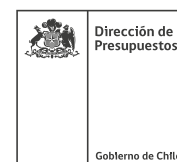


SUMMARY



UPDATE OF THE 2024 MACROECONOMIC AND FISCAL SCENARIO

- Inflationary pressures are easing at the global level. In the United States, in particular, inflation has slowed, reducing inflationary risks. As a result, the Federal Reserve began its rate-cutting cycle in September. The increased risk of recession in the United States, coupled with geopolitical tensions, political uncertainty, and more tense trade relations between the United States and China, have heightened risk aversion. This has led to a depreciation of currencies against the dollar, while increases in 10-year bond rates have moderated. Interest rates in Latin America, on the other hand, have seen a substantial increase, mainly due to Brazil. In addition, oil and food prices are at lower than they were at the close of the last report. The price of copper has declined, though it remains around USD 4.15 per pound. Finally, in the World Economic Outlook (IMF) of July 2024, the world growth forecasts for 2024 are unchanged from previous projections (3.2%).
- Domestically, economic growth is expected to recover in the second half of the year, driven by the mining sector—after the quarterly contraction recorded in the second quarter—. Growth is projected to reach 2.6% this year, with Imacec figures at the beginning of the third quarter showing a rebound in activity. The labor market continues to create jobs, and the ongoing rise in real wages will support more dynamic private consumption. Gross fixed capital formation resumed its growth path in the second quarter of this year, while public investment has continued to accelerate. The current account has returned to sustainable levels, and foreign trade is adding momentum to the economy. Financial conditions tracked the evolution of monetary policy through the first quarter of the year, although bank lending remains tighter than in previous cycles. Regarding inflation, the unfreezing of electricity tariffs should lead to a temporary increase in the coming quarters.

Table 1
2024 Macroeconomic Assumptions

	PFR 2024	PFR 3Q24
GDP (real annual change, %)	2.6	2.6
MINING GDP (real annual change, %)	6.0	6.0
NON-MINING GDP (real annual change, %)	2.1	2.2
DOMESTIC DEMAND (real annual change, %)	2.1	1.5
CPI (annual change, % average)	3.7	3.9
EXCHANGE RATE (CLP/USD, average, nominal value)	916	928
COPPER PRICE (USD cents/lb, average, LME)	430	415
WTI OIL PRICE (USD/bbl)	80	78

Note: The PFR 3Q24 update uses estimated 2024 nominal GDP of CLP \$307,312 billion and an estimated exchange rate in December 2024 of 900 pesos per dollar. The cutoff date for macroeconomic forecasts was September 6th, 2024

Source: Ministry of Finance.

- The projected macroeconomic scenario for 2024, along with the overall fiscal revenue execution for 2023 and year-to-date, forms the basis for estimating total central government revenues for 2024 at CLP 70,135,754 million. This implies a real annual increase of 5.3% relative to overall revenues in 2023, and it is CLP 452,568 million lower than the estimate in the last Public Finance Report (PFR). This adjustment is explained by the downward revision of private mining tax revenues.
- Based on the above overall revenue estimate, the forecast for cyclically adjusted revenues in 2024 is CLP 69,270,859 million. This represents a decrease of 0.3% in real terms relative to the estimate in the last PFR.
- Central government expenditures are estimated at CLP 76,195,175 million in 2024, which represents a reduction of CLP 99,765 million relative to the projected level in the last report. This update reflects additional containment efforts aimed at meeting the CAB target set for the year.
- Given these expenditure projections for 2024, together with the updated overall revenue forecast and the updated macroeconomic scenario, the overall deficit is estimated at CLP 6,059,421 million, equivalent to 2.0% 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 2024 is CLP 6,924,316 million, equivalent to 2.3% of GDP.
- **Nevertheless, the current administration will continue to make every effort to meet the current fiscal target of –1.9% of GDP, in terms of both revenues and expenditures.**

Table 2

Total Central Government: Balance, 2024

(millions of 2024 CLP and % of GDP⁽¹⁾)

		PFR 2Q24 FORECAST		PFR 3Q24 FORECAST	
		CLP MM	% OF GDP	CLP MM	% OF GDP
(1)	Total overall revenue	70,588,322	22.9	70,135,754	22.8
(2)	Total cyclically adjusted revenue	69,450,806	22.6	69,270,859	22.5
(3)	Total expenditures	76,294,940	24.8	76,195,175	24.8
(1) - (3)	OVERALL BALANCE	-5,706,618	-1.9	-6,059,421	-2.0
(2) - (3)	CYCLICALLY ADJUSTED BALANCE	-6,844,134	-2.2	-6,924,316	-2.3

(1) Projected GDP in each report.

Source: Budget Office.

- The central government's gross debt is estimated to reach USD 140,582 million by the end of the 2024 budget period, equivalent to 41.2% of overall GDP. Meanwhile, while the net financial position (NFP) is forecast at –37.5% of GDP for the same period.

UPDATE OF THE 2025 MACROECONOMIC AND FISCAL SCENARIO

- After a period of tight monetary policy, central banks in advanced economies are beginning to cut interest rates. According to the July 2024 World Economic Outlook from the IMF, global growth for 2025 is estimated at 3.3%, representing an increase of 0.1 percentage points compared to the April 2024 figure. In addition, inflation is expected to continue to decline in 2025, although inflation in the services sector is expected to remain more persistent. The outlook for commodity prices remains unchanged since the last report, with the copper price estimated at USD 4.30/lb and the oil price at USD 80.70/bbl for 2024
- Based on the 2.6% growth expected for 2024, the growth forecast for 2025 is 2.7%, a slight increase from the projection reported in the PFR for the second quarter. This reflects a higher projection for non-mining GDP growth and an unchanged mining GDP growth relative to the last report. Inflation has been adjusted downward by 0.2 percentage points relative to the previous report, to an annual average of 4.2%, while the exchange rate has been revised upward to 887 pesos per dollar. The copper and oil price forecasts are the same as in the last PFR, standing at USD 4.30 per pound and USD 81 per barrel, respectively. Overall, the current account has been adjusted downward, to a deficit of 2.3%.

Table 3
2025 Macroeconomic Assumptions

	PFR 2024	PFR 3Q24
GDP		
(real annual change, %)	2.6	2.7
MINING GDP		
(real annual change, %)	3.5	3.5
NON-MINING GDP		
(real annual change, %)	2.5	2.5
DOMESTIC DEMAND		
(real annual change, %)	3.0	3.4
CPI		
(annual change, % average)	4.4	4.2
EXCHANGE RATE		
(CLP/USD, average, nominal value)	876	887
COPPER PRICE		
(USD cents/lb, average, LME)	430	430
WTI OIL PRICE		
(USD/bbl)	81	81

Note: The PFR 3Q24 update uses estimated 2025 nominal GDP of CLP 326,761 billion and an estimated exchange rate in December 2024 of 865 pesos per dollar. The cutoff date for macroeconomic forecasts was September 6th, 2024.

Source: Ministry of Finance.

- The 2025 revenue forecast for the total central government is estimated at CLP 79,288,725 million, based on the macroeconomic scenario described above and the overall fiscal revenue forecast for 2024. This represents a real annual increase of 8.5% compared to the 2024 revenue forecast which includes projected revenues associated with the Tax Compliance Law.
- Based on the above overall revenue estimate and the methodological application of cyclical adjustments, the projection for cyclically adjusted revenues in 2025 is CLP 78,835,232 million. This represents a real annual increase of 2.8% relative to the 2024 forecast.

- Central government expenditures in the 2025 Budget Bill are projected at CLP 82,532,174 million—which represents a real growth of 2.71% relative to the 2024 Initial Bill + Adjustments and Special Laws—and are mainly focused on consolidating a social security system (public safety, health, social care, education, and investment), while also promoting social cohesion measures (culture, arts, heritage, and sports). The budget has been prepared based on the fiscal responsibility framework defined by the government, considering 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 2025, the overall deficit of the total central government is estimated at CLP 3,245,449 million, equivalent to 1.0% 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 2025 is CLP 3,696,942 million, equivalent to 1.1% of GDP. This, in turn, corresponds to the CAB target for 2025, 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 beginning of this administration.

Table 4

Total Central Government: Balance, 2025

(millions of 2025 CLP and % of GDP⁽¹⁾)

		PFR 2024 FORECAST		PFR 3Q24 FORECAST	
		(MM CLP)	(% GDP)	(MM CLP)	(% GDP)
(1)	Total overall revenues	80,887,249	24.8	79,286,725	24.3
(2)	Total cyclically adjusted revenues	77,841,706	23.8	78,835,232	24.1
(3)	Total expenditures	81,512,173	24.9	82,532,174	25.3
(1) - (3)	OVERALL BALANCE	-624,924	-0.2	-3,245,449	-1.0
(2) - (3)	CYCLICALLY ADJUSTED BALANCE	-3,670,467	-1.1	-3,696,942	-1.1

(1) Projected GDP in each report.

Source: Budget Office.

- The estimate for the central government’s gross debt at the close of the 2025 budget exercise is USD 156,122 million, equivalent to 41.3% of overall GDP for the period, while the net financial position (NFP) is forecast at -38.1% of GDP in the same period.

UPDATE OF THE MEDIUM-TERM FISCAL SCENARIO: 2026–2029

- 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 2026–2029, output forecasts indicate that non-mining GDP growth will gradually converge toward its trend level, while mining GDP growth will be stable at 3.0% a year through 2028 and then decline to 2.5% in 2029. The growth rates of consumption and gross fixed capital formation increase to 2.7% and 3.0% in 2026, respectively, converging to 2.2% and 2.0%, respectively, toward the end of the forecast horizon. The copper and oil price forecasts are USD 4.30 per pound and USD 81 per barrel, respectively, throughout the projection horizon. The exchange rate should reach 855 pesos per dollar by the end of the forecast period. The current account will record a deficit of around 2.8% in 2029.

Table 5
2026–2029 Macroeconomic Assumptions

	2026		2027		2028		2029	
	PFR 2Q24	PFR 3Q24	PFR 2Q24	PFR 3Q24	PFR 2Q24	PFR 3Q24	PFR 2Q24	PFR 3Q24
GDP (real annual change, %)	2.2	2.3	2.1	2.2	2.1	2.2	-	2.1
MINING GDP (real annual change, %)	3.0	3.0	3.0	3.0	3.0	3.0	-	2.5
NON-MINING GDP (real annual change, %)	2.1	2.2	2.0	2.1	2.0	2.1	-	2.0
DOMESTIC DEMAND (real annual change, %)	2.5	2.7	2.4	2.5	2.1	2.2	-	2.1
CPI (annual change, % average)	3.1	3.1	3.0	3.0	3.0	3.0	-	3.0
EXCHANGE RATE (CPL/USD, average, nominal value)	855	866	846	856	845	855	-	855
COPPER PRICE (USD cents/lb, average, LME)	430	430	430	430	430	430	-	430
WTI OIL PRICE (USD/bbl, average)	81	81	81	81	81	81	-	81

Note: The PFR 3Q24 update uses estimated 2026 nominal GDP of CLP 342,590 billion, estimated 2027 nominal GDP of CLP 359,148 billion, estimated 2028 nominal GDP of CLP 377,157 billion, and estimated 2029 nominal GDP of CLP 395,688 billion; and an estimated exchange rate of 860 pesos per dollar in December 2026, 852 pesos per dollar in December 2027, 851 pesos per dollar in December 2028, and 848 pesos per dollar in December 2029. The cutoff date for macroeconomic forecasts was 6 September 2024.

Source: Ministry of Finance.

- The revenue forecast for the total central government in the 2026–2029 period considers the macroeconomic scenario described above, the inclusion of revenues associated with the Tax Compliance Law, royalties, the Codelco-SQM agreement, 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 2026–2029 period are based on the committed expenditures outlined in the PFR for the 2025 Budget Bill. Specifically, the updated expenditure of the total central government shows an increase of 0.6% in 2026, relative to the 2025 Budget Bill; and real increases of 2.1% in 2027, relative to the 2025 forecast, 1.7% in 2028, and 0.4% in 2029. 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, 2026–2029**

(millions of 2025 CLP and % of GDP)

	2026	2027	2028	2029
(1) Total overall revenues	81,874,068	83,903,378	86,277,435	87,420,627
(2) Total committed expenditures	83,008,665	84,764,766	86,214,635	86,553,748
(3) Cyclically adjusted revenues	81,077,315	83,103,888	85,361,507	86,522,438
(4) CAB TARGET (% OF GDP)	-0.5	-0.5	-0.25	0.0
(5) Spending level compatible with the target	82,739,188	84,795,341	86,223,772	86,522,438
(6) Buffer: Difference in expenditure (5)–(2)	-269,477	30,575	9,137	-31,310
(7) Difference in expenditure (USD MM)	-321	38	12	-41
(8) Difference in expenditure (% of GDP)	-0.1	0.0	0.0	-0.0
(9) OVERALL BALANCE COMPATIBLE WITH THE TARGET (1)–(5) (% OF GDP)	-0.3	-0.3	0.0	0.3

Source: Budget Office.

- Thus, the current PFR estimates that the central government's gross debt, consistent with the structural balance target, will be USD 179,032 million by the end of 2029, equivalent to 38.9% of estimated GDP for that year, while the net financial position is projected at -35.6% of GDP in the same period.

Table 7**Total Central Government: Net Financial Position, Year-end 2026–2029**

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

	2026		2027		2028		2029	
	(USD MM)	(% OF GDP)	(USD MM)	(% OF GDP)	(USD MM)	(% OF GDP)	(USD MM)	(% OF GDP)
Total Public Treasury assets	13,525	3.4	14,070	3.4	14,675	3.3	15,307	3.3
Total gross debt	164,999	41.4	170,724	40.9	176,973	40.4	179,032	38.9
Net financial position	-151,474	-38.0	-156,654	-37.5	-162,298	-37.0	-163,725	-35.6

Source: Budget Office.

- Additionally, this PFR continues to institutionalize the use of alternative medium-term scenarios, in line with international best practices, in order to assess 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 0.12 percentage points a year, on average, over the forecast horizon, turning to a surplus in 2028. The structural balance forecast, in turn, would deteriorate 0.01 percentage points a year, on average. In contrast, under the low-growth scenario, the overall balance would deteriorate around 0.12 percentage points of GDP, on average, throughout the projection horizon, while the structural balance would improve 0.09 percentage points a year, on average. Additionally, the fiscal buffers would be lower than the baseline in 2026 and 2027 under the optimistic scenario, but higher in the subsequent two years; the reverse is found in the pessimistic scenario. Under the high-growth scenario, the total fiscal buffer would be -USD 67 million less than projected in the baseline scenario; under the low-growth scenario, a total additional fiscal buffer of USD 1,437 million would be accumulated in the full period, but the buffer would be close to 0 in 2028 and 2029.

- In this way, the different macroeconomic scenarios proposed lead to varying debt dynamics over the estimated horizon (until 2028), but all of them comply with the commitment to keep the gross debt level below the prudent threshold of 45.0% of GDP. Specifically, the optimistic scenario leads to a debt trajectory below the baseline scenario, reaching 38.0% of GDP by the end of the projection horizon. Conversely, the pessimistic scenario implies gross debt around 40.1% of GDP by 2029.

MONITORING AND EVALUATION SYSTEM

- In the area of program evaluation, this PFR presents the recommendations of the Government Program Evaluation (GPE) finalized in 2024 (ex post evaluation). Eight evaluations were performed, covering ten public programs. Of these, two evaluations were rated as “Moderate Performance;” one, “Low Performance;” and five, “Poor Performance.” Regardless of the budgetary impact, 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 Budget Office.
- In the framework of the 2025 round, the ex ante evaluation process was recently completed. This year, 128 programs were reviewed, including 44 nonsocial and 84 social programs. In terms of the results of the process, 68% of all the programs evaluated received a Favorable Recommendation, which represents an increase in favorably assessed programs relative to previous years (58% of programs received a FR in 2023).
- 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 determine the budget. Nevertheless, the 2025 budget proposal considers an average reduction of 5.0% in the resources allocated under the 2025 Budget Bill to a set of 119 programs with design and/or performance weaknesses. For programs with a good evaluation or at least without conditional observations, the budget proposal considers an average increase of 6% in 2025 relative to the resources allocated in 2024.

INSTITUTIONAL ADVANCES IN FISCAL AND BUDGET TRANSPARENCY A

- As part of the incremental development of the Better Spending Agenda by the Budget Office, this year efforts are focused on gradually advancing an agenda that aims to: (a) improve the quantity and quality of disclosed information; (b) strengthening institutions and instruments that enhance accountability; (c) creating participatory spaces to refine assessments and improve communication and dissemination tools, with the goal of increasing the relevance, understanding, and usability of the information provided; and (d) generate instruments and initiatives in the context of the monitoring and evaluation system that facilitate measuring public spending effectiveness and generating efficiency gains.