SUMMARY

Dirección de Presupuestos

Gobierno de Chile

UPDATE OF THE 2024 MACROECONOMIC AND FISCAL SCENARIO

- At the global level, both headline and core inflation have continued to decline, albeit more slowly than in 2023. Expectations of rate cuts by monetary authorities have thus moderated since the statistical cutoff date of the last report. This, coupled with geopolitical tensions and economic and political uncertainty, has depreciated currencies against the dollar, and ten-year bond rates have risen. Oil and food prices have increased since the close of 2023, and copper prices have reached two-year highs. Finally, the OECD projects that world economic growth will be similar to that of 2023 (3.1%), with divergence among the different economies.

- Domestically, economic activity returned to its growth path in the first quarter, although growth slowed across the board so far in the second quarter. Inflation is close to the target and in the short term will be influenced by countervailing forces. The labor market continues to recover, in line with the expansion of the economy. Gross fixed capital formation is beginning to stabilize, while public investment has continued to be executed at a higher rate. Financial conditions have tracked the evolution of monetary policy and will improve with its normalization. In the external sector, the current account has returned to sustainable levels, and foreign trade is contributing to a more dynamic economy. Economic growth will pick up in the second half of the year, resuming its growth path from the third quarter onward.

Table 1
2024 Macroeconomic Assumptions

	PFR 1Q24	PFR 2Q24
GDP (real annual change, %)	2.7	**2.6**
MINING GDP (real annual change, %)	4.6	**6.0**
NON-MINING GDP (real annual change, %)	2.4	**2.1**
DOMESTIC DEMAND (real annual change, %)	2.0	**2.1**
CPI (annual change, % average)	3.8	**3.7**
EXCHANGE RATE (CLP/USD, average, nominal value)	928	**916**
COPPER PRICE (USD cents/lb, average, LME)	420	**430**
WTI OIL PRICE (USD/bbl)	83	**80**

Note: The PFR 2Q24 update uses estimated 2024 nominal GDP of CLP 307,942,223 million and an estimated exchange rate in December 2024 of 888 pesos to the dollar. The cutoff date for macroeconomic forecasts was 7 July 2024.
Source: Ministry of Finance.

- The macroeconomic scenario projected for 2024 and the overall fiscal revenue execution for 2023 and so far this year provide the basis for forecasting the total central government's 2024 revenues, which are estimated at CLP 70,588,322 million. This implies a real annual increase of 6.2% relative to overall revenues in 2023, and it is CLP 828,806 million lower than the estimate in the Public Finance Report (PFR) for the first quarter of 2024[1]. This difference is primarily explained by a significant reduction in projected annual tax collection for all taxpayers, the results of income tax returns in 2024 (for the 2023 fiscal year), which were not available for the last report, and by a downward correction in property income. However, the higher revenue forecast deriving from gross copper revenues (Codelco) and social security contributions offsets nearly half of the aforementioned reduction.
- Based on the above overall revenue estimate, the forecast for cyclically adjusted revenues in 2024 is CLP 69,450,806 million. This represents a decrease of 1.1% in real terms relative to the last PFR.
- Central government expenditures are projected at CLP 76,294,940 million in 2024, which represents a decrease of CLP 779,404 million relative to expenditures presented in the last report. This update reflects the significant fiscal effort made by the government as part of this administration's commitment to manage resources responsibly. In particular, the expenditure update for the year recognizes pending bills, wage adjustments financed through provisioned resources, an expected under-execution of capital spending, an adjustment for lower spending on consumption goods and services in the period, and an update of interest expense 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 6,844,134 million, equivalent to 2.2% of GDP, which is the same as the estimated structural balance in the last PFR. In view of this result, it should be noted that although a significant effort has been made to contain spending, it has not been able to offset the drop in projected structural revenues. Given this situation, the present administration will continue to take all necessary steps to manage fiscal resources responsibly.

Table 2
Total Central Government: Balance, 2024
(millions of 2024 CLP and % of GDP[(1)])

		PFR 1Q24 FORECAST		PFR 2Q24 FORECAST	
		CLP MM	% OF GDP	CLP MM	% OF GDP
(1)	Total overall revenue	71,417,128	23.5	70,588,322	22.9
(2)	Total cyclically adjusted revenue	70,248,236	23.1	69,450,806	22.6
(3)	Total expenditures	77,074,344	25.3	76,294,940	24.8
(1) - (3)	**OVERALL BALANCE**	**−5,657,216**	**−1.9**	**−5,706,618**	**−1.9**
(2) - (3)	**CYCLICALLY ADJUSTED BALANCE**	**−6,826,109**	**−2.2**	**−6,844,134**	**−2.2**

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

- The estimate for the central government's gross debt at year-end 2024 is USD 139,274 million, equivalent to 40.1% of overall GDP, while the net financial position (NFP) is forecast at –36.2% of GDP in the same period.

1 The real annual change in total central government revenues for 2024 was revised from 5.2% to 6.2% so that the forecast is comparable with the actual data for 2023 without the Fonasa Electronic Bonus and also consistent with the rest of the report, which does not consider the Bonus. The revenue forecast for 2024 remains unchanged.

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

- The medium-term scenario continues to consider that domestic output will gradually move toward its trend growth rate by the end of the forecast horizon. For 2025–2028, output forecasts estimate that non-mining GDP growth will gradually converge toward its trend level, with a slight increase in 2025 relative to the last PFR; while mining GDP growth will be stable at 3.0% a year throughout the period. The consumption forecast is essentially unchanged since the last PFR, while gross fixed capital formation has been revised upward due to higher expectations in the mining sector. The scenario assumes higher inflation in 2025. The copper price forecast has been revised to USD 4.30 per pound, up from 4.20 per pound in the last report. The oil price will be stable at around USD 81, and the exchange rate will reach 845 pesos to the dollar toward the end of the forecast horizon. The current account has been revised upward throughout the projection period.

Table 3
2025–2028 Macroeconomic Assumptions

	2025		2026		2027		2028	
	PFR 1Q24	PFR 2Q24	PFR 1Q24	PFR 2Q24	PFR 1Q24	PFR 2Q24	PFR 1Q24	PFR 2Q24
GDP (real annual change, %)	2.5	**2.6**	2.2	**2.2**	2.1	**2.1**	2.1	**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, %)	2.3	**2.5**	2.1	**2.1**	2.0	**2.0**	2.0	**2.0**
DOMESTIC DEMAND (real annual change, %)	3.0	**3.0**	2.6	**2.5**	2.4	**2.4**	2.1	**2.1**
CPI (annual change, % average)	3.4	**4.4**	3.0	**3.1**	3.0	**3.0**	3.0	**3.0**
EXCHANGE RATE (CLP/USD, average, nominal value)	888	**876**	867	**855**	857	**846**	856	**845**
COPPER PRICE (USD cents/lb, average, LME)	420	**430**	420	**430**	420	**430**	420	**430**
WTI OIL PRICE (USD/bbl)	85	**81**	85	**81**	85	**81**	85	**81**

Note: The PFR 2Q24 update uses estimated 2025 nominal GDP of CLP 326,734,676 million, estimated 2026 nominal GDP of CLP 342,484,089 million, estimated 2027 nominal GDP of CLP 358,677,386 million, and estimated 2028 nominal GDP of CLP 376,264,607 million; and an estimated exchange rate of 855 pesos to the dollar in December 2025, 849 pesos to the dollar in December 2026, 840 pesos to the dollar in December 2027, and 837 pesos to the dollar in December 2028. The cutoff date for macroeconomic forecasts was 7 July 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.

- Following a conservative criterion, neither the baseline nor the alternative scenarios include additional revenues from the lithium exploitation agreement between Codelco and SQM.

- 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 in April and June 2024 and the new estimate of interest expense in line with the debt requirements estimated in this report.

- Table 4 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. The decree does not refer to the targets for 2027 and 2028, which are only indicative for the medium-term financial planning projection, as they correspond to the next administration.
- The new spending compatible with the structural balance target from 2025 to 2028 is lower than estimated in the last PFR throughout the forecast horizon, reducing the fiscal buffer (see table 4). This is due to the downward revision of the structural revenue forecast throughout the forecast horizon, while maintaining the CAB targets of the previous report.

Table 4
Total Central Government: Overall and Structural Balance, 2025–2028
(millions of 2024 CLP and % of GDP)

		2025	2026	2027	2028
(1)	Total overall revenues	77,442,292	77,955,579	79,510,300	81,695,065
(2)	Total committed expenditure	78,040,601	78,134,518	77,994,225	78,416,324
(3)	Cyclically adjusted revenues	74,526,458	75,671,425	77,460,177	79,533,909
(4)	**CAB TARGET (% OF GDP)**	**−1.1**	**−0.5**	**−0.5**	**−0.5**
(5)	Spending level compatible with the target	78,092,597	77,261,610	79,076,746	81,180,390
(6)	Buffer: Difference in expenditure (5)–(2)	51,996	−872,908	1,082,521	2,764,066
(7)	Difference in expenditure (USD MM)	62	−1,099	1,420	3,737
(8)	Difference in expenditure (% of GDP)	0.0	−0.3	0.3	0.8
(9)	**OVERALL BALANCE COMPATIBLE WITH THE TARGET (1)–(5) (% OF GDP)**	**−0.2**	**0.2**	**0.1**	**0.2**

Source: Dipres.

- Thus, the current PFR estimates that the central government's gross debt, consistent with the structural balance target, will be USD 160,493 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 5).

Table 5
Total Central Government: Net Financial Position, Estimated Year-end 2025–2028
(millions of USD and % of GDP, 31st 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	13,702	3.7	13,932	3.5	14,161	3.4	15,298	3.5
Total gross debt	150,204	41.0	153,644	41.0	157,127	40.8	160,493	40.8
NET FINANCIAL POSITION	**−136,503**	**−37.3**	**−139,712**	**−37.5**	**−142,966**	**−37.5**	**−145,195**	**−37.3**

Note: Figures were converted to dollars using the estimated exchange rate for December of each period, published at the beginning of this section of this report.
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 throughout the forecast horizon, while the structural balance forecast would be less favorable, because the effect of higher overall revenues would be more than offset by the larger cyclical correction. In contrast, under the low-growth scenario, the overall balance would deteriorate, and the structural balance would be higher throughout the horizon, since the cyclical effect dominates.

- The fiscal buffer, in turn, would be smaller under the high-growth scenario than under the baseline scenario, accumulating a total of USD 2,093 million less over the full period, as a result of the larger cyclical correction to revenues in this scenario. Under the low-growth scenario, the fiscal buffer would accumulate an additional USD 1,210 million over the forecast horizon, as a result of the higher structural revenues in this scenario.

- Finally, the different macroeconomic scenarios generate different dynamics for the gross debt in the forecast horizon (through 2028). Specifically, the optimistic scenario leads to a debt path below the baseline scenario, reaching 40.3% of GDP toward the end of the projection horizon. In contrast, the pessimistic scenario leads to gross debt of around 41.1% in 2028. It should be noted that, even if the pessimistic scenario were to materialize every year, the debt level would stabilize below the prudent level of 45.0% specified in the current Fiscal Policy Decree.