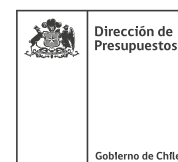


SUMMARY



UPDATE OF THE 2022 MACROECONOMIC AND FISCAL SCENARIO

- Following a rapid, historic global economic recovery, growth rates are expected to slow in 2022, as economies face a high basis of comparison, the withdrawal of the fiscal stimulus, a higher inflation outlook, and a tightening of monetary policies.
- The Chilean economy is expected to undergo a correction, following the macroeconomic imbalances caused by the health crisis. In this context, fiscal policy will contribute through the normalization of public spending after the extraordinary stimulus applied in 2021, returning to levels compatible with the pre-pandemic period. This will occur in conjunction with the withdrawal of the monetary stimulus by the Central Bank.
- In the 2022 scenario, private consumption has been somewhat more resilient than anticipated, but its fundamentals point to a sharp deterioration toward the second half of the year, which will bring it to around trend levels. Specifically, household liquidity has declined significantly thus far in the year, which will lead to a reduction in the consumption rate. Additionally, the annual growth rate of real wages has fallen substantially due to high inflation, and lending conditions are less favorable for consumer loans, in line with the pass-through of the increases in the benchmark interest rate.
- Inflation, in turn, has broadly exceeded private expectations in the year to date, putting increasing cost pressure on commodity prices, wages, transport costs, etc. At the same time, inflation expectations are above the Central Bank's 3% target for 2022 and 2023. The main causes of the upward trend in recent months are external factors, such as the significant increase in fuel and food prices (due to the war in Ukraine), the intensification of cost pressures deriving from the disruptions in the global supply chain, and a more depreciated exchange rate relative to the same period last year.

Table 1
2022 Macroeconomic Assumptions

	FPR Q1 2022	FPR Q2 2022
GDP (annual change, %)	1.5	1.6
NON-MINING GDP (annual change, %)	-	2.3
DOMESTIC DEMAND (annual change, %)	-1.0	1.3
CPI (annual change, % average)	8.9	11.1
EXCHANGE RATE (CLP/USD, average, nominal value)	811	854
COPPER PRICE (USD cents/lb, average, LME)	445	419
WTI OIL PRICE (USD/bbl)	95	102

Source: Finance Ministry.

- The 2022 revenue forecast for the total central government is estimated at CLP 63,864,237 million, based on the projected macroeconomic scenario for the year and the execution of overall fiscal revenues in 2021 and thus far in 2022. This implies real annual growth of 0.2% relative to overall revenues in 2021¹ and is CLP 6,421,982 million higher than estimated in April 2022, in the PFR for the first quarter. The difference is primarily explained by a higher forecast for non-mining tax revenues, due to higher revenues from income tax returns in 2022 (for the 2021 fiscal year), given that real data were not available for the last report.
- Based on the above overall revenue estimate, the forecast for cyclically adjusted revenues in 2022 is CLP 60,441,964 million. This represents an increase of 13.9% in real terms relative to the estimate presented in the Public Finance Report (PFR) for the first quarter of 2022.
- Central Government expenditures are projected at CLP 63,999,214 million in 2022, which represents an increase of CLP 2,176,015 million relative to expenditures presented in the last report. This update reflects the implementation of measures to continue facing the effects of the current health and economic crisis caused by the COVID-19 pandemic, as well as adjustments for the exchange rate and changes in interest expense.
- Thus, taking the new 2022 expenditure forecast and the updated overall income estimates, together with the updated macroeconomic scenario, the overall deficit is estimated at CLP 134,977 million, equivalent to 0.1% of projected GDP for this year. This fiscal deficit is 1.6 pp of GDP higher than estimated in the last report, and it represents the lowest overall deficit since 2013.
- In the framework of the structural balance rule, after making the cyclical adjustments to overall income, the projected cyclically adjusted deficit for 2022 is CLP 3,557,250 million, equivalent to 1.3% of GDP. This is 2.0 pp lower than the structural balance estimated in the last FPR, and it is within the guidelines delineated in Finance Ministry Decree N°755 of 2022, which establishes the bases for fiscal policy. Specifically, the decree identifies a structural deficit target of 3.3% of GDP 2022, to reach 0.3% in 2026. This is a favorable outcome, in line with the commitment to begin the process of normalizing public finances to ensure their sustainability.

Table 2

Total Central Government: Balance, 2022

(millions of 2022 CLP and % of GDP)

		PFR Q1 2022 FORECAST		PFR Q2 2022 FORECAST	
		CLP MM	% OF GDP	CLP MM	% OF GDP
(1)	Total overall revenues	57,442,256	21.7	63,864,237	24.1
(2)	Total cyclically adjusted revenues	53,061,611	20.0	60,441,964	22.8
(3)	Total expenditures	61,823,200	23.4	63,999,214	24.1
(1) - (3)	OVERALL BALANCE	-4,380,944	-1.7	-134,977	-0.1
(2) - (3)	STRUCTURAL BALANCE	-8,761,589	-3.3	-3,557,250	-1.3

(1) GDP forecast in each report.

Source: Dipres.

¹ This growth incorporates the effects of the tax measures implemented during the pandemic (both with and without automatic reversal). If these measures are discounted, the projected growth for 2022 is 4.3% in real annual terms.

UPDATE OF THE MEDIUM-TERM MACROECONOMIC AND FISCAL SCENARIO: 2023–2026

- The medium-term scenario considers an economic contraction of 0.1% in 2023, versus slight growth of 0.4% in the last FPR. This correction reflects more resilient domestic demand than expected for 2022, which generates a higher comparison base. Another key factor is the normalization of private consumption toward levels more consistent with its trend and fundamentals, due to the drying up of liquidity, tighter financial conditions, and higher inflation. Between 2024 and 2026, growth will be around 3.0%, closing the gap with trend GDP. In this period, domestic demand is expected to gradually return to growth rates comparable to the pre-pandemic average.
- The copper price is expected to converge to its long-term level more quickly than forecast in the last FPR. The nominal exchange rate will be above CLP 800 to the dollar for most of the forecast horizon.
- Finally, the medium-term scenario assumes that inflation will peak in annual terms in the third quarter of this year. It will then quickly converge to the Central Bank's target in the fourth quarter of 2023 and stay around 3.0% through the end of the forecast horizon.

Table 3
Macroeconomic Assumptions, 2023–2026

	2023		2024		2025		2026	
	PFR 1Q22	PFR 2Q22	PFR 1Q22	PFR 2Q22	PFR 1Q22	PFR 2Q22	PFR 1Q22	PFR 2Q22
GDP (annual change, %)	0.4	-0.1	3.0	3.1	3.0	3.0	3.0	3.0
NON-MINING GDP (annual change, %)	-	-1.4	-	3.0	-	2.9	-	2.9
DOMESTIC DEMAND (annual change, %)	-1.0	-4.0	2.2	3.2	2.9	3.0	2.8	3.0
CPI (annual change, % average)	3.6	5.4	3.0	3.0	3.0	3.0	3.0	3.0
EXCHANGE RATE (CLP/USD, average, nominal value)	786	836	768	810	754	794	745	783
COPPER PRICE (USD cents/lb, average, LME)	424	392	403	387	383	378	370	371
WTI OIL PRICE (USD/bbl)	82	87	75	75	72	72	73	72

Source: Finance Ministry.

- The revenue forecast for the Total Central Government in the 2023–2026 period considers the macroeconomic scenario described above, the current tax structure, changes in tax revenue 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 2023–2026 period are based on the committed expenditures outlined in the PFR for the 2022 Budget Law, plus the estimated expenditures included in the Financial Reports on new bills or Instructions on bills that were sent to Congress for discussion between September 2021 and June 2022.
- Taking all these factors into account, the updated expenditure of the Total Central Government presents an increase of 1.5% in 2023, relative to the Budget Law approved for 2022; a real increase of 1.0% in 2024, relative to the 2023 forecast; and real increases of 1.7% in 2025 and 0.8% in 2026. Relative to the estimates for each year used in the preparation of the PFR that accompanied the 2022 Budget Bill, the updated expenditures increase 2.2% in 2023; 1.5% in 2024; 1.5% in 2025; and 1.4% in 2026.

Table 4
Total Central Government: Balances, 2023–2026

(millions of 2022 CLP and % of GDP)

	2023	2024	2025	2026
(1) Total overall revenues	60,063,908	63,432,262	65,624,808	66,552,762
(2) Total committed expenditure	61,578,175	62,165,620	63,228,618	63,750,890
(3) Cyclically adjusted revenues	59,981,855	63,808,170	66,278,634	67,544,700
(4) CAB TARGET (% OF GDP)	-2.6	-1.8	-1.1	-0.3
(5) Spending level compatible with the target	66,692,018	68,677,890	69,201,166	68,420,957
(6) Buffer: Difference in expenditure (5)–(2) (2022 CLP MM)	5,113,843	6,512,270	5,972,548	4,670,068
(7) Difference in expenditure (USD MM)	6,444	8,723	8,407	6,865
(8) Difference in expenditure (% of GDP)	2.0	2.4	2.2	1.7
(9) OVERALL BALANCE COMPATIBLE WITH THE TARGET (1)–(5) (% OF GDP)	-2.5	-1.9	-1.3	-0.7

Source: Dipres.

- Thus, the current PFR estimates that the central government's gross debt, consistent with the structural balance target, will be USD 179,036 million at year-end 2026, equivalent to 43.1% of GDP, while the net financial position is forecast at –38.8% of GDP in the same period.

Table 5
Total Central Government: Net Financial Position, Year-end 2023–2026

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

	2023		2024		2025		2026	
	USD MM	% GDP	USD MM	% GDP	USD MM	% GDP	USD MM	% GDP
Total Public Treasury assets	18,562	5.6	17,964	5.0	17,817	4.6	17,703	4.3
Total gross debt	133,505	40.4	150,241	41.7	165,588	42.7	179,036	43.1
Net financial position	-114,943	-34.8	-132,277	-36.7	-147,771	-38.1	-161,332	-38.8

Source: Dipres.

- Finally, 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.
- The different macroeconomic scenarios generate different dynamics for the gross debt in the forecast horizon, but they all comply with the commitment to keep the gross debt below the prudent level of 45.0% of GDP. Specifically, the optimistic scenario leads to a debt path under the baseline scenario, reaching 42.7% of GDP toward the end of the projection horizon. In contrast, the pessimistic scenario leads to gross debt of around 43.4% by late 2026.

