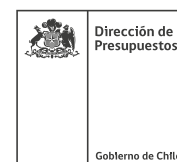# SUMMARY PUBLIC FINANCE REPORT Q4 2022

PRELIMINARY CLOSING OF THE 2022 FISCAL SCENARIO

The year 2022 was marked by the Russian invasion of Ukraine and the repeated lockdowns in China, which affected world output, commodity prices, and global inflation. Some of these factors have started to ease since the last Public Finance Report (PFR). In particular, in the case of commodities, food and fuel prices have declined. Additionally, while world inflation remains at historically high levels, there are signs of stabilization at the margin. Nevertheless, the year left the global economy with worse fundamentals, including historically high inflation, a deterioration of real wages, and tight financial conditions despite a degree of loosening. These conditions have reduced world economic activity and the growth outlook. In this sense, the recent economic indicators continue to point to a weakening of global output. The LATAM economies, in turn, have proven to be resilient, continuing along their recovery path from the COVID-19 crisis, although in most cases activity was more moderate than in 2021.

The Chilean economy continues the process of correcting the macroeconomic imbalances that built up during the pandemic, although the adjustment has been less severe than anticipated. In 2021, while the Chilean economy recovered quickly from the pandemic-induced crisis, this recovery was underpinned by massive fiscal transfers and three pension fund withdrawals, which together added substantial liquidity to the economy. The accelerated reactivation was thus led by rapid growth of private consumption, which overheated the economy and generated macroeconomic imbalances that were primarily expressed in a large current account imbalance, a significant deterioration of the fiscal accounts, and strong demand pressure on prices. Faced with this scenario, the Central Bank provided a quick and timely response, while the new government implemented a strong fiscal consolidation. The government also began to implement a new fiscal policy framework that complements the cyclically adjusted balance (CAB) with a gross debt rule establishing a prudent debt level for the central government, at 45% of GDP.

Table 1
2022 Macroeconomic Assumptions

	PFR 3Q22	PFR 4Q22
GDP (real annual change, %)	2.2	2.6
MINING GDP (real annual change, %)		
NON-MINING GDP (real annual change, %)	-1.9	-3.1
DOMESTIC DEMAND (real annual change, %)	2.9	3.6
CPI (annual change, % average)	2.0	2.7
EXCHANGE RATE (CPL/USD, average, nominal value)	11.7	11.6
COPPER PRICE (USD cents/lb, average, LME)	864	872
WTI OIL PRICE (USD/bbl)	398	399
	96	94

Note: PFR 4Q22 updated using an estimated 2022 nominal GDP of CLP 267,202,792 million. The cutoff date for macroeconomic forecasts was 18 January 2023.
Source: Ministry of Finance.

In the fiscal arena, total central government revenues in 2022 grew 6.3% in real annual terms, reaching a total of CLP 68,133,281 million, equivalent to 25.5% of GDP. This result is explained by higher income from net tax revenues (NTR), particularly non-mining tax revenues. However, this result is CLP 24,066 million less than estimated in October, due to a downward revision of net tax revenues and gross copper revenues (Codelco), which was almost entirely offset by the increase in other revenue components, especially property income.

Thus, net tax revenues were CLP 55,407,520 million in 2022, representing real annual growth of 9.6%. The increase breaks down into 8.6% real annual growth in non-mining revenues and 23.7% in private mining tax revenues, due to significantly higher income tax payments in the annual income tax returns filed in the months of April and May (as a result of the high copper price last year) and lower tax refunds in the Payments System. Additionally, property income grew 503.0% in real annual terms due to an increase in Corfo's revenues, which is associated with the sale of lithium under current exploitation contracts with SQM and Albemarle. To a lesser extent, donations (47.4% real) and the sale of fixed assets (114.4% real) also increased. Finally, social security contributions, operating income, and other revenue decreased relative to 2021, by 17.7%, 18.7%, and 4.0%, respectively.

Table 2
Total Central Government: Revenues, 2022
(millions of 2022 CLP, % real annual change, and % of GDP)

CLP MM	REAL ANNUAL CHANGE (%)	% OF GDP	% DEL PIB
TRANSACTIONS AFFECTING NET WORTH	**68,106,707**	**6.3**	**25.5**
Net tax revenues	55,407,520	9.6	20.7
Private mining taxes	3,976,549	23.7	1.5
Other taxes	51,430,971	8.6	19.2
Gross copper (Codelco)	1,962,554	−60.1	0.7
Social security contributions	2,585,421	−17.7	1.0
Donations	163,519	47.4	0.1
Property income	3,641,665	503.0	1.4
Operating income	1,166,147	−18.7	0.4
Other revenues	3,179,882	−4.0	1.2
TRANSACTIONS IN NONFINANCIAL ASSETS	**26,574**	**114.4**	**0.0**
Sale of fixed assets	26,574	114.4	0.0
TOTAL	**68,133,281**	**6.3**	**25.5**

Source: Dipres.

Given the adjustment in the macroeconomic scenario and based on the structural parameters provided by the Expert Committees in their August 2021 meetings, cyclically adjusted revenues are estimated at CLP 65,622,719 million for 2022. This reflects a downward revision relative to the estimate in the last PFR, mainly due to the effect of lower structural income from non-mining tax revenues (other taxes), gross copper, and private mining tax revenues.

Total central government expenditures, in turn, declined 23.1% in real terms in 2022 relative to the previous year, for a total of CLP 65,173,898 million, equivalent to 24.4% of estimated 2022 GDP. Additionally, central government budget expenditures had an execution of CLP 65,155,888 million in December, representing a reduction of 23.1% relative to 2021. The contraction in budget expenditures breaks down into a 26.3% real annual decrease in current expenditures (transactions affecting net worth) and a 4.7% real annual expansion of capital expenditures (transactions in nonfinancial assets).

Table 3

Total Central Government: Expenditures, 2022

(millions of 2022 CLP, % real change, and % of GDP)

	PFR 3Q22 FORECAST (1)	PFR 4Q22 PRELIMINARY CLOSING (2)	DIFFERENCE PFR 4Q22 PRELIMINARY CLOSING – PFR 3Q22 FORECAST (3) = (2) - (1)	2022 EXECUTION	
	CLP MM	CLP MM	CLP MM	REAL ANNUAL CHANGE (%)	% OF GDP
TOTAL CENTRAL GOVERNMENT EXPENDITURES	63,957,492	65,173,898	1,216,406	−23.1	24.4

Source: Dipres.

Considering the overall and cyclically adjusted revenue forecasts and the update presented in this PFR, the year ended with an overall surplus of CLP 2,959,383 million, equivalent to 1.1% of estimated 2022 GDP. This represents the first fiscal surplus since 2012. In the framework of the structural balance rule, after overall revenues are cyclically adjusted, the preliminary estimate for 2022 is for a cyclically adjusted surplus of CLP 448,821 million, equivalent to 0.2% of GDP. This is 3.5 points of GDP higher than the level established in the Decree N°775, published in June 2022, issued by the Ministry of Finance, which established a fiscal policy target for 2022 equivalent to a structural deficit of 3.3% of GDP.

Table 4

Total Central Government: Balance, 2022

(millions of 2022 CLP and % of GDP)

CLP MM	% OF GDP	MM$	% DEL PIB
(1)	Total overall revenues	68.133.281	25.5
(2)	Total cyclically adjusted revenues	65.822.719	24.6
(3)	Total expenditures	65.173.898	24.4
(1)–(3)	**Overall balance**	**2.959.383**	**1.1**
(2)–(3)	**Cyclically adjusted balance**	**448.821**	**0.2**

Source: Dipres.

Consequently, the central government's gross debt closed the year at USD 116,021 million, equivalent to 37.3% of GDP, while the net financial position (NFP) is estimated at −31.3% of GDP in the same period.

UPDATE OF THE 2023 FISCAL SCENARIO

A number of causal factors underlie the challenging economic context for world economic activity in 2023, including historically high levels of global inflation, with direct negative effects on people's real income; global financial conditions that remain tight, despite easing somewhat at the margin; the weaker stimulus for the world economy; and the uncertainty surrounding new developments in the Russia-Ukraine conflict. However, these negative effects could be ameliorated by the recent optimism in response to the reopening of the Chinese economy and its potential impact on global output. In its updated forecasts, the IMF revised its 2023 world growth estimate upward by 0.2 pp relative to its October 2022 report, to 2.9% annually, due to positive surprises and a greater-than-expected resilience in numerous economies. All told, global output should slow this year relative to 2022, where the year-on-year growth forecast is 3.4%. The inflation forecasts for the year, in turn, show a descent from the peaks recorded in 2022.

For the national economy, following the slowdown in the second half of 2022, economic activity should return to its growth path starting in the second quarter of 2023, when the seasonally adjusted quarter-on-quarter growth rate should return to positive territory. The total and non-mining GDP growth forecasts were revised downward, mainly due to the baseline effect of higher-than-expected growth in 2022, combined with projections of a lower external impetus given the worse global outlook, which could have an adverse effect on annual export growth. At the same time, domestic demand is projected to fall 3.7% this year, versus a decline of 4.1% expected in the last PFR. This smaller contraction is explained by a reconfiguration of expected investment and consumption in 2023. The drop in domestic demand, together with lower international food and energy prices and the continuing recovery of global supply chains, should ensure a steady drop in inflation over the course of 2023.

Table 5
2023 Macroeconomic Assumptions

	PFR 3Q22	PFR 4Q22
GDP (annual change, %)	-0,5	-0,7
MINING GDP (annual change, %)	4.6	5.5
NON-MINING GDP (annual change, %)	−1.3	−1.7
DOMESTIC DEMAND (annual change, %)	−4.1	−3.7
CPI (annual change, % average)	6.3	7.3
EXCHANGE RATE (CLP/USD, average, nominal value)	868	850
COPPER PRICE (USD cents/lb, average, LME)	362	374
WTI OIL PRICE (USD/bbl)	84	77

Note: PFR 4Q22 updated using an estimated 2023 nominal GDP of CLP 282,846,255 million. The cutoff date for macroeconomic forecasts was 18 January 2023.
Source: Ministry of Finance.

In the fiscal arena, the projected macroeconomic scenario and the fiscal revenue calculation provide the basis for forecasting the total central government's 2023 revenues, which are estimated at CLP 63,959,433 million (2023 currency). This implies a real annual decrease of 12.5%.

Relative to the last report, the increase in overall income breaks down into a substantial increase in projected property income, together with expected increases in gross copper (Codelco), private mining, social security contributions, and other revenues. In contrast, net tax revenues are revised downward relative to the last report. This is explained entirely by non-mining revenues (other tax revenues), which are 2.8% lower than estimated in the last report due to lower income tax and VAT forecasts.

Relative to 2022, net tax revenues will fall 11.4% in real terms, due to real reductions of 26.5% in large private mining taxes and 10.3% in other taxes. Gross copper revenues (Codelco) are expected to fall 39.6% in real terms relative to 2022, due to an expected reduction both in Codelco's sale price vis-à-vis the previous year and in its production and sales levels, which will reduce the company's income tax payments and surplus transfers (dividends). Finally, property income is projected to decline 41.7% in real annual terms relative to 2022, which reflects both the high revenues from this item last year and a conservative forecast for 2023.

Table 6
Total Central Government: Revenue Forecast, 2023
(millions of 2023 CLP, % real annual change and % of GDP)

CLP MM	REAL ANNUAL CHANGE (%)	% OF GDP	% DEL PIB
TRANSACTIONS AFFECTING NET WORTH	**63,948,925**	**−12.5**	**22.6**
Net tax revenues	52,635,204	−11.4	18.6
Private mining taxes	3,133,301	−26.5	1.1
Other taxes	49,501,903	−10.3	17.5
Gross copper (Codelco)	1,271,973	−39.6	0.4
Social security contributions	2,550,554	−8−	0.9
Donations	136,796	−22.0	0.0
Property income	2,278,222	−41.7	0.8
Operating income	1,334,797	6.7	0.5
Other revenues	3,741,380	9.7	1.3
TRANSACTIONS IN NONFINANCIAL ASSETS	**10,508**	**−63.1**	**0.0**
Sale of physical assets	10,508	−63.1	0.0
TOTAL	**63,959,433**	**−12.5**	**22.6**

Source: Dipres.

Based on information provided by the Expert Advisory Committees for the preparation of the 2023 Budget, together with the overall revenue estimates, the cyclically adjusted revenue forecast is CLP 64,805,193 million (2023 currency), which represents 22.9% of GDP.

Table 7
Cyclically Adjusted Balance: Reference Parameters, 2023

	PFR 3Q22 FORECAST	PFR 4Q22 FORECAST
NON-MINING GDP		
Non-mining trend GDP (real growth rate, %)		1,9%
Non-mining GDP gap (%)		2,0%
COPPER		
Reference price (US cents/lb)	374	374
Codelco sales (thousands of metric tons of fine copper)	1.403	1.370
Private mining production (thousands of metric tons of fine copper)	3.121	3.089

Note: Parameters used by the Non-mining Trend GDP Committee and the Copper Reference Price Advisory Committee with regard to the preparation of the 2023 Budget, in July 2022.
Source: Dipres.

Total central government expenditures in 2023 are projected at CLP 70,750,455 million (2023 currency). This is the level specified in the approved Budget Law, adjusted for exchange rate appreciation, which has exceeded the estimate used to prepare the budget, and lower interest expense by CLP 77.871 million. This estimated spending level for 2023 implies real annual growth of 1.2% over the previous year, due to a higher comparison base since the execution rate in 2022 was higher than projected during the preparation of the 2023 Budget.

Table 8
Total Central Government: Expenditure Forecast, 2023
(millions of 2023 CLP)

	PFR 3Q22 FORECAST (1)	PFR 4Q22 FORECAST (2)	DIFFERENCE PFR 4Q22 FORECAST − PFR 3Q22 FORECAST (3) = (2) - (1)	PFR 4Q22 FORECAST	
	CLP MM	CLP MM	CLP MM	REAL ANNUAL CHANGE (%)	% OF GDP
TOTAL CENTRAL GOVERNMENT EXPENDITURES	70,828,326	70,750,455	−77,871	1.2	25.0

Source: Dipres.

The above implies an overall deficit of CLP 6,791,021 million (2023 currency), equivalent to 2.4% of projected GDP for 2023. In relation to the overall deficit forecast in the last report, namely, 2.7% of GDP, the decrease mainly reflects the upward revision to the overall revenue forecast for the year. After cyclical adjustments are applied to overall income, the 2022 forecast is for a cyclically adjusted deficit of CLP 5.945.262 million (2023 currency), equivalent to 2.1% of GDP, which is the same as the target identified in the last PFR, in line with the Fiscal Policy Decree.[1].

1 Decree N°755, of 2022, issued by the Ministry of Finance, which establishes the bases for Fiscal Policy in accordance with the provisions of Article 1° of Law N°20,128, on fiscal responsibility.

Table 9
Total Central Government: Balance, 2023
(millions of 2023 CLP and % of GDP)

CLP MM	% OF GDP	MM$	% DEL PIB
(1)	Total overall revenues	63,959,433	22.6
(2)	Total cyclically adjusted revenues	64,805,193	22.9
(3)	Total expenditures	70,750,455	25.0
(1)–(3)	**Overall balance**	**−6,791,021**	**−2.4**
(2)–(3)	**Cyclically adjusted balance**	**−5,945,262**	**−2.1**

Source: Dipres.

Thus, the estimated gross debt of the central government, consistent with the structural balance target, is USD 128,788 million at year-end 2023, equivalent to 38.7% of GDP, while the projected net financial position is −33.4% of estimated GDP in the same period.

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

The medium-term scenario considers that non-mining GDP will reach its trend growth level toward the end of the forecast horizon. Thus, total GDP is expected to grow 2.9% in annual terms in 2024, while non-mining GDP will grow 2.8%. This represents a downward revision since the last PFR, which reported a growth forecast of 3.2% for both indicators.

Additionally, the positive outlook for world copper demand in the medium term will continue to be affected by the global transition toward a greener economy and electromobility, as well as by lower response capacity on the supply side. These factors should contribute to keeping the price in line with the forecast for the period in the last PFR, to ultimately end at USD 4.07 per pound in 2027. The oil price will hold at around USD 80 a barrel over the course of the medium-term forecast horizon, consistent with the forecast in the last PFR. The real exchange rate, in turn, will remain above its historical average throughout the period. Thus, the nominal exchange rate will be around 792 pesos to the dollar at the end of the forecast horizon.

Finally, the baseline scenario assumes that inflation will reach the Central Bank's 3% target in the first half of 2024, to then remain anchored to the target through the end of the forecast horizon.

Table 10
2024–2027 Macroeconomic Assumptions

	2024		2025		2026		2027	
	PFR 3Q22	PFR 4Q22	PFR 3Q22	PFR 4Q22	PFR 3Q22	PFR 4Q22	PFR 3Q22	PFR 4Q22
GDP (real annual change, %)	3.2	**2.9**	3.1	**2.9**	2.8	**2.8**	2.4	**2.4**
MINING GDP (real annual change, %)	3.5	**3.8**	4.0	**3.5**	3.0	**3.0**	3.0	**3.0**
NON-MINING GDP (real annual change, %)	3,2	**2,8**	2,9	**2,8**	2,7	**2,7**	2,3	**2,3**
DOMESTIC DEMAND (real annual change, %)	3,2	**2,8**	2,8	**2,8**	2,7	**2,8**	2,6	**2,7**
CPI (annual change, % average)	3,1	**3,0**	3,0	**3,0**	3,0	**3,0**	3,0	**3,0**
EXCHANGE RATE (CPL/USD, average, nominal value)	836	**838**	805	**819**	787	**799**	780	**792**
COPPER PRICE (USD cents/lb, average, LME)	380	**380**	388	**388**	394	**394**	407	**407**
WTI OIL PRICE (USD/bbl)	79	**79**	80	**80**	81	**81**	83	**83**

Note: PFR 4Q22 updated using an estimated 2024 nominal GDP of CLP 298,453,361 million, an estimated 2025 nominal GDP of CLP 315,831,088 million, an estimated 2026 nominal GDP of CLP 333,108,825 million, and an estimated 2027 nominal GDP of CLP 351,931,438 million. The cutoff date for macroeconomic forecasts was 18 January 2023.
Source: Ministry of Finance.

Table 11 shows the total central government balance for 2024–2027 and describes the annual target path for the cyclically adjusted balance, according to the last available update. This path corresponds to a convergence target for reducing the structural deficit by approximately 0.3% of GDP in 2024[2]. vis-à-vis 2023[3], to then begin a deficit reduction path of around 0.75% of GDP a year. For 2024, the structural deficit is estimated at 0.7% of GDP, due to an increase in structural revenues deriving from higher overall revenues expected for that year. This increase is based on the projection of greater net tax revenues in all components, in line with the economic growth recovery following the expected contraction in 2023. Better results are expected in 2025 and 2026, with structural deficits that are below the targets established in the Fiscal Policy Decree.

The spending path defined for the 2024–2027 period is consistent with the fiscal policy normalization process, which was launched after the end of the temporary and extraordinary stimulus applied in 2020 and 2021 in response to the Covid-19 pandemic. Furthermore, the 2022 results and the outlook for 2023 indicate that this process is being implemented satisfactorily, which contributes to reducing the probability of higher risk scenarios for fiscal sustainability.

2 The structural balance target for 2024 has not changed from the initial target defined in the Decree establishing the current administration's fiscal policy guidelines (Decree N°755 of 2022, issued by the Ministry of Finance), as published in the Public Finance Report for the first quarter of 2022.
3 The 2023 Budget Law was based on a structural balance target of −2.1% of estimated GDP for the year, a revision of the initial target of−2.6% of GDP due to the estimated 2022 results and, subsequently, the fiscal closing.

Table 11
Total Central Government: Balance, 2024–2027
(millions of 2023 CLP and % of GDP)

			2024	2025	2026	2027
(1)		Total overall revenues	69,379,001	72,004,768	73,611,245	74,545,218
(2)		Total committed expenditure	72,367,874	73,123,061	73,860,856	74,247,439
(3)		Cyclically adjusted revenues	70,480,830	72,566,737	73,449,487	73,985,948
(4)		**CAB target (% of GDP)**	**−1.8**	**−1.1**	**−0.3**	**0.0**
(5)		Spending level compatible with the target	75,726,989	75,723,401	74,395,041	73,985,948
(6)		Buffer: Difference in expenditure (5)–(2)	3,359,115	2,600,340	534,185	−261,492
(7)		Difference in expenditure (USD MM)	4.130	3.369	731	−372
(8)		Difference in expenditure (% of GDP)	1.2	0.9	0.2	−0.1
(9)		**Overall balance compatible with the target (1)–(5) (% of GDP)**	**−2.2**	**−1.2**	**−0.3**	**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 179,435 million at year-end 2027, equivalent to 40.4% of GDP, while the net financial position is forecast at −36.5% of GDP in the same period.

Table 12
Total Central Government: Net Financial Position, Year-end 2024–2027
(millions of USD and % of GDP, December 31st of each year)

	2024		2025		2026		2027	
	US MMD	% OF GDP	US MMD	% OF GDP	US MMD	% OF GDP	US MMD	% OF GDP
Total Public Treasury assets		4.9	17,341	4.5	17,185	4.1	17,015	3.8
Total gross debt	146,077	41.0	161,049	41.7	172,468	41.4	179,435	40.4
Net financial position	−128,622	−36.1	−143,708	−37.3	−155,283	−37.2	−162,421	−36.5

Source: Dipres.