

June 30th, 2021

Ministry of Finance reports withdrawal of US\$3,478 million from SWFs

During June, 2021, a total of US\$ 3,478 million were withdrawn from the Sovereign Wealth Funds. Of these US\$ 1,478 million were withdrawn from the Pension Reserve Fund (PRF) on June 8th, and US\$ 2 billion from the Economic and Social Stabilization Fund (ESSF) on June 29th.

Regarding the PRF, the withdrawal of US\$ 1,478 million in June is the second withdrawal this year. Last April 8th, a total of US\$ 1,482 million were withdrawn from the fund. The sum of these withdrawals reaches the total amount budgeted to be withdrawn during 2021, equivalent to CLP\$ 2,116,665 million.

It should be noted that the purpose of the PRF is to support the financing of the fiscal obligations derived from the state guarantee of basic solidarity old-age and disability pensions, as well as solidarity pension contributions. In this way, the fund seeks to address the contingent pension liabilities over time.

According to the Fiscal Responsibility Law, the amount of resources that may be withdrawn annually from the PRF cannot exceed one third of the difference of the respective year in pension obligations, and the respective total expense incurred in 2008, adjusted for inflation as measured by the Consumer Price Index. Thus, during the years 2017, 2018, and 2019, US\$ 313.95 million, US\$ 525.05 million, and US\$ 576.51 million were withdrawn, respectively.

In the context of the pandemic, Law No. 21.227, which empowers access to unemployment insurance benefits of Law No. 19,728, established in Article 19, under exceptional circumstances, notwithstanding the provisions of Article 8 of the Fiscal Responsibility Law, the amount of resources that will be withdrawn from the PRF during the years 2020 and 2021 will correspond to the entire difference produced between the total expenditures of each year, for the payment of the pension obligations of the respective year, and the total expenditure incurred for in 2008, adjusted for inflation. Thus, in 2020 and 2021, US\$ 1,576 million and US\$ 2,960 million were withdrawn from the fund.

It should be noted that according to the provisions of Law N° 21.225, which establishes measures to support families and micro, small and medium-sized companies due to the impact of the COVID-19 disease, resources will not be injected to the PRF in 2020 and 2021.

In the case of the ESSF, this fund is an additional source of financing for the Central Government that allows for the financing of fiscal deficits, the annual contribution to the PRF and financing amortizations of public debt. Although the Republic of Chile has broad access to capital markets, the use of the ESSF has the advantage of financing fiscal needs while reducing the need to resort to public debt.

In this context, June's withdrawal of US\$ 2 billion is the second withdrawal this year, in addition to the US\$ 1.75 billion withdrawn in April. These resources finance the budgetary needs of the Central Government that have increased due to the pandemic.

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It should be noted that eventual additional withdrawals from the ESSF could materialize in the event of significant changes in the government's financing needs.

After the latest withdrawals, the market values by the end of June of the PRF and of the ESSF are estimated at US\$ 7.42 billion and US\$ 4.99 billion, respectively.

The amounts withdrawn from both funds will be auctioned according to the process implemented as of April in 2020.

