

## Ministry of Finance and Budget Office report Fiscal Outturn for 2018

On January 30<sup>th</sup>, 2019 the Minister of Finance, Felipe Larraín, along with the Budget Office Director, Rodrigo Cerda, reported an important improvement in the fiscal outturn for 2018. First of all, the authorities highlighted that the central government's headline fiscal deficit for 2018 fell to 1.7% of estimated GDP, slightly below the previous 1.9% estimated in September 2018, and significantly lower than the 2.8% in 2017.

The marked improvement in the fiscal balance was driven by a combination of a significant increase in fiscal revenues and an important deceleration in the pace of expenditure growth.

On the revenue side, total fiscal revenue amounted to 21.9% of estimated 2018 GDP, implying an 8.8% real increase compared to 2017. There are three main reasons that supported the rise in fiscal revenue:

- 1) A significant recovery of economic activity, from a GDP increase of 1.5% in 2017 to 4.0% in 2018, which drove an increase in non-mining revenue;
- 2) An increase in mining related revenue due to a higher copper price;
- 3) The sale of SQM (*Sociedad Química y Minera de Chile S.A.*) shares from Nutrien to Tianqi, which implied a tax revenue of roughly 0.3 percentage points of GDP.

The Budget Director, Rodrigo Cerda, indicated that "VAT, which is one of the main tax revenues, grew roughly 5% in real terms. This generates higher revenues due to a higher economic dynamism".

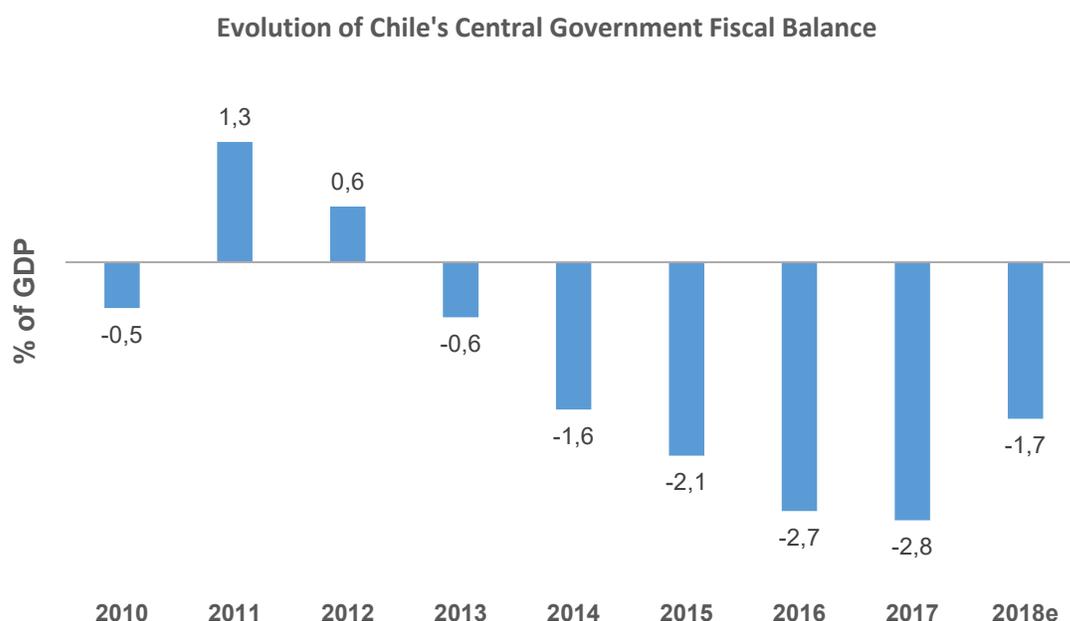
On the expenditure side, central government expenditures during 2018 reached 23.5% of estimated GDP, which implied a real growth of 3.4% compared to the previous year. "This breaks a four-year trend in which we experienced significant expenditure growth", remarked Minister Larraín. Additionally, gross public debt amounted 25.6% of the estimated 2018 GDP.

The Minister of Finance noted that the fiscal austerity plan implemented in 2018, implied savings of about US\$1.1 billion. In addition, he stated that a new initiative to make expenditures more efficient will be announced in March.

From a structural perspective, the structural deficit narrowed to 1.5% of estimated 2018 GDP, significantly below the 1.8% target for the year, and the -2% of GDP in 2017. These

results are consistent with the government’s commitment to reduce the cyclically adjusted fiscal deficit to 1% of GDP by 2022.

Minister Larraín stated that “Chile is experiencing a significant improvement in its fiscal position in 2018, as a result of a policy that seeks to improve public accounts. It is an effort that will be maintained in the future”.



2018e: using estimated 2018 GDP.

**Fiscal Data in 2018, compared to 2017:**

Share of GDP		2017	2018 (September 2018 estimation)	2018 (Current estimation)
<b>Headline Balance</b>	<b>Budget</b>	-2.8	-1.9	-1.7
<b>Structural Balance</b>	<b>Budget</b>	-2.0	-1.8	-1.5

**Source:** Budget Office and Ministry of Finance.



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Our administration remains committed to further strengthening our fiscal institutional framework, as reflected by recent legislation that creates the Autonomous Fiscal Council, while at the same time, firming fiscal responsibility, by balancing fiscal consolidation efforts that support development needs and social spending while, at the same time, stabilizing the public debt-to-GDP ratio in the short term.

Additional information on fiscal results for 2018 are available at the Budget Office's website, specifically at the following link:

<http://www.dipres.cl/598/w3-article-184754.html>