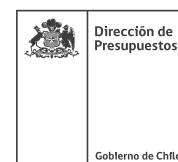


SUMMARY



CLOSING OF THE MACROECONOMIC AND FISCAL 2023 SCENARIO

- The year was marked by contractionary monetary policies in developed economies, while some emerging economies began a process of normalization in the second half of the year, with declining inflation. Tight monetary policy, reduced pressure on the supply chain, and falling energy and food prices contributed to the decline in total inflation.
- Global growth in 2023 exceeded projections. According to figures from the International Monetary Fund, output grew 3.2%¹. Within this aggregate, however, there was considerable heterogeneity: in the United States, economic growth surprised to the upside, with a resilient labor market; in the Eurozone, figures indicated economic stagnation; and in China, problems in the real estate sector triggered uncertainty about the country's economic performance during the year, but did not affect the growth forecast. Economic performance also varied among the Latin American economies: Brazil and Mexico surprised with solid growth, Colombia's growth decelerated, and Peru experienced a slight contraction. In addition, the decline in inflation, the improved economic performance, and the containment of geopolitical risks reduced risk aversion.
- Locally, the Chilean economy recovered from the imbalances left by the social outbreak, the pandemic, and the outsized policy response. After the overheating of the economy in 2021 and the adjustment process of 2022, economic activity stabilized in 2023, supported by monetary policy and fiscal policy, to resume a growth path in the middle of the year. Once economic stabilization was achieved and after the constitutional process, economic uncertainty returned to the levels prior to the social outbreak. In addition, the current account returned to its historical average alongside a recovery in national savings, while inflation continued to decline.
- Regarding the fiscal accounts, total central government revenues in 2023 were CLP 64,699,824 million (23.0% of GDP), which implies a drop of 12.4% in real terms relative to 2022. The reduction is explained by non-mining tax revenues, which registered a 14.3% real decline with respect to 2022. This result, in turn, was significantly affected by the higher refunds (Payment Systems) deriving from the 2023 annual tax return process (for the 2022 fiscal year).
- In turn, total central government accrued expenditures reached CLP 71,418,533 million (25.3% of GDP), representing 1.1% real growth compared to overall expenditures of the previous year. This result is mainly explained by higher spending on social security benefits due to the implementation of the Universal Guaranteed Pension (UGP).
- With regard to the budget, the execution rate of central government budget expenditures was 100.0% in 2023.
- Taken together, the above implies that the total central government recorded an overall deficit of CLP 6,718,709 million (2.4% of GDP). The cyclically adjusted balance, in turn, was CLP 7,579,553 million, equivalent to 2.7% of GDP (see table 1).

¹ World Economic Outlook, April 2024.

Table 1**Total Central Government: Overall and Structural Balance, 2023**

(millions of 2023 CLP and % of GDP)

		CLP MM	% OF GDP
(1)	Total overall revenue	64,699,824	23.0
(2)	Total cyclically adjusted revenue	63,838,980	22.6
(3)	Total expenditures	71,418,533	25.3
(1) - (3)	OVERALL BALANCE	-6,718,709	-2.4
(2) - (3)	CYCLICALLY ADJUSTED BALANCE	-7,579,553	-2.7

Note: Includes Fonasa electronic vouchers.

Source: Dipres.

- At the end of fiscal year 2023, the central government's gross debt totaled USD 125,589 million, equivalent to 39.4% of overall GDP of the period, while the net financial position (NFP) reached -34.4%.

UPDATE OF THE 2024 MACROECONOMIC AND FISCAL SCENARIO

- According to the latest IMF World Economic Outlook, the world economic growth forecast for 2024 has been revised upward slightly relative to the January projection, to around 3.2%. Growth of 1.7% is expected for the advanced economies, up slightly from the forecasts made in April 2023 (1.4%) and January 2024 (1.5%). This reflects, in particular, solid growth in the United States, which has been adjusted upward since the last report (2.7% in April versus 2.1% in January). Limited growth is projected for the Eurozone, rising from 0.4% in 2023 to 0.8% this year (versus 0.9% projected in January). The forecast for emerging and developing economies, at 4.2%, is similar to 2023 (4.1%), with a slight upward revision relative to the January 2024 projection (4.1%). Finally, Latin America is expected to grow 2.0%, down from 2.3% in 2023, with a slowdown in Brazil and Mexico after an upswing in 2023.
- Global inflation will continue to decline, mainly due to the greater adjustment in advanced economies. According to the latest IMF World Economic Outlook, average global inflation is expected to slow to 5.9% a year in 2024, with a larger drop in advanced economies, where inflation is expected to fall by 2 percentage points, to 2.6%. Emerging economies are expected to maintain their current inflation levels at around 8.3%.
- Oil prices have increased so far this year, food prices have decreased slightly, and copper prices have reached two-year highs. In particular, copper prices increased 4.4% and 9.3% a month in March and April 2024, respectively, averaging USD 3.96 per pound in the year to date. The increase is explained by the decision of the main smelters in China to reduce production between 5% and 10% in 2024, together with a strong boost from commodity investors in the metal exchanges and ongoing strong demand, supported by the recovery of the global industrial sector and tight global supply.
- Domestically, the stabilization of the economy is reflected in the rapid decline in inflation. Both headline and core measures are close to target. After peaking in 2022, headline inflation has fallen almost 11 percentage points, to 3.2% in March. The drop was recorded across both volatile and non-volatile components, and it was faster for goods than for services. In the first quarter of 2024, the core measure continued the slowing trend started in the second quarter of 2023, reaching 3.7% in March, almost 7 percentage points lower than the September 2022 peak. Market expectations are anchored to the target in the monetary policy horizon. In 2024, the economy will grow 2.7%, reflecting the momentum that has been building since mid-2023 and a strong first quarter. Activity will be boosted by lower interest rates, a recovery in consumption, and more dynamic exports. Economic growth could exceed the estimated trend growth rate, thanks to the space opened up by the slack accumulated during stabilization.

Table 2
2024 Macroeconomic Assumptions

	PFR 4Q23	PFR 1Q24
GDP (real annual change, %)	2.5	2.7
MINING GDP (real annual change, %)	4.6	4.6
NON-MINING GDP (real annual change, %)	2.1	2.4
DOMESTIC DEMAND (real annual change, %)	2.3	2.0
CPI (annual change, % average)	3.1	3.8
EXCHANGE RATE (CPL/USD, average, nominal value)	868	928
COPPER PRICE (USD cents/lb, average, LME)	384	420
WTI OIL PRICE (USD/bbl)	81	83

Note: The PFR 1Q24 update uses estimated 2024 nominal GDP of CLP 304,506 billion and an estimated exchange rate in December 2024 of 907 pesos to the dollar. The cutoff date for macroeconomic forecasts was 25 April 2024.

Source: Ministry of Finance.

- Based on the macroeconomic scenario described above and the fiscal revenue execution for 2023, the total central government's 2024 revenues are projected at CLP 71,417,128 million. This is in line with the revenue forecast in the last PFR, with a small increase of CLP 70,060 million, equivalent to 0.1%. The upward revision reflects an increase in projected income from private mining tax revenues, gross copper revenues (Codelco), and social security contributions, which offset the reduction in income from lithium due to the drop in market prices.
- Total central government expenditures in 2024 are projected at CLP 77,074,344 million, the same as in the last report. Thus, total central government expenditures are projected to increase 4.9% in real terms relative to the 2023 budget execution.
- The above implies an overall deficit of CLP 5,657,216 million for 2024, equivalent to 1.9% of projected GDP, the same as in the last report. The structural deficit is projected at CLP 6,826,109 million, equivalent to 2.2% of GDP, which represents an increase in the structural deficit of 0.3 pp relative to the last report. Thus, at the end of the 2024 fiscal year, the central government's gross debt will total about 40.6% of estimated GDP for the period, while the net financial position (NFP) is forecast at -36.5% of 2024 GDP.
- Given these results, the current administration remains firmly committed to complying with the target established in Finance Ministry Decree N°1.387, whereby the fiscal policy target for 2024 is a structural deficit of 1.9% of GDP. Therefore, to address the difference in fiscal space for 2024 of CLP 1,040,503 million to comply with the target, the authority will adopt all the necessary measures to meet the current fiscal policy target. Once the final figures for the 2024 annual tax return process are available, additional measures will be formulated, whether on the revenue or the expenditure side. After the course of public finances has been adjusted to meet the structural balance target, the overall deficit should be reduced to just over 1.5% of GDP, while the public debt should be around 40.3% of GDP, or one percentage point lower than estimated at the time the 2024 Budget was prepared.

Table 3**Total Central Government: Balance, 2024**(millions of 2024 CLP and % of GDP⁽¹⁾)

		PFR 4Q23 FORECAST		PFR 1Q24 FORECAST	
		CLP MM	% OF GDP	CLP MM	% OF GDP
(1)	Total overall revenue	71,347,069	24.3	71,417,128	23.5
(2)	Total cyclically adjusted revenue	71,639,030	24.4	70,248,236	23.1
(3)	Total committed expenditures	77,074,344	26.2	77,074,344	25.3
(1) - (3)	OVERALL BALANCE	-5,727,276	-1.9	-5,657,216	-1.9
(2) - (3)	CYCLICALLY ADJUSTED BALANCE	-5,435,315	-1.9	-6,826,109	-2.2

(1) Projected GDP in each report.

Source: Dipres.

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

- The medium-term scenario considers that output will gradually approach its trend growth level toward the end of the forecast horizon. For the financial planning horizon, output forecasts estimate that non-mining GDP growth will gradually converge toward its trend level, holding there in 2028; while mining GDP growth will be stable at 3% a year throughout the period. Domestic demand has been revised upward for 2025 to 3.0% (versus 2.7% in the last report), due to a higher forecast of gross fixed capital formation, which is then revised downward in subsequent years.
- The copper price forecast has been revised upward to USD 4.20 per pound for the entire forecast horizon, as the world transitions to a greener economy and electromobility increases. The exchange rate will reach 856 pesos to the dollar toward the end of the forecast period, consistent with the assumption that the real exchange rate will gradually decline to just above its historical average. The forecast scenario incorporates slightly higher inflation in 2025, which then converges to around the Central Bank's target of 3.0%.

Table 4
2025–2028 Macroeconomic Assumptions

	2025		2026		2027		2028	
	PFR 4Q23	PFR 1Q24	PFR 4Q23	PFR 1Q24	PFR 4Q23	PFR 1Q24	PFR 4Q23	PFR 1Q24
GDP (real annual change, %)	2.5	2.5	2.4	2.2	2.3	2.1	2.2	2.1
MINING GDP (real annual change, %)	3.5	3.5	3.0	3.0	3.0	3.0	3.0	3.0
NON-MINING GDP (real annual change, %)	2.4	2.3	2.3	2.1	2.2	2.0	2.1	2.0
DOMESTIC DEMAND (real annual change, %)	2.7	3.0	2.6	2.6	2.5	2.4	2.4	2.1
CPI (annual change, % average)	3.0	3.4	3.0	3.0	3.0	3.0	3.0	3.0
EXCHANGE RATE (CPL/USD, average, nominal value)	839	888	820	867	803	857	799	856
COPPER PRICE (USD cents/lb, average, LME)	388	420	398	420	408	420	419	420
WTI OIL PRICE (USD/bbl)	82	85	84	85	85	85	85	85

Note: The PFR 1Q24 update uses estimated 2025 nominal GDP of CLP 319,159 billion, estimated 2026 nominal GDP of CLP 334,168 billion, estimated 2027 nominal GDP of CLP 349,769 billion, and estimated 2028 nominal GDP of CLP 366,873 billion; and an estimated exchange rate of 867 pesos to the dollar in December 2025, 860 pesos to the dollar in December 2026, 851 pesos to the dollar in December 2027, and 847 pesos to the dollar in December 2028. The cutoff date for macroeconomic forecasts was 25 April 2024.

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, 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 2025–2028 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 2024 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 2025–2028 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 1.1% of GDP in 2025 to –0.5% of GDP in 2026, as established in the Fiscal Policy Decree. It is worth noting that the decree does not address the goals for 2027 and 2028, which are merely indicative for medium term financial planning projections, as they correspond to the next administration.
- The new spending compatible with the structural balance target is higher than estimated in the 4Q23 PFR for 2025, 2027, and 2028 and lower for 2026 (see table 5). The former revision reflects the projection of higher structural revenues due to higher overall revenues, which are partially offset by the increase in the copper price gap and by non-mining GDP above its trend level. For 2026, the cyclical adjustment is greater than the increase in overall revenues relative to the last report.

Table 5
Total Central Government:
Overall and Structural Balance, 2025–2028
(millions of 2024 CLP and % of GDP)

	2025	2026	2027	2028
(1) Total overall revenues	77,103,260	77,516,699	79,794,013	81,730,297
(2) Total committed expenditure	78,040,127	78,134,518	77,994,225	78,416,324
(3) Cyclically adjusted revenues	75,272,482	75,712,149	78,186,320	80,009,456
(4) CAB target (% of GDP)	-1.1	-0.5	-0.5	-0.5
(5) Spending level compatible with the target	78,669,424	77,281,762	79,781,363	81,633,769
(6) Buffer: Difference in expenditure (5)–(2)	629,297	-852,756	1,787,138	3,217,445
(7) Difference in expenditure (USD MM)	732	-1,048	2,287	4,245
(8) Difference in expenditure (% of GDP)	0.2	-0.3	0.6	1.0
(9) Overall balance compatible with the target (1)–(5) (% of GDP)	-0.5	0.1	0.0	0.0

Source: Dipres.

- Thus, the current PFR estimates that the central government's gross debt, consistent with the structural balance targets, will be USD 176,637 million at year-end 2028, equivalent to 40.8% of GDP, while the net financial position is forecast at -37.7% of GDP in the same period (see table 6). Both figures are lower (in absolute value) than forecast in the 3Q23 PFR.

Table 6
Total Central Government:
Net Financial Position, Year-end 2025–2028
(millions of USD and % of estimated 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	12,630	3.4	12,672	3.3	12,751	3.1	13,598	3.1
Total gross debt	151,722	41.2	159,377	41.0	167,658	40.8	176,637	40.8
NET FINANCIAL POSITION	-139,092	-37.8	-146,705	-37.7	-154,906	-37.7	-163,039	-37.7

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.
- In general terms, in the higher-growth scenario, the overall balance would improve throughout the forecast horizon, while the structural balance forecasts would deteriorate in 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 lower-growth scenario, the overall balance would deteriorate in 2025, while the structural balance would be higher throughout the forecast horizon.
- Finally, under both scenarios, the fiscal buffer is expected to be greater than the baseline, with the exception of 2025 under the optimistic scenario. This is consistent with the path of structural revenues in pesos and with the structural balances.

- Neither the baseline nor the alternative scenarios include the effect of the materialization of the Codelco–SQM Memorandum of Understanding on lithium revenues, analyzed in the last PFR.
- The different macroeconomic scenarios generate different dynamics for the gross debt in the forecast horizon. Specifically, the optimistic scenario leads to a debt path below the baseline scenario, reaching 40.5% of GDP toward the end of the forecast horizon. In contrast, the pessimistic scenario leads to gross debt of around 41.7% by 2028. However, even if the pessimistic scenario were to materialize, the debt would stabilize at levels below the prudent debt level of 45% established in the current administration’s Fiscal Policy Decree.

