

MACROECONOMIC ANALYSIS

2015 Budget: Initial reactions

Chile Unit

The 2015 Budget, which was sent to Congress yesterday, provides for a significant expansion in public spending next year, close to a real 8% just as we anticipated a few weeks ago ([link to report](#)). Although 9.8% is mentioned as the rate of spending expansion for next year, we should clarify that this figure compares the 2015 Law with the 2014 Law; nevertheless, the spending forecast for the current year is *higher* than that in the law — partly because of the expenses associated with the post-earthquake reconstruction in the north and the fire in Valparaíso — and as such, in fact the increased spending (compared to the forecast for this year) will be closer to 8%. **It is this latter figure which has an important macro impact. In any event it is a high rate of growth, the biggest since 2009, but not a surprising one, given that it fits perfectly into the context of the fiscal rule.**

Compliance with the 2014 spending forecast will require a greater effort in the last months of the year than has been made up to now in the area of execution, particularly in public-sector investment ([link to report](#)). We cannot rule out a more structural slowdown in spending capacity in public-sector investment, which will make it difficult to be precise about this component of spending for next year.

The 2015 Budget is countercyclical for a number of reasons: the magnitude of the increase in spending, the high component of public investment it contains and the fact that a start is not being made during 2015 on convergence toward structural balance. The definition of countercyclical, in fact, has various dimensions which we believe this budget satisfies. First, increased spending, close to a real 8%, will exceed by a long chalk the aggregate growth of economic activity, which we estimate at around 3.5%. Second, the fact that expenditure relies essentially on increased public-sector investment (a real rate of 27.5% comparing budget law with budget law) and depends less on current expenditure, means that it will be less difficult to withdraw the stimulus when economic conditions improve. Third, **the figures published so far are consistent with a structural deficit goal of 1.1% of GDP** and, as such, convergence towards structural balance will not start in 2015, but will be postponed until 2016 at least.

The budget ask authorization for debt issuances of USD7.5bn, for which reason we believe assets will have to be liquidated for a figure close to USD3bn, putting more pressure on the CLP to appreciate, as we have been “rabbiting on about” for some time. The government must define the composition of these issues, between national and external debt, although *BBVA Research believes that a foreign issue could be a sound alternative, in the current financial conditions.* Given our estimate of effective fiscal deficit for next year (close to 2% of GDP - USD6bn), the maturities due next year and the issue of recognition bonds and at some point additional capitalisations for Codelco, we estimate that the funding needs for next year will be between USD10-11bn in our baseline scenario, implying that the issues announced will not be enough and it will be necessary to have recourse to asset liquidation. **Obviously, in a risk scenario in which the economy grows below our baseline scenario (3.5%) or in which the copper price shows more severe falls, financing needs — and, ergo, asset liquidation — will be greater.** On the other hand, there is a risk that the revenue associated with the tax reform does not reach the amount forecast in the Financial Report, which would imply that the expenditure which has been committed to will have to be funded with additional asset liquidations.

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