

Budget Management Report for the First Quarter 2011: Improvements in Fiscal Matters

Recent figures concerning the budget execution show an improvement due to the incomes' increase and the expenditures' fall. It is desirable that in the current economic scenario new medium term structural objectives are proposed. At this stage, a structural deficit of 1% of the GDP in 2014 seems not very demanding in terms of fiscal discipline, being more reasonable to aspire to recover the balance. This would restrain the strong political pressures to increase spending in social programs.

Recently, the Dirección de Presupuestos (DIPRES –Bureau of the Budget) circulated the budget execution for the first quarter 2011.

Figures show a clear improvement in fiscal matters due to the incomes' increase as well as the expenditures' fall, both related to the GDP which has allowed the fiscal deficit of 0.7% in the first quarter of 2009 to turn into a 1.1% surplus in the first quarter of the current year.

This situation is desirable from the macroeconomic point of view, since to collaborate with the macro balances, the fiscal policy must have an anti-cyclical character that could justify a deficit situation in 2009, along with the current surplus.

From the 1.8 improvement points in the fiscal results, 0.6 may be explained through the income increase and 1.2 are due to the expenditures' fall, which is also positive considering that in 2009 the government spending showed a clearly unsustainable trend.

It is important to highlight that spending is not falling in real terms but in relation to the GDP, because the nominal GDP increases much more than the nominal spending due to the strong deflator increase. During the first quarter, total spending showed a real fall of 2.6%

compared with the first quarter 2010, but it increased 2.1% if it is compared with the first quarter of 2009. These figures allow stating that an effort to moderate spending is being made, which is very necessary in the current situation. We hope that this prudent budget management will remain stable during the rest of the year and that it is not only explained by a slower execution in the first months of the year. Table 1 shows the fiscal execution of the first quarter 2011, compared with the same period of 2010 and 2009.

Table 1

STATE OF THE GOVERNMENT'S OPERATIONS CENTRAL GOVERNMENT - FIRST QUARTER TOTAL (LOCAL CURRENCY + FOREIGN CURRENCY, GDP %)			
	1 st Q 2011	1 st Q 2010	1 st Q 2009
CURRENT REVENUES	5.6	5.1	5.0
Net revenues from taxation	4.3	3.9	3.9
Private mining taxation	0.3	0.3	0.1
Remainder of tax-payers	4.0	3.6	3.8
Copper, gross	0.6	0.5	0.1
Other incomes	0.7	0.7	1.0
CURRENT EXPENDITURES	3.9	4.3	4.7
Personnel	1.0	1.1	1.1
Consumer and producer goods and services	0.5	0.4	0.5
Interests	0.2	0.2	0.2
Financial assistance and grants	1.2	1.4	1.6
Social security	1.0	1.1	1.2
Others	0.0	0.0	0.1
GROSS OPERATION STATEMENTS	1.7	0.8	0.3
NET ACQUISITION OF NON FINANCIAL ASSETS	0.6	0.8	1.0
Sale of tangible assets	0.0	0.0	0.0
Investments	0.3	0.4	0.6
Capital transfer	0.3	0.4	0.4
TOTAL REVENUES	5.6	5.1	5.0
TOTAL EXPENDITURES	4.5	5.1	5.7
NET LOAN / NET INDEBTEDNESS	1.1	0.0	(0.7)

Source: DIPRES.

As mentioned above, the Central Government's total spending registered a real fall of 2.6% during the first quarter 2011 compared with the first quarter 2010, mainly explained by a real investment decrease of 28.5%. Expenditures in financial assistance and allowances, which is the most important item, show a real fall of 5.8%, partly explained because this year the Government did not deliver aid assistance allowances to families with lower incomes. This allowance was part of the anti-crisis plan 2009 and was maintained last year due to the earthquake, but this year it has no justification. It constitutes an important dimension, since spending in government transfers must have an anti-cyclical character, and therefore it seems reasonable to moderate it this year of strong expansion in the activity and employment.

With regard to the present budget, during the first quarter, 25.6% of incomes and 19.7% of expenditures were executed. So we observe that tax collection is higher than expected, especially in non-mining taxation, but execution has been slower. The latter seems reasonable within a context where private spending should go from more to less during the year, so it is positive that public spending goes from less to more. Table 2 shows the different tax patterns for the first quarter of each year.

Table 2

REVENUES
(REAL VARIATION PERCENTAGE – FIRST QUARTER)

	2011/2010	2010/2009	2009/2008
1. Income tax	24.9%	23.7%	-25.2%
Annual statement	-17.9%	-208.0%	39.1%
Statement and monthly payments	20.3%	29.8%	-10.8%
Monthly social security payments	27.1%	25.5%	-31.9%
2. Value Added Tax (VAT)	15.1%	19.6%	-20.5%
VAT declared	13.3%	5.5%	-6.5%
Special loan for construction companies	-0.8%	9.5%	21.0%
Tax refund	-10.4%	14.5%	-27.7%
3. Taxes to specific products	35.1%	9.0%	-6.0%
Tobacco, cigars and cigarettes	51.3%	5.1%	6.5%
Fuels	23.2%	12.1%	-13.9%
4. Taxes to legal acts	151.7%	-63.7%	-58.7%
5. Taxes to foreign trade	39.5%	11.7%	-48.6%
6. Others	-23.5%	30.5%	450.0%
Debtor fluctuations plus pendant differences	-43.9%	-179.1%	86.2%
Others	2.7%	64.6%	-30.2%
NET INCOMES DUE TO TAXES	21.3%	18.7%	-22.1%

Source: DIPRES.

With relation to the Government's revenues, the improvement is explained through CODELCO's contribution and the non-mining private taxation, influenced by tax increases and the activity positive cycle.

Regarding the first quarter 2010, tax collection increased in almost US\$1,800 millions, explained by the higher economic activity and the taxation amendment applied to finance rebuilding after the earthquake. In general terms, it may be concluded that the higher economic activity explains almost 70% of the higher tax collection and the taxation amendment explains the remainder 30%. So it seems evident that the latter was really not necessary.

Another interesting issue refers to the decomposition between the budgetary and non-budgetary situation, shown in Table 3.

Table 3

STATE OF THE GOVERNMENT'S OPERATIONS 2011
CENTRAL GOVERNMENT TOTALS – FIRST QUARTER
(LOCAL CURRENCY + FOREIGN CURRENCY, CLP\$ MILLIONS)

	Budgetary Central Government	Extrabudgetary Central Government	Total
TOTAL REVENUES	6,487,212	186,186	6,673,398
TOTAL EXPENDITURES	5,127,666	235,054	5,362,720
NET LOAN/ NET INDEBTEDNESS	1,359,545	(48,868)	1,310,678

Source: DIPRES.

The deficit in the extrabudgetary level continues, since consumer and producer goods and services increase 163% with regard to the first quarter 2010. As these funds correspond to the Copper Reserve Law, it is not possible to know to which item they correspond, hence the need of amending this law.

Table 4 shows that fiscal assets and liabilities, total indebtedness (national and external) raised to US\$21,387 millions.

On the other hand, external assets come to US\$16,846 millions, composed by US\$ 12,942 millions from the Economic and Social Stabilization Fund and US\$3,904 millions from the Pension Reserve Fund. The Central Government's net indebtedness amounts to 2% of the GDP, which shows the high stability level of the Chilean public sector.

Table 4

BUDGETARY CENTRAL GOVERNMENT INDEBTEDNESS
(US\$ MILLIONS)

	Balance by Dec. 30 th , 2010	Balance by March 31 st , 2011
External debt	4,095	4,057
National debt	16,262	17,330
TOTAL	20,358	21,387

Source: DIPRES

The results from the first quarter allow making estimations for the rest of the year, which will obviously be very sensible to what occurs with the copper price.

Table 5

CENTRAL GOVERNMENT: RECEIPTS AND EXPENDITURES
(CLP\$ BILLIONS, 2011)

	2009	2010	2011
Revenues	19,163.815	24,606.339	28,241.132
<i>Real economic growth</i>	-20.4	28.4	14.8
Effective spending	23,433.927	25,074.302	26,163.413
<i>Real economic growth</i>	16.9	7.0	4.3
Surplus / Deficit	-4,246.945	-467,963	2,077.719
GDP %			
Effective incomes	20.1	22.9	24.8
Effective spending	24.5	23.4	23.0
Surplus / Deficit	-4.4	-0.4	1.8
Structural balance	-3.9	-2.0	-1.3

Assumptions

Copper price (US\$ / pound)	2.3	3.4	4.1
Average exchange rate (CLP\$)	559.6	510.0	475.0
Average inflation (%)	1.5	1.5	3.5

Source: DIPRES.

In the estimations above, we observe that this year the State registers a surplus equivalent to 1.8% of the GDP (US\$ 4,300

millions approximately). Incomes maintain a great dynamism, while for spending it was considered the estimated growth in the budget, plus the recent adjustment of US\$ 750 millions which produces a real increase of 4.3% with regard to 2010. For the structural balance, the budgetary figure has been considered but it has not been yet corrected by the DIPRES.

This greater fiscal margin with regard to that estimated a few months ago makes it necessary for the Government to adjust its medium term estimations. At this stage, a structural deficit of 1% of the GDP in 2014 seems not very demanding in terms of fiscal discipline, being more reasonable to aspire to recover the balance. This would restrain the strong political pressures to increase spending in social programs without a clear consciousness concerning these programs' financing in the medium term.