
Ministry of Finance Updates Macro-Fiscal Forecasts and Financing Needs

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This note summarizes the main highlights of Chile's Q2-2021 macro-fiscal forecasts.

I. Ministry of Finance's Updated Quarterly Macro-Fiscal Forecast

In line with Chile's fiscal institutional framework, the Ministry of Finance recently published its quarterly macro-fiscal forecast (Public Finance Report) for the second quarter of 2021.¹

Regarding growth, the Ministry of Finance revised its 2021 growth forecast for the Chilean economy to 7.5%, up from 6%. The revision is due to better support from the global economy - greater global growth and an improvement in the economy's terms-of-trade – as well as a better outlook on the domestic side; the latter mainly due to the rapid progress in the vaccination process, amid significant ongoing macroeconomic policy support.

Fiscal revenues are projected to increase by 33.5% in real terms during 2021, up by 4.3% with respect to the previous forecast. The upward revision in fiscal revenues is driven by several factors, which include the effect of the recovery in economic activity in non-mining revenue, the effect higher mining revenue, and the reversal of several tax policies that were implemented to support households and firms last year.

Fiscal expenditures are expected to increase by 27.3% in real terms during 2021 and by 16.9% with respect to the previous forecast. The increase is driven by new measures that have strengthened the Social Protection Network, including the Universal Emergency Family Income (IFE, by its acronym in Spanish) and the Relief Measures for SMEs, in addition to greater resources for the health system.

As a result, the headline fiscal deficit is projected at 7.1% of GDP (up from 3.8% in the previous forecast), while the structural deficit is projected at 9.5% of GDP (up from 6% of GDP in the previous report). Gross public debt is now projected to reach 34.1% of GDP by the end of 2021.

Regarding medium-term projections, growth is expected to average 2.7% in real terms for the period 2022-2025. The fiscal consolidation path ahead considers a reduction of the headline fiscal deficit to 1.9% of GDP in 2022, and a decline in the structural deficit to 3.9% of GDP during the same period. Considering the projection of committed expenditures in the years ahead, gross public debt is projected to peak at 38.6% in 2024, and fall slightly to 38.5% in 2025.

II. Financing Needs

According to the Public Finance Report for Q2-2021, the Central Government's gross financing needs for 2021 reach USD36.2 billion.

As in 2020, financing needs in 2021 will be met by a combination of use of assets and additional debt issuance. Regarding the use of assets, the Ministry of Finance plans on withdrawals for a total of USD9,157 million during 2021 from the sovereign wealth funds, of which USD6,710 million had already been withdrawn by the end of the first semester of this year. Regarding debt issuance, the Ministry of Finance plans on issuing a total of USD27 billion this calendar year; of this amount, a total

¹ The report is publicly available in Spanish at: <http://www.dipres.gob.cl/598/w3-article-232650.html>

of USD11,919 million were already issued during the first semester of 2021, in instruments that mature after 2021.

Regarding the Use of Assets in 2021

A total of USD9,157 million are expected to be withdrawn from the sovereign wealth funds during 2021, of which USD2,960 million are from the Pension Reserve Fund (PRF) and USD6,197 million from the Economic and Social Stabilization Fund (ESSF).

The planned withdrawals from the PRF for 2021 for a total of USD2,960 million have already taken place, with partial withdrawals reported in April and June of this year. No additional withdrawals are planned from the PRF this year. The market value of the PRF by end-June 2021 was approximately USD7,420 million.

A total of USD3,750 million have been withdrawn this year from the ESSF, with partial withdrawals reported in April and June of this year. Additional withdrawals for USD2,447 million are estimated from the ESSF during the second semester of 2021. As of June 30th, the market value of the ESSF was approximately USD4,990 million.

Regarding Debt Issuance in 2021

i. Initial 2021 Debt Issuance Plan

On December 22nd, 2020, the Ministry of Finance announced a Treasury bond issuance plan for a total of USD19 billion for 2021. This plan considered new debt for USD12,750 million, and approximately USD6,250 in bonds to finance debt amortizations.

As of June 30th 2021, the Ministry of Finance had issued a total of USD11,919 million in bonds during 2021, of which USD7,755 million were in foreign currency, and USD4,164 million in local currency. These amounts do not consider short-term notes issued during 2021 that mature in the same year.

A total of USD7,081 million are planned for the second semester of 2021. As part of the plan of the second semester, a total of USD4,377 million are scheduled to take place in local currency during the third quarter of 2021, through the SOMA platform of the Central Bank of Chile, acting as Fiscal Agent. The Q4 issuance calendar via SOMA will be announced towards the end of September 2021.

ii. Additional Debt Issuance Plan for 2021

In addition to the initial 2021 debt issuance plan, up to an additional USD8 billion are planned for the second semester. These additional issuances are authorized by the Law 21.288, which creates the Transitory & Emergency COVID Fund, which allows for additional debt of up to USD8 billion, in local or foreign currency, until the end of June 2022.

The additional debt issuance of up to USD8 billion is expected to be mostly in foreign currency denominated bonds, with remaining local currency instruments to be issued within a five-year maturity. These operations will be duly informed prior to their execution.

In sum, debt issuance for the second semester of 2021 reach approximately USD15,071 million, of which USD7,081 million are from the initial plan, and USD8 billion of the additional plan.

Finally, these plans are subject to modifications in the event of changes in market conditions or in the financing needs of the Government. If this were to occur, it will be appropriately informed.