table 8**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 co	13,233.8	3.7	13,467.3	3.6	14,110.0	3.7	14,776.6	3.7
Total gross debt	130,055.2	36.7	141,973.0	38.1	149,202.9	38.6	155,157.8	38.5
NET FINANCIAL POSITION	-116,821	-32.9	-128,506	-34.5	-135,093	-35.0	-140,381	-34.8

Source: Dipres.

MANAGEMENT CONTROL AND SPENDING EFFICIENCY

Finally, for the second year, the process of monitoring program performance during the last fiscal year was developed in conjunction and coordination with the Budget Office and the Undersecretariat for Social Evaluation of the Ministry of Social Development and Family, thereby covering all the ministries and services under state administration. This work implied the development of a dedicated website for data input and processing, as well as the harmonization of formats, guidelines, and review criteria between the two institutions.

A total of 684 programs were covered, including 469 social programs and 215 non-social programs. The total executed budget (self-reported) of the 684 programs and initiatives was CLP 27,171,304,571,000 (in 2021 pesos), mainly associated with the social programs. The information obtained from this exercise not only contributes to improving program quality and increasing transparency in the use of public resources, but also represents a valuable input for the budget formulation process. The production results, the relative efficiency of the processes, and the coverage and results provide more evidence for making decisions on resource allocation in the coming years.

