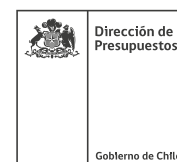


SUMMARY PUBLIC FINANCE REPORT Q4 2023



PRELIMINARY CLOSING OF THE 2023 FISCAL SCENARIO

Over the course of 2023, the majority of economies applied contractionary monetary policy, raising rates to levels not seen in the last 13 years, which affected economic activity and the financial markets. Geopolitical tensions had a lesser impact than in 2022. In this context, the developed economies continued the process of monetary tightening to contain inflation, which peaked in 2022, while some developing economies launched the start of a monetary easing cycle. In December 2023, as a result of lower inflation and expectations of a less contractionary monetary policy for 2024, financial indicators point to a scenario of lower risk aversion, with declining ten-year bond rates, rising stock market indexes, and appreciation of most currencies.

The main commodity prices fluctuated over the year and ended below the level recorded prior to the Russian invasion of Ukraine. Food prices fell throughout most of the period, approaching the levels of the first quarter of 2021.

With regard to the national economy, the domestic demand imbalances that had built up over the past few years were largely resolved in 2023. After peaking toward the end of 2021 in response to the pension fund withdrawals and procyclical fiscal policy that year, domestic demand underwent a sharp adjustment process in 2022, contracting for four straight quarters. The adjustment continued in the first quarter of 2023, resulting in the fifth consecutive contraction. Domestic demand finally started to expand again in the second quarter, supported by an increase in gross fixed capital formation and the start of normalization of private consumption. National accounts data for the third quarter of 2023 reveal that domestic demand fell 0.6% Q/Q, with an uneven performance between private consumption and investment, where the latter showed greater weakness at the margin.

In line with the economic slowdown, the labor market was sluggish over the course of the year, although there were signs of a possible improvement at the margin. Following a strong recovery over the past few years, formal job creation weakened in 2023. However, the size of the labor force and participation rates have increased significantly in recent months. Real wages continued to rise, in line with the inflation reduction, pointing to the growth of the total wage bill.

In the external sector, the current account continued to improve in the third quarter, with a recovery of national saving. Current account data by industrial sector for the third quarter of 2023 show a new increase in national saving, which reached 18.9% of GDP, mainly driven by greater household saving. When combined with the ongoing reduction in investment (22.4% of GDP in the third quarter), this resulted in a 12-month average current account deficit of 3.5% of GDP, down 7.5% from the peak of 10.0% in the third quarter of 2022.

Finally, the reduction in external price pressures and the economic normalization process supported the continued decline in inflation. Thus, annual inflation was 3.9% in December 2023.

Table 1
2023 Macroeconomic Assumptions

	PFR 3Q23	PFR 3Q23
GDP (real annual change, %)	2.2	2.6
MINING GDP (real annual change, %)	-1.9	-3.1
NON-MINING GDP (real annual change, %)	2.9	3.6
DOMESTIC DEMAND (real annual change, %)	2.0	2.7
CPI (annual change, % average)	11.7	11.6
EXCHANGE RATE (CLP/USD, average, nominal value)	864	872
COPPER PRICE (USD cents/lb, average, LME)	398	399
WTI OIL PRICE (USD/bbl)	96	94

Note: The PFR 4Q23 update uses estimated 2023 nominal GDP of CLP 279,273,590 million.
Source: Ministry of Finance.

In the fiscal arena, total central government revenues in 2023 fell 12.5% in real annual terms, reaching a total of CLP 64,111,891 million, equivalent to 23.0% of GDP. This result is explained by lower income from net tax revenues, particularly non-mining tax revenues, and, to a lesser extent, gross copper revenues (Codelco transfers). However, the reduction was partially offset by an increase in other revenue components, namely, property income, social security contributions, and other revenues.

Thus, net tax revenues were CLP 49,740,806 million in 2023, representing a real annual contraction of 16.6%. This reduction breaks down into a 14.3% decline in non-mining tax revenues and 45.2% in private mining tax revenues. The former mainly reflects lower annual income tax payments, due to significantly higher tax refunds in the Payments System. The latter is due to lower business income tax payments (or first-category taxes).

Table 2**Total Central Government: Revenues, 2023**

(millions of 2023 CLP, % real change, and % of GDP)

	CLP MM	REAL ANNUAL CHANGE (%)	% OF GDP
TRANSACTIONS AFFECTING NET WORTH	64,099,447	-12.5	23.0
Net tax revenues	49,740,806	-16.6	17.8
Private mining taxes	2,344,141	-45.2	0.8
Other taxes	47,396,665	-14.3	17.0
Gross copper (Codelco)	1,180,392	-44.1	0.4
Social security contributions	3,281,979	18.0	1.2
Donations	89,845	-48.9	0.0
Property income	4,790,750	16.5	1.7
Operating income	1,322,212	5.4	0.5
Other revenues	3,693,464	14.5	1.3
TRANSACTIONS IN NONFINANCIAL ASSETS	12,444	-56.5	0.0
Sale of fixed assets	12,444	-56.5	0.0
TOTAL	64,111,891	-12.5	23.0

Source: Dipres.

Given the adjustment in the macroeconomic scenario, and based on the structural parameters provided by the Expert Committees in their July 2022 meetings, cyclically adjusted revenues are estimated at CLP 63,579,060 million for 2023. 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) and private mining tax revenues. At the same time, the decrease was partially offset by the increase in property income and, to a lesser extent, the structural income associated with health care contributions.

Total central government expenditures, in turn, increased 1.0% in real terms in 2023 relative to the previous year, for a total of CLP 70,830,600 million (25.4% of estimated 2023 GDP). Additionally, central government budget expenditures had an execution of CLP 70,817,945 million, equivalent to growth of 1.0% relative to 2022. The expansion of budget expenditures breaks down into a 1.6% real annual increase in current expenditures and a 2.4% real annual decrease in capital expenditures.

Table 3**Total Central Government: Expenditures, 2023**

(millions of 2023 CLP, % real change, and % of GDP)

	PFR 3Q23 FORECAST	PFR 4Q23 PRELIMINARY CLOSING	DIFFERENCE PFR 4Q23- PFR 3Q23	2023 EXECUTION	
	(1)	(2)	(3) = (2) - (1)	REAL ANNUAL CHANGE (%)	% OF GDP
	MM\$	MM\$	MM\$		
TOTAL CENTRAL GOVERNMENT EXPENDITURES	71,669,058	70,830,600	-838,458	1.0	25.4

Source: Dipres.

Considering the preliminary closing of overall and cyclically adjusted revenues, together with the update presented in this PFR, the year ended with an overall deficit of CLP 6,718,709 million, equivalent to 2.4% of estimated 2023 GDP. In the framework of the structural balance rule, after overall revenues are cyclically adjusted, the preliminary estimate for 2023 is for a cyclically adjusted deficit of CLP 7,251,540 million, equivalent to 2.6% of GDP.

Table 4
Total Central Government: Balance, 2023
(millions of 2023 CLP and % of GDP)

	CLP MM	% OF GDP
(1) Total overall revenue	64,111,891	23.0
(2) Total cyclically adjusted revenue	63,579,060	22.8
(3) Total expenditures	70,830,600	25.4
(1)-(3) Overall balance	-6,718,709	-2.4
(2)-(3) Cyclically adjusted balance	-7,251,540	-2.6

Source: Dipres.

Consequently, the central government's gross debt closed the year at USD 125,585 million, equivalent to 39.8% of GDP, while the net financial position (NFP) is estimated at -34.7% of GDP in the same period.

UPDATE OF THE 2024 FISCAL SCENARIO

At the international level, inflation should continue to follow a downward path in 2024, including the core measures. According to IMF forecasts, global inflation will drop one percentage point in 2024 and will enter the range targeted by monetary authorities in 2025. Thus, the developed economies are expected to initiate the process of moving toward monetary neutrality, while the developing and emerging economies will continue the easing cycle launched in 2023. In line with the IMF forecasts, world growth is estimated at 3.1% for 2024, which is similar to 2023 but with mixed movements in the forecast revisions for the different economies.

For the national economy, inflation will reach the target in the first half of 2024, and economic activity will return to a growth path, supported by a less contractionary monetary policy. Unlike the developed countries, where the effects of contractionary monetary policy will continue to be felt in 2024, in Chile the earlier inflation convergence will allow a loosening of financial conditions, which will boost output. Moreover, the normalization of monetary policy will also support the recovery of employment and private investment.

Table 5
2024 Macroeconomic Assumptions

	PFR 3Q23	PFR 4Q23
GDP (real annual change, %)	2.5	2.5
MINING GDP (real annual change, %)	4.5	4.6
NON-MINING GDP (real annual change, %)	2.2	2.1
DOMESTIC DEMAND (real annual change, %)	2.4	2.3
CPI (annual change, % average)	3.5	3.1
EXCHANGE RATE (CLP/USD, average, nominal value)	832	868
COPPER PRICE (USD cents/lb, average, LME)	385	384
WTI OIL PRICE (USD/bbl)	82	81

Note: The PFR 4Q23 update uses estimated 2024 nominal GDP of CLP 293,741,674 million. The cutoff date for macroeconomic forecasts was 1 February 2024.

(1) CPI reference base: 2018 = 100.

Source: Ministry of Finance.

In the fiscal arena, the projected macroeconomic scenario for 2024 and the overall fiscal revenue execution for 2023 provide the basis for forecasting the total central government's 2023 revenues, which are estimated at CLP 71,347,069 million (2024 currency). This implies a slight increase relative to the estimate used in the preparation of the 2024 Budget. Overall revenues are expected to record a real increase of 8.0% relative to overall revenues in 2023, which is higher than the projection in the last FSR, due to the downward revision of revenues at year-end 2023.

Table 6
Total Central Government: Revenues, 2024

(millions of 2024 CLP, % real change, and % of GDP)

	CLP MM	REAL ANNUAL CHANGE (%)	% OF GDP
TRANSACTIONS AFFECTING NET WORTH	71,334,690	8.0	24.3
Net tax revenues	58,342,253	13.8	19.9
Private mining taxes	2,832,743	17.2	1.0
Other taxes	55,509,510	13.6	18.9
Gross copper (Codelco)	1,307,961	7.5	0.4
Social security contributions	3,313,651	-2.1	1.1
Donations	185,555	100.3	0.1
Property income	3,170,917	-35.8	1.1
Corfo portfolio income	1,568,299	-47.8	0.5
Other property income	1,602,618	-17.1	0.5
OPERATING INCOME	1,549,869	13.7	0.5
Other revenues	3,464,483	-9.0	1.2
TRANSACTIONS IN NONFINANCIAL ASSETS	12,379	-3.5	0.0
SALE OF PHYSICAL ASSETS	12,379	-3.5	0.0
TOTAL	71,347,069	8.0	24.3

Source: Dipres.

Based on information provided by the Expert Advisory Committees and the lithium threshold used for the preparation of the 2023 Budget, together with the overall revenue estimates, the cyclically adjusted revenue forecast is CLP 71,639,030 million (2024 currency), which represents 24.4% of GDP.

Table 7
Cyclically Adjusted Balance: Reference Parameters, 2024

	PFR 3Q23 FORECAST	PFR 4Q23 FORECAST
NON-MINING GDP		
Non-mining trend GDP (real growth rate, %)	2.3	2.3
Non-mining GDP gap (%)	0.6	0.6
COPPER		
Reference price (US cents/lb)	386	386
Codelco sales (thousands of metric tons of fine copper)	1,486	1,340
Private mining production (thousands of metric tons of fine copper)	3,206	3,206
LITHIUM		
Lithium threshold (% of GDP)	0.4	0.4

Note: The estimates for non-mining trend GDP and the copper reference price in 2023 were provided by the respective Advisory Committees in July 2022, while the 2024 estimates were provided by the Committees for the preparation of the 2024 Budget, in July of 2023. The 2024 lithium threshold corresponds to average revenues from property income deriving from the exploitation of lithium by Corfo between August 2018 and July 2023, as a percentage of GDP for the period from July 2018 to July 2023. Source: Dipres.

Total central government expenditures in 2024 are projected at CLP 77,074,344 million (2024 currency). This is the level specified in the approved Budget Law, adjusted for the updated macroeconomic scenario and higher interest expense by CLP 155,706 million. This estimated spending level for 2024 implies real annual growth of 5.6% over the previous year, mainly due to a lower comparison base since the execution rate in 2023 was better than projected in the last report.

Table 8
Total Central Government: Expenditure Forecast, 2023

(millions of 2024 CLP)

	PFR 3Q23 FORECAST	PFR 4Q23 PRELIMINARY CLOSING	DIFFERENCE PFR 4Q23- PFR 3Q23	PFR 4Q23 FORECAST	
	(1)	(2)	(3) = (2) - (1)	REAL ANNUAL CHANGE [%]	% OF GDP
	CLP MM	CLP MM	CLP MM		
TOTAL CENTRAL GOVERNMENT EXPENDITURES	76,918,639	77,074,344	155,706	5.6	26.2

Fuente: Dipres.

The above implies an overall deficit of CLP 5,727,276 million (2024 currency), equivalent to 1.9% of projected GDP for 2024. After cyclical adjustments are applied to overall income, the 2024 forecast is for a cyclically adjusted deficit of CLP 5,435,315 million (2024 currency), equivalent to 1.9% of GDP, which is in line with the new Fiscal Policy Decree¹.

Table 9
Total Central Government: Balance, 2024

(millions of 2023 CLP and % of GDP)

		CLP MM	% OF GDP
(1)	Total overall revenue	71,347,069	24.3
(2)	Total cyclically adjusted revenue	71,639,030	24.4
(3)	Total expenditures	77,074,344	26.2
(1)-(3)	Overall balance	-5,727,276	-1.9
(2)-(3)	Cyclically adjusted balance	-5,435,315	-1.9

Source: Dipres.

Thus, the estimated gross debt of the central government, consistent with the structural balance target, is USD 139,591 million at year-end 2024, equivalent to 41.2% of GDP, while the projected net financial position is -37.4% of estimated GDP in the same period.

UPDATE OF THE MEDIUM-TERM FISCAL SCENARIO: 2025-2028

The medium-term scenario considers that output will gradually approach its trend growth level toward the end of the forecast horizon. For the financial planning horizon, output forecasts are unchanged, with non-mining GDP growth moving slowly toward its trend level, which is reached in 2028, and mining GDP growth maintaining stable growth of 3.0% a year throughout the projection period. Domestic demand has been revised downward in 2025 relative to the last FSR (2.7% vs. 3.0% in the 3Q23 FSR), reflecting lower total consumption (3.0%; last FSR: 3.2%) that is not fully offset by the upward adjustment in gross fixed capital formation (3.0%; last FSR: 2.8%) due to a lower basis of comparison in 2024. The forecast scenario assumes that inflation will be around the Central Bank's target of 3.0%, after converging in 2024. Finally, the exchange rate should reach CLP 799 to the dollar at the end of the forecast period, with a somewhat more depreciated path than projected in the FSR for the second and third quarters.

¹ Ministry of Finance Decree N°1,387 of 2024, which modifies Ministry of Finance Executive Decree N°755 of 2022, establishing the bases for fiscal policy in accordance with the provisions of Article 1° of Law N°20,128, on fiscal responsibility.

Table 10
2025–2028 Macroeconomic Assumptions

	2025		2026		2027		2028	
	PFR 3Q23	PFR 4Q23	PFR 3Q23	PFR 4Q23	PFR 3Q23	PFR 4Q23	PFR 3Q23	PFR 4Q23
GDP (real annual change, %)	2.5	2.5	2.4	2.4	2.3	2.3	2.2	2.2
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, %)	2.4	2.4	2.3	2.3	2.2	2.2	2.1	2.1
DOMESTIC DEMAND (real annual change, %)	3.0	2.7	2.6	2.6	2.6	2.5	2.4	2.4
CPI (annual change, % average)	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
EXCHANGE RATE (CLP/USD, average, nominal value)	824	839	811	820	800	803	799	799
COPPER PRICE (USD cents/lb, average, LME)	388	388	398	398	408	408	419	419
WTI OIL PRICE (USD/bbl)	85	82	85	84	85	85	85	85

Note: The PFR 4Q23 update uses estimated 2025 nominal GDP of CLP 309,597,564 million, estimated 2026 nominal GDP of CLP 326,520,060 million, estimated 2027 nominal GDP of CLP 344,279,479 million, and estimated 2028 nominal GDP of CLP 363,582,321 million.
Source: Ministry of Finance.

Table 11 shows the medium-term estimates for 2025–2028, highlighting the total central government balances and buffer levels. The table also describes the annual target path for the cyclically adjusted balance, in accordance with Decree N°1.387 on Fiscal Policy (row 4), which is unchanged since the last report. This path corresponds to a reduction in the structural deficit from –1.9% of GDP in 2024 to 1.1% of GDP in 2025, with convergence to a deficit of –0.5% of GDP in subsequent years.

Table 11
Total Central Government: Overall and Structural Balance, 2025–2028
(millions of 2023 CLP and % of GDP)

	2025	2026	2027	2028
(1) Total overall revenues	74,546,601	76,500,790	78,582,971	80,421,457
(2) Total committed expenditure	78,040,127	78,134,518	77,994,225	78,416,324
(3) Cyclically adjusted revenues	74,707,806	76,261,077	77,796,390	79,119,787
(4) CAB target (% of GDP)	-1.1	-0.5	-0.5	-0.5
(5) Spending level compatible with the target	78,014,188	77,799,959	79,371,713	80,734,978
(6) Buffer: Difference in expenditure (5)–(2)	-25,939	-334,559	1,377,488	2,318,654
(7) Difference in expenditure (USD MM)	-32	-433	1,875	3,267
(8) Difference in expenditure (% of GDP)	-0.0	-0.1	0.4	0.7
(9) Overall balance compatible with the target (1)–(5) (% of GDP)	-1.2	-0.4	-0.3	-0.1

Source: Dipres.

Thus, the current PFR estimates that the central government's gross debt, consistent with the structural balance target, will be USD 187,774 million at year-end 2028, equivalent to 41.2% of GDP, while the net financial position is forecast at -38.2% of GDP in the same period.

Table 12
Total Central Government: Net Financial Position, Year-end 2025–2028

(millions of USD and % of GDP, 31 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	12,990	3.5	13,052	3.3	13,145	3.1	13,751	3.0
Total gross debt	152,982	41.5	164,111	41.2	176,861	41.2	187,774	41.2
Net financial position	-139,991	-37.9	-151,059	-37.9	-163,717	-38.2	-174,023	-38.2

Source: Dipres.