



## Chile News

October 4, 2001

# GOVERNMENT SENDS THE BUDGET LAW TO THE CONGRESS

- The Minister of Finance of Chile, Mr. Nicolás Eyzaguirre addressed to the Congress yesterday in the morning where he presented the current fiscal situation and the budget law.*
- The budget for 2002 contemplates a 4.9% increase in government expenditures, and a central government deficit of 0.3% of GDP.*
- 2002 Budget was constructed using the 1% structural balance surplus rule.*

On October 3<sup>rd</sup> the Chilean government sent to the Congress the budget law for the government and public sector agencies for the 2002 fiscal year. The Minister of Finance of Chile, Mr. Nicolás Eyzaguirre, addressed to the Congress yesterday morning where he made an exposition on the budget law, and then at night to the whole country through Radio and Television where he exposed the main points of it.

Projections in the 2002 budget include an effective GDP growth of 4.5% and a central government deficit of 0.3% of GDP. Total central government expenditures are estimated at 24.5% of GDP in 2002, with current expenditure representing 20.0% of GDP and capital expenditure representing 4.5% of GDP. The government expects the total growth in expenditures as contemplated in the 2002 budget to be 4.9% as compared to the government's latest estimate of its actual expenditures for 2001.

The 2002 budget sets priorities in the areas of employment and social expenditures. 44,000 more employment places than 2001 are expected to be created through an 11% increase in public investment; on the other hand the government projects a 6.4% increase in social expenditures, with over a 10% increase in the health sector, and 9% in education.

The budget for 2002 was made using the rule of the 1% structural balance surplus. The assumptions used were an output gap of 3% and a long-term copper price of 90 cents per pound.

Two other elements were taken into consideration. The authorities believe that the U.S. cycle will have a "V" shape. This means that after the slowdown and probable recession, the economy should recover by the second semester of 2002. The effect over Chile's economy should be a fall in exports followed by a quick recover by 2H 2002.

Even if there is a prolongation in time of the slowdown in the U.S., the government believes that the domestic demand would lead Chile's recovery in 2002. There are some powerful signs that make the government be confident about this: the leading indicators – especially real money growth (M1A)- have shown a good upturn. Secondly, real wages have increased, and therefore, private consumption should grow also. Finally, the inventory



# Chile News

*October 4, 2001*

adjustment that Chile's economy faced last year is coming to an end. All these factors added up allow the government to be confident about the recovery of the aggregate demand in 2002.

For further information, visit our web page at [www.minhda.cl](http://www.minhda.cl)