SUMMARY

Dirección de Presupuestos

Gobierno de Chile

UPDATE OF THE 2022 MACROECONOMIC AND FISCAL SCENARIO

Recent output data show that the slowdown of the world economy is still ongoing, in a context of historically high inflation. At the same time, monetary policy continues to be adjusted upward worldwide, which has deteriorated global financial conditions. For the rest of the year, various economic sentiment indicators anticipate a sharper economic slowdown in the coming quarters. In this context, growth forecasts for this year have once again been revised downward.

The national accounts for the second quarter of 2022 confirm that economic activity is moving back toward trend levels, following the large macroeconomic imbalances of 2021. In addition, the adjustment of private consumption is in line with the evolution of its fundamentals; household liquidity levels continue to decline significantly, following the end of the pension fund withdrawals; real wages have contracted sharply since the middle of last year; the real exchange rate has depreciated and is currently the lowest since 1990; and financial conditions have become less favorable for consumer loans, with tighter supply and weaker demand.

The contraction in fiscal spending is underway, which, in conjunction with monetary policy, will contribute to reestablishing macroeconomic equilibrium and inflation convergence. Thus far in 2022, real fiscal expenditures have decreased significantly relative to the previous year, while the government has focused on targeting support to groups made more vulnerable by the COVID-19 crisis and taking measures to mitigate the increase in the cost of living.

Finally, inflation expectations remain above the Central Bank's 3% target and have continued to rise in the face of upside surprises in the inflation data reported in recent months, mainly due to the sharp year-on-year increase in food, energy, and air transport prices, combined with the exchange rate depreciation. Thus, the Central Bank has continued to tighten its monetary policy, a process started in the middle of last year, raising the rate to 10.75% at the September Monetary Policy Meeting.

2022 Macroeconomic Assumptions

	FPR Q2 2022	FPR Q3 2022
GDP (real annual change, %)	1.6	2.2
NON-MINING GDP (real annual change, %)	2.3	2.9
DOMESTIC DEMAND (real annual change, %)	1.3	2.0
CPI (annual change, % average)	11.1	11.7
EXCHANGE RATE (CLP/USD, average, nominal value)	854	864
COPPER PRICE (USD cents/lb, average, LME)	419	398
WTI OIL PRICE (USD/bbl)	102	96

Source: Finance Ministry.

The 2022 revenue forecast for the total central government is estimated at CLP 68,157,348 million, based on the projected macroeconomic scenario for the year and the execution of overall fiscal revenues in 2021 and the current year to date. This implies real annual growth of 6.3% relative to overall revenues in 2021, and it is CLP 4,293,110 million higher than estimated in the last Public Finance Report (PFR). The difference is primarily explained by the recognition of a higher forecast for non-mining tax revenues, due to higher income tax and value added tax (VAT); and by higher property income received by Corfo, deriving from lithium exploitation contracts with SQM and Albemarle.

Based on the above overall revenue estimate, the forecast for cyclically adjusted revenues in 2022 is CLP 66,367,650 million. This represents an increase of 9.8% in real terms relative to the estimate presented in the last PFR.

Central Government expenditures are projected at CLP 63,957,492 million in 2022, which represents a decrease of CLP 41,723 million relative to expenditures presented in the last report. This update reflects an adjustment in the gross debt stock for the year, due to lower issues (USD 2,000 million less than estimated in the last PFR) and the possibility of buybacks, with a charge to Treasury assets.

Thus, taking the new 2022 expenditure forecast and the updated overall income estimates, together with the updated macroeconomic scenario, an overall surplus is estimated at CLP 4,199,856 million, equivalent to 1.6% of projected GDP for this year. This fiscal surplus is 1.6 pp of GDP higher than estimated in the last report, and it represents the first overall surplus since 2012.

In the framework of the structural balance rule, after making the cyclical adjustments to overall income, the projected cyclically adjusted surplus for 2022 is CLP 2,410,158 million, equivalent to 0.9% of GDP. This represents an improvement of 2.2 pp relative to the structural balance estimated in the last FPR, and 4.2 pp relative to 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 in 2022, to reach 0.3% in 2026.

The significant increase in revenues recorded this year should be analyzed from a fiscal responsibility perspective, to the extent that the recent evolution could potentially be explained by temporary components that are not being captured under the current revision methodology. Thus, the 2023 Budget Bill was prepared taking this possibility into account, consolidating the government's commitment to the responsible management of public finances and to maintaining a sustainable convergence path, in line with the stipulations of the Fiscal Policy Decree.

Total Central Government: Balance, 2022

(millions of 2022 CLP and % of GDP) (1)

		PFR Q2 2022 FORECAST		PFR Q3 2022 FORECAST	
		CLP MM	% OF GDP	CLP MM	% OF GDP
(1)	Total overall revenues	63,864,237	24.1	68,157,348	25.6
(2)	Total cyclically adjusted revenues	60,441,964	22.8	66,367,650	24.9
(3)	Total expenditures	63,999,214	24.1	63,957,492	24.0
(1) - (3)	**OVERALL BALANCE**	**−134,977**	**−0.1**	**4,199,856**	**1.6**
(2) - (3)	**STRUCTURAL BALANCE**	**−3,557,250**	**−1.3**	**2,410,158**	**0.9**

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

UPDATE OF THE 2023 MACROECONOMIC AND FISCAL SCENARIO

The consequences of the shocks faced by the world economy in 2022, after emerging from the COVID-19 crisis, will have repercussions through 2023, so the country's external stimulus will remain low in the coming quarters. The main highlights faced this year include the following: (i) high and persistent global inflation; (ii) tighter global financial conditions, in the context of a synchronous increase in monetary policy rates among countries; (iii) the slowdown of growth in China, following the implementation of confinement measures to contain COVID-19; and (iv) the Russian invasion of Ukraine, which will continue to contribute to the world economic slump.

Thus, an annual contraction of –0.5% is forecast for 2023, versus –0.1% in the last PFR. This reflects lower growth of mining GDP, due to Codelco's new production plans; for non-mining growth, a drop of –1.3% is projected, which is slightly smaller than the previous forecast. Additionally, domestic demand will contract 4.1%, similar to the estimate in the last PFR, but with an important difference in the evolution of its components: total consumption will fall more sharply, after demonstrating greater resilience mainly in the first half of 2022, which will be offset by a smaller contraction in investment.

Inflation and the exchange rate have both been revised upward. Internationally, the economic stimulus will be less favorable, with lower exports than previously forecast, which will not be offset by the greater estimated drop in imports. Additionally, the terms of trade have worsened, where the slight decrease in the oil price is not sufficient to offset the greater-than-expected drop in the copper price. This implies a smaller current account deficit than in 2022.

2023 Macroeconomic Assumptions

	FPR Q2 2022	FPR Q3 2022
GDP (real annual change, %)	-0.1	-0.5
NON-MINING GDP (real annual change, %)	-1.4	-1.3
DOMESTIC DEMAND (real annual change, %)	-4.0	-4.1
CPI (annual change, % average)	5.4	6.3
EXCHANGE RATE (CPI/USD, average, nominal value)	836	868
COPPER PRICE (USD cents/lb, average, LME)	392	362
WTI OIL PRICE (USD/bbl)	87	84

Source: Finance Ministry.

The 2023 revenue forecast for the total central government is estimated at CLP 63.222.451 million, based on the projected macroeconomic scenario for the year and the execution of overall fiscal revenues in 2022. This implies a real annual reduction of 12.7% relative to overall revenues in 2022. The difference is primarily explained by a projected decline in non-mining tax revenues, in line with the updated GDP and domestic demand forecasts for the year.

Based on the above overall revenue estimate, the forecast for cyclically adjusted revenues in 2023 is CLP 64,904,708 million. This represents a decrease of 8.0% in real terms relative to the estimate for 2022.

Central Government expenditures, corresponding to the 2023 Budget Bill, are projected at CLP 70,828,326 million—which represents real annual growth of 4.2%—and are mainly focused on economic, civic, and social security. The budget has been prepared based on the fiscal responsibility framework defined by government, taking into account 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.

Thus, taking the 2023 expenditure forecast and the updated overall income estimates, together with the updated macroeconomic scenario, an overall deficit is estimated at CLP 7,605,875 million, equivalent to 2.7% of projected GDP. This fiscal deficit is 0.2 pp of GDP higher than estimated in the last PFR.

In the framework of the structural balance rule, after making the cyclical adjustments to overall income, the projected cyclically adjusted deficit for 2023 is CLP 5,923,618 million, equivalent to 2.1% of GDP. This is 0.5 pp lower than the structural deficit estimated in the last PFR, and it remains in line with both the forecast in the PFR for the first quarter of 2022 and the fiscal path established in Finance Ministry Decree N°755 of 2022. Specifically, the decree establishes a structural deficit target of 3.3% of GDP in 2022, to reach 0.3% in 2026. This represents a favorable result, which fulfills the commitment to begin the process of normalizing public finances in order to ensure sustainability.

Total Central Government: Balance, 2023

(millions of 2023 CLP and % of GDP) [1]

		PFR Q2 2022 FORECAST		PFR Q3 2022 FORECAST	
		CLP MM	% OF GDP	CLP MM	% OF GDP
(1)	Total overall revenues	63,847,934	22.9	63,222,451	22.6
(2)	Total cyclically adjusted revenues	63,760,712	22.9	64,904,708	23.2
(3)	Total expenditures	70,893,615	25.4	70,828,326	25.4
(1) - (3)	**OVERALL BALANCE**	**−7,045,681**	**−2.5**	**−7,605,876**	**−2.7**
(2) - (3)	**STRUCTURAL BALANCE**	**−7,132,903**	**−2.6**	**−5,923,618**	**−2.1**

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

UPDATE OF THE MEDIUM-TERM FISCAL SCENARIO: 2024–2027

The medium-term scenario considers that the economy will gradually return to its trend growth level, although non-mining GDP will remain slightly below trend until the end of the forecast horizon. Specifically, output will grow 3.2% in 2024, versus an estimate of 3.1% in the last PFR. In detail, while the growth forecast for domestic demand is the same, the change in composition between consumption and investment projected for 2023 is expected to hold in 2024, so the year will record lower growth of private consumption, relative to the last forecast, which will be offset by a faster recovery of investment.

Between 2025 and 2027, total GDP and non-mining GDP will grow around 3.0% in 2025 and 2.4% and 2.3%; respectively, at the end of the forecast period. Thus, the non-mining GDP gap will reflect a degree of excess capacity in the medium term, as a result of the magnitude of the impact of the COVID-19 crisis on output and the lower dynamism projected for the economy in 2022–2023.

The copper price is expected to converge toward its long-term level faster than projected in the last PFR. The nominal exchange rate will be above 780 pesos to the dollar throughout the forecast horizon.

Finally, the scenario assumes that inflation will peak in annual terms in the third quarter of this year, to then begin a fast converge to the Central Bank's target (3.0%), which will be reached in the second quarter of 2024. Inflation will then remain at 3.0% until the end of the forecast horizon.

2024–2027 Macroeconomic Assumptions

	2024		2025		2026		2027	
	PFR 2Q22	PFR 3Q22	PFR 2Q22	PFR 3Q22	PFR 2Q22	PFR 3Q22	PFR 2Q22	PFR 3Q22
GDP (real annual change, %)	3.1	3.2	3.0	3.1	3.0	2.8	-	2.4
NON-MINING GDP (real annual change, %)	3.0	3.2	2.9	2.9	2.9	2.7	-	2.3
DOMESTIC DEMAND (real annual change, %)	3.2	3.2	3.0	2.8	3.0	2.7	-	2.6
CPI (annual change, % average)	3.0	3.1	3.0	3.0	3.0	3.0	-	3.0
EXCHANGE RATE (CPL/USD, average, nominal value)	810	836	794	805	783	787	-	780
COPPER PRICE (USD cents/lb, average, LME)	387	380	378	388	371	394	-	407
WTI OIL PRICE (USD/bbl)	75	79	72	80	72	81	-	83

Source: Finance Ministry.

The revenue forecast for the total central government in the 2024-2027 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 2024–2027 period are based on the committed expenditures outlined in the PFR for the 2023 Budget Law. The updated expenditure of the total central government presents an increase of 1.7% in 2024, relative to the Budget Bill approved for 2023; and real increases, relative to the 2024 forecast, of 0.4% in 2025; 0.3% in 2026; and 0.0% in 2027.

Total Central Government: Balance, 2024–2027

(millions of 2023 CLP and % of GDP)

		2024	2025	2026	2027
(1)	Total overall revenues	69,492,401	72,096,596	73,605,727	74,933,251
(2)	Total committed expenditure	72,013,266	72,334,564	72,573,761	72,599,275
(3)	Cyclically adjusted revenues	70,520,881	72,401,005	73,170,790	74,104,771
(4)	**CAB TARGET (% OF GDP)**	**−1.8**	**−1.1**	**−0.3**	**0.0**
(5)	SPENDING LEVEL COMPATIBLE WITH THE TARGET	75,747,950	75,547,378	74,114,691	74,104,771
(6)	BUFFER: DIFFERENCE IN EXPENDITURE (5)–(2) (2022 CLP MM)	3,734,684	3,212,814	1,540,930	1,505,496
(7)	DIFFERENCE IN EXPENDITURE (USD MM)	4,603	4,238	2,141	2,174
(8)	DIFFERENCE IN EXPENDITURE (% OF GDP)	1.3	1.1	0.5	0.5
(9)	**OVERALL BALANCE COMPATIBLE WITH THE TARGET (1)–(5) (% OF GDP)**	**−2.2**	**−1.2**	**−0.2**	**0.3**

Source: Dipres.

Thus, the current PFR estimates that the central government's gross debt, consistent with the structural balance target, will be USD 175,105 million at year-end 2027, equivalent to 38.9% of estimated GDP for that year, while the net financial position is forecast at –35.4% of GDP in the same period.

Total Central Government: Net Financial Position, Year-end 2024–2027

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

	2024		2025		2026		2027	
	USD MM	% OF GDP	USD MM	% OF GDP	USD MM	% OF GDP	USD MM	% OF GDP
Total Public Treasury assets	16,478	4.6	16,297	4.2	16,063	3.8	15,820	3.5
Total gross debt	143,288	40.3	160,432	41.0	173,157	40.9	175,105	38.9
NET FINANCIAL POSITION	**−126,809**	**−35.6**	**−144,135**	**−36.8**	**−157,094**	**−37.1**	**−159,285**	**−35.4**

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 evolution of 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 37.3% of GDP toward the end of the projection horizon. In contrast, the pessimistic scenario leads to gross debt of around 40.3% of GDP in 2027.

MANAGEMENT CONTROL AND EVALUATION SYSTEM

In the area of program evaluation, this PFR presents a summary of the results of the Government Program Evaluation (GPE) finalized in 2022 (ex post evaluation). Over the course of the first half, seven evaluations were performed, covering eight public programs. Of the eight programs evaluated, one was rated as “Good Performance;” one, “Average Performance;” three, “Low Performance;” and three, “Poor Performance.” Independently of their budgetary effect, 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 Dipres.

In the framework of the 2023 round, the ex ante evaluation process was recently completed. This year, 182 programs were reviewed, including 77 nonsocial and 105 social programs. In terms of the results of the process, 56% of the programs evaluated received a Favorable Recommendation, which is below the average of the last three years (62%). This result is conditioned by the fact that only 42% of the new programs achieved an adequate design.

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 lead to a reduction in the budget. Nevertheless, the 2023 budget proposal considers a general reduction of 4.8% in the resources allocated to 70 programs with a poor evaluation. For programs with a good evaluation or that at least had no implementation observations, the budget proposal considers an accumulated increase of 6% in 2023 relative to the resources allocated in 2022.

INSTITUTIONAL ADVANCES AND FISCAL AND BUDGET TRANSPARENCY

The Budget Office has been steadily working on an agenda aimed at three goals: (a) improving the quantity and quality of the information it releases; (b) consolidating institutions and instruments that contribute to increasing accountability; and (c) creating spaces for participation that allow fine-tuning diagnoses and perfecting communication and diffusion tools, in order to increase the relevance of the information published and maximize its understanding and use.

First, this report describes the progress made on implementing the recommendations of the Public Spending Commission, as well as the slight improvement obtained in the last round of the Open Budget Survey conducted by the International Budget Partnership. Second, in the area of accountability, the report highlights the plan to expand the functions of the Independent Fiscal Council, as well as the new structure and objectives of the National Evaluation and Productivity Commission, which will now supervise the government monitoring and evaluation system. Third, in terms of citizen participation, the report describes the recent formation of the Civil Society Council within the Budget Office. The objective is to advance, with the support of other organizations, on the delivery of information on the National Budget, fiscal policy, and the efficiency of public management. More specifically, the objective includes expanding the provision of available data, improving the format, facilitating understanding, and promoting the use thereof.