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Chile—Rosier Fiscal View Unless Government Rolls out Student Debt Relief

- **Chile's 2023 budget could foresee no more than USD16bn in debt issuance in 2023, following the MoF's recent reduction of USD5bn to 2022 debt plans.**

A few weeks ago, Chile's Ministry of Finance announced that it would not issue around USD5bn in sovereign bonds of the USD20bn total in debt issuance that was scheduled for 2022 (see our [Latam Daily](#)). The reduction owes to solid tax collection stemming from resilient private consumption (between the second half 2021 and the first half 2022) and high copper prices. Thus, we estimate that the government will close out 2022 with an effective fiscal deficit of around 0% (structural deficit of -0.5%) and a debt/GDP ratio of no more than 38% of GDP (2021: 36.3% of GDP).

The deadline to present the 2023 Budget Bill to Congress is September 30 and the Government has shown signs of "moderate" austerity after becoming aware of the structural parameters of the non-mining trend GDP growth (1.9%) and the best trend price of copper (USD3.74/lb), which, among other factors, would imply higher structural revenues by 2023.

According to our estimates, the Government would be able to present a bill contemplating an (impressive) spending increase of close to 9%. However, the Minister of Finance indicated that public spending would expand by between 4% and 5% 'only'. This would imply an estimated effective fiscal deficit for 2023 of 2% of GDP and a structural deficit of 1.5%, showing an improvement from the estimates provided in the Public Finance Report of June (-2.5% and -2.6% of GDP, respectively).

The Minister of Finance, Mario Marcel, is attempting to signal fiscal consolidation in a context where the economy is headed towards a 1% contraction in GDP in 2023, in line with the forecast we published a couple of weeks ago at Scotiabank and that the economist consensus and the Central Bank have recently aligned with (see our [Latam Daily](#)).

The short-term risks to this accelerated fiscal convergence lie in public demands on Congress for new universal fiscal transfers. It is highly likely that during the coming months, when economic activity and employment figures show a weak economy, with still high inflation, high short-term interest rates and less private investment, several congresspeople will demand new universal aid. We estimate that the Government will resist these pressures by calling for fiscal prudence and instead provide targeted/limited aid to lower income households. Center-right parties congresspeople (who now represent the majority in Congress) will help in this process of fiscal consolidation, likely voting against universal aid and new withdrawals of pension funds, thus becoming Marcel's allies towards fiscal consolidation.

In terms of market implications, sovereign debt issuances for the expected fiscal deficit in 2023 should be around USD6bn. Additionally, other financing needs could add up to USD8bn to USD10bn (debt maturity, legacy bonds, among others). If that is the case, the budget bill due to Congress by end-September should contemplate additional debt of no more than USD16bn; below the authorized USD20bn in 2022 and more closely aligned with the effective issuance after the aforementioned USD5bn reduction.

Most of 2023's issuance should be during the first half of the year considering the schedule for maturing bonds. However, we cannot rule out additional space for issuances in case the Government decides to implement a student debt relief plan associated with the *Crédito con Aval del Estado (CAE)*.

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