

May 11th, 2023

Ministry of Finance and Budget Office publishes the Public Finances Report for the first quarter of 2023.

Santiago, May 11th, 2023.- Yesterday, was published the Public Finances Report¹ (Informe de Finanzas Públicas-IFP), corresponding to the first quarter of 2023. The report contains the last fiscal update as well as key fiscal and economic information of the first quarter of 2023.

General points.

In line with the recommendations Fiscal Advisory Council and with the presidential announcement made three weeks ago, this IFP contemplates an explanation of the prudential adjustment methodology to lithium revenues on the Structural Balance, as well as its application for 2023 and the medium term.

For the current year, considering the current methodology, it is estimated a cyclically adjusted balance equivalent to -1.9% of GDP and an effective balance of -1.6%, lower than the previous estimation. But when the prudential adjustment is taking into account, it is estimated a structural balance of -2.1% of the projected GDP and the same effective balance (-1.6% of projected GDP), in line with the fiscal trajectory established in March 2022.

In addition, it includes the report committed as part of the Agreement signed during the negotiation of the 2023 Budget Law. This report includes the level of advance for different budgetary items.

Projections for 2023

During 2023, it is expected an expansion in the first quarter. In the second quarter the activity will experience a slight contraction, to resume its path of growth from the third quarter. This will lead the economy to grow 0.3% this year, improving the estimate from the 0.7% drop projected in the IFP for the fourth quarter of 2022.

Inflation will maintain its downward trajectory during the year, assured by the monetary and fiscal contraction, the fall in the prices of raw materials at the global level, the appreciation of the peso and the adjustment of internal demand. This IFP projects a Consumer Price Index (CPI) of 4.6% to December, which will average 7.9% for 2023.

Incomes are expected to reach \$66,254 billion, an increase in real terms of 3.6% compared to 2022.

¹ The full report is available in Spanish at the following link:
https://www.dipres.gob.cl/598/articles-309996_Informe_PDF.pdf

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Fiscal expenditures are expected to reach \$70,764 billion in 2023, which implies an increase of in real terms of 0.6% compared to 2022.

The effective fiscal deficit will reach 1.6% of GDP. This deficit is 0.8 pp lower to the estimation made in the previous report and 1.1 pp lower compared to the projection included in the 2023 Budget Bill.

The structural deficit will be reached 1.9% of GDP, which represents a reduction of the structural deficit by 0.2 pp. with respect to the estimate in the previous report. This result is 0.2 pp. lower than the goal established in the Public Finance Report for the third quarter of 2022, in line with Decree No. 755 of the Ministry of Finance —published in June 2022—, which establishes as a fiscal policy goal for the year 2022 a structural deficit of 2.1% of GDP. This favorable result complies with the commitment to normalize public finances and to ensure their sustainability.

At the end of 2023, Gross Debt is projected to reach 38.0% of GDP (US\$132 billion), the same as in December, 2022 (US\$116 billion).

This IFP considers that the gross debt of the Central Government, consistent with the goal of the Structural Balance, will reach US\$181 billion by the end of 2027, equivalent to 41.1% of GDP.

An exercise of alternative medium-term scenarios is also performed, in line with international best practices. These scenarios entail different dynamics for the evolution of gross debt up to 2027. The optimistic scenario would imply a debt trajectory below the baseline scenario, reaching 40.7% of GDP by the end of the projection horizon. In the pessimistic scenario, there would be a gross debt of around 41.9% by 2027.

It is worth mentioning that even if the pessimistic scenario materializes for each of the years, the debt would stabilize at levels lower than the prudent debt level of 45%, indicated in the Fiscal Policy Decree of the current administration.