

July 17, 2018



Minister of Finance presents updated economic forecasts before the Joint Budget Committee: "The economy is growing and inflation remains under control "

"Chile's growth will return to global growth rates", said the Minister of Finance, who showed that the increase in the Minister's forecasted growth of 3.8% for 2018 is in line with different market estimations and below the Central Bank's July Market Expectations Survey, which foresees an expansion of 4% for GDP 2018.

The Minister of Finance, Felipe Larraín, presented last week before the Joint Budget Committee the Update of 2018 Projections, in which the estimated real GDP growth forecast for this year was raised to 3.8%, compared to the 3% anticipated in the Budget Law of the current fiscal year.

Accompanied by the Budget Director (Dipres), Rodrigo Cerda, and the Undersecretary of Finance, Francisco Moreno, the Minister also raised the forecast for domestic demand, from 4.1% to 4.8%. This improved forecast, he explained, is partly as a result of the improvement in business and consumer confidence, which has had a positive impact on investment.

The Minister stressed that "we have a current state of growth that is expanding with inflation under control".

The authority indicated that in recent months there has been a generalized recovery in different sectors that has been reflected by the latest figures from the Monthly Activity Indicator (Imacec). Economic activity grew 4.9% in May, despite having one less business day with respect to the same month in 2017.

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Impact of the trade war

Despite the improvement in growth forecasts, the Minister of Finance was cautious, highlighting the trade war between the United States and China as a risk.

In the Minister's opinion, if the conflict escalates, it could have significant effects on growth and on world trade, deteriorating financial conditions and potentially leading to a decline in copper prices, which would affect Chile.

Despite the concern expressed on this issue, the Minister reiterated that Chile has favorable conditions to face the effects of a trade war, an approach that was reinforced by the Undersecretary of Finance at the exit of the Joint Budget Committee.

"The new growth projections are good news that we must take with caution. Much of the development of our economy is played on the domestic front", said Francisco Moreno.

Fiscal policy

After Minister Larraín's presentation, Budget Director Rodrigo Cerda presented a series of figures on tax revenue, collection and expenses.

Regarding the incomes for this year, he explained that they are 1.4% higher than those assumed in the 2018 Budget, due to a mix of three factors: a higher copper price, a lower recovery in the taxable base subject to the Income Tax on Individuals and higher economic activity.

With this, the head of the Budget Office reported that the projected effective deficit dropped from 1.9% of GDP, as was proposed in the 2018 Budget, to 1.7% of GDP in the mid-year update. In addition, this figure compares with the 2.8% deficit registered in 2017.

Rodrigo Cerda explained that the projections delivered today are consistent with the Government's objective of reducing the structural deficit by 0.2% per year, which implies closing this year at 1.8% of GDP and reaching a structural deficit of 1% by 2022.

On the spending side, the Budget Director informed before the Joint Budget Committee that the projections of the Central Government for 2018 point to an increase between 4.1% and 4.5%.

He also indicated that the fiscal austerity decree, which contains a fiscal adjustment of US\$ 1,063 million, was dispatched today to the Comptroller's Office.