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FISCAL TRANSPARENCY EVALUATION

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F I S C A L   A F F A I R S   D E P A R T M E N T

Chile
Fiscal Transparency Evaluation

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October 2021

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ABBREVIATIONS

BCCh	Central Bank of Chile
BCG	Budgetary Central Government
BIP	Integrated Bank of Projects
BTP	Treasury Bonds Expressed in Chilean Pesos
BTU	Treasury Inflation-Linked Bonds (expressed in "*unidades de fomento*")
CAB	Cyclically-Adjusted Balance
CAPREDENA	Pension Scheme for Military Personnel (*Caja de Previsión de la Defensa Nacional*)
CEF	Financial Stability Council (*Consejo de Estabilidad Financiera*)
CFA	Autonomous Fiscal Council *(Consejo Fiscal Autónomo*)
CFS	Consolidated Financial Statement
CG	Central Government
CGR	Comptroller General of the Republic
CoA	Chart of Accounts
CODELCO	National Copper Corporation
COFOG	Classification of Functions of Government
CMF	Financial Market Commission (*Comisión para el Mercado Financiero*)
DIPRECA	Pension Scheme for Police Officers (*Dirección de Previsión de Carabineros)*
DIPRES	Budget Directorate *(Dirección de Presupuestos*)
DLFA	Organic Decree Law on Financial Administration of the State n. 1.263
EBU	Extrabudgetary Unit
EITI	Extractive Industries Transparency Initiative
EFP	Statistical Yearbook *(Estadísticas de Finanzas Públicas*)
FAD	Fiscal Affairs Department of the International Monetary Fund
FEES	Economic and Social Stabilization Fund *(Fondo de Estabilización Económica y Social*)
FEPCO	Fuel Prices Stabilisation Fund *(Fondo de Estabilización de Precios de Combustibles*)
FEPP	Oil Prices Stabilisation Fund *(Fondo de Estabilización de Precios del Petróleo*)
FOGAPE	Small Businesses Guarantee Fund (*Fondo de Garantía para el Pequeño Empresario*)
FRL	Fiscal Responsibility Law- Law 20128
FRP	Pension Reserve Fund (*Fondo de Reserva de Pensiones*)
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GG	General Government
IFI	Independent Fiscal Institution
IFP	Public Finance Report *(Informe de Finanzas Públicas)*
IGFE	Annual Financial Statements *(Informe de Gestión Financiera del Estado)*

INE	National Statistics Institute (*Instituto Nacional de Estadísticas*)
IPC	Contingent Liabilities Report (*Informe de Pasivos Contingentes*)
IPSAS	International Public Sector Accounting Standards
LMs	Line Ministries
MoF	Ministry of Finance
MPW	Ministry of Public Works
MTBF	Medium-Term Budget Framework
MTDS	Medium-Term Debt Strategy
MTFF	Medium-Term Fiscal Framework
NFPS	Non-Financial Public Sector
NPV	Net Present Value
OECD	Organization for Economic Cooperation and Development
PPP	Public-Private Partnership
PS	Public Sector
SAI	Supreme Audit Institution
SALM	Sovereign Asset and Liability Management
SDDS Plus	Special Data Dissemination Standard Plus
SDGs	Sustainable Development Goals
SEP	Public Corporations System *(Sistema de Empresas Públicas)*
SIAP-SP	Budget Execution Public Sector Information System (*Sistema de Información de Administración Presupuestaria del Sector Público*)
SIGFE	Financial Management Information System of the State *(Sistema de Información para la Gestión Financiera del Estado)*
SINIM	National System of Municipal Information (*Sistema Nacional de Información Municipal*)
SNI	National Investment System
SNG	Subnational Government
SOE	State-Owned Enterprise
SUBDERE	Sub-secretariat for Regional and Administrative Development
SWF	Sovereign Wealth Funds
TSA	Treasury Single Account
WGA	Whole-of-Government Accounts

Legend for Summary Tables

LEVEL OF PRACTICE	RATING			
	Not Met	Basic	Good	Advanced
	(red)	(yellow)	(light green)	(dark green)

PREFACE

In response to a request from the Ministry of Finance of Chile (MoF), the IMF's Fiscal Affairs Department (FAD) during the period June 3-24, 2021 conducted remotely a Fiscal Transparency Evaluation (FTE) mission covering three pillars of the IMF's Fiscal Transparency Code (FTC). The IMF team was led by Ms. Teresa Curristine and comprised of Mses. Virginia Alonso Albarran, Lorena Rivero del Paso, and Gemma Preston and Messrs. Felipe Bardella and Claude Wendling (all FAD) and Mr. Adrien Tenne (FAD expert).

The mission met with the Minister of Finance, Mr. Rodrigo Cerda, and the Budget Director (DIPRES), Ms. Cristina Torres, and DIPRES senior officials, including Messrs. José Ignacio Llodrá, Slaven Razmilic, José Pablo Gomez, Gonzalo Echavarría, Fuad Rumie, Mauricio Carrasco, Christian Farías, Leonardo González, and Luis Madariaga, as well as Mses. Rocío Valdés, Susana González, and Sonia Adriasola. In the MoF, the mission met with the Head of International Finance, Mr. Andrés Pérez and Head of Macroeconomic Policy, Mr. Cristóbal Gamboni, and the Head of the Public Debt Office, Mr. Patricio Sepúlveda and the Adviser, Ms. Lorena Palomo.

The mission also met with staff from the Comptroller General of the Republic (CGR), the Central Bank of Chile (BCCh), the Autonomous Fiscal Council (CFA), the Ministry of Public Works, ChileCompra, the Undersecretariat of Regional Development (SUBDERE) and Cochilco. Outside the government the mission met with Congressional Budget Office staff and members of the Commission on Public Spending and the Fiscal Spending Observatory of Chile, and with Ms. María Florencia Attademo-Hirt from the IADB office in Chile.

The findings and recommendations represent the views and advice of the IMF mission team and do not necessarily reflect those of the Chilean authorities. Unless otherwise specified, the data included in the text, figures, and tables in the report are estimates made by the IMF mission team and not official estimates of the Chilean government. This report was finalized in October 2021. Post mission, the team continued to work with the government on refining the action plan and provided advice on how to implement the recommendations. The team would like to thank the Chilean authorities and all other participants for their excellent collaboration in the conduct of this FTE and for the open exchange of views. Particular thanks go to Mr. Slaven Razmilic and Mr. José Ignacio Llodrá from DIPRES, for their extensive support and cooperation throughout the FTE process.

EXECUTIVE SUMMARY

Strong fiscal institutions have contributed to Chile's macroeconomic stability, and recent reform initiatives have focused on enhancing these institutions and fiscal transparency. Recent initiatives include formally establishing an independent fiscal council, improving the frequency and comprehensiveness of fiscal reporting, creating an open budget portal, and improving the quality of reports including the annual tax expenditure report and budget execution reports.

As a result of these and previous initiatives many elements of sound fiscal transparency practices are in place. This report assesses fiscal transparency practices in Chile in relation to the requirements of the IMF's Fiscal Transparency Code (FTC). Based on the assessment in this report, Chile meets the standard of good or advanced practice for 21 out of the 36 principles. This is a good score, compared to the average for Latin American Countries and Emerging Market Economies (15 out of 36). On a further nine principles, Chile meets the basic standard of practice (Table 0.1). Chile's fiscal transparency practices are very strong for fiscal forecasting and budgeting (Pillar II), followed by fiscal reporting (Pillar I), while fiscal risk analysis and management (Pillar III) demonstrate more mixed results. Some of the key strengths by pillar are:

- Chile's fiscal reporting practices (Pillar I) are at an advanced level for the frequency of in-year fiscal reporting and the timeliness of annual financial statements which are published within four months of the end of the financial year. A good level of practice is found for the institutional coverage of fiscal reports and the coverage of flows and tax expenditures, which are included in a separate report. Practices which support the integrity of fiscal reporting are also at a good level, including statistical integrity and comparability of fiscal data.
- Fiscal forecasting and budgeting (Pillar II) practices are at an advanced level for fiscal legislation, which is clear and broadly comprehensive and for the presentation of macroeconomic forecasts in budget documents**.** Good practices include that the budget documents are presented to Congress and approved in a timely manner. Fiscal policy objectives established by the cyclically-adjusted balance (CAB) rule are clear and guide budget processes, there is a robust performance information system, and fiscal reports regularly publish forecast reconciliations for several different budget aggregates.
- Fiscal risk analysis and management (Pillar III) practice levels are more dispersed than those of other pillars. There are some advanced practices, which are difficult to achieve as scores are generally lower in this pillar given it is a modern PFM area. In Chile, the practices for the management and disclosure of risks stemming from government guarantees are very advanced and well above other comparable countries. Advanced practices have also been demonstrated in the management and disclosure of financial sector exposure, and the regular monitoring, disclosure, and management of budget contingencies and risks from subnational governments. Other practices need to be developed (see below).

This evaluation highlights areas where Chile's fiscal transparency practices could be improved. Despite the strong results, there are nine practices that are basic and six not met. In general, some of these low scores are due to lack of disclosure of appropriate information and/or analysis, which is produced for internal purposes but not published. In some cases, information is published occasionally or on an ad hoc basis as opposed to being published regularly and systematically. In other cases, detailed information is reported but fails to be captured in a consolidated form that would improve public information. More specifically, to further improve the level of transparency, key areas to be addressed are as follows:

- The coverage of stocks in fiscal reports do not include all financial assets and liabilities, overall key missing items positively impact the net worth by around 1.3 percentage points of GDP in 2020. These missing items mainly include copper reserves (24.9 percent of GDP) which increase net worth, but these are mostly offset by pension liabilities (17.5 percent of GDP) and the increase in the stock of debt securities when recorded at market value relative to face value (5.7 percent of GDP), both of which decrease net worth.
- The Comptroller General of the Republic (CGR) should issue an opinion on the reliability of the government's annual financial statements. Legally, the CGR is responsible for producing the annual financial statements, however performing both accounting and auditing functions would need clear separation to avoid conflict of interest.
- In terms of internal consistency, the estimated reconciliation of financing and change in the debt stock should be explained (it shows a discrepancy around 0.3 percent of GDP in 2020).
- The medium-term approach to budgeting is underdeveloped and despite having aggregate multiyear projections, the budget process is largely limited to an annual vision of budgeting.
- Investment project assessment and procurement processes are adequate but total project costs cannot be clearly identified in the published documents.
- Information on fiscal risks is reported in different documents and, as a result, no report provides a comprehensive picture of the government's aggregate fiscal risk exposure.
- Macroeconomic risks are not regularly discussed in budget documentation.
- The government does not regularly publish long-term projections of debt sustainability and other main fiscal aggregates.
- Risks to assets and liabilities are not comprehensively disclosed, and the lack of full fungibility of Treasury accounts may be a risk for liquidity management.
- There is a robust performance information system but the links between policy outcomes and objectives and budget allocations are weak.
- There is an abundance of information publicly available but there are few spaces for a formal voice for the public in budget deliberations, monitoring, and auditing.
- The quantity of information presented in fiscal documentation is extensive, but it is not always easy for the public to find the most relevant facts and key messages in those documents or to find explanations and reconciliation of changes in data.

This evaluation provides 12 recommendations to further enhance fiscal transparency in Chile, which are listed below by pillar. Annex II provides a detailed action plan for implementing these recommendations.[1]

Pillar I: Fiscal Reporting

1.1 Expand the institutional coverage of fiscal reports and consolidate the general government, the non-financial public sector, and the public sector in accordance with international standards.

*1.2 Improve the coverage of stocks and flows in fiscal reports, by including missing assets, liabilities, and fiscal flows in accordance with international standards.

*1.3 Improve fiscal data quality by ensuring internal consistency in fiscal reports and providing detailed explanations on revisions to fiscal statistics.

*1.4 Strengthen external scrutiny of annual financial statements to ensure they represent a true and fair view of the government's financial position.

Pillar II: Fiscal Forecasting and Budgeting

*2.1 Strengthen medium-term orientation of the budget through more detailed forecasts both on the revenue and on the expenditure side, underpinned by a fully-fledged medium-term budget framework (MTBF).

2.2 Reinforce the existing fiscal rule through the addition of a well-defined escape clause in legislation and an increased role for the independent fiscal council.

2.3 Increase the emphasis on public participation, facilitated by further progress in the budget's performance focus and an enhanced stress on policy objectives and outcomes.

2.4 Support and sustain the overall transparency of budgeting by including in the budget documentation package the estimated revenues and expenditures of the main extrabudgetary entities and specifying formally in more detail the contents that should be included in the executive's budget proposal

Pillar III: Fiscal Risks

*3.1 Improve transparency and reporting of macroeconomic risks and publish systematically within the Public Finance Report an analysis of the impact of macroeconomic risks on the fiscal position.

3.2. Publish a comprehensive fiscal risk statement and expand disclosure of specific fiscal risks to cover a broader and more comprehensive range of risks, including environmental, natural resources risks, debt sustainability risks, total financial obligations associated with PPPs, and financial performance and risks associated with public corporations.

[1] The asterisk indicates high priority recommendations.

3.3 Strengthen disclosure and risk management of asset and liabilities. Including increasing disclosure of risks associated with debt dynamics, improving risk management of cash balances, and increasing disclosure and monitoring of the performance of public corporations.

*3.4 Strengthen long-term fiscal sustainability analysis by regularly publishing debt sustainability analysis and projections of the main fiscal aggregates, including multiple scenarios on sustainability.

The remainder of this report provides a detailed evaluation of Chile's fiscal transparency practices against the standards of the FTC. It is organized as follows:

- Chapter I evaluates the coverage, timeliness, quality, and integrity of fiscal reporting.
- Chapter II evaluates the comprehensiveness, orderliness, policy orientation, and credibility of fiscal forecasting and budgeting.
- Chapter III evaluates arrangements for disclosure and management of fiscal risks.

Table 0.1 presents a summary of Chile's performance against the FTC. Table 0.2 presents a preliminary and partial estimate of Chile's public sector financial overview for FY2020.

Table 0.1. Chile: Summary Assessment Against the Fiscal Transparency Code

I. Fiscal Reporting	II. Fiscal Forecasting and Budgeting	III. Fiscal Risk Analysis and Management
1.1.1 Coverage of Institutions	2.1.1 Budget Unity	3.1.1 Macroeconomic Risks
1.1.2 Coverage of Stocks	2.1.2 Macroeconomic Forecasts	3.1.2 Specific Fiscal Risks
1.1.3 Coverage of Flows	2.1.3 Medium-Term Budget Framework	3.1.3 Long-Term Fiscal Sustainability Analysis
1.1.4 Coverage of Tax Expenditures	2.1.4 Investment Projects	3.2.1 Budget Contingencies
1.2.1 Frequency of In-Year Reporting	2.2.1 Fiscal Legislation	3.2.2 Asset and Liability Management
1.2.2 Timeliness of Annual Financial Statements	2.2.2 Timeliness of Budget Documents	3.2.3 Guarantees
1.3.1 Classification	2.3.1 Fiscal Policy Objectives	3.2.4 Public-Private Partnerships
1.3.2 Internal Consistency	2.3.2 Performance Information	3.2.5 Financial Sector Exposure
1.3.3 Historical Revisions	2.3.3 Public Participation	3.2.6 Natural Resources
1.4.1 Statistical Integrity	2.4.1 Independent Evaluation	3.2.7 Environmental Risks
1.4.2 External Audit	2.4.2 Supplementary Budget	3.3.1 Subnational Governments
1.4.3 Comparability of Fiscal Data	2.4.3 Forecast Reconciliation	3.3.2 Public Corporations

Table 0.2. Public Sector Financial Overview, 2020

(in percent of GDP)

	Budgetary Central Gov.	EBU	Consolidated Central Gov.	Local Government	General Government	Non Fin. Corporations	Financial Corporations	Central Bank	Consol.	Public Sector
Total Transactions										
Revenue	20.0	0.7	20.4	4.2	22.5	8.0	1.3	0.4	-0.8	31.4
Expenditure	27.2	0.6	27.6	4.0	29.6	8.7	1.2	0.6	-0.8	39.3
Expense	24.0	0.6	24.3	3.8	26.2	8.5	1.2	0.6	-0.8	35.8
Investment in NFA	3.2	0.0	3.2	0.2	3.3	0.2	0.0	0.0	0.0	3.5
Net operating balance	-3.9	0.0	-3.9	0.3	-3.7	-0.5	0.0	-0.2	0.0	-4.4
Net lending/borrowing	**-7.2**	**0.0**	**-7.2**	**0.1**	**-7.0**	**-0.7**	**0.0**	**-0.2**	**0.0**	**-7.9**
Total Assets	**77.3**	**1.6**	**78.9**	**3.8**	**82.7**	**23.1**	**26.5**	**29.6**	**-0.4**	**161.5**
Non-Financial Assets	47.9	0.9	48.9	2.0	50.9	17.5	0.2	0.0	...	68.6
o/w: Unreported Subsoil Assets	24.9	...	24.9	...	24.9	...	...	...	...	24.9
Financial Assets	29.3	0.7	30.0	1.8	31.8	5.6	26.3	29.6	-0.4	92.9
Total Liabilities (a)+(b)	**61.5**	**0.4**	**61.9**	**0.6**	**62.5**	**16.6**	**25.5**	**30.5**	**-0.4**	**134.7**
Reported Liabilities (a)	43.6	0.4	44.1	0.6	44.7	16.6	25.5	30.5	-0.4	116.9
Debt Securities - market value	38.3	0.2	38.5	0.1	38.6	10.9	4.5	10.5	-0.2	64.3
Loans	0.0	0.1	0.1	0.3	0.5	0.2	1.8	0.0	0.0	2.5
Accounts Payable	5.3	0.1	5.4	0.3	5.7	3.6	1.4	0.5	0.0	11.5
Pensions	0.0	0.0	0.0	0.0	0.0	1.8	0.0	0.0	0.0	1.8
Other (mainly deposits)	0.0	0.0	0.0	0.0	0.0	0.0	17.8	19.5	-0.2	36.8
Unreported Liabilities (b)	17.8	...	17.8	...	17.8	...	...	...	0.0	17.8
Pension Liabilities	17.5	...	17.5	...	17.5	...	...	...	...	17.5
Bonos de Reconocimiento	0.4	...	0.4	...	0.4	...	...	...	...	0.4
Net Financial Worth	**-32.1**	**0.3**	**-31.8**	**1.1**	**-30.7**	**-11.0**	**0.8**	**-0.9**	**0.0**	**-41.8**
Net Worth	**15.8**	**1.2**	**17.0**	**3.1**	**20.2**	**6.5**	**1.0**	**-0.9**	**0.0**	**26.8**
Memorandum: Reported in Statistical Yearbook 2011-2020										
Total Transactions										
Revenue	20.0	...	20.0	4.1	22.1	7.7	...	...	...	...
Expenditure	27.3	...	27.3	3.9	29.2	6.3	...	...	...	...
Net operating balance	-4.7	...	-4.7	0.2	-4.7	0.6	...	...	...	...
Net lending/borrowing	**-7.3**	**...**	**-7.3**	**0.2**	**-7.1**	**1.4**	**...**	**...**	**...**	**...**
Total Assets	**19.1**	**...**	**19.1**	**1.9**	**21.0**	**2.0**	**...**	**17.4**	**...**	**...**
Financial Assets	19.1	...	19.1	1.9	21.0	2.0	...	17.4	...	...
Total Liabilities	**32.5**	**...**	**32.5**	**0.8**	**33.3**	**12.1**	**...**	**14.9**	**...**	**...**
o/w: Debt Securities - face value	32.5	...	32.5	0.0	32.5	11.1	...	10.5	...	...
Net Financial Worth	**-13.4**	**...**	**-13.4**	**1.1**	**-12.3**	**-10.1**	**...**	**2.5**	**...**	**...**
Net Worth	**-13.4**	**...**	**-13.4**	**1.1**	**-12.3**	**-10.1**	**...**	**2.5**	**...**	**...**

Source: IGFE 2020, EFP 2020, BCCh's annual financial statements 2020, Banco del Estado's annual financial statements 2020, Codelco's annual financial statements 2020, staff estimates.

Note: This table presents estimates in accordance with the GFSM 2014 and adopts the accrual basis of recording for transactions to the extent possible. It does not cover transactions related to the accrual of public employees' pension entitlements and incurrence of liabilities related to PPP contracts. Data on Assets and Liabilities for SOEs in the yearbook are up to September 2020.

I. FISCAL REPORTING

Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance.

1. This chapter assesses the quality of fiscal reporting in Chile against the principles set out in the first pillar of the IMF's FTC. It focuses on the following four dimensions:

i. Coverage of public sector institutions, stocks and flows;
ii. Frequency and timeliness of reporting;
iii. Quality, accessibility, and comparability of fiscal reports, and
iv. Reliability and integrity of reported fiscal data.

2. Fiscal reports in Chile are mainly compiled and disseminated by the Budget Directorate within the MoF (*Dirección de Presupuestos* – DIPRES). The Organic Decree Law on Financial Administration of the State n. 1.263 (DLFA) provides DIPRES with the legal authority to compile and disseminate fiscal statistics (GFS) and establishes the content and frequency of the various fiscal reports, which are regularly published online throughout the fiscal year (equal to the calendar year). Chile's main fiscal reports (Table I.1) include:

- ***Monthly and Quarterly Budget Execution Reports (Informe de Ejecución Presupuestaria, Operación Mensual y Trimestral),*** produced by DIPRES on a monthly (30 days lag) and quarterly (30 days lag) basis, and comprises of budget expenditure and revenue by economic classification and the budget balance of the budgetary central government (BCG). The quarterly reports include the sovereign wealth funds' balances and central government's public debt (stock).
- ***Quarterly General Government Fiscal Statistics Report (Informe del Estado de Operaciones del Gobierno General Trimestral),*** produced by the DIPRES on a quarterly basis (90 days lag), presents detailed information on budget outturns (revenues and expenditures) by economic classification and the fiscal balances and debt (stock and flows) for the general government (GG). Within the GG coverage, a major omission in this report is the public universities.
- ***Statistical Yearbook (Estadísticas de las Finanzas Públicas – EFP*),** produced by DIPRES, presents the annual fiscal statistics of the last year, by administrative, economic and functional classifications and is broadly aligned with international standards (Government Finance Statistics Manual – (GFSM) 2001/2014 and Classification of the Functions of Government - COFOG). It also includes data on gross and net public debt. It covers the central government and municipalities – consolidating the GG subsector – and public corporations. However, the Central Bank of Chile (BCCh) and the Banco del Estado are not covered nor are public universities. The previous year's central government monthly fiscal statistics are also reported. The EFP is published by the end of May.

- ***Annual Financial Statements (Informe de Gestión Financiera del Estado – IGFE),*** produced by the CGR, present the previous year's financial statements. The statements are based on the accounting data generated by the various public entities and comprises a balance sheet, a statement of operations (revenue minus expenditure) on an accrual basis, a cash flow statement, and a budget execution statement. The IGFE is published by the end of April.
- ***Quarterly Public Finance Report (Informe de Finanzas Públicas – IFP),*** produced by DIPRES, presents the macroeconomic context, the recent fiscal performance and four-year forecasts of expenditure, revenue, fiscal balance and gross debt, covering the central government. It includes the economic classification of expenditure following GFSM categories. Additional content varies depending on the quarter: the first quarter report contains the end of year outturn using the functional classification and the percentage of performance indicators achieved by ministries; the second quarter report contains an assessment of the quality of public expenditure; and the third quarter report contains the financial program, the analysis of the draft budget law and tax expenditures. While the fourth quarter report includes preliminary figures for the end of year preliminary fiscal balance.
- **Reports on Debt Statistics,** are produced by DIPRES and the Undersecretary of Finance. They comprise of: i) the Quarterly Debt statistics report (*Informe de Estadísticas de la Deuda Pública),* compiled on a quarterly basis (90 day lag) by the Undersecretary of Finance, which includes data on gross and net debt for the Central Government (CG) and the BCCh, assets and liabilities of public corporations, guaranteed debt and Recognition pension bonds (*Bonos de reconocimiento*); ii) the Quarterly GG Debt statistics report (*Informe de Estadísticas de la Deuda del Gobierno General Trimestral),* produced by the DIPRES every quarter (120 days lag), presents CG and municipalities' gross debt. It also includes financial assets of municipalities; and iii) CG Gross Debt report (*Deuda Bruta del Gobierno Central*), produced quarterly (90 days lag) includes debt stocks, composition and maturities' profile.
- **Sovereign Wealth Funds (SWF) reports,** monthly and quarterly reports produced by DIPRES on the Pension Reserve Fund (*Fondo de Reserva de Pensión* – FRP), the Social and Economic Stabilization Fund (*Fondo de Estabilización Económica y Social* – FEES) and the Fund for health treatments.

Table I.1. Main Fiscal Reports

		Coverage			Accounting		Publication	
	Agency	Flows	Stocks	Institutions	Basis	Class/ Standards[1]	Frequency	Lag
In-Year Reporting								
Budget execution reporting								
Monthly Budget Execution Reports (Informe de Ejecución Presupuestaria, Operación Mensual)	DIPRES	R,E,Fin	N/a	BCG	Cash	Economic National	M	30 d
Quarterly Budget Execution Reports (Informe de Ejecución Presupuestaria, Operación Trimestral)	DIPRES	R,E, Fin	SWF, CG debt	BCG	Cash	Economic National	Q	30 d
Statistical reporting								
Quarterly Fiscal Statistics Report (Informe del Estado de Operaciones del Gobierno General Trimestral)	DIPRES	R,E,Fin	Debt	GG	Accrual	Economic GFSM2001	Q	90 d
Quarterly Public Finance Report (IFP)	DIPRES	R,E,Fin	Debt	CG	Accrual	Economic GFSM2001	Q	30 d
Debt reporting								
Quarterly Debt Statistics (Informe de Estadísticas de la Deuda Pública)	MoF	Fin	Gross and Net Debt Assets and liabilities Guaranteed debt	CG, BCCh SOE	Accrual	GFSM2001 PS Sector Debt Statistics 2011	Q	90 d
Quarterly Debt statistics Report, (Informe de Estadísticas de la Deuda del Gobierno General Trimestral)	DIPRES	Fin	Gross Debt	GG (CG, LG)	Accrual	GFSM2001	Q	120 d
CG Gross Debt (Deuda Bruta del Gobierno Central)	DIPRES	Fin	Gross Debt	CG	Accrual	National	Q	90 d
SWF Reports (FRP, FEES, Health treatment, etc.)	DIPRES	Assets	Assets	CG	Accrual	National	Q M	90 d 30 d
Annual Reporting								
Annual financial Statements (Informe de Gestión Financiera del Estado, IGFE)	CGR	R,E, Fin	Assets and Liabilities	CG, EBU, LG, SOE, BCCh, BancoEstado	Accrual	National/ IPSAS	A	4 m
Statistical Yearbook (Estadísticas de las Finanzas Públicas, EFP)	DIPRES	R,E,Fin	Gross and net debt	CG, LG, SOE	M-Cash	Economic, administrative, functional GFSM2001	A	5 m

Note: Fin=Financing, R=Revenue, E=Expenditure, A=Assets, L=Liabilities, W=Weekly, M=Monthly, Q=Quarterly, S-A=Semi-annual, A=Annual, M-cash=Modified Cash, Nat=National, V=Variable, CG=Central Government, d=day, m=month.
Note1: "Class" refers to the standards governing presentation and classification.
Note 2: "Lag" refers to elapsed time after close of period.

1.1 Coverage of Fiscal Reports

1.1.1.	Coverage of Institutions	Good

3. **In 2020 the public sector in Chile comprised 664 institutional units, the total expenditure of these units accounted for 39.3 percent of GDP (Table I.2).** These entities can be grouped into the following subsectors in accordance with international standards:

- ***Budgetary central government (BCG):*** it comprises 254 entities including the executive, legislative and judicial bodies. It also includes two social security funds, CAPREDENA and DIPRECA, which provide pension benefits to military personnel and police officers under a Pay-As-You-Go (PAYG) scheme (see Box I.1).[2]
- ***Extra-budgetary central government (EBU):*** it comprises of 18 Public Universities, 12 technical training centers and the Solidarity Fund for student loans (*Fondo Solidario de Crédito Universitario*), other units include the newly created infrastructure fund (2019), technological institutes, museums, the energy efficiency agency and also the Constitutional and Special purpose Courts, family allowance compensation fund and non-profit institutions.[3]
- ***Local governments:*** it comprises of 345 municipalities but excludes entities that are providing health and education services which are considered as private not public entities in Chile.[4]
- ***Public corporations:*** it comprises of 32 public non-financial corporations and one financial (Banco del Estado). It also includes the BCCh.

4. **The IGFE is the most comprehensive fiscal report but does not consolidate the subsectors.** The financial statements are produced annually by end of April by the CGR and are presented in six chapters[5] covering the above mentioned institutions. The Treasury is reported separately for information purposes as it includes the internal transfers from treasury accounts to ministries and spending agencies, but these transfers are netted out in the first chapter on BCG. The statements include the balance sheet, a statement of operations on an accrual basis, a cash flow statement and a statement of budget execution. Data is provided through the financial management information system (*Sistema para la Gestión Financiera del Estado* – SIGFE) for central government entities and through the accounting platform *Sistema de Contabilidad General de la Nación* – SICOGEN I and II for municipalities, universities and training centers and public corporations or in some cases through the SIREF (*Sistema de Recepción de Estados Financieros*)

[2] Social security funds covering the general population, including civil servants, are managed through the private sector under a capitalization regime since the pension reform of the 1980s.
[3] Further investigation is needed to determine if these other units satisfy the statistical criteria to be considered separate institutional units or just assets/bank accounts.
[4] Further investigation is needed to check if these health and education service entities satisfy the statistical criteria to be treated as part of the public sector as per the international standards.
[5] Chapter I for BGC, Chapter II for local governments, Chapter III for SOEs, Chapter IV for universities, Chapter V for the Treasury, and Chapter VI for the BCCh.

system. The financial statements cover close to 100% of the public sector entities but there is no consolidation (nor aggregation) of subsectors, each chapter is an independent financial statement.

Table I.2. Public Sector Institutions and Finances, 2020

(in percent of GDP, unless otherwise stated)

	Number of entities	Revenue	Expenditure	Balance	Intra-PS expenditure	Net expenditure	percent net expenditure
Public Sector	664	31.4	39.3	-7.9	0.0	39.3	100.0
General government	630	22.5	29.6	-7.0	0.3	29.3	74.6
Central government	285	20.4	27.6	-7.2	2.3	25.3	64.3
Local governments	345	4.2	4.0	0.1	0.0	4.0	10.3
Central Bank	1	0.4	0.6	-0.2	0.0	0.6	1.5
Nonfinancial public corporations	32	8.0	8.7	-0.7	0.5	8.2	20.8
Other financial public corporations	1	1.3	1.2	0.0	0.0	1.2	3.1

Source: Annual Financial Statements 2020 and Statistical Yearbook 2020.

5. **Fiscal statistics reports (EFP) have less coverage but report on the consolidated general government.** The EFP consolidates central government and municipalities into the general government subsector. EBU – mainly the Universities[6] – are not included but they represent only 2 percent of total central government expenditure. The General Government's net expenditure accounts for 29.3 percent of GDP, of which local government represent 4.0 percent of GDP. The EFP also presents statistics for public corporations but does not consolidate this data further into the public sector presentation.

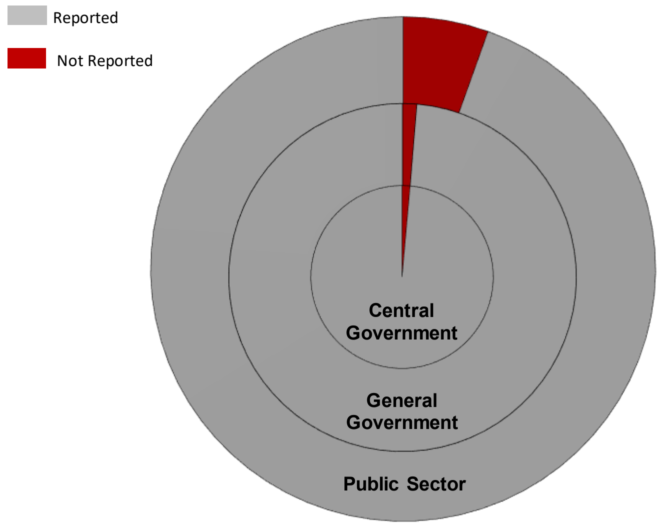
6. **There is no report consolidating the non-financial public sector (NFPS) and the public sector, but the information on the subsectors is presented in the fiscal reports.** The information on the internal transfers between the GG and the State-Owned Enterprises (SOEs) is available in the EFP and the consolidation of at least the NFPS could be easily performed by DIPRES, perhaps requiring some minor methodological adjustments. Based on the information available, staff estimated that the EFP would cover around 95 percent of gross public sector expenditures (Figure I.1). The financial statements present close to full coverage of expenditure flows.

7. **The fiscal statistics and the financial statements are reported under international standards.** Fiscal statistics use GFSM 2001 and partially GFSM 2014 and international public sector accounting standards (IPSAS). The public corporations are reported under international financial reporting standards (IFRS). Some adaptations to the national context are explained on a more qualitative basis.

[6] Public universities are excluded from the consolidated central government in fiscal statistics but are reported separately in IGFE. The explanation provided in the EFP is that they are autonomous and DIPRES has no legal mandate to require information from them, but the public universities still report to CGR.

Figure I.1. Coverage of Public Sector Institutions in Fiscal Statistics

(in percent of expenditure)



Source: IGFE, EFP and staff estimates. Note: "Not Reported" refers to expenditures of units not consolidated in fiscal reports. The major gaps in fiscal statistics are universities (CG) and the BCCh and Banco de Estado (PS) while the financial statements have wider coverage.

Box I.1. The Chilean Pension System

Chile was the first country to replace a traditional pay-as-you-go (PAYG) social security system with a fully funded pension system based on individual capital accounts managed by private fund managers (AFPs). The reform was introduced in the 1980's and this defined contribution (DC) scheme has been an example for other countries. While the DC pension scheme covers civil servants and the general population under the same rules, there are two categories of public employees still entitled to pension benefits based on a PAYG regime, namely military personnel and police officers.

The two schemes covering these specific categories of public employees are mainly funded by the central government budget, and have the following characteristics:

- CAPREDENA (*Caja de Previsión de la Defensa Nacional*): it covers military personnel, civil servants working for the armed forces, and students enrolled in military schools. The regime was created in 1915 (Law n. 3.029) and has been modified by subsequent legislation. Currently, it is primarily governed by ruled Law n. 18.948 from 1990. Workers and pensioners contribute with 6% of the worker's wage/pension benefit – but there are no contributions from the employer. Furthermore, workers and pensioners contribute with an additional 5.5% to cover health insurance, which is matched by an additional 6.5% paid by the employer. The beneficiaries are eligible to receive pension benefits after 20 years of contribution and the value of the benefit can reach 100% of the last salary level if contributing to the regime for 30 years.
- DIPRECA (*Departamento de Previsión de Carabineros*): it covers police officers (*Carabineros de Chile and the Policía de Investigaciones)*, civil servants working for the police institutions, and students enrolled in police schools. The regime was created in 1975 (Decree Law n. 844) and has been modified by subsequent legislation; currently, it is primarily ruled by Laws n. 18.458/1985 and n. 19.195/1993. Workers and pensioners contribute with 6% of the worker's wage/pension benefit to cover pensions but no contribution for health insurance. Conversely, there are no contributions from the employer to pensions, but it bears all the costs associated with the health insurance. The beneficiaries are eligible to receive pension benefits after 20 years of contributions and the value of

the benefit can reach 100 percent of the last salary level if they are contributing to the regime for 30 years.

The actuarial pension liability related to CAPREDENA and DIPRECA pension schemes is currently not reported in Chile. There is a stand-alone study on long term projections for these pension schemes produced by DIPRES in 2012 and reproduced by the National Congress in 2018. This study shows a deterioration in the deficits under the regimes, in which DIPRECA would reach a deficit of 0.7 percent of GDP and CAPREDENA 0.4 percent of GDP by 2050. Based on these parameters, staff estimated the actuarial liability of around 17.5 percent of GDP in 2020.

According to the GFSM 2014, the statistical treatment of pension schemes depends on whether the scheme is contributory or not, whether it is a defined-benefit or defined-contribution, and whether it is a social security or employment-related scheme. For defined-benefit schemes, the statistical treatment depends on the type of beneficiaries: when the beneficiary is the general population, or a large segment of the general population, the scheme is considered a social security scheme; whereas if individuals, households, or a group of employees are eligible to receive social benefits, the scheme would be considered an employment-related social insurance scheme. Under social security schemes, the link between benefits and contributions is not considered sufficiently strong to give rise to a financial claim on the part of contributors. As a result, no liabilities are recorded, but an estimate equal to the net implicit obligations for future social security benefits should be presented as a memorandum item to the balance sheet. Employment-related pension schemes are, on the contrary, considered to involve a contractual liability towards employees and registered as liabilities.

According to this criterion, the actuarial liabilities of the CAPREDENA and DIPRECA regimes in Chile would be recognized in the public sector financial statements as firm liabilities, while the liabilities related to the general DC scheme introduced during the 1980's would be considered as contingent liabilities. The latter is already included in the Contingent Liabilities Report (IPC).

Source: *DIPRES - Sistema de Pensiones y otros Beneficios Pecuniarios de las Fuerzas Armadas y de Orden y Seguridad Pública y Gendarmería de Chile: Situación Actual y Proyecciones Fiscales 2012-2050*; National Congress-*Sistema de Pensiones de las Fuerzas Armadas y de Orden y Seguridad Pública y Gendarmería de Chile: Tipos de pensiones, cobertura y proyecciones* (Nº SUP: 118520), and GFSM 2014.

1.1.2.	Coverage of Stocks	Basic

8. Financial statements and fiscal statistics cover debt and cash positions but do not include all financial assets and liabilities. The financial statements have broader coverage on assets and liabilities but there are relevant unreported items at the general government level.

9. Subsoil assets are not reported (estimated at 24.9 percent of GDP).[7] Copper reserves are not reported by the government nor by public corporations (see Pillar III).

[7] Government's subsoil assets are estimated as the net present value (NPV) of future fiscal revenues arising from the extraction of copper reserves. For illustrative purposes, the estimate relies on an aggregate approach that uses existing data on copper reserves, and a set of assumptions regarding production rates and costs, together with an assumption of constant real prices. These data and assumptions are used to project the future cash flows from extracting existing reserves. The stream of future government resource revenue is then obtained by calculating the share of revenue flows going to the government under the current fiscal regime discounted to obtain the NPV of the government's share of subsoil assets. The estimation of future fiscal resource revenue requires a number of

(continued…)

10. Public employment-related pension liabilities are not reported (estimated at 17.5 percent of GDP). International standards require the liabilities under employment-related pension schemes to be fully reflected in the public sector balance sheet (see Box I.1). Liabilities related to the special pension schemes (Armed Forces and police under the CAPREDENA and DIPRECA regimes) are not reported in the fiscal reports. There is only a 2012 study by DIPRES which includes long-term projected flows up to 2050. Most OECD countries and the leading Latin American countries are already reporting on these liabilities in their balance sheets.

11. "Recognition" pension bonds (0.4 percent of GDP) are reported as additional information. The 1980's comprehensive pension reform moved away from the PAYG system and introduced a capitalization regime. The State has been recognizing the individual contributions to the old system as an obligation to compensate the beneficiaries who transitioned to the new system. This liability is coming to an end and only 0.4 percent of GDP is the remaining debt in 2020, but it is only reported as a memorandum item in the IGFE and fiscal statistics.

12. Financial liabilities related to PPPs are partially reported (0.2 percent of GDP). International standards (IPSAS 32 and GFSM 2014) require recognition of assets and corresponding liabilities as assets are under construction, but the entities are not yet reporting all the information. The accounting regulations have adopted IPSAS 32 to apply to PPPs, but public entities are still implementing it, so the amount of liabilities presented in the statement does not reflect all the existing PPPs at the central government level, while the related assets are broadly reported by sectorial ministries.

13. Liabilities at the subnational level are partially reported. A major omission is the internal loans of the central government to the local governments. These are not part of the reported liabilities in the financial statements as these arrangements seem to operate through a compensation mechanism with the flow of transfers to municipalities coming from the equalization fund - Municipal Common Fund *(Fondo Común Municipal* (FCM). However, cash advances of the FCM to municipalities are registered in the accounts payable in the balance sheet for the local governments in the IGFE.

14. Debt securities are mainly registered at face value[8] rather than market value[9] or nominal value (stock of debt securities increases by 5.7 percent of GDP when recorded at market value relative to face value). The BTPs (Treasury bonds expressed in Chilean pesos), BTUs (Treasury inflation-linked bonds) and Chilean Global bonds (external bonds) are all registered at

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assumptions on key variables. This valuation reflects a simple methodology to estimate government's sub-soil assets and revenue flows; in practice, an exhaustive commercial valuation of copper assets should be undertaken. Such valuation should ideally be undertaken at a mine or field level for large operations; government's future revenue should be estimated by contract and project and not based on aggregate historical trends; each input variable should be verified to the extent possible and be subject of wide consultation and consensus within the government (see IMF Guide on Resource Revenue Transparency, 2007).

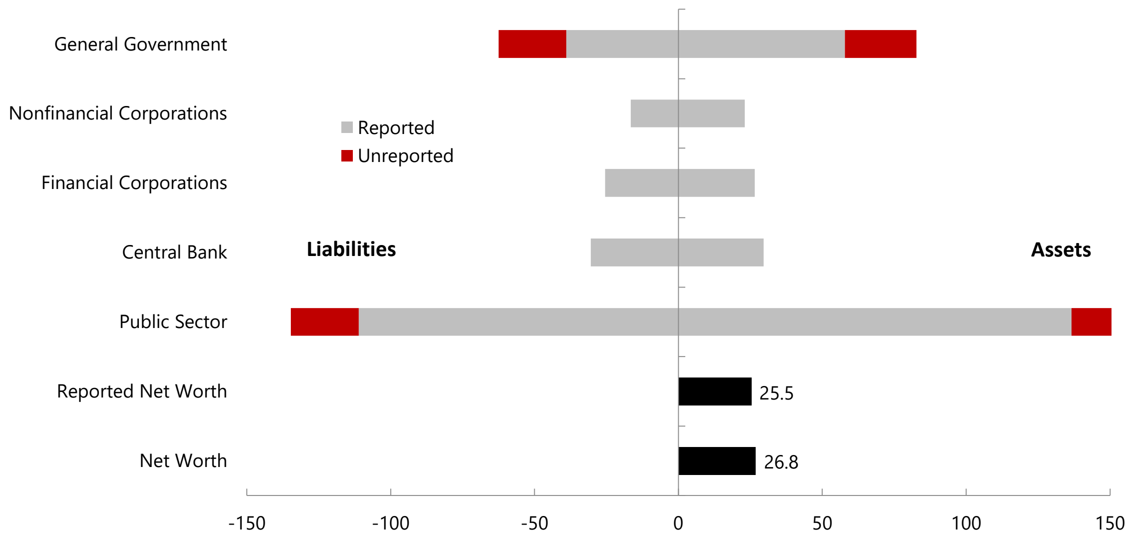
[8] Securities and loans at face value stand at 32.5 percent of GDP in 2020 according to debt reports.

[9] Securities and loans at market value stand at 38.2 percent of GDP in 2020 according to CG Gross Debt report (*Deuda Bruta del Gobierno Central*).

face-value in the financial statements and debt reports. Additional complementary information on the valuation of securities at market value is provided in the CG Gross Debt report (*Deuda Bruta del Gobierno Central*) but not integrated into a full set of tables and statistics on the debt position. Following international standards, debt securities issued at a discount (or premium) are recorded at the issuance price (nominal value). The difference between the discounted issuance price of such debt securities and their price at maturity (face value or redemption price) is treated as interest accruing over the life of the debt security.

Figure I.2. Public Sector Balance Sheet Coverage in Fiscal Reports, 2020

(in percent of GDP)

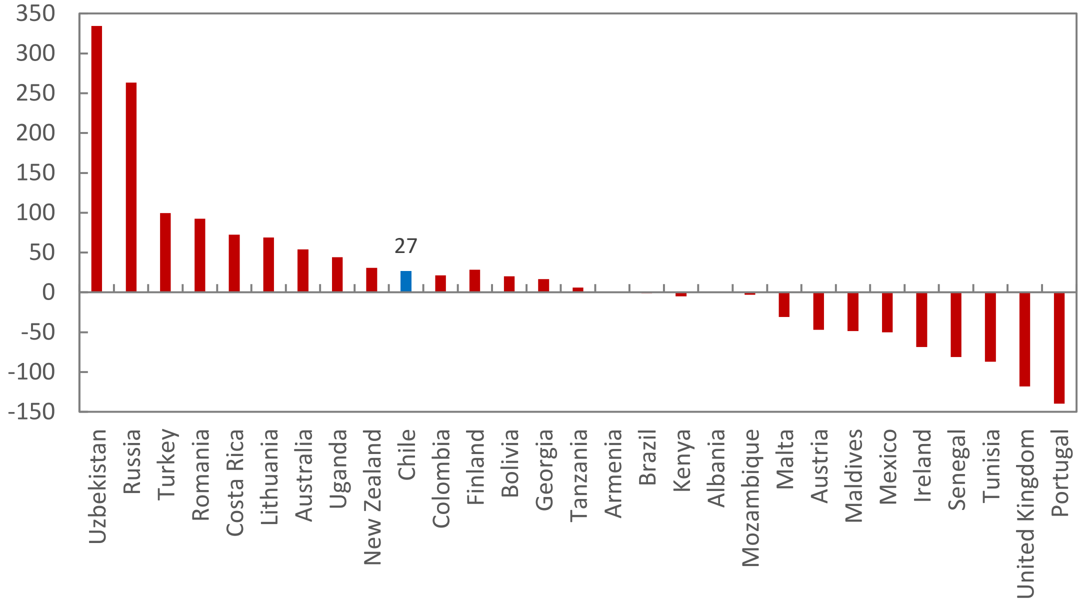


Source: IGFE 2020 and staff estimates.

15. The classification of CG liabilities in fiscal statistics could more closely reflect the GFSM 2014 classification framework. Currently the debt concept broadly used in Chile more clearly reflects the GFSM breakdowns for securities and loans, while the categories of accounts payable and other liabilities are less clearly classified. Furthermore, the concept of "net debt" has different definitions in the MoF debt unit and DIPRES as do the assets considered (permanent investment is considered an asset by the MoF while only more liquid assets are considered by DIPRES).

16. The total net worth considering the main unreported items and debt securities at market value would reach 26.8 percent of GDP, 1.3 p.p. more than the reported net worth. In the case of Chile, a comprehensive balance sheet report would increase the net worth mainly due to the non-financial assets, including the copper reserves, this is mostly offset by the employment-related pension liabilities, recognition pension bonds, and the difference in the stock of debt securities when recorded at market value relative to face value.

Figure I.3. Public Sector Net Worth in Selected Countries
(in percent of GDP)



Source: FTEs, the year varies with FTE report.

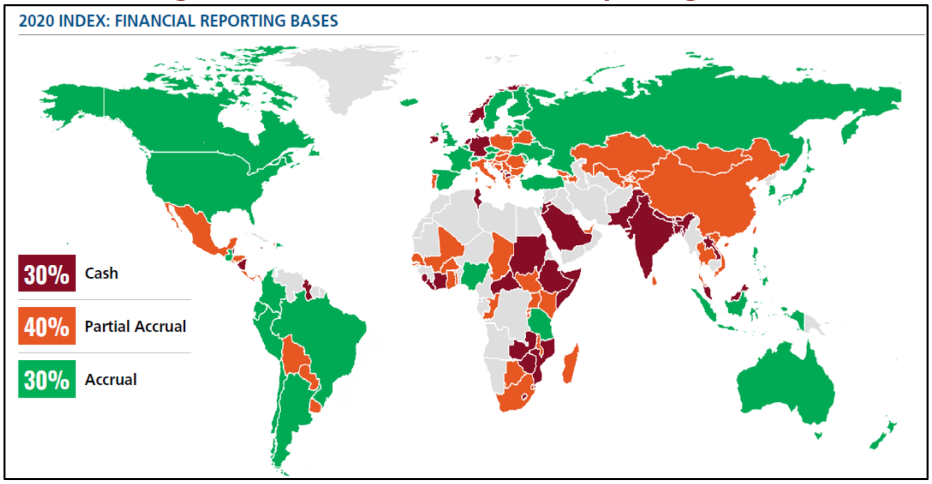
1.1.3	Coverage of Flows	Good

17. Fiscal reports cover cash flows, accrued revenues and expenditures and financing. The financial statements are reported on an accrual basis both for revenues and expenditure, while the fiscal statistics do so only for expenditure. The process of adopting IPSAS started in 2010 and has been recognized by the OECD as a success. Chile is shown as accrual compliant in the latest 2021 International Federation of Accountants (IFAC) report (see figure I.4)**.** [10]

18. The fiscal reports however are missing information on other economic flows. Other economic flows include price changes and a variety of other economic events that affect the holdings of assets and liabilities, such as debt write-offs and catastrophic losses. These include valuations such as for exchange rate fluctuations that may explain the difference in reconciling debt flows and stocks for instance (see indicator 1.3.2). The Statement of Other Economic Flows, which summarizes these changes in assets, liabilities, and net worth, is not included in the fiscal reports in Chile, nor compiled for internal use in the government.

[10] https://www.ifac.org/system/files/publications/files/IFAC-CIPFA-International-Public-Sector-Accountability-Index.pdf

Figure I.4. 2020 Index Financial Reporting Bases



Source: 2021 IFAC.

19. Fiscal statistics record the main spending items, but gaps remain, and some classification treatments should be revised. On the positive side, it is notable that the calculation of consumption of fixed capital (depreciation) is included in the statistics as well as the accrued flows (interests) over the recognition pension bonds. However, additional revisions to statistical treatments and classifications should be implemented: i) disaggregation of the category "subsidies and grants" in the central and general government statistics into two separate line items to more precisely report on spending on subsidies and grants; ii) disaggregation of the category "compensation of employees and use of goods and services" in the SOE statistics into two separate line items to precisely report on spending on payroll and use of goods and services; iii) calculation of the "net lending / net borrowing" in the SOE statistics by deducting the net acquisition of non-financial assets from the net operating balance (not gross) to take into account the depreciation.

20. Most importantly, the statistical treatment of capital transfers from central government is not in line with international standards. Capital transfers from the central government to private sector entities, SOEs and local governments are reported as acquisition of non-financial assets in the central government statement of operations. These flows should be recorded as spending – either as transfers to private sector, subsidies to SOEs, or grants to municipalities – to correctly record the economic nature of these flows in the statistics. Although the erroneous treatment under net acquisition of non-financial assets does not affect the fiscal balance of the central government, it distorts the composition of current and capital expenditures by overestimating the investments of the central government. This overestimation has averaged 2 percent of GDP over the period 2017-20 and represented more than 50 percent of the reported net acquisition of non-financial assets in the period. This issue at the central government level is also reflected in general government statistics, and only at the municipal level are capital transfers recorded correctly as spending.

1.1.4.	Coverage of Tax Expenditures	Good

21. Estimates of the revenue loss of central government from tax expenditures are published on a yearly basis and broken down by policy area. A yearly tax expenditure report is incorporated into the executive's budget proposal and published every year in September. This report produced by the revenue administration presents, on a central government basis, aggregate revenue losses[11] from tax expenditure by category of tax expenditure (e.g. tax credit, deduction), by nature of tax (personal or corporate income tax, value added tax, others) and by economic sector or objective (e.g. health, housing, support to small and medium-sized businesses). In 2020, revenue losses from tax expenditures were estimated in the September 2019 Tax Expenditure report at around USD 9.3 billion (3.0 percent of GDP), with tax expenditures promoting savings and investment making around half of the total (Table I.3).

Table I.3. Distribution of Tax Expenditure by Economic Sector, 2020

Economic Sector / Objective	Tax Expenditure in million USD	Tax Expenditure as a % of GDP
Savings and Investment	4,723	1.50
Education	1,055	0.33
Health	787	0.25
Real Estate / Housing	754	0.24
Transportation	535	0.17
Support to Small and Medium-sized Enterprises	514	0.16
Other sectors and objectives	965	0.31
Total	**9,333**	**2.96**

Source: Report on Tax Expenditures ("Gasto Tributario") 2018-2020, September 2019, estimates using the traditional method.

22. The annual tax expenditure report is being improved as a follow-up to IMF/OECD technical assistance delivered in 2020. The authorities requested support from the IMF and the OECD to review their tax expenditure methodology. The report, published in November 2020[12], underscored the need to improve the tax expenditure report, notably by producing a list of all tax expenditures with their legal base and by providing a clearly defined and documented benchmark, and description of the methodology used for tax expenditure estimates. The authorities confirmed their commitment to implementing the IMF/OECD recommendations to enrich the tax expenditure report. This led however to a delay in the production of the 2019-2021 report, the revised report was published in June 2021 instead of September 2020.[13] The mission was advised that Parliament

[11] Computed using a "traditional method" (focusing on the revenue impact of a given tax expenditure in the current fiscal year) and a method based on net present value.
[12] "Tax Expenditures and Corrective Taxes on Chile: A Joint IMF-OECD Assessment", B. Brys, R. de Mooij et alii, IMF and OECD, November 2020.
[13] See https://www.sii.cl/aprenda_sobre_impuestos/estudios/gasto_tributario_2019_2021.pdf for the latest tax expenditure report.

had been apprised of this “one-off” delay and did not object, given the significant improvements expected in the report.

23. The authorities have no plan to introduce a budgetary ceiling or some other mechanism to constrain the growth of tax expenditures. Other OECD countries have introduced mechanisms capping the amount of tax expenditures as a percentage of GDP (or of overall tax revenue) or setting some other form of rule to steer the evolution of tax expenditures. The Chilean authorities do not have plans to introduce such a mechanism. Constitutional provisions (article 65 of the Constitution) which restrict the initiative on tax law changes to the executive branch are traditionally regarded as a sufficient safeguard against an excessive development of tax expenditures. Nevertheless, the Chilean government are already putting more emphasis on tax expenditures as a tool to achieve their fiscal goals. In this context, they have recently asked a committee of experts to evaluate and recommend possible changes or elimination of tax expenditures. This initiative led to a report, published in January 2021[14], which argues for the elimination of tax expenditures benefiting notably the transport sector (exemption of VAT on diesel fuel).

24. Increasing awareness of tax expenditures when discussing resources allocated to a given public policy would generate better decision making. Such a broader view would facilitate more informed budget decisions and avoid situations where the efforts to control public spending are undermined by extension of tax expenditures serving a similar public policy.

1.2 Frequency and Timeliness

1.2.1.	Frequency of In-Year Reports	Advanced

25. Chile reports budget execution information on a monthly basis in a timely manner. DIPRES publishes within thirty days after the end of each month a budget execution report covering the revenues and expenditures of the central government over the previous month, broken down by economic classification, as well as the consolidated assets of the Treasury, including a focus on the two sovereign wealth funds (FEES and FRP).

26. Efforts to adapt the reporting on budget execution have facilitated greater access to information. The traditional, budget execution reports (*Informe de Ejecución Presupuestaria Mensual*) were quite long documents, describing in over 15-20 pages the facts and figures for the monthly budget outturn. Since November 2019, it is complemented by a short budget execution bulletin (*Boletín de Ejecución Presupuestaria Mensual*), which summarizes in four pages the main tables and elements of analysis. The authorities have adjusted when necessary the reporting on budget execution, for example by introducing specific reporting on COVID-19 related expenditures in the monthly budget execution report. Moreover, a quarterly budget execution report provides

[14] *Informe sobre Exenciones y Regímenes Especiales – Comisión Tributaria para el Crecimiento y la Equidad*, January 2021.

additional details, covering notably the internal and external gross debt of central government as well as more detailed explanations on revenue and expenditure.

1.2.2	Timeliness of Annual Financial Statements	Advanced

27. Final annual financial statements consolidated for central government are published four months after the end of the financial year. These annual financial statements, contained in the IGFE report (see 1.1.1), are produced by CGR and follow IPSAS standards, which were enshrined in the Chilean legal order in 2015.[15] CGR is the Chilean Supreme Audit Institution (SAI) but its mandate also covers *ex ante* control of the legality of all transactions and the consolidation of government accounts. The legal framework compels CGR to publish the government accounts for a given fiscal year by the end of April of the following year.[16] The mission was advised that this deadline has been respected for the last four years. (see Table I.4)

Table I.4. Date of Publication of the Annual Financial Statements

Fiscal Year	Date of publication of the annual financial statements
2020	29 April 2021
2019	27 April 2020
2018	30 April 2019
2017	25 April 2018

Source: DIPRES and Internet Site of CGR.

28. The annual financial statements for central government produced by CGR are not audited. CGR receives accounting information from central government services on a monthly basis and reviews the information regularly, notably to ensure consistency between accounting and budgeting information. However, unlike most supreme audit institutions (SAIs), CGR does not audit the annual financial statements of central government but only produces unaudited financial statements, by aggregating data received from central government services and eliminating reciprocal transactions. Financial statements from entities outside central government (SOEs, universities) are however audited by private sector auditors (see 1.4.2. for the discussion on the audit of annual financial statements).

[15] Resolution 16 of the CGR (2015), which relates to the standards for the national general accounting system.
[16] Article 142 of the Organic Law 10.336 on the CGR.

1.3 Quality

1.3.1	Classification	Good

29. **Fiscal reports in Chile include administrative and economic classifications**. The latter is aligned with international standards. The economic classification is broadly aligned to GFSM 2001/2014.[17] Indeed, Chile was amongst the pioneering countries worldwide in aligning their budget classifiers or chart of accounts (CoA) with the modern analytical framework introduced by the GFSM 2001. The change was implemented in 2004 by Decree No. 854. The economic classification of fiscal flows (revenues, expenditures, financing) is based on a three-tier codification system (*subtítulo, item, asignación*). The first tier reflects the main economic categories while the other tiers – linked to the nature and/or object of revenues and expenditures – provide for more granular information on types of revenues and final spending allocations. The decree also established an institutional classification, corresponding to the administrative classification, and three additional classifications: by currency, by investment initiatives, and by the stage of the transaction.[18] However, the decree does not provide for a functional codification within the budget classifier structure, which constitutes a major gap in the classification framework in Chile.

30. **Despite this gap, a functional classification of expenditures table – consistent with COFOG – has been included retrospectively in the first quarter IFP and the statistical yearbook.**[19] In these reports, the previous year's expenditures are reported in accordance with the 10 functions of the COFOG and its subfunctions. DIPRES has recently added a complementary functional classification table to the third quarter IFP for 2021, containing the current year approved budget and next year's budget proposal, which is a step forward. When the budget classifications, however, are not integrated with the CoA or only partially integrated, there is a risk of losing important information and undermining the effectiveness of budget control and reporting.

31. **The program codes are a lower level of the institutional (administrative) classification however, they do not fulfil the purpose of a proper programmatic classification**. The purpose of a program classification is uniting a set of activities that meet specific policy objectives of the government. The institutional classification in Chile is structured on a three-tier codification system (*partida, capítulo, programa*). The first and second tiers correspond to the government bodies and their agencies (e.g. ministries and departments are classified under the first and second tiers, respectively), while the program codes (third tier) allow, if necessary, for additional breakdowns at

[17] Some minor differences with GFSM 2001 are clearly discussed in the EFP of 2011-2020. p.119. The GFSM 2014 retains the basic conceptual framework of its predecessor, the GFSM 2001, and updates some guidelines to harmonize with the updates in other macroeconomic statistical manuals and guides, such as the overarching System of National Accounts 2008. Chile has been adjusting its fiscal reports accordingly, and has already introduced one of the most relevant changes where the coverage of use of goods and services in the GFSM 2001 is changed to exclude weapons and weapons systems in the GFSM 2014, which are now recognized as the acquisition of a specific category of nonfinancial assets in the GFSM 2014.
[18] Degree of budgetary impact (*Grado de Afectación Presupuestaria*).
[19] The functional classification of 2020 was included in the Public Finance Report (IFP) of the first quarter of 2021.

the institutional level. This program tier of the institutional classification differs from the actual programs used in the performance-based management function. Those programs are monitored separately and do not have a one-to-one correspondence with the program disaggregation of the institutional classification.

1.3.2	Internal Consistency	Basic

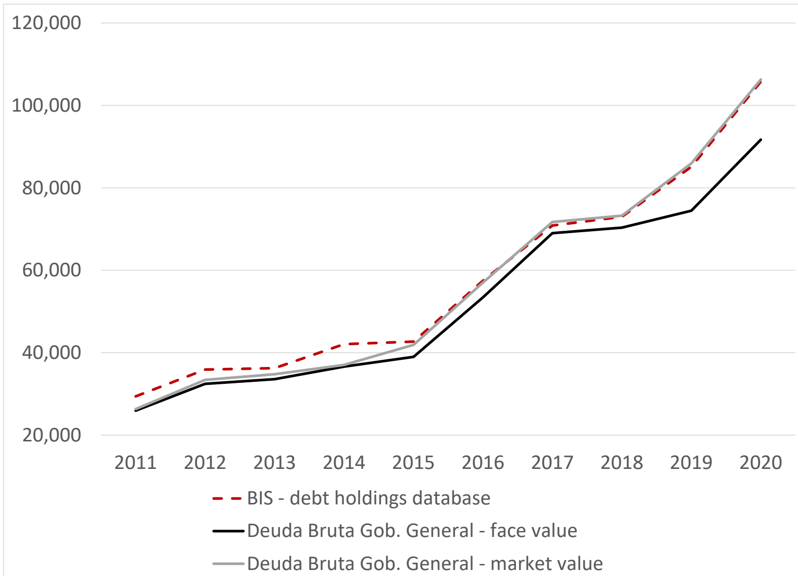
32. The reconciliation between fiscal balance and financing is presented in the Statistical Yearbook, but not in the quarterly reports. The reconciliation in the Statistics Yearbook between the above-the-line balance and the below-the-line financing figures for the budgetary central government comes directly from the budget execution system (SIAP-SP), and from the CGR for municipalities' data. DIPRES uses these sources of information to perform this consistency check. Therefore, fiscal statistics show no discrepancies between above and below-the-line fiscal balance given the design features embedded in the information systems. However, this reconciliation could be strengthened by introducing information from the banking system (i.e. monetary and financial data from the financial sector compiled by the BCCh) to compare banks' records with the government general ledger. Bank reconciliation plays an important role to ensure that government entities' records (general ledger, cash accounts, etc.) and the bank's records are complete and correct. For example, in other countries in the region (Brazil, Colombia) the below-the-line financing is compiled by the central bank based on data from the financial sector, an approach that can also be applied to compile the financing for the SOE sector, which is currently not provided in the Statistical Yearbook. Finally, the above and below-the-line reconciliation is not presented in the in-year budget execution reports and fiscal statistics, not even for the budgetary central government.

33. The other two internal consistency checks called for under the FTC– debt issued with debt holdings and financing with the change in the debt stock – are not provided and cannot be easily derived. The debt reports present information on debt stocks by currency, maturity, and by debt instruments (bonds and loans), but do not provide sufficient information on debt issuance, redemption, and valuation changes to allow performing a proper reconciliation between the financing and the change in the debt stock. Furthermore, information on the stock of debt held by counterparties (such as foreign governments, banks, pension funds, and investors) is not available in the debt management back-office database. This prevents the MoF from publishing debt data classified by residency counterpart (see 1.4.1) and performing the reconciliation between issued and debt holdings as required by the FTC.

34. Third party information on private sector debt holdings aligns with the fiscal reports' debt position, and staff calculations indicate the unexplained discrepancy between fiscal balance and financing reached only 0.3 percent of GDP in 2020. The comparison between reported debt stocks at market value and information available in the security-by-security database built by the Bank of International Settlements (BIS) shows no material differences in the last 10 years (Figure I.5). However, when working with internal data on financing and change in debt stock, which was provided by the authorities, staff estimates an unexplained discrepancy between reported fiscal balance and financing (above and below the line) of around 0.3 percent in 2020. Authorities should revise those numbers and make further investigations to assess the remedial approach to be taken.

Figure I.5. Internal Consistency Reconciliations, 2020

Reported debt BIS database (US$ million)



Source: Statistical Yearbook and Debt Reports. Staff estimates.

1.3.3	Historical Revisions	Basic

35. Major revisions to fiscal data are included in the Statistical Yearbook, but the visibility of these revisions and their explanations could be strengthened. Information on methodological changes and corrections to fiscal data are intermittently provided in the methodological annex of the Statistical Yearbook, but the old and new figures are not explicitly disclosed or explained. More broadly, the current practice is to update online databases containing fiscal aggregates on a quarterly basis without further explanations. Introducing a dedicated section in the annual and quarterly reports to clearly explain the differences between previous and revised statistics could be considered to strengthen the transparency of these revisions. This approach is already used in the quarterly general government reports to communicate the successive increase in municipalities covered overtime. Revisions are reported in a short section (*Revisión de cifras*) with a quantitative comparison between the old and new figures. [20]

36. Over the last few years, revisions have been triggered by changes in methodology and reclassification of transactions. Table I.5 lists some major revisions that have been referred to in

[20] *Informe de Estadísticas de la Deuda del Gobierno General Trimestral* and *Informe del Estado de Operaciones del Gobierno General Trimestral.*

the reports and the corresponding impact to the fiscal balance. In the period 2006-2008 the changes in fiscal balance due to revisions have surpassed 1 percentage point of GDP; however, more recently, annual revisions to the fiscal balance have been contained.

Table I.5. Major Revisions to Historical Fiscal Statistics, 2020

Historical Revision	Affected year	Impact on net lending/ net borrowing
Events: - Methodological change in the calculation of accrued interest revenues for FEES and FRP - Change in institutional coverage of FEPCO and FEPP - Corrections on recording of quasi-fiscal operations from Enap - Corrections on expenditures related to the Copper Reserved Law - Other adjustments	2006 2007 2008 2009 2010	- 0.4 p.p. of GDP - 1.0 p.p. of GDP - 1.4 p.p. of GDP + 0.1 p.p. of GDP - 0.1 p.p. of GDP
Events: - Reclassification of expenditures related to the Copper Reserved Law in accordance with GFSM 2014 methodology: expenditures previously classified as 'use of goods and services' moved to 'acquisition of non-financial assests'. No impact in the fiscal balance. - Other adjustments	2018 2019 2020	- 0.1 p.p. of GDP - 0.1 p.p. of GDP n.a.

Source: Statistical Yearbook Editions 2006 through 2021. The events listed in the first column affected all years listed in the second column for each of the two sections of the table.

1.4 Integrity

1.4.1	Statistical Integrity	Good

37. Fiscal statistics are disseminated in accordance with international standards, broadly including all relevant disclosures. In this case, the relevant international standards for dissemination are the IMF's Special Data Dissemination Standard (SDDS) Plus, Chile completed the requirements for adherence to this standard in March 2020. This makes Chile only the second country in Latin America to adhere to the SDDS Plus, the highest tier of the IMF's Data Standards Initiatives.[21] In terms of relevant disclosures, a statement of operations providing the main components of revenue, expenditure, and financing, consistent with the GFSM framework is available. The breakdown of government gross debt, by maturity, instrument, and currency is also available however these reports have yet to include a breakdown of the residency of counterparty holdings of gross debt, which as discussed in principle 1.3.2, should be addressed. Lastly, extensive metadata on the above data is available following the template defined in the IMF's Data Quality Assessment Framework.

[21] Chile adheres to SDDS Plus: https://www.imf.org/en/News/Articles/2020/03/20/pr2097-chile-adheres-to-the-imfs-special-data-dissemination-standard-plus

38. In accordance with legislation, DIPRES has the responsibility for compiling fiscal statistics. DLFA provides DIPRES with the legal authority to compile and disseminate fiscal statistics which is performed by the Statistics Department. DIPRES also has responsibility for the allocation of financial resources but it is a separate agency from the MoF, who is the ultimate user of fiscal statistics and has responsibility for managing fiscal policy within the given macroeconomic environment. DIPRES has its own enabling legislation that describes it as a technical agency and the Head is appointed and removed by the President.[22] Some operational independence is provided with quarterly data presented to the Congress as required under legislation, having a published calendar in advance of planned data releases, and not allowing government officials outside of DIPRES to have access to fiscal data prior to official release. The BCCh does not independently compile fiscal statistics but publishes a fiscal statistics database and monitors fiscal outcomes. The National Statistics Institute (INE) does not have a role in the production of fiscal statistics.

39. Chile could further strengthen the integrity of its fiscal statistics by having them compiled by a professionally independent body. This would provide for more separation between the users and compilers of fiscal statistics, mitigating further the possibility, or perceived possibility, of any political interference in the production of fiscal statistics. Professional independence for the production of fiscal statistics is usually set out in legislation that prohibits interference from other government agencies in the compilation and/or dissemination of statistical information; and ensure that the selection, tenure, and reporting arrangements of the agency's head are supportive of professional independence – that is his/her tenure does not usually coincide with that of the government and his/her appointment and removal follow transparent processes that are clearly defined in a law or code. Proposed legislation to strengthen the professional independence of the INE has been introduced to the Chilean Congress, however this law has been pending for some time. As part of these legislative reforms, strengthening the independence of the INE and transferring responsibility for the compilation of fiscal statistics should be considered. The production of the fiscal statistics by a professionally independent body is the approach in place in most OECD countries. Box I.2 explains the more independent approach taken by the Canadian authorities.

40. In the interim, more can be done to enhance the operational independence of the Statistical Department within the DIPRES – including increasing transparency of existing processes and setting up an inter-institutional working group with the other agencies. This is an advisable short-term action. The authorities should consider the creation of an inter-institutional working group involving the three agencies responsible for macroeconomic statistics: the MOF, the BCCh and the INE, formally ensuring macroeconomic statistical consistency among national accounts, fiscal data, BOP and financial statistics. For example, an immediate task within the working group would be comparing the below-the-line financing figures for the budgetary central government drawn directly from the budget execution system (SIAP-SP) with the information on changes to net credit to government assessed by BCCh's monetary survey (see indicator 1.3.2).

[22] http://www.dipres.gob.cl/598/w3-article-3672.html

Further actions to strengthen statistical independence at DIPRES include publishing the terms and conditions under which statistics are collected, processed, and disseminated to the public. A roadmap of future statistical improvements against international standards should be published and reported against. Internal processes in place to ensure the clear separation of the Statistics Department from those working on the compilation and execution of the budget should be strengthened, clarified and disclosed to keep the autonomy of the Fiscal Statistics Department intact.

Box I.2. Canada: Ensuring Statistical Integrity

Statistics Canada is a professionally independent agency whose main responsibilities are regulated by the Statistics Act of 1985. The agency provides statistical services for the whole of Canada and its provinces. Statistics Canada has two main objectives:

- to provide statistical information and analysis about Canada's economic and social structure, and
- to promote sound statistical standards and practices. It has legal and institutional frameworks that protect confidentiality and ensure the integrity statistical reporting.

The agency has gained public trust by being objective and providing guidelines on the ethical conduct for its staff. The compilation and dissemination of fiscal statistics by Statistics Canada follow the principles and standards set out in the GFSM 2014 and SDDS Plus.

The advance release calendar published on the SDDS web page indicates the dates on which statistics on general government operations and debt will be published. Fiscal statistics are published in both English and French, Canada's two official languages. Information on major changes in practices and any rebasing of data is provided in discussion papers, meetings and on the Statistics Canada website.

Source: 2018 IMF Fiscal Transparency Handbook.

1.4.2.	External Audit	Not met

41. The CGR's independence is enshrined in Article 98 of the Constitution, which establishes it as an autonomous branch independent from the executive and the legislature. The CGR's detailed mandate, functions and organization are regulated by Law 10.336[23], which includes auditing the revenue and investment of the funds of the Treasury; verifying the examination of accounts rendered by the persons or entities in charge of public funds or assets; keeping the general accounts of the government; ruling on the constitutionality and legality of supreme decrees and monitoring compliance with administrative provisions. The CGR's budget is integrated into the general budget and is subject to review by DIPRES and Congress.

42. The role of the CGR is different than that of other SAIs, as it is the CGR rather than the executive which produces the annual financial statements for the central government and presents them in the IGFE. Its mandate to conduct the government's accounting is also established in Article 98 of the Constitutional. As discussed in indicator 1.2.2, the CGR receives the monthly accounting reports of public entities and uses them to prepare the IGFE. The financial

[23] Law 10.336 and Decree 2421 that consolidates laws 10.336 and 14.832.

reports from the public corporations and Universities[24] are audited by private firms and sent to the CGR for inclusion in the IGFE. The information is received physically through e-storage (CDs and web folders), which reportedly leads to occasional delays. The CGR expects to receive resources in 2022 to develop a new system that would allow it to receive the information automatically.

43. **CGR currently has a pilot program for conducting audits of the financial statements of central government entities, based on a random sample.**[25] A 2002 reform to Law 10.336 specified the CGR's audit mandate and in Resolution No. 20 the CGR defined the types of audits it will perform, which include financial audits.[26] In 2017, the CGR implemented an important organizational reform and created an Audit Division, which also includes a Special Audits Unit. Generally, audit tasks focus primarily on compliance with legal standards, processes and the completeness of financial records and its supporting documentation, with a heavy focus on ex-ante compliance.[27] Consequently, CGR does not currently issue an opinion on the financial position of the central government (Table I.6). However, the new Audit Division is currently finalizing the financial audit manuals based on International Standards of Supreme Audit Institutions (ISSAI).

Table I.6. International Good Practice Types of Audit Opinions on Financial Statements

Opinion	Opinion Interpretation
Unqualified Opinion	The financial statements are presented fairly, in all material respects, in accordance with the accounting standards.
Qualified Opinion	The auditor detected material, but not pervasive, misstatements, or obtained insufficient evidence on which to base an opinion, and concluded that undetected misstatements could be material, but not pervasive.
Adverse Opinion	Misstatements are material and pervasive.
Disclaimer of Opinion	The auditor could not obtain sufficient evidence on which to base an opinion and concluded that undetected misstatements could be material and pervasive.

Source: IMF, Fiscal Transparency Handbook.

44. **Auditing the central government annual financial statements would lead to a better alignment with international best practice.** It could pave the way towards consolidation of financial statements at general government level. However, this would require (i) adjusting the timeline whereby the IGFE report is produced, to ensure sufficient time for a proper audit and (ii) ensuring that the services within CGR producing the IGFE report and auditing the annual financial statements have clear and distinct lines of accountability.

[24] The CGR experiences delays in the delivery of the audited financial statements by the Universities.
[25] Comptroller General of the Republic. Operational Audits Plan. http://sistemas.contraloria.cl/portalweb/es/web/cgr/plan-de-auditoria
[26] In article 21A.
[27] Since 2017, the Audit Division has produced an annual report, which consolidates the main findings of its previous year's audits, although it is not an audit of the financial statements.

45. The CGR's mandate for producing the financial statements could face a conflict of interest with the auditing responsibility of validating the financial accounts and providing an audit opinion. When consolidating the financial accounts of the central government in the IGFE, CGR would be obliged to correct the original information received from the multiple public entities within the central government in order for the central government's financial statements to reflect a true and fair view of the government's financial position. The government could consider relocating the accounting responsibilities to the MoF, globally this is the most common location for this function. However, this would require constitutional and other related legal and organizational reforms and ensuring that personnel have the adequate qualifications and training for these specific tasks. An alternative option would be to establish protocols for clear separation on the exchange of information between the CGR Accounting and the Audit Divisions.

1.4.3.	Comparability of Fiscal Data	Good

46. A singular classification framework[28] is consistently applied across fiscal forecasts, budget documents and outturns/budget execution reports, and can easily be bridged with fiscal statistics. This framework includes economic and administrative classifications (see indicator 1.3.1). The institutional coverage and the basis of recording are also consistent throughout the reports. The budget classification structure was revamped in 2005 to better align with the GFSM 2001/2014 framework, which is the methodological standard used in Chile to compile and disseminate fiscal statistics. Therefore, there is a one-to-one correspondence between most of the categories in fiscal statistics and the three-tier budget economic codification (i.e., social contributions, compensation of employees, use of goods and services). Furthermore, a detailed bridging table between the budget's national economic codes and the GFSM codes is provided in the annexes of the fiscal statistics yearbook. Finally, the main fiscal table (Table I.7), broadly used for fiscal policy analyses in the country, is presented in the IFP's fiscal forecasts, in the monthly and quarterly budget execution reports and in the quarterly and annual fiscal statistics.

47. The final accounts are prepared by the CGR under a distinct classification framework, and there is no reconciliation of main aggregates. The financial statements include a Statement of Financial Performance, compiled on accrual basis and a Cash Flow Statement. Both statements present revenue and expenditure aggregates which cannot be immediately reconciled with either budget outturns or fiscal statistics given the information available in the reports. Moreover, the statements also include a section on budget execution, but the notes with the statements are silent on the comparison between the two sections: the accounts and the budget. Improving reconciliation between accounts and budget/statistics would enhance the usefulness of the financial statements for decision making.

[28] *Clasificador presupuestario* (budget classifier).

Table I.7. Main Fiscal Table for Policy Analysis, 2020
(Million pesos)

Revenue (*Ingresos*)	**40,135,428**
Taxes (*Ingresos tributarios netos*)	32,302,484
Copper revenue (*Cobre bruto*)	1,019,268
Social contributions (*Imposiciones previsionales*)	3,104,866
Grants (*Donaciones*)	113,795
Property income (*Rentas de la propriedad*)	862,363
Sales of goods and services (*Ingresos de operación*)	778,959
Other revenue (*Otros ingresos*)	1,953,692
Expense (*Gastos*)	**47,945,994**
Compensation of employees (*Personal*)	10,615,825
Use of goods and services (*Bienes y servicios de consumo y producción*)	4,369,687
Interest (*Interesses*)	1,902,914
Subsidies and Grants (*Subsídios u donaciones*)	22,110,795
Social benefits (*Prestaciones previsionales*)	8,831,823
Other expense (*Otros gastos*)	114,949
Investment in NFA (*Adquisición neta de activos no financieros*)	**6,798,135**
Net lending/borrowing (*Préstamo neto/ endeudamiento neto*)	**-14,608,701**
Financing (*Financiamiento*)	**14,608,701**
Net acquisition of financial asstes (*Acquisición neta de activos financieros*)	-6,395,308
Net incurrence of liabilities (*Incurrimiento neto de pasivos*)	8,213,393

Source: Fiscal Reports.

48. Other OECD countries can provide valuable insights for Chile in this area. For example, the UK has a long tradition of communicating on reconciliations between traditional fiscal statistics (current budget deficit, net debt) and the financial statements' indicators disclosed in its Whole of Government Accounts (WGA) report. Australia also stands out as a leader in developing and implementing high level standards in government budgeting and accounting. Currently, Australia reports the consolidated GG budget fully aligned with GFSM 2014 framework, while the accounts follow Australian Accounting Standards (AAS). Where there are inconsistencies between GFSM and AAS, they are fully disclosed both in the Final Budget Outcome (GFSM-compliant) and in AAS-compliant Consolidated Financial Statements (CFS).

Box I.3. Enhancing Transparency on Reconciliation of Fiscal Statistics and Government Accounts

Country Examples

United Kingdom: In the Whole of Government Accounts (WGA) report on the financial position and performance of the public sector in the UK, the accounts are prepared under International Financial Reporting Standards. The report is published on an annual basis four months after the end of the reference period, it contains extensive information on the government's fiscal performance. The WGA contains a comprehensive annex describing several bridging tables with corresponding narrative on the main explanatory elements that drive the comparisons with the more traditional fiscal indicators compiled under the National Accounts rules (European System of National and Regional Accounts), among others:

- Public Sector current budget deficit (fiscal statistics) and WGA net expenditure.
- Public Sector Net Debt (fiscal statistics) and WGA Net Liabilities.

Reconciliation between PS current budget deficit and WGA net expenditure (2018-19)

	£bn
Public sector current budget deficit (National Accounts)	(6)
Add expenditure on liabilities excluded from National Accounts:	0
Increase in provisions	21
	0
Adjust expenditure calculated differently from National Accounts:	0
Public sector pensions	0
Depreciation and amortisation	(15)
Impairments and revaluations of assets	13
Net (gains)/Losses on sale of assets	4
Capital grants	10
Research and development	2
	0
Other adjustments including eliminations	27
Net expenditure on public services (WGA)	56
	0
Financing costs of long-term liabilities, including discounting	(57)
Revaluation of financial assets and liabilities	(1)
Total net expenditure (WGA)	-2

The reconciliation provides illustrative figures as well as detailed bridging tables together with adequate narrative on the main drivers behind the differences. www.gov.uk/government/collections/whole-of-government-accounts

Australia: The Australian government provides a Final Budget Outcome (FBO) report no later than three months after the end of the financial year. The report encompasses the general government sector fiscal outcomes for the financial year and is based on GFSM standards. It includes two main parts https://archive.budget.gov.au/2019-20/fbo/download/FBO-2019-20.pdf:

- Part 1: provides budget aggregates including summary analysis of cash flows, revenue, expenses, net capital investment and the balance sheet (net debt, net financial worth and net worth).
- Part 2: presents the Australian Government's financial statements with the Australian Bureau of Statistics' (ABS) Government Finance Statistics (GFS) as the basis for accounting policy.

In addition, within six months after the end of the financial year the government publishes the Consolidated Financial Statements (CFS) presenting the whole of government and general government sector (GGS) financial reports, including the audited accounts of 190 entities across the public sector. The CFS is prepared in accordance with the applicable Australian Accounting Standards (AAS) and the differences between GFSM and AAS standards are fully disclosed in notes both in the FBO and the CFS.

https://www.finance.gov.au/publications/commonwealth-consolidated-financial-statements/2019-2020-commonwealth-consolidated-financial-statements

Source: IMF staff.

1.5 Conclusions and Recommendations

49. Based on the above assessment, the following recommendations could improve transparency in fiscal reporting:

- **Recommendation 1.1: Expand the institutional coverage of fiscal reports and consolidate the general government, the non-financial public sector and the public sector in accordance with international standards.** Expanding the coverage and improving consolidation practices will allow for a broader view of public finances, enhancing the usefulness of the reports for fiscal analysis and policy decision-making:
  - DIPRES working with CGR should establish a working plan at the start of 2022 targeting the inclusion of all adjustments by the May 2024 IGFE or before as indicated in the recommendations in this report. (1.1.1)
  - Introduce fiscal data on public universities in the Statistical Yearbook and gradually incorporate these institutions in the quarterly fiscal statistics report. Public universities should be classified under the extra-budgetary subsector in statistics and consolidated into the central and general government in the statistical tables. (1.1.2)
  - Implement consolidation practices in IGFE. As a first step, Chapters 1, 2, and 4 should be consolidated to present statements for the consolidated general government. Further, CGR should gradually consolidate the general government with Chapters 3 (public corporations) and 6 (central bank) to reach the entire public sector.[29] Such consolidated statements, namely general government and public sector, should be introduced in IGFE by adding two additional Chapters in the report. (1.1.3)
- **Recommendation 1.2: Improve the coverage of stocks and flows in fiscal reports, by including missing assets, liabilities and fiscal flows in accordance with international standards.**
  - The IGFE should: i) include the missing assets and liabilities highlighted in this report, namely the pension liabilities related to the PAYG pension schemes of CAPREDENA and DIPRECA, the monetary value of copper reserves at present value, the 'recognition' pension bonds, the complete PPP liabilities in accordance with IPSAS 32, the total liabilities at the subnational level; ii) account for the debt securities (BTPs, BTUs and Global) at market value and accrued interest on those securities accordingly and record the corresponding other economic flows. (1.2.1)
  - The Annual Statistical Yearbook and quarterly fiscal statistics should: i) improve the classification of CG liabilities to better report the categories of accounts payable and other liabilities and harmonize the concept of "net debt" between the MoF debt unit and DIPRES, ii) account for the debt securities (BTPs, BTUs and Global) at market value and accrued interest

[29] In the region, Peru and Colombia have valuable experiences on producing comprehensive consolidated financial statements.

on those securities accordingly and record the corresponding other economic flows, iii) revise statistical treatments and classifications including the disaggregation of the category "subsidies and grants" in the central and general government statistics into two separate line items, disaggregate the category "compensation of employees and use of goods and services" in the SOE statistics into two separate line items, iv) calculate the "net lending / net borrowing" in the SOE statistics by deducting the net acquisition of non-financial assets from the net operating balance (not gross) to take into account the depreciation, v) record capital transfers from the central government to private sector entities, SOEs and local government as spending – either as transfers to private sector, subsidies to SOEs, or grants to municipalities – and not as acquisition of non-financial assets in the central government statement of operations; vi) introduce a statement of other economic flows. (1.2.2)

- **Recommendation 1.3: Improve fiscal data quality by ensuring internal consistency in fiscal reports and providing detailed explanations on revisions to fiscal statistics.**
  - Strengthen internal consistency in fiscal reports by: i) introducing in the first quarter IFP and in the debt reports the reconciliation table between the financing and the change in the debt stock; ii) comparing the below-the-line financing figures for the budgetary central government drawn directly from the budget execution system (SIAP-SP) with the information on changes to net credit to government, assessed by the BCCh's monetary survey; iii) establishing procedures and database within the debt management back-office to collect information on the stock of debt held by counterparties (such as foreign governments, banks, pension funds, and investors) to enable reconciling debt issued and debt holdings. (1.3.1)
  - Continue to use and publish the functional classification in the upcoming quarterly IFPs including as part of the budget (proposal and approved) and in-year fiscal reports. Publish a bridge table or methodology that allows replicating the functional classification to a partial section of the budget. (1.3.2)
  - Complement the CoA incorporated in Decree 854 with alternative classifications of spending to include functional and programmatic perspectives. (1.3.2)
  - Introduce a dedicated section (*Revisión de cifras*) in the annual and quarterly fiscal reports to clearly explain the differences between previous and revised statistics, with a quantitative comparison between the old and new figures. This can follow the approach already used in the quarterly GG reports to communicate the successive increase in municipalities covered overtime. (1.3.3)
- **Recommendation 1.4: Strengthen external scrutiny of annual financial statements to ensure they represent a true and fair view of government's financial position.**
  - Perform financial audits on individual public entities based on the recently developed manuals by CGR and publish an audit opinion based on the findings. Establish protocols for clear separation on the exchange of information between the Accounting and the Audit Divisions of the CGR. (1.4.1)

- Produce an audit report on the annual financial statements and issue an opinion on the true and fair view of the statements. (1.4.2)
- This can be achieved either by transferring the preparation of financial statements to the MoF or by ensuring within CGR a clear separation of the Accounting and the Audit functions and of the exchange of information to prepare and audit the government´s financial statements. (1.4.3)
- Establish a working group on statistics consistency with DIPRES, INE and BCCh. Continue to strengthen the independence of fiscal statistics by transferring responsibility for compilation to a professionally independent agency, increasing the separation of duties between the users and compilers of fiscal statistics. A role for the INE in the compilation of fiscal statistics could be considered, along with the draft legislation introduced in Congress to strengthen its independence. Interim measures to strengthen the autonomy of the Fiscal Statistics Department within DIPRES should also be considered. (1.4.4)
- Introduce bridge tables in the IGFE to reconcile main aggregates (revenue, expenditure, financing) with corresponding budget outturns and fiscal statistics figures. (1.4.5)

Table I.8. Summary Assessment of Fiscal Reporting

Principle		Assessment	Issues and Importance	Recs
Coverage	Coverage of Institutions	**Good.** Fiscal statistics consolidate GG and the Financial Statements cover the entire public sector, but do not consolidate subsectors.	**Medium.** Public universities are not included in fiscal statistics. Their expenditure level amounted to 0.6% of GDP in 2020 (2% of the total central gov). The NFPS and the PS are not consolidated.	1.1
	Coverage of Stocks	**Basic.** Fiscal reports cover cash, deposits and debt, but do not cover all financial assets and liabilities.	**High.** Missing items impacting the net worth positively by around 1.3% of GDP and change the composition of the balance sheet, mainly: • copper reserves: 24.9% of GDP; • pension liabilities: 17.5% of GDP; • debt securities at market value: 5.7% of GDP	1.2
	Coverage of Flows	**Good.** Fiscal reports cover cash flows and accruals and financing.	**Low.** Some statistical treatments are not aligned with international standards. Fiscal reports do not cover other economic flows.	1.2
	Coverage of Tax Expenditures	**Good.** A report on tax expenditures is published annually and includes information by tax and the economic sector.	**Low.** The overall level of tax expenditures is at 3% of GDP in 2019 but there is no control mechanism over total tax expenditures.	
Frequency and Timeliness	Frequency of In-Year Reporting	**Advanced.** In-year reporting includes monthly budget execution reports published within thirty days.	**N/A.**	
	Timeliness of Annual Financial Statements	**Advanced.** Final Annual Financial Statements are produced and published within four months after the end of the fiscal year.	**Low.** Annual Financial Statements remain at this stage incomplete and are not subject to audit before finalization.	
Quality	Classification	**Good.** Fiscal reports include administrative and economic classification in line with GFSM 2001/2014.	**Medium.** A complimentary functional table has been recently introduced in budget documentation however it is not part of the CoA. The program level of the institutional classification does not fulfill its purpose.	1.3
	Internal Consistency	**Basic.** Reconciliation between fiscal balance and financing is only presented in the statistical yearbook	**High**. There is no publication of bank reconciliation and reconciliation table of debt stocks and flows.	1.3
	Historical Revisions	**Basic.** Major revisions to fiscal data are included in the statistical yearbook, but not fully explained.	**Low.** Revisions to fiscal balance had surpassed 1 percentage point of GDP in the past but have been contained in the last decade.	1.3
Integrity	Statistical Integrity	**Good.** Chile is SDDS-Plus compliant. Fiscal statistics are disseminated by DIPRES.	**Medium**. Independence of fiscal statistics could be strengthened by establishing a professionally independent agency and improving the autonomy of the Statistics Department within DIPRES.	1.4
	External Audit	**Not met.** CGR does not audit nor issue an opinion on the reliability of the annual financial statements.	**High.** No audit of the annual financial statements; CGR performing both accounting and auditing functions could face conflict of interest.	1.4
	Comparability of Fiscal Data	**Good.** Fiscal forecasts, budget documents and outturns/budget execution are comparable.	**Medium.** Key aggregates of fiscal reports and financial statements should be reconciled.	1.4

II. FISCAL FORECASTING AND BUDGETING

Fiscal forecasts and budgets should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.

50. **This chapter assesses the quality of Chile's fiscal forecasting and budgeting practices against the standards set by the FTC**. In doing so, it considers four key dimensions of fiscal forecasting and budgeting based on publicly available information:

- i. The comprehensiveness of the budget and associated documentation;
- ii. The orderliness and timeliness of the budget process;
- iii. Policy orientation; and
- iv. The credibility of the fiscal forecasts and budget proposals.

Table II.1. Fiscal Forecasting and Budget Documents

Report	Content	Timing (last publication)
Fiscal Forecasting and Budget Documents		
Public Finance Report (Informe de Finanzas Públicas-IFP)	Contains macroeconomic and fiscal forecasts for the upcoming year and a 4-year period (MTFF)	Quarterly (March 2021)
Draft Budget Law	Proposed budget	Annual (September 2020)
Adopted Budget	Approved budget	Annual (December 2020)
Budget Priorities Booklet (Citizens' budget)	Content of the proposed budget presented in a summary and accessible format	Annual (September 2020)
Report on Fiscal Rule Implementation	Report produced by DIPRES containing elements to assess the implementation of the structural balance rule	Annual (June 2020)
Report by the CFA	Report produced by CFA on compliance with fiscal rules and on the sustainability of public finances	Twice a year in April and September (April 2021)

Source: IMF Staff.

2.1 Comprehensiveness of Budget Documentation

2.1.1.	Unity and Universality	Basic

51. **The documentation submitted with the budget includes budgetary central government entities.** The budget documentation submitted for authorization to Congress

incorporates all gross revenues, expenditures, and financing by central government budgetary entities. Transfers from budgetary central government to other central government extra-budgetary entities are also included in the budget.

52. **In 2019, the 1958 law requiring the National Copper Corporation (Codelco) to turn over 10 percent of its copper export sales to the military, which was traditionally not included in the budget, was repealed.** New measures were introduced to improve the transparency of the process.[30] The 10 percent of revenues received by the military from Codelco will be gradually reduced over a nine-year period and is now included in the budget. Two dedicated funds are being introduced, a multi-year fund for investment in the Armed Forces' strategic capacities and a strategic contingency fund to finance material for the Armed Forces during emergencies. The BCCh administers both funds. The Armed Forces' budget is now considered like that of any other central government entity and its reserved expenditure and minimum expenditure floor have been eliminated.

53. **The estimated expenditure and revenue of the main extra-budgetary entities are not included in budget documentation**. Information on the use of the central government transfers by these entities can be requested by Congressional Deputies at any time. However, good practice would require that the budget documents provide information on the final activities of all the extra-budgetary government entities including spending financed by their own revenue. The information provided to the mission is that, with exception the Universities, most of these entities do not raise their own revenue or it is not material.[31]

54. **Information on these extra-budgetary entities' estimated revenues and expenditures could be provided as an annex or additional information in the budget documentation package.** This applies mostly to universities and other funds dependent on ministries; a list of these funds is provided under indicator 1.1. The budget documentation package could include the estimated revenues and expenditures of the main extra-budgetary entities to better assess the total final use of central government funds. The priority would be to include information on the entities raising their own revenue. In the financial statements (IGFE), the universities, training centers and the university loans solidarity fund report their annual execution information which accounts for 2 percent of central government expenditure. To further enhance transparency, each entity could disclose their budgets and execution on their own websites, some universities have already taken this step.

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[30] The increase in transparency on the use of these funds is an important improvement and consistent with recommendations by the OECD and other organizations.

[31] In the case of Chile, there are no public social security funds as these are private and the solidarity component is included in the Ministry of Labor's budget.

2.1.2.	Macroeconomic Forecasting	Advanced

55. The fiscal reports and budget documentation provide an analysis of the key macroeconomic forecasts and related assumptions, with a brief overview of the main macroeconomic components. The budget documentation[32] includes forecasts of key macroeconomic aggregates (e.g., nominal GDP, internal demand, inflation, exchange rate, price of copper) for the current year, the next budget year, and the next four years. The macroeconomic scenarios are also updated on a quarterly basis in the IFP. Basic assumptions underlying the forecasts are discussed (e.g., analyses of the international macroeconomic situation and financial markets, exchange rate, inflation rate). With a more detailed approach on some specific issues which have a high impact on the Chilean economy (e.g., commodities and copper markets). Forecasts of some of the main macroeconomic components (e.g., components of internal demand, exports and imports, current account balance) have been developed in the third quarter IFP of 2021 but some details still appear limited (e.g., no or very limited discussion regarding unemployment rate, employment growth, or interest rates). This limited information weakens the ability for external readers to understand the macroeconomic and fiscal forecasts and the assumptions. BCCh also produces forecasts in the *Informe de Politica Monetaria*. Those forecasts are more detailed and encompass more variables. However, they are not mentioned in budget documentation. The CFA compares the government's macroeconomic and fiscal forecasts against other national (e.g., BCCh) and international sources (e.g. IMF, World Bank) and publishes this comparison in its bi-annual report to the Congress but it does not evaluate or assess the forecasts (see 2.4.2).

56. The process for establishing the macroeconomic forecasts hinges on the Macroeconomic Coordination Division in the MoF, which produces the outputs required by DIPRES. Forecasts are established on a quarterly basis to support the publication of the IFP. However, in times of high uncertainty or to analyze the impact of new laws, some *ad hoc* forecasts can be run. This Division can leverage different economic and econometric models to build detailed forecasts and perform consistency checks and checks against the other forecasters (e.g., consensus forecasts from the surveys of the BCCh and international organizations). There is no coordination with the BCCh (in accordance with the independency of this institution), but forecasts can be discussed during monetary policy meetings. The Macroeconomic Coordination Division provides DIPRES with the forecasts required. Hence, the models and information already exist to support the development of a more comprehensive macroeconomic forecasts within the IFP, provided DIPRES requests such input from the Division.

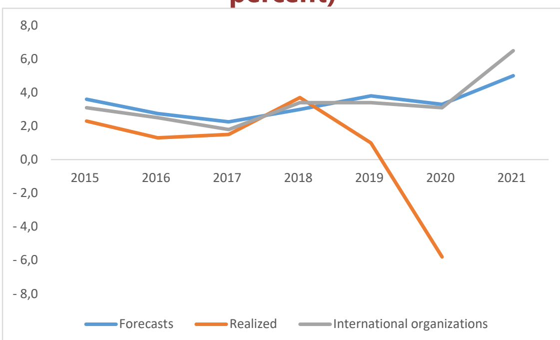
57. Although usually in line with macroeconomic forecasts from international institutions, macroeconomic forecasts tend to exhibit an optimistic bias (see Figure II.1). On average, between 2015 and 2020, 1-year forward real GDP growth forecasts have been higher than the realized real GDP growth, with only one occurrence of the forecast being below the realized growth (in 2018). Excluding 2020 forecasts, the standard deviation of the forecast errors is close to 1.1

[32] See mainly the IFPs.

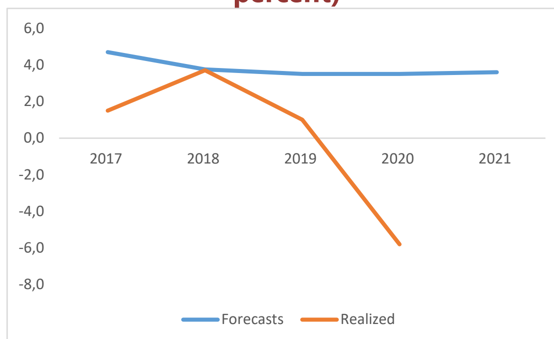
percentage point of GDP. Forecasts from major international organizations are close to the Chilean administration forecasts and also tend to exhibit the same characteristic. This optimistic bias is also true when looking at the 3-year forward macroeconomic forecasts. Last, in recent years, 1-year forward inflation forecasts have been above realized inflation.

Figure II.1. Analyses of Macroeconomic Forecasts

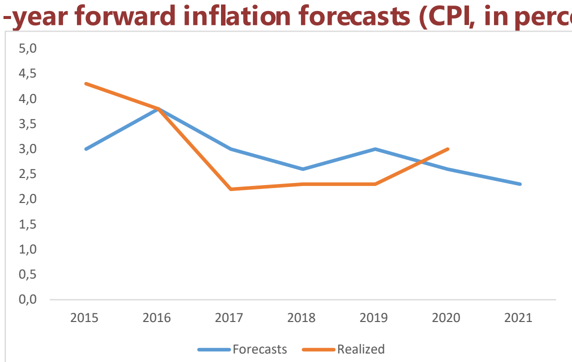
a. 1-year forward real GDP forecasts (in percent)



b. 3-year forward real GDP forecasts (in percent)



c. 1-year forward inflation forecasts (CPI, in percent)



Source: IFP, IMF, World Bank, OECD.

2.1.3.	**Medium-Term Budget Framework (MTBF)**	**Basic**

58. The medium-term perspective in the budget is captured through a Medium-Term Fiscal Framework (MTFF), directly derived from Chile's fiscal rule. This MTFF, also known as medium-term financial program (*programa financiero de mediano plazo*)[33], extends over three or more[34] years beyond the next fiscal year and covers central government. An aggregate ceiling for maximum expenditure compatible with the Cyclically-Adjusted Balance (CAB) rule is calculated on the basis of the structural balance objective and the projections for total cyclically-adjusted revenue. This MTFF is updated every three months as part of the quarterly IFP report to reflect changes in macroeconomic parameters and (possibly) to the fiscal objectives, but most updates take place at

[33] See articles 9 and 10 of the DLFA.

[34] Since the budget law for 2019 (the first submitted by the present administration), the MTFF covers four years beyond the next budget year, i.e. the MTFF associated with the 2019 budget covered the years 2020-2023.

the time of the 3rd quarter IFP, which is submitted in late September along with the draft budget for next year.

59. The aggregate expenditure ceilings set for the out-years covered by the MTFF (year 1 to 3 beyond the next year's budget) are not systematically complied with. Table II.2 below shows significant discrepancies – both in nominal terms and after adjusting for inflation – between the expenditure ceiling set for the last year, the MTFF three years before (out-year ceiling for year 3) and the actual budget outturn. For example, the 3rd quarter IFP published in September 2013 presented aggregate expenditure ceilings covering from 2015 to 2017; the year 3 covered by this MTFF (2017) actually led to an outturn significantly higher, in real terms (+5.2 percent), than anticipated in September 2013 (for reasons linked to a change in government in March 2014 which implemented new policies financed through a tax reform enacted in 2014). This was also the case in 2020 (for reasons linked to the COVID-19) while in 2018 and 2019 the ceilings were respected after adjusting for inflation.

Table II.2. Compliance with Expenditure Ceilings over the Period Covered by the MTFF

		2017	2018	2019	2020	2021
Out-Year Ceiling	Year 3	36,823	42,746	45,881	45,958	48.988
	Year 2	40,394	44,055	45,160	47,878	51,113
	Year 1	42,165	44,282	46,733	50,218	51,805
Budget Year	Budget Law	42,213	45,199	47,743	50,439	56,076
	Actual Outturn	42,643	45,185	48,153	54,793	N/A
Difference between Out-Year 3 and Actual Outturn	In nominal terms	+15.8	+5.8	+5.0	+19.2	N/A
	In real terms	+5.2	-3.6	-3.6	+10.0	N/A

Source: IFPs associated to the successive budget bills since 2014 (3rd quarter) and (for the actual outturn) Statistical Yearbook 2021.

Note: The figures (in billion pesos) show changes in the aggregate spending ceilings for central government (= maximum spending compatible with the structural balance objective set by the fiscal rule) presented in successive vintages of the MTFF. The final rows of figures measure the percentage difference between the outturn spending and the aggregate spending ceiling calculated four years previously, both in nominal terms and in real terms (adjusted for inflation over the last four years).

60. The MTFF expenditure ceilings are complemented by expenditure baselines, also at the aggregate level. DIPRES prepares and maintains expenditure baselines for the central government. These expenditure baselines (or "committed expenditures") are presented over the same timeframe as the MTFF in the quarterly IFPs and correspond to the amount of spending perceived as necessary to continue the operation of public services, based on present commitments. They are updated quarterly to reflect the impact on spending of new bills sent by the executive for discussion in Congress, and changes in assumptions on significant budget items, such as debt service. A more thorough revision of baselines takes place for the IFP published in the 3rd quarter and presents them broken down by economic classification.

61. The combination of the MTFF ceilings and "committed expenditures" enables the assessment of the fiscal space. Table II.3 shows the evolution of fiscal space for a given fiscal year over three different vintages of the MTFF. For the fiscal years 2017 and 2018, fiscal space available when they were the 3rd out-year in the programming period functions as a kind of provision and is gradually depleted before the budgets for 2017 and 2018 are actually prepared and implemented. For the years 2019 to 2021, no clear pattern can be detected. For the fiscal year 2020, the starting point in out-year 3 is a situation when committed expenditure is higher than the expenditure ceiling under the rule – which, in addition to the emergency fiscal package placed to address the effects of the pandemic, helps to explain the choice made to relax the structural objective.

Table II.3. Expenditure Ceilings and Committed Expenditure Over the Out-Years of MTFF Vintages

		2017	2018	2019	2020	2021
Out-Year 3	Expenditure Ceiling	36,823	42,746	45,881	45,958	48,988
	Committed Expenditure	34,410	40,970	45,387	46,460	48,281
	Fiscal Space	**2,413**	**1,776**	**494**	**-502**	**607**
Out-Year 2	Expenditure Ceiling	40,394	44,055	45,160	47,878	51,113
	Committed Expenditure	39,795	44,193	45,574	47,569	50,412
	Fiscal Space	**599**	**-138**	**-414**	**309**	**701**
Out-Year 1	Expenditure Ceiling	42,165	44,282	46,733	50,218	51,805
	Committed Expenditure	42,371	44,542	46,347	49,186	51,721
	Fiscal Space	**-206**	**-260**	**386**	**1,032**	**84**

Source: IFPs associated to the successive budget bills since 2014 (3rd quarter).
Note: The figures (in billion pesos) show the difference between the Expenditure Ceilings for Central Government under the Fiscal Rule and the Committed Expenditures, which leads to positive (if there is a margin below the ceiling set under the Fiscal Rule) or negative (if committed expenditures are higher than the ceiling) fiscal space.

62. There is no breakdown of expenditure ceilings nor baselines at the level of individual ministries or programs. Whatever fiscal space has been identified, thanks to the comparison between the aggregate expenditure ceiling and the baseline, it is not pre-allocated to specific public policies or ministries. While the baselines are maintained and updated by the sectoral units in DIPRES at the level of ministries and programs, the distribution between ministries and programs is not made public and remains internal to DIPRES. During the mission, DIPRES expressed concern that communicating these baselines at the level of programs or ministries may lead to a sense of entitlement amongst line ministries and may diminish the leverage of DIPRES during budget negotiations.[35]

63. As such, the Chilean medium-term financial program does not adequately satisfy the objectives of a fully-fledged MTBF. A well-functioning MTBF offers more predictability of resources for program managers in line ministries, thereby giving them – in accordance with the philosophy of program budgeting – more scope to implement their public policies over the medium term, as long as they are strictly committed to respect their budget allocation. A MTBF also incentivizes decision-makers to take into account the medium-term impact of changes in policies or savings measures that may take several years to reach their full development. Lastly, a MTBF also makes more visible the changes in the allocation of spending across the various public policies. All

[35] Also see OECD (2017) Budgeting in Chile where a similar view was expressed.

these elements constitute the hallmarks of a MTBF and are different from the MTFF which is currently in use in Chile. Some elements need to be improved to move towards a fit-for-purpose MTBF (see Annex III for details). Table II.4 explains the main differences between the Chilean Medium-Term Financial Program and the MTBF model of many advanced economies.

Table II.4. Comparison Between Chilean Medium-Term Financial Program and Advanced MTBF Model

Characteristics	Chile	Advanced
4 or 5 year framework	Yes	Yes
Indicative ceilings for out-years at the aggregate level	Yes	Yes[1]
Indicative ceilings for out-years broken down at the level of policy areas / programs / line ministries	No	Yes
Full alignment with government's fiscal policy objectives and /macroeconomic forecasts	Yes	Yes
Indicative ceilings or spending estimates for out-years are rolled over from one MTBF to the next, i.e. they serve as starting point for the preparation of the next year's annual budget and MTBF	No	Yes[2]
Budget preparation process for capital and recurrent spending fully integrated	Yes	Yes
Definition of capital and recurrent spending aligned with international standards	Yes	Yes
A single process for preparing MTBF and annual budget, and fully integrated documentation	No	Yes
Reliable forward estimates of spending in out-years	Partly	Yes
Planning margins or planning reserves	Partly	Yes
Carry forward of spending from one year to the next, with well-defined restrictions	Partly	Yes

Source: IMF staff.

2.1.4.	Investment Projects	Good

64. All major projects are subject to a published cost-benefit analysis. The National Investment System (SNI)[36] regulates and governs the public investment process in Chile and brings together the methodologies and procedures that guide the formulation, execution and evaluation of public investment. A key part of the public investment process in Chile is the ex-ante assessment. The DLFA, Article 19, requires that pre-feasibility studies are performed for all project proposals based on a technical economic evaluation that analyzes their profitability. Line ministries prepare and deliver project proposals, while the Ministry of Social Development is responsible for reviewing and approving social cost-benefit analysis (CBA), in accordance with published methodologies, and

[36] http://sni.gob.cl/

issuing an opinion on the 'Technical-Economic Analysis Result' (RATE). The Integrated Project Bank (BIP)[37], an information system within the SNI, contains the investment initiatives that have received a satisfactory CBA and can henceforth apply for government financing. The CBA is published in the BIP and the platform is publicly accessible.

65. Major projects are contracted via open and competitive tender. The Budget Law, Article 6, establishes that it is mandatory for all public works to go to open tender, with exceptions for emergencies only. As evidenced by the procurement statistics below in Table II.5 and II.6, all major projects and concessions are largely contracted by open tender. Tender documents, procurement plans and contracts are published on the ChileCompra[38] and also comprehensively for concessions, on the Ministry of Public Works website.[39] A formalized complaints procedure is in place including an independent review body and court to investigate any disputes. If legal proceedings commence because of an award dispute, then project implementation is paused. To further enhance transparency of the procurement of major projects, statistics similar to those in Table II.5 below should be regularly published.

66. To improve the transparency of decision making on public investment, the government should disclose the total financial obligations related to investment projects on a regular basis. Disclosure of actual investment spending in Chile is very comprehensive, but planned spending on public investment and the total costs of these investments is more difficult to identify. The IFP supporting the Budget Law sets out the total planned investment spending for the four years following the budget year. The 2021 Budget Law sets out major investment projects expected under the various Directorates of the Ministry of Public Works, but the focus is only on the expenditure planned in the budget year. Neither planned expenditure in future years nor the total planned project expenditure can be identified from the 2021 Budget Law. While each project contained in the Budget Law is assigned a BIP code that allows interested parties to review the project within the BIP system, data stored on each project only shows actual expenditure over time, not planned expenditure or the total anticipated cost. Lastly, the Ministry of Public Works publishes an 'Annual Investment Program'[40] that shows at a granular level actual expenditure for the previous year and planned expenditure for the budget year and two future years. This is useful, but it is not possible for users to identify the total cost of an investment project.

67. When approval is sought from the legislature for the first year's appropriation for a multi-annual investment project, it is important that the legislature is informed of the anticipated full total cost of the project over the years to its completion. This ensures that the legislature is aware of the medium-term implications of its approval of the first year's appropriations. In addition, regular updates and disclosure are necessary because the total financial obligations for a multiyear investment project may vary substantially over the course of its

[37] https://bip.ministeriodesarrollosocial.gob.cl/bip2-consulta
[38] https://www.chilecompra.cl/
[39] http://www.concesiones.cl/proyectos/Paginas/detalleConstruccion.aspx?item=180
[40] https://datos.gob.cl/en/dataset/programa-anual-de-inversiones-del-ministerio-de-obras-publicas-ano-2021

implementation due to delays, cost variances, and design changes. At a minimum, the legislature should be informed every year of the updated total cost of a multi-annual project, when appropriations for the next year are being sought for that project.

Table II.5. Investment Contracts for Amounts Greater than 1 Million Dollars

Amounts tendered per year according to modality

	2017		2018		2019		2020	
	US$	%	US$	%	US$	%	US$	%
Private proposal	12,269,639	1%	0	0%	24,400,329	2%	2,848,020	0%
Public proposal	1,554,999,251	90%	1,145,568,091	97%	1,092,949,903	86%	1,610,374,664	98%
Direct deal	126,127,543	7%	14,320,267	1%	46,992,168	4%	17,468,690	1%
Direct Deal with Quote	31,610,619	2%	19,017,797	2%	108,074,734	8%	13,647,546	1%
	1,725,007,052	**100%**	**1,178,906,155**	**100%**	**1,272,417,133**	**100%**	**1,644,338,921**	**100%**

	2017		2018		2019		2020	
	# of Projects	%	# of Projects	%	# of Projects	%	# of Projects	%
Private proposal	7	2%		0%	4	1%	1	0%
Public proposal	302	86%	282	96%	299	83%	460	97%
Direct deal	31	9%	3	1%	18	5%	5	1%
Direct Deal with Quote	11	3%	9	3%	38	11%	6	1%
	351	**100%**	**294**	**100%**	**359**	**100%**	**472**	**100%**

Table II.6. Procurement Statistics for Concession Projects (PPPs) of Central Government

	2017		2018		2019		2020	
	MM USD	%	MM USD	%	MM USD	%	MM USD	%
Direct Source	0	0	0	0	0	0	0	0%
Open Tender	1,385	100	689	100	1265	100	685	100
Total	**1,385**	**100%**	**689**	**100%**	**1,265**	**100%**	**685**	**100%**

Source: Chilean Authorities, IMF staff.

2.2 Orderliness and Timeliness of the Budget Process

2.2.1	Fiscal Legislation	Advanced

68. The Constitution (Article 67) establishes deadlines for the presentation of the executive's budget proposal to Congress and the approval of the budget (see indicator 2.2.2.). The constitution also establishes that if Congress does not approve the budget by the established deadline, the executive's budget proposal will be become law. In practice, however this has never occurred. DLFA Article 13 requires the MoF to set out a budget formulation calendar, which DIPRES does every year.

69. The powers of the legislature to modify the executive's budget proposed are clearly defined in Article 67 of the Constitution. It establishes that the National Congress may not increase or decrease the estimate of revenue, it may only reduce the expenditures contained in the budget proposal, except for those that are established by permanent law. The formal powers of the legislature to amend the budget are limited, however, informally negotiations take place during budget discussions and if there is agreement on an amendment between Congressional Deputies and DIPRES, the government can put forward the relevant budget modification.[41]

70. **Legislation defines the key documents that the executive should submit to the legislature in its annual budget proposal**. Article 2-22 of the DFL 106 indicates that DIPRES should send to Congress an IFP, which should include a synthesis of the medium-term financial program as part of the annual budget documentation.[42] A relatively stable set of information is included in the IFP report accompanying the budget proposal sent to Congress each year, however the content that should be sent to Congress within the year is defined annually in the Budget Law.[43] To ensure stability and comparability overtime, the financial administration law or the DFL 106 should further specify the contents to be submitted in the reports that accompany the budget proposal and in-year reports.

2.2.2.	Timeliness of Budget Documents	Good

71. **In practice, Congress is granted sufficient time to scrutinize and approve the budget and the legal deadlines have regularly been met**. While the fiscal year starts on January 1st, the proposed budget for the next year is sent to Congress towards the end of September, in accordance with Article 65 of the Constitution which states that the executive has to submit the draft budget bill at a minimum three months before the beginning of the fiscal year. Congress is legally obliged to approve the budget within 60 days, i.e. before November 30. The budget is then promulgated by the President and published in the Gazette, usually in the second half of the month of December. The deadlines both for submission of the budget and for approval by Congress have been regularly met over the last five years (see Table II.7).

72. **The risk of delays to this schedule seem to be limited**. Congress has a strong incentive to respect the 60-days for discussion of the budget in order to avoid that the initial budget proposal by the executive be adopted without any input from the two chambers of Congress. The Constitutional Court, which may review the budget law after approval[44], cannot cancel the budget as a whole but can only delete specific provisions, such as so-called budget riders (i.e. legal provisions which do not belong to the realm of a budget law). Hence, the budget can be published in the Gazette even before the Constitutional Court has delivered its ruling.

[41] See OECD (2017) Budgeting in Chile.
[42] See Article 2-22, of DFL 106 -1960, this decree has the force of law and sets provisions that regulate DIPRES.
[43] For more detail see Article 16 of the 2021 Budget Law.
[44] The Constitutional Court reviewed specific issues in seven out of ten of the most recent budget laws.

Table II.7. Key Dates for the Submission and Approval of the Budget

Budget Proposal for Fiscal Year	Transmission to the legislature	Approval by the legislature	Promulgation by the President	Publication in the Gazette
2021	30 Sept 2020	28 Nov 2020	4 Dec 2020	16 Dec 2020
2020	27 Sept 2019	26 Nov 2019	4 Dec 2019	19 Dec 2019
2019	29 Sept 2018	28 Nov 2018	7 Dec 2018	28 Dec 2018
2018	30 Sept 2017	30 Nov 2017	21 Dec 2017	27 Dec 2017
2017	30 Sept 2016	29 Nov 2016	6 Dec 2016	15 Dec 2016

Source: DIPRES.

2.3 Policy Orientation

2.3.1.	Fiscal Policy Objectives	Good

73. Chile has been implementing since 2001 a Cyclically-Adjusted Balance (CAB) rule. Also known as the "structural balance rule", this fiscal rule monitors the total central government structural balance. A fiscal path with annual structural balance targets is set by the incoming administration within 90 days of each new presidential mandate for the whole duration of its mandate (four years) but can be modified anytime by Presidential Decree. Surpluses registered against the structural balance target are saved in two sovereign wealth funds –FEES and FRP. The fiscal rule was only enshrined in legislation in 2006 with the FRL. Modifications took place notably in 2011 and in 2015 with several methodological changes[45] and with the addition of an independent Fiscal Advisory Council[46], which became the CFA in 2019.[47]

74. The implementation of, and the reporting on, the CAB rule benefit from procedural safeguards. The structural balance rule is underpinned by the technical work of two committees of experts providing independent technical estimates for trend GDP growth to calculate the output gap and forecasts for the long-term copper price (10 years ahead) to calculate structural revenue. Calculations on the CAB are presented by DIPRES in each quarterly IFP for the current year and the period covered by the MTFF. An annual report published in June, and subject to *ex ante* review by the CFA, captures detailed information on the implementation of the CAB rule in the previous year including presentation of methodological aspects, results of the calculation of the CAB, conclusions and challenges going forward.

75. The fiscal rule leaves the executive complete discretion as to changes in the fiscal targets within a presidential mandate. While this gives the executive branch a high degree of flexibility to react to shocks, it also risks undermining the credibility of the rule if there are no

[45] For more detail on the evolution of the Chilean fiscal rule, see notably OECD, 2021, "Assessing Chile's Analytical Framework for Long-Term Sustainability" and IMF, 2019, "Enhancing Chile's Fiscal Framework".
[46] Created by MoF Decree No. 545 of April 30th, 2013.
[47] Law No. 21.148 of February 16th, 2019.

precise criteria that may justify a change in fiscal targets. There has been a change of fiscal objectives during each of the two prior presidential mandates (2010 and 2014), even though Chile did not undergo major economic perturbations. Regarding the present presidential mandate which started in 2018, two revisions took place within one year (2020), related first to the aftermath of the late 2019 social crisis and then to the fight against the COVID-19 pandemic (see Table II.8 below). Developments in 2020 are undoubtedly exceptional, however they illustrate the high degree of discretion for the executive to change the fiscal path, which is contradictory to one of the main objectives of a fiscal rule. This is compounded by the fact that changes in targets are not subject to *ex ante* analysis by, and discussion with, the CFA (see below 2.4.1.).

Table II.8. Evolution of the Fiscal Targets Set Under the CAB Rule

Targets and outturn for CAB (in percentage point of GDP)	**2018**	**2019**	**2020**	**2021**	**2022**
CAB target set by Decreto Supremo 743 (adopted June 5th, 2018; published July 9th, 2018)	-1.8	-1.6	-1.4	-1.2	-1.0
CAB target set by Decreto Supremo 253 (adopted February 24th, 2020; published March 30th, 2020)			-3.2	-2.5	-2.0
CAB target set by Decreto Supremo 1 579 (adopted September 28th, 2020; published October 29th, 2020)			-3.2	-4.7	-3.9
Actual CAB outturn	-1.5	-1.5			

Source: IMF Staff.

76. Changes to the CAB rule currently under discussion could make it more robust.[48] The CFA has approached the MoF to discuss possible changes to the fiscal rule. These proposals have been a source of inspiration for a bill submitted by the executive to Congress in late September 2021.[49] Proposed changes would include:

- ***Setting a debt anchor (in percentage of GDP)***, which would integrate a high-level objective in the overall fiscal framework compatible with long-term sustainability concerns;
- ***Enhancing transparency on achievement or non-achievement of fiscal targets,*** compelling the authorities to clearly indicate under which time-frame they plan to return to the pre-set fiscal target or to explain why they would adopt another fiscal path;
- ***Allowing for an escape clause,*** hence defining clearly the circumstances under which a deviation from existing fiscal targets could be acceptable instead of adjusting fiscal targets in a largely discretionary manner.

[48] See IMF, 2018, "Anchoring Chile's Fiscal Framework" and CFA, March 2021, "Technical Report: Propositions for Strengthening the Fiscal Rule – Debt Anchor, Escape Clause and Correction Mechanism".
[49] Presidential Message 188-369 from September 27, 2021, proposing an amendment to Law 20.128 on Fiscal Responsibility.

2.3.2	Performance Information	Good

77. Chile has a robust government management control and evaluation system (MC&E) which has been in place for almost 30 years and has evolved over time. This system provides extensive performance information. It is designed to support performance management in general and to provide information for inclusion in budget documentation and additional reports which are published annually. Since 2012, DIPRES has monitored the management and performance of policy programs executed during the previous fiscal year, which entails: i) systematizing information on the performance of programs and initiatives; ii) providing information on performance for budgetary decision making; and iii) improving the transparency, management and performance of programs. As a result of this monitoring process, DIPRES produces and publishes monitoring cards[50] that allow any interested party to view a consolidated snapshot of a program's objectives, indicators, targets and budget execution. The results of the 2020 monitoring process were published in June 2021 and included policy programs' contributions to the Sustainable Development Goals (SDGs).

78. Some objectives and performance indicators are well defined and relevant, however input or management-oriented indicators and outputs remain predominant. The *Methodological Guide for Strategic Definitions and Performance Indicators* outlines a methodology for selecting indicators of different dimensions, including inputs, outputs, intermediate results and outcomes. However, there are no indicators at the outcome level and they are not presented in the monitoring cards. This reflects the difficulty in defining outcome indicators for individual policy programs, but also the tendency to define indicators which are easy to monitor and achieve, as performance remuneration on occasion has been linked to the achievement of targets.

79. A decoupling between the budget program classification and the "policy programs" makes it difficult to identify the link between policy objectives and budget allocations in the budget documentation. While there is a certain degree of equivalence among them, the relationship can be complex and not all budget programs are included as policy programs. The MC&E also monitors "initiatives" which adds another layer of complexity to the identification. Creating consistency between the program classification and the elements monitored within the MC&E could strengthen the policy orientation of the budget and the transparency of performance information.

80. The 2019 social unrest followed by the COVID-19 crisis created a strong demand to understand the link between budget allocations and higher outcome policy objectives. The internal demand came from a need to understand the scope of future challenges and expenditure needs and how to improve efficiency and effectiveness of expenditures to enable more strategic

[50] The monitoring cards are organized by sector see link: http://www.dipres.cl/597/w3-multipropertyvalues-24168-25190.html

spending allocations. For their part, external users sought to better understand how citizens' needs and demands are identified, prioritized and addressed through public interventions, including how they are reflected in budget allocations.[51] This demand has been reflected in methodological and procedural changes which started in 2020 for the 2021 budget process and are still ongoing. The changes include i) implementation of an adjusted zero-based budgeting methodology, with budget cuts scenarios and performance data analysis; ii) stronger coordination between the Ministry of Social Development and Family, which monitors the social programs, and DIPRES, which monitors the non-social programs; iii) adaptations of the budget calendar to analyze evaluation results before the budget formulation process, instead of after[52]; iv) mapping of budget programs to policy programs[53] and v) publication of programs' performance data and analysis of results, including in open data.[54]

81. **The current structure of analysis by individual programs limits the possibilities of assessing the contribution of policy initiatives to the achievement of strategic goals**. The Government Plan (2018-2022) includes priorities that are in some cases reflected in ministries' strategic objectives and in their performance indicators. Nevertheless, there is no systematic way of integrating the national planning and MC&E planning mechanisms. Ongoing changes for the 2022 budget formulation process include a requirement in the 2022 budget formulation instructions to line ministries that they inform DIPRES how their proposed budget incorporates citizens' needs and priorities. However, this process could be strengthened by the identification of medium and longer term priorities with indicators and targets attached. Given that the link between programs and SDGs has already started to be captured, such international commitments could serve as a framework for aligning different programs with specific goals and measuring contributions to outcome objectives (Box II.1).

Box II.1. Linking the Budget and SDGs in Norway

After the adoption of the SDGs in September 2015, the Norwegian government developed a national plan for their implementation and follow-up. Their model places an important emphasis on the role of policy coherence (SDG 17.14) to achieve established targets. To do so, line ministries were assigned to lead the coordination of specific SDGs to bring together the different government actions. Each year, the MoF summarizes the main points from all the ministries in the national budget white paper and the ministries report on progress to the Norwegian parliament, in their budget proposals. The MoF, together with the Ministry of Foreign Affairs publishes a report that provides a snapshot of achievements at the national and international levels and identifies issues that need to be addressed before 2030.

Source: IMF staff.

[51] Public Expenditure Commission (2021). Guidelines to Consider in a Budget Reform, final report of the Ministerial Advisory Commission to Improve Transparency, Quality and the Impact of Public Expenditure. https://comisiongastopublico.cl/objetivos-propuestas/

[52] DIPRES (2021). Evaluation and Formulation of the 2021 Budget. Chile. http://www.dipres.cl/598/articles-215732_doc_pdf.pdf

[53] This mapping is currently only for internal use.

[54] See link http://www.dipres.cl/598/w3-propertyvalue-24167.html#documentos

2.3.3	Public Participation	Basic

82. **Together with the budget proposal DIPRES presents the Budget Priorities Booklet.** This provides a summary of the recent fiscal outturns with explanations and includes implications of the budget proposal and identifies major budget changes from the previous year. For 2018 and 2019, an additional publication was produced covering the approved budget. The content has evolved overtime and the 2021 booklet presented information in a more concise form, which could help it appeal to a broader audience. In 2020, given the COVID crisis, DIPRES produced an additional publication to cover the newly created Transitory Emergency Fund and Special Funds in the Public Treasury.

83. **DIPRES has developed additional initiatives to present fiscal information in open data in an active attempt to improve its granularity and usability.** The Open Budget Portal (*Portal de Presupuesto Abierto*) was created in 2018 with the aim of providing detailed data on the allocation of central government's resources and their monthly execution. The data included in the portal is obtained directly from SIGFE and required extensive work to harmonize different reporting platforms before its publication.[55] The portal includes a roadmap that provides clarity on its scope and unveils the iterative approach to increasing data availability, however it lacks specific objectives to measure the success of the initiative.

84. **The dissemination of the above mentioned transparency initiatives has been timid, limiting their impact**. The booklet is presented together with the budget proposal to Congress, without additional dissemination measures. Similarly, the Open Budget Portal could be more actively disseminated, creating spaces for public participation at the same time (Box II.2).

Box II.2. Open Fiscal Data in South Africa

Even though South Africa has continuously ranked in the top tier of the Open Budget Index, the information presented has not always been easily understandable, in the correct formats or granular enough to facilitate its use. With this in mind, the National Treasury committed to develop a portal where fiscal data would be accessible in open formats. Vulekamali, the South African open budget data portal, was jointly created by the National Treasury and a coalition of civil society organizations. The portal was conceptualized as iterative and has consequently evolved from its initial publication in 2017 in which only the approved budget was included, to the 2021 version that amongst other information includes the expenditures of the national and provincial budgets in the Open Spending Data Schema, revenues, PPPs and investment projects. As part of the Vulekamali[56] initiative, the government and civil society hosted several activities throughout the country, including budget and data literacy events and hackathons. The portal has also been paired with active communication through its own specific social media with a presence on Twitter and Facebook.

Source: IMF staff.

[55] DIPRES (2018). Open Budget Roadmap. https://presupuestoabierto.gob.cl/roadmap

[56] National Treasury of South Africa and Imali Yethu. Vulekamali events. https://vulekamali.gov.za/events

85. **The government provides few spaces for public engagement in the formulation of the annual budget and during Congressional discussions of the executive's budget proposal.** In addition, there is still only limited public engagement with respect to the CGR. The *Open Budget Survey 2019* rated public participation in the budget cycle in Chile below the OECD average, as well as below most of its regional peers.[57]

86. **A legal framework to enable the public participation is in place through *Law 20500 on Associations and Citizen Participation in Public Management*, this could be leveraged to establish meaningful public participation in the budget cycle.** An initial effort to capture public participation in the budget formulation by LMs, considering the framework of this law, has started through the additional requirement in the 2022 budget formulation instructions to LMs mentioned in indicator 2.3.2 of this report. The law also states that public entities should develop a Participative Public Account, however in practice interactions largely remain at an informative level without providing a formal voice to citizens in budget deliberations.[58]

87. **It is noteworthy that in 2020, the MoF created by decree the Ministerial Advisory Commission to Improve Transparency, Quality and the Impact of Public Spending,[59] which was led by civil society representatives**. The purpose of the collaborating was to advise on the design and implementation of reforms that would increase the quality, efficiency, impact and transparency of public spending and enhance citizens' participation. The final report of the Commission was delivered to the MoF in January of 2021. To close the feedback loop towards improved public participation, the MoF should provide timely and specific feedback on public inputs and how they have been incorporated or not in official policy or advice.[60]

2.4 Credibility

2.4.1	Independent Evaluation	Good

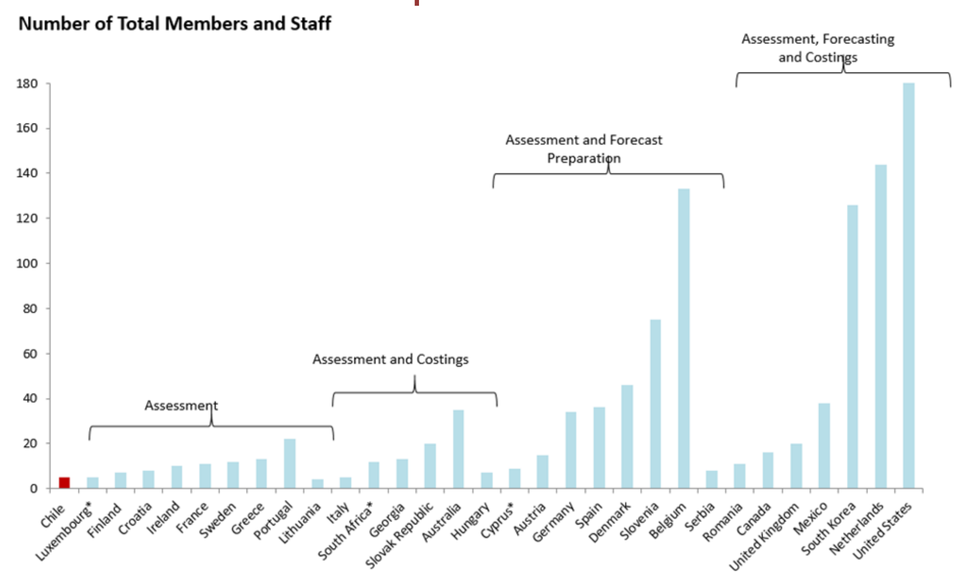
88. **The establishment of an independent fiscal council has been a key step to further strengthening the fiscal institutional framework in Chile**. Established by law[61] in February 2019, the CFA, builds on the previously established 2013 Advisory Fiscal Council, but now has its own legal independence, financial resources and a broader mandate. The CFA consists of five council

[57] International Budget Partnership (2020). Open Budget Survey 2019. https://www.internationalbudget.org/open-budget-survey/country-results/2019/chile
[58] Public Expenditure Commission (2021). Guidelines to Consider in a Budget Reform, final report of the Ministerial Advisory Commission to Improve Transparency, Quality and the Impact of Public Expenditure. https://comisiongastopublico.cl/objetivos-propuestas/
[59] Ministry of Finance. (2020) Decree 11 Ministerial Advisory Commission to Improve Transparency, Quality and the Impact of Public Spending.
[60] Global Initiative for Fiscal Transparency (2016). Principles on Public Participation in Fiscal Policies. http://www.fiscaltransparency.net/pp_principles/

[61] Law No. 21.148 of February 16th, 2019.

members appointed by merit who as prescribed by the law must be "experts of recognized professional and academic standing in fiscal and budgetary matters." The five council members are nominated by the President of the Republic and approved by the Senate. Their appointment does not coincide with the government's term. The President of the CFA is appointed by the President of the Republic from among the five members of the CFA, with a term of three years in office or the shortest remaining time of their term and may be appointed for a new term. In addition to the five council members, the resources of the CFA comprise of four staff (three technical) and a budget of around US $556,000[62] in 2020. Figure II.2 provides a comparison to the functions and resources of other Fiscal Councils.

Figure II.2. Number of Full-Time Equivalent Staff and Functions of Fiscal Councils



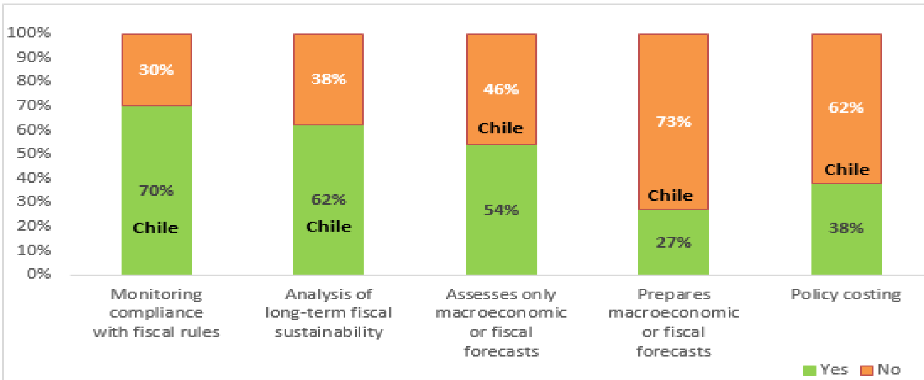
Source: IMF 2015, The Functions and impact of Fiscal Councils and IMF 2018 Fiscal Transparency Handbook.

89. The mandate of the CFA is focused on monitoring compliance with the fiscal rule and evaluating the medium and long-term sustainability of public finances. To fulfil its mandate, the CFA must present a report to the Budget Committee of both Chambers of Congress twice a year, in April and September. These reports present an overall assessment of compliance with fiscal rules and an assessment of the sustainability of public finances. The CFA is also required to make observations and propose to the MoF methodological and procedural changes for the calculation of the structural balance, and to express its opinion on possible deviations from the fulfillment of structural balance targets and to propose mitigation measures. In addition, the CFA has been doing work on the effectiveness of the fiscal rule and ways to improve its operation and also made suggestions for introducing a debt anchor. In September 2021 as part of the FY2022 Budget, the Chilean government introduced a bill to anchor the fiscal position using a debt target and to formalize the activation of the escape clause within the fiscal framework (see Indicator 2.1.3). The CFA shares a similar mandate to independent fiscal institutions (IFIs) within the OECD IFI database,

[62] OECD, (2020) Assessing Chile's Analytical Framework for Long-Term Fiscal Sustainability.

70 percent of whom also monitor compliance with the fiscal rules and 62 percent of whom undertake analysis of long-term sustainability. Figure II.3 below provides a comparison of the functions and powers of the CFA compared with international peers. The mandate of the CFA is set out in Box II.3.

Figure II.3. Functions and Powers of the CFA Compared with OECD IFIs



Source: OECD 2020, Assessing Chile's analytical framework for long-term fiscal sustainability.

90. Within the CFA's mandate there is no explicit assessment of macroeconomic or fiscal forecasts. However, the CFA does play an important role in evaluating the credibility of two underlying assumptions, trend GDP and copper prices, which are prepared by the expert technical committees. The CFA compares the government's macroeconomic and fiscal forecasts with those of independent forecasters and publishes this comparison in its bi-annual report to the Congress. In addition, the CFA has the power to issue an 'opinion' on any fiscal matter of interest to it and could do so on the government's economic and fiscal forecasts should it wish to. The CFA's focus is on the sustainability of the medium to longer term forecasts and not on evaluating the credibility of the short-term forecasts over the budget period. That said, the CFA's role in regard to evaluating the credibility of fiscal and macroeconomic forecasts should be strengthened. In addition, the OECD principles for fully independent fiscal councils include that preferably the Head of the IFI should be full time and that the resources allocated to IFIs must be commensurate with their mandate in order for them to fulfil it. Given its broad mandate with only three technical staff, this could be challenging.

91. The CFA, which has only been in existence for two years in its current form, continues to strengthen its capacity. The CFA recently constructed an economic model for fiscal revenues, assets and debt. It is currently constructing a model on pensions and health among other types of government expenditure. In future, these developments could help strengthen the evaluation of the credibility of the government forecasts published in the IFP. To enhance its role in regard to fiscal rules, CFA could issue an opinion on each new government's proposed structural balance target which they set at the start of their administration for the next four years, or when changes occur during a presidential mandate. Taking these factors into account, on balance, Chile scores a 'good' rating for this dimension.

92. **Looking ahead, amending the mandate of the CFA to clarify and formalize its role to evaluate the credibility of the economic and fiscal forecasts should be considered.** While CFA is moving in this direction, formalizing this responsibility would clarify expectations and bring the CFA more in line with the functions and responsibilities of the majority of global IFIs. Strengthening the evaluation of the credibility of the macroeconomic and fiscal forecasts goes beyond publishing a comparison of the macroeconomic and fiscal forecasts with other independent forecasters to publishing an evaluation of the realism of the underlying assumptions (beyond GDP and copper prices), examining how well these translate into the economic and fiscal projections and considering consistency with historical developments, trends and models. Performing this role most likely requires the CFA to expand its capacity from the current three technical staff. In the interim, CFA and DIPRES should formalize arrangements for consistent data provision (forecasts parameters and models) following each forecast update and the timeframes under which this should be provided.

Box II.3. Functions and Powers of the CFA

- To evaluate and monitor the calculation of the cyclical adjustment of effective revenues made by DIPRES.
- To participate as an observer in the procedures established to garner the opinion of independent experts on the factors that determine the trend level of the Central Government's revenues and expenditures, and to review said calculations and express its opinion on them.
- To make observations and propose to the MoF methodological and procedural changes for the calculation of the Structural Balance.
- To express its opinion on possible deviations from the fulfillment of Structural Balance targets and propose mitigation measures.
- To evaluate the medium and long-term sustainability of public finances and make the results of its evaluations available to the public.
- To advise the MoF on fiscal matters expressly entrusted to it and that are related to its purpose. (For example, the Government's Spending Efficiency, Strengthening the Fiscal Rule, Automatic Reversal Transitory Tax Measures).
- To carry out reports in relation to the studies, analyzes and other issues that are incumbent on it in accordance with this law.

Source: Adapted from Functions and Powers, Official Website Consejo Fiscal Autónomo, accessed 24 May 2021. Functions and Powers (cfachile.cl).

2.4.2	Supplementary Budgets	Good

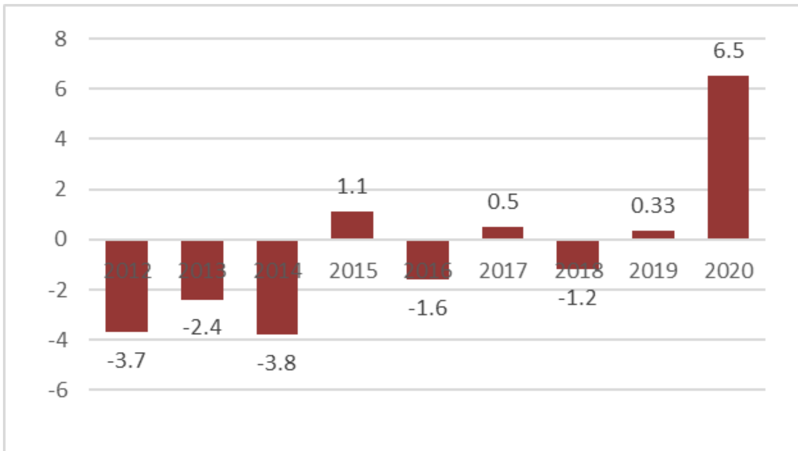
93. **The DLFA stipulates that expenditure exceeding the overall approved budget total can only be authorized by law requiring Congressional approval.** Amendments to the annual budget laws are not common in practice, with none in 2018 and 2019[63], and one in 2020[64] related to the

[63] https://www.bcn.cl/leychile/consulta/vinculaciones/modificacion?idNorma=1127180&fechaVigencia=2019-10-29&clase_vinculacion=MODIFICACION

[64] https://www.bcn.cl/leychile/consulta/vinculaciones/modificacion?idNorma=1140200&fechaVigencia=2019-12-19&clase_vinculacion=MODIFICACION

financing of the process to draft a new Constitution. In 2021, considering the exceptional circumstances three amendments have been passed as of June.[65] With all these amendments, the overall approved budget ceiling has been maintained (with some minor variations), except for 2020 (Figure II.4). Furthermore, underspending seems to be the predominant practice in the past ten years.

Figure II.4. Approved vs Actual Expenditures
(percentage, 2012-2020)



Source: IMF staff

94. The DLFA gives to the executive the flexibility to determine the rules on transfers, increases or reductions and other budgetary modifications through an annual decree with instructions for budget adjustments[66], within limits specified in the annual budget law.[67] The limits include transfers from capital to current spending, and those that increase the payroll. Within such limits, the MoF has space for adjusting the budget. Adjustment within ministries are frequent. The adjustments are made through decrees from DIPRES. Such decrees are consistently published on the official website next to the approved allocations.[68]

95. Budget overruns are usually offset against the fund for budget reserves, as well as the reserves from the accumulation of unspent appropriations (*saldo de caja*). The "Public Treasury" Item (*Partida*) 50, from which several virements occur, collects various expenses that do not specifically relate to ministries and works to reallocate resources from one entity to another or to cover unforeseen expenses not contemplated in the budget proposal. These mechanisms provide flexibility, therefore supplementary budget approval is not required.

[65] https://www.bcn.cl/leychile/consulta/vinculaciones/modificacion?idNorma=1153629&fechaVigencia=2020-12-16&clase_vinculacion=MODIFICACION
[66] Article 26.
[67] Article 4 of the 2021 Budget Law. https://www.bcn.cl/leychile/navegar?idNorma=1140200
[68] The Decrees are compiled by program and published in downloadable PDFs. For an example of amendments to the 2018 National Health Program of the Ministry of Health, See http://www.dipres.cl/597/articles-184988_doc_pdf.pdf.

96. Legally, all new budget laws, including those introduced during the budget year, should be accompanied by a budget impact estimation. Their enactment implies the approval of the expenditure needed for the program. After the approval, DIPRES signs a decree, identifying the location that will correspond to such expenditures within the budget classification. While any adjustment to the overall ceiling is reflected in the next IFP, tracing the related laws that created such impact can turn into a complex task. DIPRES publishes the supplementary financial report that estimates the potential fiscal impact of bills introduced to Congress, this provides an important level of detail.[69] Additionally, the virtual Congress Budget Library includes all enacted laws. The government has recently sought to improve transparency by publishing, as part of budget documentation (3Q IFP), a compendium of last year's draft laws, identifying their fiscal impact in the next five years and whether they have already been approved. It is important that this new practice continues, and that the information further clarifies if in-year budget modifications will impact the overall budget ceiling or will be addressed through reallocations.

2.4.3.	Forecast Reconciliation	Good

97. From 2019, the revamped IFP started to provide forecast reconciliations for several different budget aggregates. Two major improvements were introduced in the IFP: i) the report started to be disseminated on a quarterly basis; ii) a new section was added to the first, second and fourth quarter IFPs to describe the changes in the fiscal forecasts, while the third quarter report includes a complete new set of projections in the context of the upcoming budget cycle. The changes to expenditure projections are classified into three categories:

- Impact of new policy measures, for example, measures taken to support vulnerable households in the context of the COVID-19 pandemic;
- Expansion in existing government programs, which results in upward revisions to the expenditure forecast;
- Changes related to updates of macroeconomic parameters, mainly inflation and exchange rate.

98. A similar approach is taken to revenue forecasts and an extensive narrative is provided in the reports, as well as details of the updated underlying assumptions to each forecast (e.g. cooper prices). In the context of the COVID pandemic, the reports also provide detailed information on the transitory tax measures[70] (tax deferrals, tax credits, amongst others) implemented to support the economic recovery; the impact of this package is being estimated at 4% of GDP for 2021. Moreover, the IFP updates macroeconomic parameters (GDP, inflation, exchange rate, cooper price) and provides comparisons with the assumptions used in the previous report. It also presents information on the forecasts of cyclically adjusted revenues and fiscal balance, and on the estimated trajectory of the public debt (see section 2.1.2).

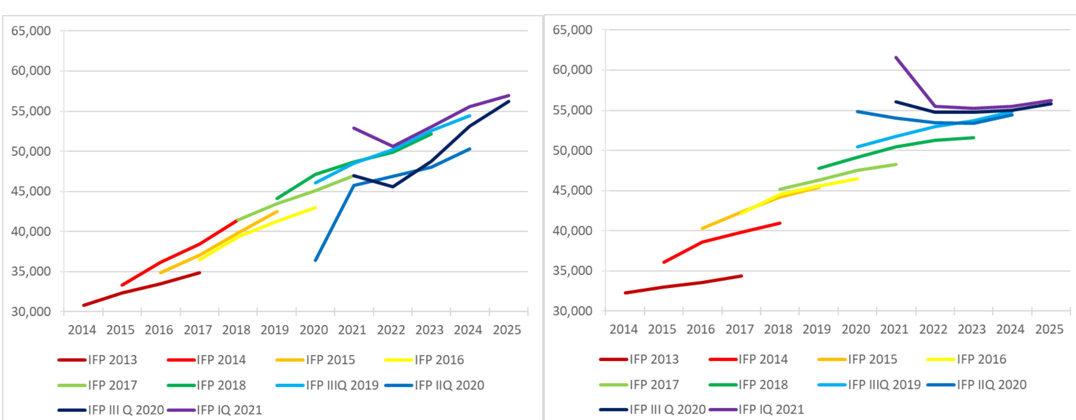
[69] DIPRES Financial Reports https://www.dipres.gob.cl/597/w3-propertyvalue-22220.html
[70] Tax measures covered by the Emergency Economic Plan (*Plan Económico de Emergencia*) and COVID Agreement (*Acuerdo COVID*), including the MTTR transitory measures (*Medidas Tributarias Transitorias de Reversión*).

99. However, there is still room for improvement, particularly on standardizing the reconciliation tables for the short and medium-term forecasts and better targeting the quarterly IFP schedule. The enhanced practices under the quarterly IFP have entered the third year of operation and it should still be considered a work-in-progress. The explicit breakdown tables (new policies, macroeconomic developments) have been consistently applied to reconcile successive vintages of short-term forecasts (i.e. for the ongoing fiscal year) while the explanations on the differences to medium-term forecasts are focused on the revenue side, breaking them down into the overall effect of changes in tax policies and macroeconomic determinants. Standardizing the reconciliation tables for revenue, expenditure, and financing forecasts, for the short and medium-term, will qualify Chile to achieve more advanced ratings under the FT Code. Furthermore, while updating the in-year forecasts on a quarterly basis is advisable, the medium-term forecast revisions are typically undertaken on a lower frequency, either annually or every six-months, unless triggered by acute macroeconomic developments (e.g., an exogenous shock) or by decisions to amend fiscal policy objectives. Therefore, it is recommended to update and reconcile the medium-term fiscal forecasts twice a year, in the IFP IQ and IIIQ, and target the IFP IIQ and IVQ to communicate on the in-year projections.

100. Changes in revenue and expenditure forecasts have been notably significant in the last two years, broadly reflecting higher uncertainties due to the pandemic (Figure II.5). The changes in revenue forecasts were mainly driven by the sharp downward revisions to economic parameters in 2020, together with the implementation of tax measures to support the economic activity. Both effects have led to a deterioration of projected revenues throughout 2020, which has been partially reverted in the first quarter of 2021 due to higher copper prices in international markets, gradual withdrawal of some tax measures and the recovery of economic activity. Expenditure forecasts continue to show an upward trend, reflecting the policy measures to support vulnerable households that have been extended through 2021.

Figure II.5. Evolution of Medium-Term Forecasts (2014-2021)

a. Revenue Forecasts (thousand million Pesos) | **b. Expenditure Forecasts (thousand million Pesos)**



Source: IFPs 2013 to IQ 2021.

2.5 Conclusions and Recommendations

101. Fiscal forecasting and budgeting in Chile meet good practices in most areas. The budget legal framework is clear and comprehensive. The budget is largely unified and provides a good sense of government activities through budgetary central government operations. Performance orientation is available and can act as an enabler for the public interest.

102. While many of the building blocks for medium-term budgeting exist, Chile remains at this stage largely limited to an annual vision of budgeting. DIPRES has accumulated extensive experience with the construction of baselines and the fiscal rule provides a medium-term horizon for fiscal targets. However, at this stage Chile has not transitioned to an advanced MTBF, in spite of the advantages associated with it.

103. The existing fiscal rule has served Chile well, but recent developments argue for some evolutions. Even if 2020 was certainly an outlier, it illustrated that changing fiscal targets within a presidential mandate could be done very easily. Hence, regulating this discretion through a well-designed escape clause and an increased role for CFA would be very timely. In this respect, the government has recently introduced a bill to amend the fiscal rule.

104. Based on the above assessment, the following recommendations could improve transparency in the budgeting and forecasting areas:

- **Recommendation 2.1: Strengthen the medium-term orientation of the budget through more detailed and credible forecasts both on the revenue and on the expenditure side, underpinned by a fully-fledged MTBF**.
  - Gradually advance towards complementing the fiscal rule and the corresponding compatible expenditure levels with aggregate sectoral level expenditure ceilings in the context of a MTBF. (2.1.1)
  - Publish the total expected cost of multi-annual investment projects on a regular basis alongside the annual budget documentation, and any changes to total estimated project costs over time. (2.1.2)
  - Complete the publication of macroeconomic forecasts by expanding the details of the underlying assumptions (e.g., interest rates, external sector, labor market variables). (2.1.3)
  - Standardize the reconciliation tables for the short and medium-term forecasts and target the reconciliation exercise on medium-term forecasts in the IFP for the 1stand 3rd quarters, and on in-year projections only in the IFP for the 2nd and 4th quarters. (2.1.4)
- **Recommendation 2.2: Reinforce the existing fiscal rule through the addition of a well-defined escape clause and an increased role for CFA.**
  - Establish a clearly defined escape clause to temporarily suspend the fiscal policy objectives in response to exceptional shocks (severe economic downturns, large natural disasters and states of emergency). The activation of the escape clause should receive a positive opinion

from the CFA, and should predefine the timeframe and procedures for returning to compliance with the rule, commensurate with the size of the shock. (2.2.1)

- Clarify the mandate of the CFA to provide a role to evaluate the credibility of the economic and fiscal forecasts. While the CFA is moving in this direction, formalizing this responsibility would clarify expectations and bring the CFA more in line with the functions and responsibilities of the majority of global IFIs. (2.2.2)

- **Recommendation 2.3: Increase the emphasis on public participation, facilitated by further progress in the budget's performance focus and an enhanced stress on policy objectives and outcomes.**
  - Leverage the existing legal framework for public participation throughout the budget cycle and publish timely and specific feedback on how public inputs have been incorporated or not in official policy or advice. (2.3.1)
  - Improve the dissemination of the Budget Priorities Booklet and define specific objectives for the Open Budget Portal. (2.3.1)
  - Adjust the program classification to capture the policy programs and initiatives, making them consistent for implementing performance budgeting. (2.3.2)
  - Publish clear strategic objectives related to development and well-being and align them to programs. (2.3.2)
  - Establish formal linkages and feedback mechanism between public participation and performance budgeting. (2.3.2)

- **Recommendation 2.4: Support and sustain the overall transparency of budgeting by adopting additional specific measures:**
  - Include in the budget documentation package the estimated revenue and expenditure of the main extra-budgetary entities, notably Universities. (2.4.1)
  - Further specify the detail contents that should be included in executive's budget proposal. (2.4.2)
  - Continue to publish the compendium of last year's draft laws as part of budget documentation, further clarify if in-year budget modifications will impact the overall budget ceiling or will be done through reallocations. (2.4.3)

Table II.9. Summary Assessment of Fiscal Forecasting and Budgeting

Principle		Assessment	Issues and Importance	Recs
Comprehensiveness	**Budget Unity**	**Basic.** Details on extra-budgetary entities are not included in the budget documentation.	**Low**. The main extra-budgetary entities with own revenues are the universities (2% of total central government expenditure).	**2.4**
	Macroeconomic Forecasts	**Advanced.** Budget documents included forecast and explanations of key macroeconomic variables and some underpinning assumptions.	**Low.** More details could be provided on the underlying assumptions of macro projections.	**2.1**
	Medium-term Budget Framework	**Basic.** Chile currently has an aggregate MTFF rather than a MTBF, with several elements of good practices in MTBF are missing.	**High.** Introducing a fully-fledged MTBF to show more clearly the medium-term impact of policy decisions and provide more resource predictability to line ministries.	**2.1**
	Investment Projects	**Good.** Project assessment and procurement processes are adequate but total lifetime project costs cannot be clearly identified.	**High**. Understanding and monitoring the total expected cost of investment projects is important to grasp the medium-term implications of a given investment project.	**2.1**
Orderliness	**Fiscal Legislation**	**Advanced.** Timetable and content of the draft budget as well as powers of the Congress are defined in fiscal legislation.	**Low.** Legislation broadly defines the content of the budget proposal more specifics on content should be provided.	**2.4**
	Timeliness of budget documents	**Good.** The approved budget is published a few weeks before the start of the fiscal year.	**Low.** Only a change in constitutional deadlines would enable the approved budget to be published before the end of November.	
Policy Orientation	**Fiscal Policy Objectives**	**Good.** A fiscal rule exists since 2001 but the structural balance objective has been changed during presidential terms.	**Medium.** The introduction of a formal escape clause would make the fiscal rule more resilient to shocks.	**2.2**
	Performance Information	**Good.** Chile has an overall robust performance information system but the link to policy outcomes remains weak.	**Medium.** The link between policy objectives and budget allocations could be strengthened.	**2.3**
	Public Participation	**Basic.** Information is abundant, however there are few spaces for a formal voice for the public in budget deliberations, monitoring and audit.	**Medium.** The existing legal framework to enable public participation should be leveraged and feedback should be provided on how public inputs are incorporated into policies and advice.	**2.3**
Credibility	**Independent Evaluation**	**Good.** An Autonomous Fiscal Council has been established.	**Medium.** A broader mandate of the CFA would help strengthen the credibility of the government's forecasts.	**2.2**
	Supplementary Budget	**Good.** Additional spending is authorized ex ante by Congress but the approval is scattered across many legal texts	**Medium.** A user-friendly vision of all changes to the approved budget should be provided by DIPRES on their website.	**2.4**
	Forecast Reconciliation	**Good.** Elements on forecast reconciliation are already present in the IFP.	**Low.** Reconciliation tables could be standardized and the reconciliation process streamlined.	**2.1**

III. FISCAL RISKS

Governments should disclose, analyze, and manage fiscal risks to public finances and ensure effective coordination of fiscal decision-making across the public sector.

105. This chapter assesses the Chilean government's analyses, reporting, and management of fiscal risks against the practices of the FTC. The focus of this pillar is the exposure of public finances to the possibility of short to medium-term shocks to fiscal variables emanating from the rest of the public sector, from the domestic private sector, or from the international environment. The chapter also covers long term fiscal sustainability and fiscal risks include general risks arising from macroeconomic shocks and specific risks from contingent liabilities both explicit—legal obligations or firm commitments to provide fiscal support should a particular event occur or circumstance arise—as well as implicit contingent liabilities, where there is no legal obligation on government but there is an expectation to provide fiscal support. Risks are assessed on three dimensions:

- i. General arrangements for the disclosure and analysis of fiscal risks;
- ii. The reporting and management of risks arising from specific sources, such as government
- guarantees, public-private partnerships, natural disasters, and the financial sector; and
- iii. Coordination of fiscal decision-making between central government, local governments, and public corporations.

106. Table III.1 lists key published government reports in Chile that the mission examined to understand disclosure of fiscal risks.

Table III.1. Selected Reports Related to Fiscal Risks

Fiscal Risk	Report or Publication	Issuing Agency	Frequency
Macroeconomic Risks	Macroeconomic Forecasts (Informe de Finanzas Públicas IFP)	DIPRES	Quarterly
	Report on Monetary Policy (Informe de Politica Monetaria)	BCCh	Quarterly
Long Term Sustainability	Reports on the Pension systems (FRP)	DIPRES	3 to 4 years
	Reports on the health system		Ad hoc
	2019 Working Paper on Debt sustainability		Ad hoc
	Report on Debt Sustainability	CFA	Ad hoc
Budget Contingencies	SWF Reports (FEES). (Informe de Finanzas Públicas IFP)	MoF	Monthly Quarterly Annually
Guarantees	Contingent Liabilities Report (Informe de Pasivos Contingentes, IPC)	DIPRES	Annually
PPPs	Contingent Liabilities Report (Informe de Pasivos Contingentes IPC)	DIPRES	Annually

	Annual Concessions Report (Cuenta Pública)	Ministry of Public Works	Annually
	Quarterly Report on Concessions Informe Trimestral Dirección General de Concesiones de Obras Públicas')		Quarterly
Financial Sector Risk	Contingent Liabilities Report (Informe de Pasivos Contingentes, IPC)	DIPRES	Annual
	Report on the Financial Stability (Informe de estabilidad financiera)	Central Bank of Chile	Half-year
	Reports on the Financial Institutions	CMF	Annual
Natural Resources	Quarterly Copper Forecasts Informe de Finanzas Publicas IFP	DIPRES	Quarterly
	Cochilco Yearbook of copper and other mineral statistics, 2000-2019	Cochilco	Annually
Environmental Risks	Disaster Risk Reduction and Reconstruction Plan of the Ministry of Housing and Urban Development	Ministry of Housing and Urban Development	One-off
	Atlas of Climate Risks for Chile	Ministry of Environment	Interactive website
Subnational Governments	Quarterly Fiscal Statistics Report (Informe del Estado de Operaciones del Gobierno General Trimestral)	DIPRES	Quarterly
	Quarterly Debt Statistics Report, (Informe de Estadísticas de la Deuda del Gobierno General Trimestral)	DIPRES	Quarterly
	Annual Financial Statements (Informe de Gestión Financiera del Estado, IGFE)	CGR	Annual
	Annual Municipal Performance Report	SUBDERE	Annual
Public Corporations	SEP Report on Public Corporations	SEP	Annual
	Financial Statements of Public Corporations	Public corporations	Annual (or infra-annual depending on the public corporation)
	Reports on Financial Transfers with the Government	DIPRES	Annual
	Annual Financial Statements (Informe de Gestión Financiera del Estado, IGFE)	CGR	Annual

Source: IMF staff compilation.

3.1 Disclosure and Analysis

3.1.1	Macroeconomic Risks	Not Met

107. Macroeconomic risks have had a limited coverage in budget documentation. Macroeconomic risks are occasionally discussed in the IFP. Reports usually focus on the central macroeconomic and fiscal scenario, while explaining in the narrative that the assumptions (e.g., economic growth, prices of natural resources such as copper, exchange rates) could fail to materialize.[71] However, in times of high uncertainty, such as during the outbreak of the COVID pandemic, alternative macroeconomic and fiscal scenarios (e.g., depending on the severity of the economic outturn due to the COVID crisis, and the related impacts on main fiscal aggregates such as revenues) have been presented and discussed, with both qualitative and quantitative approaches.[72] In the IFP for the first quarter of 2020, a range of macroeconomic scenarios were discussed (2020 economic growth, price of copper, exchange rate, internal demand, exports and imports) and their impact on the fiscal scenario was presented, with the central scenario positioned within a range of alternative forecasts. This scenario analysis has been developed during the COVID-19 crisis however to date it has not been included in the subsequent IFPs. The 2021 third quarter displays a qualitative discussion on macroeconomic risks (presenting both international and national factors). It has been indicated to the mission that this analysis of macroeconomic risks should be maintained and developed in subsequent IFP publications.

108. The openness of the Chilean economy and its strong dependency on factors such as the copper price make the country highly sensitive to macroeconomic risks, which highlights the importance of developing and publishing such risk analyses. Chile is sensitive to the evolution of the international macroeconomic environment, for instance through commodity, trade, interest rates and/or exchange rates shocks. Those risks so far are presented and discussed in a limited fashion in budget documentation. The simplest means of illustrating the sensitivity of the public finances to these changes is to present the impact of a 1 percent change in each macroeconomic aggregate on government borrowing for the year ahead.[73] The presentation of alternative scenarios could also be made permanent, hence increasing the quality of the budget discussion. Both sensitivity analyses and alternative scenarios analyses are currently conducted internally within the DIPRES and would constitute strong building blocks to support such publications.

[71] To be noted that the *Informe de Política Monetaria,* published by the BCCh, contains a chapter on macroeconomic risks (*Escenarios de sensibilidad y riesgos*), with a qualitative discussion and related fan charts, on GDP, inflation and core inflation. However, in the context of the FTE, this report is not considered part of the budget documentation (see for instance Informe de Política Monetaria, June 2021, pp. 60 available at https://www.bcentral.cl/documents/33528/3015467/IPoM_Junio_2021.pdf/61bb2ea4-44d4-f136-04bd-142514543552)

[72] See for instance *Informe de Finanzas Públicas,* First Quarter, 2020, pp. 45 (available at https://www.dipres.gob.cl/598/articles-201476_Informe_PDF.pdf)

[73] A more sophisticated approach is to base the change in the value of each macroeconomic aggregate on its historical volatility or forecast error and show its impact not only on government borrowing but also on government expenditure, revenue, and debt over the medium term.

3.1.2	Specific Fiscal Risks	Not met

109. Specific fiscal risks are those that arise from exposure to an identified range of uncertainties. Specific fiscal risks include both explicit and implicit risks, from sources ranging from public debt management, guarantees, disasters, the financial sector, or from other entities in the public sector (e.g., subnational governments and public corporations). They differ from risks that arise from exposure of the fiscal aggregates to broader *macroeconomic risks* (e.g., variations in economy-wide parameters such as GDP growth, inflation, the exchange rate, and interest rates), as assessed in indicator 3.1.1. This Indicator 3.1.2 assesses the overall level of transparency with respect to the broad range of specific fiscal risks. Sections 2 and 3 of Pillar III consider in more detail Chile's transparency and risk management practices with respect to the main common individual sources of specific fiscal risks, such as government guarantees.

110. Since 2007, Chile annually publishes detailed information on a range of explicit contingent liabilities in the *Informe de Pasivos Contingentes (IPC)*.[74] The range of risks covered by this report is defined by law[75] and encompasses the following risks:

- Risks related to PPPs (minimum revenue guarantee)
- Risks related to the guaranteed debt of the public corporations
- Risks related to the guarantee for student loans
- Risks related to the deposit insurance scheme
- Legal risks (claims against the government)
- Risks related to specific funds and mechanisms
- Risks related to obligations towards multilateral organizations
- Risks related to the Pension system (future commitments)

111. For the risks it covers, the IPC demonstrates internationally recognized best practice, with in-depth quantitative analyses. For each of the risks discussed within the report, both the magnitude and the likelihood are presented, with a described methodology and potential impact on the budget. It also presents the evolution of contingent liabilities against the previous year and explains main changes. The methodological chapter sets out both the contingent obligations of the government (including legal ones), the framework shaping the evaluation of these contingent liabilities, and discusses the management of those risks.

[74] http://www.dipres.gob.cl/598/w3-propertyvalue-16136.html

[75] Article 40 DLFA, modificado por las Leyes N° 20.128 sobre responsabilidad fiscal y N° 20.255 sobre reforma previsional.

112. However, the IPC falls short of an analysis and summary of the main specific risks to which the fiscal position is exposed, and analysis on important risks is not published. Important risks, such natural resources risks (including quantity, price and reserve effects) or environmental risks including from natural disasters are not covered or discussed in the IPC. Other risks such as the ones related to the financial performance of public corporations, public assets and liabilities (particularly debt liabilities) or subnational governments are not mentioned. The contents of the IPC follow what is mandated by law, which focuses on contingent liabilities. In this way the IPC is not part of a wider framework to analyze all potential fiscal risks, explicitly identifying and prioritizing the main ones (e.g., natural resources risks, due to the weight of copper in the Chilean economy, environmental risks or risks related to the pension systems) and demonstrating which others may have a lesser impact. Such a framework would hinge on the validation of the main fiscal risks (which could evolve depending on the context and the economic environment), their qualitative and/or quantitative analyses, their management, and their mitigation measures. It would also provide a comprehensive picture of the totality of fiscal risks that could potentially impact the fiscal position and improve understanding of the relationship and interconnection between the crystallization of these risks.

113. In view of the range and magnitude of specific fiscal risks in Chile[76], summary reporting of fiscal risks should be supported by improved fiscal oversight and management. In the last 20 years, several countries have started publishing annual Fiscal Risk Statements, generally alongside their annual budgets presented to the legislature. Examples include Brazil, the United Kingdom, Finland, New Zealand, Kenya, Indonesia, and the Philippines, who all make the fiscal risks statement publicly available. The suggested broader scope of a Fiscal Risk Statement for Chile is presented in Box III.1. The statement would begin with discussion of the government's fiscal risk management strategy in the context of the medium-term fiscal strategy, recent progress in mitigating risks, and priority areas for further risk mitigation. Figure III.1 lists Specific Fiscal Risks that Chile is exposed to.

[76] E.g., importance of copper and the management of natural resources.

Figure III.1. Specific Fiscal Risks of the Central Government[77]

Selection of specific fiscal risks	Magnitude: Percent of GDP	Magnitude: Period	Source of information
Debt			
Long-term debt projections	24.20%	2050	DIPRES (2019 report on debt sustainability analysis)
Pensions			
Estimated costs related to the guarantee on minimum pensions	1.35%	2020	Report on contingent liabilities (IPC)
Estimated costs related to the solidarity pension scheme	2.98%	2050	Report on contingent liabilities (IPC)
Cumulative actuarial liabilities of DIPRECA and CAPREDENA	17.50%	2020	Staff estimate based on 2012 actuarial report on DIPRECA and CAPREDENA
Contingent liabilities			
Minimum Income Guarantee Concession System	0.15%	2020	Report on contingent liabilities (IPC)
State Guarantee for the Debt of Public Enterprises	0.99%	2020	Report on contingent liabilities (IPC)
Higher Education Credit Guarantee	1.53%	2020	Report on contingent liabilities (IPC)
State Deposit Guarantee	3.34%	2020	Report on contingent liabilities (IPC)
Guarantee Fund for Small Entrepreneurs (FOGAPE)	0.38%	2020	Report on contingent liabilities (IPC)
Chilean Economic Development Agency (CORFO) Hedge Funds	0.31%	2020	Report on contingent liabilities (IPC)
Legal costs	0.22%	2020	Report on contingent liabilities (IPC)
PPP			
Total PPP rights and obligations	x		
Natural resources			
Fiscal revenues from copper	x		
Long-term risks related the natural resources reserves	x		Remark: Monetary value of copper reserves estimated at 25% of GDP (IMF Staff estimate NPV)
Environmental risks			
2010 Earthquake	12% - 15%	2010	OECD, 2019, Fiscal Resilience to Natural Disasters: Lessons from Country Experiences
Average of other disasters over 7 yrs	0.11%	2020	IMF estimate (based on the average fiscal costs over a 7-year horizon)
Subnational governments			
Debt liabilities	0.03%	2020	2020 December, Quarter Debt Report of April 2021 Informe de Estadísticas de la Deuda del Gobierno General Trimestral
Public corporations			
Transfers to the government	0.53%	2020	DIPRES (report on transfers)
Transfers from the government	0.42%	2020	DIPRES (report on transfers)
Potential liabilities risks	0.5% - 1.5%	2020	IMF staff calculation (based on liabilities of recurring loss-making public corporations)

Source: IMF staff calculation.

[77] Magnitude is a maximum exposure, unless otherwise specified in the first column (selection of specific fiscal risks).

Box III.1. Possible Structure and Content of an Annual Fiscal Risk Statement

Macroeconomic Risks and Budget Sensitivity: discussion of the macroeconomic forecasting record in recent years; sensitivity of fiscal aggregates to variations in key economic parameters, with explanation of underlying mechanisms and analyses of recent fiscal forecasts; presentation of alternative macro-fiscal scenarios; probabilistic fiscal forecasts.

Public Debt: sensitivity of public debt levels and debt servicing costs to variations in key parameters. The government's debt management strategy and performance against the strategy. Debt sustainability analysis. Policy and institutional framework for government borrowing and on-lending: projected statement of inflows, outflows, and balances; nonperforming loans.

Other short to medium term fiscal risks: civil service pension scheme exposures; elements where there is an unusual degree of uncertainty e.g., recent tax or social security reforms, social or regional instability.

Long-term risks: sustainability of the pensions, health and social schemes, with potential risks to main fiscal aggregates; main conclusions of actuarial analyses if available.

Contingent Liabilities: government's gross exposure to contingent liabilities, especially central government guarantees; including expected costs as feasible; disclosure of rationale, criteria, and beneficiaries.

Financial sector: past and current explicit government support to the financial sector; deposit insurance scheme details and an assessment of risks from the wider financial sectors.

Legal action against the central government: Past claims and settlements, and the gross value of current claims, with a disclaimer that reporting the risk does not indicate government acknowledgement of liability.

Public Private Partnerships: Summary of the current and planned PPP program (all types of PPPs); quantum of expenditure required to meet the infrastructure needs in the context of the public investment program; policy and management framework and rationale for PPPs; total rights, obligations, and other exposures, expected annual receipts and payments over the life of contracts; treatment of PPPs in accounting and fiscal reporting. Cumulative overall exposure from government's current announced PPP program. Features of some signed PPPs, and gross exposure from guarantees and similar instruments.

Natural Resources: Summary of the main fiscal risks related to natural resources (e.g., price of copper), with an analysis of the forecasts' sensitivity to prices and quantities, as well as estimates of the long-term value of the reserves. Evaluation and analyses of the volume and value of the previous year's sales and fiscal revenues.

Environmental risks: fiscal impacts of disasters and other environmental hazards; strategies for disaster risk reduction and disaster risk financing. Analyses of short-term / frequent environmental risks (e.g., earthquakes, tsunamis, etc.) vs. long-term risks (e.g., due to climate change)

Public Corporations: Policy framework e.g., ownership policy, pricing, dividends. Direct and indirect support between government and public corporations, any quasi-fiscal activities. Financial performance and position of the sector and the largest corporations. Financial performance and position of state-owned financial institutions.

Subnational Governments: Legal framework for intergovernmental fiscal relations, and summary of aggregate subnational government financial performance and financial position.

Source: IMF staff.

3.1.3	Long-term Sustainability of Public Finances	Not met

114. Contingent liabilities related to the pension system are covered within the IPC. The report assesses the evolution of future commitments related to the guarantee on minimum pensions and to the solidarity pension scheme. Analyses covers a 30-year time horizon. The projected resources needed for the minimum pension guarantee and solidarity pension system in 2020 are in the order of 1.35 percent of GDP, with a projected gradual increase over time until reaching about 3 percent of GDP by 2050. To provide sustainable financing for the pension system, a Pension Reserve Fund (FRP) was created to support the financing of obligations arising from the pension guarantee scheme.

115. Following Article 7 of the FRL[78], the government regularly publishes long-term analyses on the FRP. The law requires the government to publish information every three years and recent studies have been published in 2013, 2016 and 2020. Those studies exhibit analyses spanning over more than 10 years, with hypotheses on demographic evolutions, as well as on the macroeconomic context. Some pensions schemes are not covered by regular studies. For instance, pensions schemes related to the police and the Armed Forces (DIPRECA and CAPREDENA) are not covered by regular publications, the latest studies on the sustainability of such schemes is more than 5 years ago. [79]

116. The government has also published specific studies on the evolution of the health system. Those studies, published in 2014, 2016, 2017 and 2018, the recent ones cover the evolution of the health system over the long-term, with a focus on specific topics (e.g., sustainability analysis, reimbursements).

117. More importantly, projections of the sustainability of the main fiscal aggregates are not regularly published. Part of those aggregates are partly covered within the studies on the pension schemes (e.g., fiscal balance) or *ad hoc* studies on the projections of long-term fiscal revenues.[80] There is however no regular long-term projections of some of the main fiscal aggregates, such as debt, on a 10-year horizon. Forecasts presented in the IFP cover a 4-year horizon while longer-term projections are made in *ad hoc* reports (e.g., presentation of the debt sustainability analysis model for a working paper in 2019, report from the CFA in 2020). However, those reports are not regularly published and do not allow for a consistent understanding of the long-term projections of the main fiscal aggregates.

[78] *Ley 2018 sobre responsabilidad fiscal.*
[79] An actuarial study on DIPRECA and CAPREDENA was published by DIPRES in 2012.
[80] Studies published in 2019 and 2021.

3.2 Risk Management

3.2.1	Budgetary Contingencies	Advanced

118. The Economic and Social Stabilization Fund (FEES) was established in 2007 to finance fiscal deficits and to provide support to the economy during an economic downturn. The FEES receives the fiscal surplus each year, provided that the contribution to the Pension Reserve Fund has been made. Its resources can be used at any time to supplement the revenues necessary to finance the authorized budget in the event of a fiscal deficit, for the amortization of public debt, or to cover the contributions for the Pension Reserve Fund. The size of FEES has fluctuated from 2017 to 2021 to between 3 and 5 percent of GDP. There is regular reporting on the FEES to Congress, with monthly and annual[81] reports on their financial evolution, and quarterly reports (IFP), which include a discussion on the reason for any withdrawals.

119. There is also a provision in the Constitution (Article 32-20) for using emergency funding under clearly specified circumstances. The President, with the signature of all the Ministers, may decree payments not authorized in the budget law, to meet urgent needs, not exceeding two percent of the total budget authorized annually. The access criteria is stated in the same article of the Constitution and is restricted to instances of public calamities, foreign aggression, internal commotion, serious damage or danger to national security or the exhaustion of the resources destined to maintain services that cannot be paralyzed without serious damage to the country. This article has been invoked 28 times since its approval in 1970, but only three this century, including one in 2020 to finance the response to the COVID-19 pandemic. For 2020, based on this Constitutional provision, Decree 333 authorized the use of up to 1,185 billion pesos to deal with the COVID pandemic.

3.2.2	Management of Assets and Liabilities	Basic

120. All borrowing is authorized by law and the risks surrounding the government's debt holdings are analyzed and disclosed in a basic manner. All public entities need the MoF authorization for borrowing (FRL). Asset management also requires DIPRES' authorization. A general authorization can be provided for public companies operating in the market and DIPRES monitors them. The Undersecretary of Finance is in charge of debt disclosure, monitoring and issuing monthly and quarterly reports. The debt risk analysis consists of reporting on progress towards general objectives such as increasing average bond maturity and currency composition, and includes comprehensive disclosure of the components of debt. The debt report includes information on currency composition, maturities and interest rate developments sufficient to assess the risks surrounding debt holdings. However, there is scope to improve the debt sustainability analysis by

[81] Ministry of Finance. Sovereign Wealth Funds. https://www.hacienda.cl/areas-de-trabajo/finanzas-internacionales/fondos-soberanos.

including the impact of changes in macroeconomic variables (interest rate, exchange rate, copper price) and more information on creditors such as information on the residency of creditors which is currently not disclosed. Also, no medium-term debt strategy (MTDS) is published.

121. The risks of other liabilities are not publicly monitored. Other liabilities such as the pensions for special regimes (military and police) are not regularly disclosed. Other risks regarding the reliance on lease-back operations in the municipalities are not publicly analyzed. A commendable effort has been made to improve information and procedures around central government arrears. The 2019 Law 21.217 establishes that bills should be paid within 30 days or interest will be accrued. This provision has been applied since mid-2019 for central government and in 2021 for municipalities. A new portal to provide government suppliers with information on the status of their invoices started operating in 2020 and is facilitating disclosure of arrears.

122. On the assets side, Chile is publishing quarterly reports on the SWF, the FRP and FEES. The FRL created these Funds and requires quarterly reports on their situation which are submitted to Congress (90 days after the end of the quarter). Also, since 2013 the FRP sustainability reports present a complete analysis on the long-term impact of the pension system. The regular reporting on the SWF includes disclosure on accumulation, investment and the use of the resources. The Treasury holds the assets in special accounts and they can be invested according to a ministerial decree. Also, a Financial Committee in the MoF provides advice on the SWF investments. Even though the information on the SWF is comprehensive, their risk assessment is not regularly disclosed. Also, regular reporting on mineral assets risks is missing but there is a 2015 study on long-term copper revenue including the impact of economic variables and alternative scenarios.

123. Cash management is provided by DIPRES but the Treasury Single Account (TSA) is not fully functional. All central government revenues are collected in the Treasury account. Entities' own revenues can be collected in their own accounts or using the Treasury system. There are other subsidiary accounts in Banco del Estado and some in the BCCh for public service management (entities, ministries, funds, etc.) that are not zero-balance accounts, thus, not transferring daily to the main account. The Treasury reports daily to the MoF on the cash situation ("Estado diario") and registers the movements in the government accounts at the end of the month. A better integration of the accounts at the TSA would allow for more fungibility of cash balances and promote more efficient use of public resources.

124. An integrated Assets and Liabilities strategy would be an important step in information disclosure. Even though there is regular information provided on SWF and net debt, an integrated Assets and Liabilities strategy is missing as well as a balance sheet approach to the management and disclosure of risks. Box III.2 sets out an approach to building an asset and liability management framework.

Box III.2. Components of a Sovereign Asset and Liability Management Framework
A Sovereign Asset and Liability Management (SALM) framework would include the following. First, the scope of public sector entities and types of assets and liabilities to be included in the analysis need to be defined. Usually, non-financial assets are not including in SALM frameworks. Second, the exposure of individual entities and the public sector balance sheet to financial risks (e.g., currency risk, interest rate risk, liquidity/refinancing risk, inflation risk, commodity price risk, credit and counterparty risk) are analyzed to identify natural hedges and mismatches. Third, the SALM strategy takes into account the government's ability and willingness to bear risks and typically includes a mix of risk avoidance, risk transfer, and risk retention. Fourth, the SALM strategy is published, implemented and evaluated. An appropriate institutional framework and reporting mechanisms should support the SALM strategy.
Source: Technical Assistance Report on Mexico- Strengthening Public Assets and Liabilities Management, 2021.

3.2.3.	Guarantees	Advanced

125. Government guarantees, their beneficiaries, the gross exposure created by them and their probability of being called are published annually. The IPC, Chile's contingent liabilities report, has been published by DIPRES since 2007 as required by the FRL. In respect to guarantees, the 2020 IPC identifies the nature of guarantees in operation, the maximum exposure, estimated exposure (where feasible), movement of the estimated value of guarantees types between years and explains the reasons for major movements. It also clearly describes the policy purpose for the guarantee and how the relevant guarantee scheme operates. Information is collected from line ministries in September and published annually in December. Box III.3 describes the approach taken to quantifying the expected impact of minimum income guarantees in Chile for transportation PPPs.

126. Guarantees are the major source of contingent liabilities in Chile, comprising 69 per cent of total estimated contingent liabilities. In 2020, the maximum exposure of guarantees was estimated at 9.1 per cent of GDP, while the expected exposure of guarantees was estimated at 6.7 percent of GDP, see Table III.2. Since 2019, guarantees have increased by almost one percent of GDP. This is primarily related to the increase in the State Deposit Guarantee as a result of the increase in the eligible number of customers and the legal change to the Guarantee Fund for Small Entrepreneurs which increased the fund's assets to face the Covid-19 crisis. Estimated annual flows are around 0.12 per cent of GDP. Actual payments made under some guarantee arrangements are disclosed in the IPC. For example, for the minimum income guarantees calculated as part of the transport concessions and for the costs of the Higher education scheme

127. A sensitivity analysis of Chile's contingent liabilities to changes in macroeconomic conditions is also published. This is done by analyzing how the main guarantees are affected by shocks to the economic environment that can introduce significant variations in the main macroeconomic variables such as inflation, the exchange rate and economic growth. Guarantees are approved by law and largely have legal limits and risk management measures are in place. Guarantees are required to be approved by the Minister of Finance and authorized by law. For example, minimum income guarantees are authorized under Decree 900, the Law on Public Works, and PPPs Regulation. Guarantees for public enterprises' debt are authorized by individual laws and limits on the quantum and outstanding debt balances are reported. New higher education guarantees are subject to a per annum limit under the budget law. The State Deposit Guarantee Scheme has a limit per person and per bank, per annum. Guarantee funds to support small business are pre-funded, thereby limiting the government's exposure without express approval for additional resources through the budget process. The main risk management measures for guarantees are also set out in the FRL and include the duty to estimate and publish contingent obligations and guarantees on an annual basis and the power of the MoF to make provisions including to take out insurance or to charge a premium when granting a revenue guarantee. Revenue guarantee fees are charged for concession contracts but are not disclosed separately.

Table III.2. Maximum Exposure and Potential Impact of Guarantees in Chile, 2020

(% of GDP)

Guarantees	Annual estimated flow 2020	Estimated Exposure 2019	Estimated Exposure 2020	Max Exposure 2020	Comment
Minimum Income Guarantee Concession System	0.01%	0.15%	0.15%	1.43%	Max exposure calacuation on an assumption of no traffic. Likely exposure calcaulated based on demand simulation models.
State Guarantee for the Debt of Public Enterprises	0.00%	0.88%	0.99%	0.99%	Maximum exposure is most feasible estimate.
Higher Education Credit Guarantee	0.07%	1.35%	1.53%	1.53%	Maximum exposure is most feasible estimate.
State Deposit Guarantee	0.00%	2.44%	3.34%	4.47%	Estimated max exposure based on simulations of irrational and rational behaviour of citizens in relation to the deposit guarantee.
Guarantee Fund for Small Entrepreneurs (FOGAPE)	0.00%	0.17%	0.38%	0.38%	Maximum exposure is most feasible estimate.
Chilean Economic Development Agency (CORFO) Hedge Funds	0.03%	0.00%	0.31%	0.31%	Maximum exposure is most feasible estimate.
Total Guarantees	**0.11%**	**4.99%**	**6.70%**	**9.11%**	`

Source: IMF staff, Contingent Liability Report 2020.

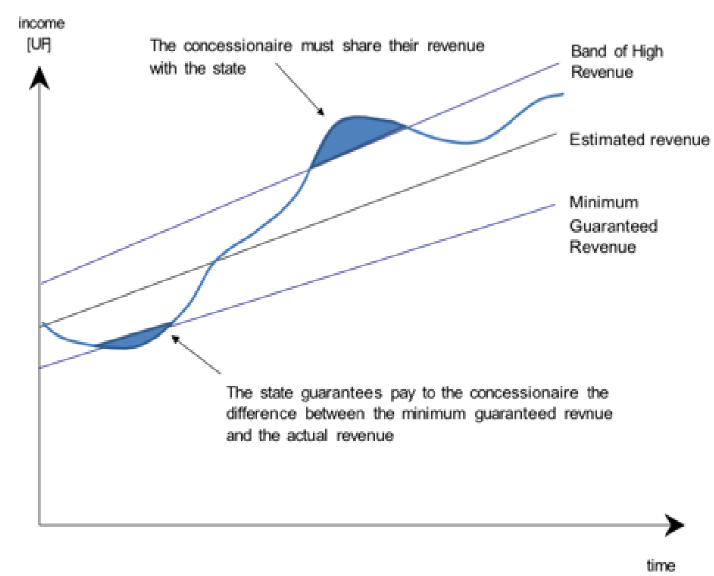
Box III.3. Approach to Quantification of Minimum Income Guarantees in Chile

Transport infrastructure concession projects in Chile mainly incorporate a guaranteed minimum income. In these contracts, the Ministry of Public Works (MPW) guarantees the concessionaire a minimum income level for a certain number of years over the project's operation. Under this arrangement, if the annual income of a concession is less than the guaranteed minimum income the MPW must pay the difference in income in the following calendar year. Minimum income guarantees are based on the need to mitigate the demand risk existing in some concessions, mainly in relation to roads.

To analyze the maximum exposure of minimum income guarantees, DIPRES establishes an upper limit for the obligations of the Government of Chile by estimating the amount payable if there were no traffic on the roads. Taking this approach, calculations indicate that the maximum exposure by minimum income guarantees in present value is 1.43 percent of projected GDP.

To have a more precise measure of the expected commitment of the Government of Chile, an estimated value of the payments is made by DIPRES. The model used consists of two main elements:

- A mathematical representation of the contractual conditions that determine the amount of any payment provided for in the various guarantees.
- A stochastic model of traffic revenue used to make projections. This model starts with the actual traffic revenue levels of 2019 and makes assumptions about how these will evolve, the expected growth rates, as well as revenue volatility and correlations between revenues for different roads.



Both elements are combined in a Monte-Carlo simulation to estimate the probability distribution of the payments and the expected value of them. Based on this approach, the present value of the expected payments associated with the minimum revenue guarantee of the concession system corresponds to approximately 0.15 percent of GDP. The actual payments made for 2019 minimum revenue guarantees for concessions was $69.410 million pesos (0.04% of GDP).

Source: Contingent Liabilities Report, 2020 (*Informe de Pasivos Contingentes* 2020), Chile.

3.2.4	Public Private Partnerships	Not Met

128. **Chile has a long history of using PPP arrangements to finance major infrastructure projects**. The Chilean government began using PPPs or concessions in the early 1990s to build and upgrade roads. In the late 1990s, concessions were used to upgrade airports. In addition, concessions have been used to finance jails, reservoirs, public buildings, and urban roads. Most of the road and airport concessions contain revenue guarantees.

129. Chile has a well-established process to manage and limit PPP obligations. The Ministry of Public Works must obtain approval from the MoF at several stages of the contract preparation, including before the tender documents are issued and before contracts are signed at the end of the procurement process. As is the case for investment projects, concession projects are subject to a cost benefit analysis that is published. Projects must be approved by both the Minister of Finance and the Minister of Public Works, as well as by the CGR and the President. Where the government provides minimum revenue guarantees, it charges a fee for bearing this risk. The MoF also insists that infrastructure investments awarded in concessions be covered by natural disaster insurance.

130. Much information is disclosed on PPP arrangements in Chile, however documentation is very difficult to navigate. The Directorate of Concessions in Ministry of Public Works[82] publishes detailed information on the PPP agenda, covering planned concessions and bidding timeframes for individual concessions from 2019-2025. Also available is information on concessions under construction, in operation, or that have been completed. For each PPP, the project file includes a project description, the procurement history, start date, concession term and the total budget for the projects (but not the government's contributions or obligations). Contract documentation is also available, including all bidding documents and contract decrees. However, this documentation is very lengthy and difficult to navigate, therefore not very accessible or transparent. Monthly reports are published on the status of implementation, including fines paid by the concession provider for non-compliance with the contract terms. In addition, a quarterly report on all concessions ('*Informe Trimestral Dirección General de Concesiones de Obras Públicas*') and an annual report (the '*Cuenta Pública*') is published providing a summary of the progress and status of all concessions.

131. Notwithstanding the comprehensive disclosure of concession status and contract arrangements, some key pieces of financial information required by the FTC are not published. The estimated annual receipts and payments over the life of the concession contract are not published. This is particularly important to understand in PPPs arrangements where the government pays for a service provided by the private partner or where subsidies are provided. This information exists internally within the Ministry of Public Works and the Concessions and Contingent Liabilities Unit (DIPRES), who use this information to help determine the likelihood of contingent liabilities under concession contracts being realized - but it is not published.

132. The government's total rights, obligations and exposures under public-private partnerships contracts are not disclosed. Concession contracts in Chile are published and Chile comprehensively discloses and quantifies contingent liabilities associated with the minimum revenue guarantees for transport concessions annually in the IPC. However, the total rights and obligations of the government from each PPP contract or group of PPP contracts are not disclosed or easily accessed. This information is important as it facilitates an understanding of the total commitments on the government as a result of a PPP arrangement. For each PPP project (or group

[82] https://concesiones.mop.gob.cl/proyectos/Paginas/default.aspx

of similar projects) budget documents and year-end financial statements should provide information on the total future service payments and receipts (e.g, concessions and operating lease fees). Alternatively, this summary information could be disclosed in a summary fiscal risk report and/or on the website of the Ministry of Public Works, alongside the information on concessional projects.

3.2.5	Financial Sector	Advanced

133. Chile's financial sector is large and dominated by eight conglomerates[83] overseen by a strengthening supervisory framework. At the end of 2020, financial assets comprised 300 percent of GDP. The financial sector is dominated by banks (one of which, Banco del Estado de Chile, is fully owned by the State and has a total balance sheet representing 26.6 percent of GDP) and pension funds (see figure III.2). Even after the 2020 withdrawals, pension funds held assets equal to 74 percent of GDP at the end of December. In 2018, the authorities revised the banking law and overhauled the financial supervisory structure. The reform established the Financial Market Commission (CMF) that consolidates banks, insurance, and securities market supervisors. Previously the multiplicity of loosely coordinated agencies in a complex financial system provided opportunities for regulatory arbitrage, and conglomerates created a host of supervisory challenges regarding governance, related party lending, and interlinkages. The Financial Stability Committee (Consejo de Estabilidad Financiera, CEF) was created in 2011 to facilitate the flow of information between regulators and to strengthen analytics. It now comprises the MoF, the CMF, the Pension Supervisors, and the BCCh as an observer.

134. The four main explicit supports from the government to the financial sector come from the deposit insurance scheme, the existence of a public bank, the Banco del Estado, the FOGAPE and student loans, all of them are disclosed and quantified:

- The BCCh guarantees banks' deposits (State deposits guarantee) in the absence of insurance and resolution mechanisms.[84] This deposit insurance scheme is not industry-funded and is not ex-ante financed. Potential costs of an intervention would be carried by public finances. However, as a mitigation measure, commercial banks are required to keep additional reserves at the Central Bank when insured deposits are greater than a predetermined threshold (2.5 times the equity). The contingent liabilities related to this deposit insurance scheme are quantified and disclosed in the IPC. The quantification of those contingent liabilities involves the following steps: (i) estimates of the insured savings (by types of savings and insured depositors); (ii) estimates of the maximal exposure, with hypotheses on the distribution of savings and saving accounts by

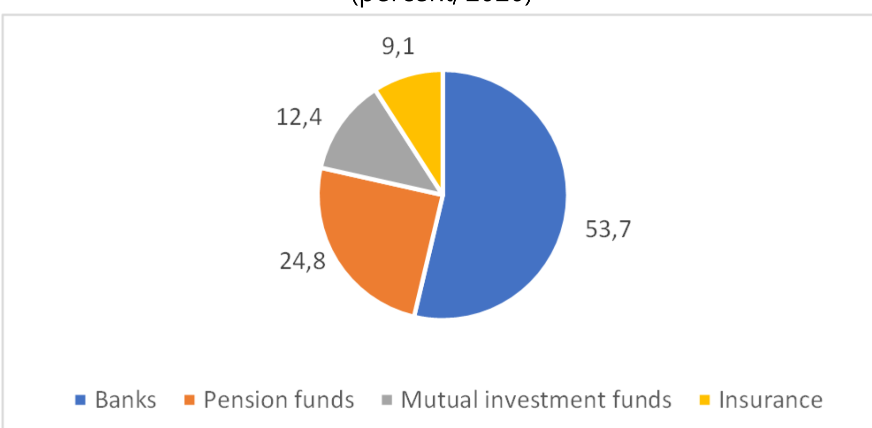
[83] Financial conglomerates are present in banking, insurance, and pension funds. One participates in all three segments, four are concentrated in banking and insurance, and three in insurance and pension funds.
[84] This obligation resulted in large capital losses during the 1980's banking crisis as BCCh bought bank assets and provided lender of last resort funding. It took the BCCh until 2019 to fully divest its equity positions in the domestic banking sector, and BCCh remains in a negative net equity position.

person; and (iii) estimate of the likely exposure, by using hypotheses on the behavior of depositors. The probability of the exercise of the guarantee is estimated by analyzing the riskiness of the different banks and financial institutions (leveraging the ratings from credit rating agencies). For 2020, the probability is estimated at zero. The evolution of this contingent liability is presented in Figure III.3.

- Banco del Estado de Chile (BancoEstado) is fully owned by the State. This public bank is supervised as a private bank and has a strong rating (e.g., AAA according to Fitch-Chile) and regularly publishes its financial information, disclosing the main risks (e.g., liquidity risks, credit risks, market risks) and financial statements. To comply with the Basel 3 rules (currently not in application in Chile), a capital injection should take place in the coming years, the State being the only contributor.
- The FOGAPE is a fund mechanism intended to guarantee loans, leasing operations and other financing mechanisms granted by public institutions to small entrepreneurs. This fund is administered by BancoEstado and supervised by the CMF. Contingent liabilities related to the FOGAPE are analyzed, quantified, and disclosed within the IPC, and have strongly increased in 2020, as the FOGAPE has been mobilized to tackle the COVID crisis. The FOGAPE currently displays a low loss ratio[85] (see Figure III.3).
- Student loans are covered by a state guarantee, but commercial banks are assuming the front office responsibilities (including screening and credit scoring) and are carrying part of the risks. Student loans represented 3 percent of Chilean GDP in 2020. 60 percent of the amount of the loans are being carried within the commercial bank accounts and stay on their balance sheet. The remaining 40 percent are transferred to the State and carried by the State balance sheet. The analysis and disclosure of the contingent liabilities related to the student loans is presented within the IPC report.

Figure III.2. Financial System Assets

(percent, 2020)



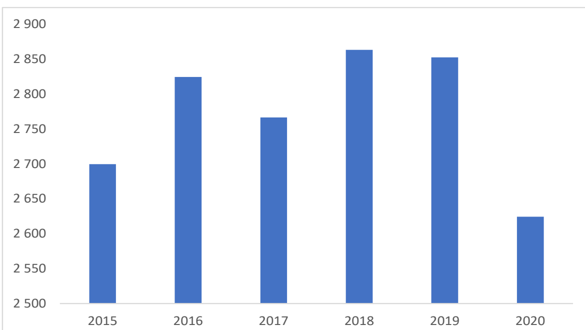
Source: CMF.

[85] Paid guarantees (net of potential proceedings) / stock of guarantees.

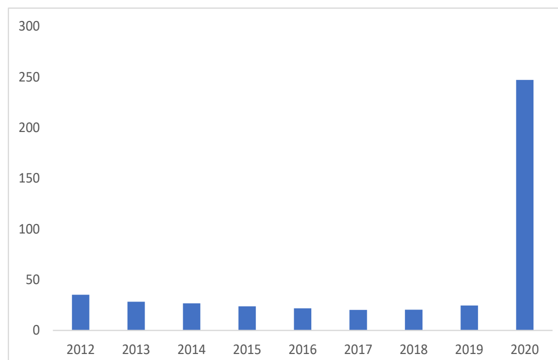
135. The stability of the financial system is regularly assessed, and detailed information is published by the supervisory authorities. Both the BCCh and the CMF publish regular information on the stability of the financial system. Each semester, the Central Bank publishes a Financial stability report[86] covering developments of the financial markets (including credit conditions) and threats to financial stability. Those reports include stress-testing exercises, based on different macroeconomic and financial market scenarios. Due to the increase in public and private debt following the COVID crisis, the BCCh is currently contemplating adding to its analyses fiscal stress-testing, to better understand risks related to the public debt (including interest rates shocks). The CMF also publishes regular reports and statistics on the evolution of the financial institutions it oversees.

Figure III.3. Evolution of the Deposit Insurance and FOGAPE

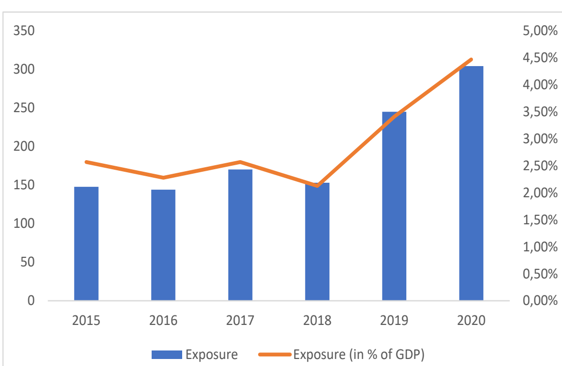
a. Deposit Insurance: Total Covered Deposits (millions of Pesos)



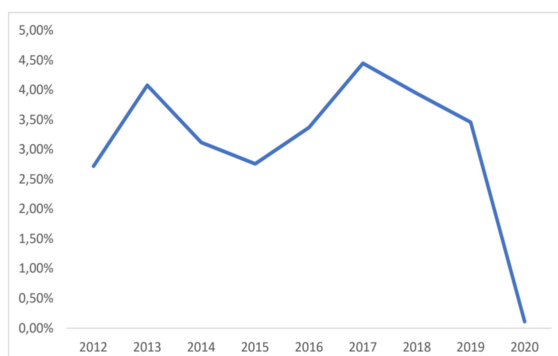
a. FOGAPE: Total Stock of Guarantees (millions of Pesos)



b. Deposit insurance: Evolution of Maximum Exposure (millions of Pesos, percent of GDP)

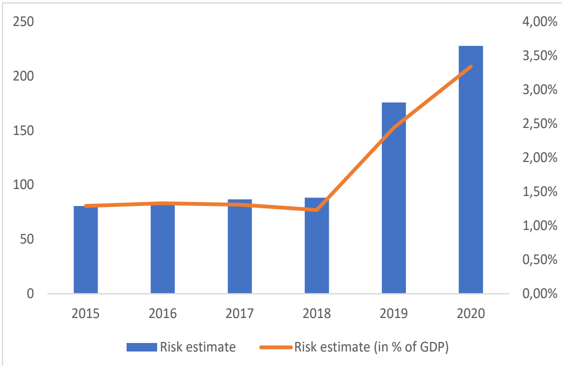


b. FOGAPE: Evolution of the Loss Ratio (percent)



[86] *Informe de estabilidad financiera.*

c. Deposit Insurance: Evolution of Estimated Exposure (millions of Pesos, percent of GDP)



Source: IPC 2020.

3.2.6	Natural Resources	Not Met

136. Copper production remains a significant source of revenue for the government. Even though the economy has diversified away from reliance on the copper sector, revenues linked to mining (predominantly of copper) represented on average 13 percent of the overall central government revenue over the period 2000-2019, with peaks of more than 20 percent over the years 2005-2008 and 2010.[87] Mining revenues represented only 6.1 percent of total central government revenue in 2019 but the impact of developments in the price of copper on the Chilean budget is still significant, which fully justifies the integration of the price of copper in the calculation of the CAB utilized for Chile's fiscal rule (see 2.3.1.). As an example, a recent IFP report (1st quarter 2021) pointed out that the recent rise in the price of copper, leading to the assumption of an average price of US$3.99 per pound in 2021 as opposed to US $3.35 in the January 2021 macroeconomic scenario, would boost growth in 2021 from 5 percent to 6 percent. It would also generate extra revenue for the central government to the tune of almost US $4 billion (i.e., around 1.5 percent of GDP), since every one cent increase in the copper price, increases taxes and royalties by $US 60 million.[88]

137. Information on the volume and value of the previous year's sales and fiscal revenue is available. The successive IFPs prepared by DIPRES present in detail the price of copper and the volume of copper production (both by private mining companies and by the state-owned enterprise Codelco) as part of the macroeconomic scenario, in terms of budget outturn, for the ongoing year and for the budget year. Assumptions on the price of copper also underpin the projections of revenue for the MTFF and the calculation of the associated CAB. IFPs also clearly delineate mining revenue (taxes paid by private mining companies and revenues accruing from Codelco) within total

[87] Source; Cochilco Yearbook of copper and other mineral statistics, 2000-2019. Non-weighted average of the share of mining revenues (taxes paid by the big private mining companies – GMP-10 – and contributions from state-owned mining companies) in total central government revenue as per table 30 of the Yearbook.
[88] IFP 2020 Q3.

central government revenue. In addition, Cochilco (Chilean Commission of Copper) makes available a wealth of data in their Annual Yearbook of Copper and other Mining Statistics, notably on mining sector production, mining sector export and the contribution of mining sector to the economy.

138. However, Chile does not officially publish annual estimates of the volume and value of mineral reserves. Subsoil assets belong to the State according to the Chilean Constitution, but their value is not retraced in the central government's balance sheet, nor in any document produced by DIPRES. Even regarding the volume of reserves, there is no official publication. The reference estimate is produced by the US Geological Survey, which mentions total reserves of 200 million metric tons.[89] There are no references to this estimate in official documentation. Codelco only publishes annual estimates of their own reserves[90], estimated at 50.1 million metric tons in 2019, broken down almost equally between proven and probable reserves.

139. Publishing official information on the value of copper reserves would be a significant asset in the establishment of a balance sheet providing a true and fair view of the net situation of the Chilean State. On the basis of the methodology outlined in the IMF October 2018 Fiscal Monitor, the Public Sector Balance Sheet database maintained by the IMF currently highlights that for a sample of 41 countries, natural resource assets are equal to 39 percent of GDP, while staff estimates the current value of copper reserves in Chile at 24.9 percent of GDP (see section 1.1.2). IPSAS is also currently working on a consultation project on the treatment of natural resources in the public sector, which will add pressure for Chile to improve its reporting in this regard.[91] The argument that recognizing copper reserves as a significant asset in the State's balance sheet may increase spending pressures is valid to a certain point, but this risk already exists in the current disposition and can be addressed through transparency and through recognizing the cyclical impact of copper on public finances – which is one of the objectives of the current fiscal rule.

140. Lastly, Chile does not publish estimates of the volume and value of copper reserves under different price and extraction scenarios. The projections mentioned above focus only on the annual revenue impact of mining revenue over the period of the MTFF, under a central scenario for the price of copper. In 2021, DIPRES produced long-term projections of public revenue over the period 2020-2060[92] according to three scenarios (optimistic, central and pessimistic) differentiating in terms of copper price, production level and operating margins in the mining industry. Depending on the scenario the level of public revenue from mining at the end of the projection period (2051-2060) varies between 0.1 percent of GDP (pessimistic scenario) and 1.6 percent of GDP (optimistic scenario). Such projections can easily be used to assign a monetary value on the expected revenue from copper over the coming decades.

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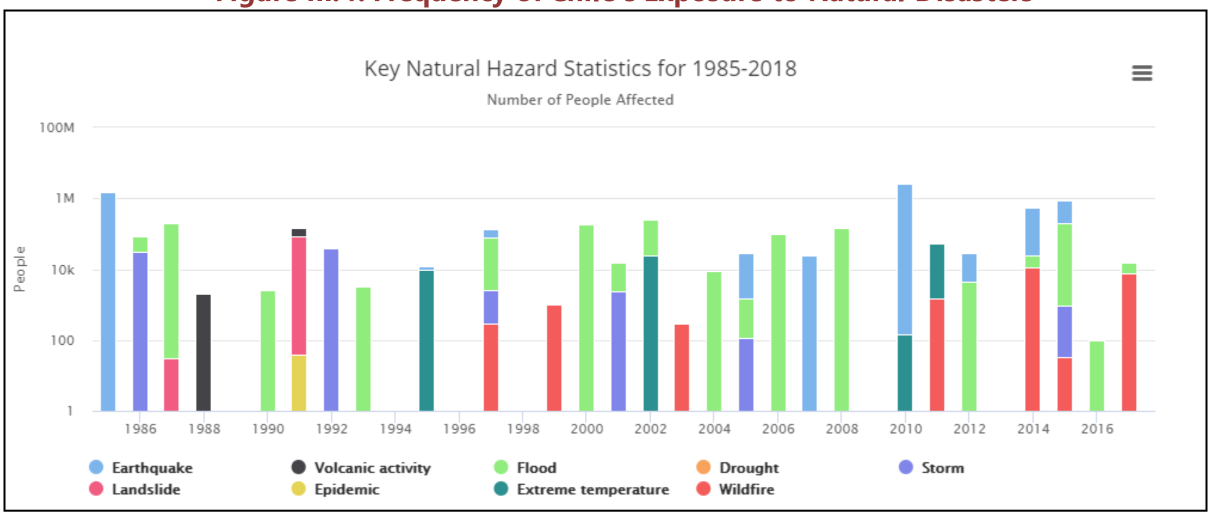
[89] Copper Data Sheet, January 2020, available under https://pubs.usgs.gov/periodicals/mcs2020/mcs2020-copper.pdf.
[90] Annual Report for 2019.
[91] https://www.ipsasb.org/consultations-projects/natural-resources
[92] *Estimación de los ingresos fiscales en el largo plazo 2020-2060,* January 2021.

141. Chile does not belong to the Extractive Industries Transparency Initiative (EITI). Created in 2003, EITI seeks to address governance issues in the extractive sectors by setting a global standard for the good governance of oil, gas and mineral resources. Authorities advised that the issue of membership had been raised in the past, but that Chile – like some other resource-rich countries members of the OECD such as Australia or Canada – decided not to join at this stage. Authorities estimated that their national framework provided enough transparency and governance safeguards, notably through the involvement of the judicial branch in the attribution or extension of mining concessions. The state-owned mining company Codelco is however an EITI supporter through its membership of a professional body, the International Council on Mining and Metals.

3.2.7	Environmental Risks	Basic

142. Chile is highly vulnerable to natural disasters, and climate change is expected to impact the frequency, intensity, exposure, and magnitude of multiple hazards. Chile has frequently experienced multiple hazards such as earthquakes, droughts, floods and wildfires. Figure III.4 shows the frequency of Chile's exposure to natural disasters since 1985. The World Risk Index provides a disaster risk assessment for 181 countries worldwide. The 2020 World Risk report ranks Chile as the 30th most at risk out of 188 countries.[93]

Figure III.4. Frequency of Chile's Exposure to Natural Disasters



Source: World Bank Climate Portal https://climateknowledgeportal.worldbank.org/country/chile/vulnerability.

143. Flooding and wildfire events occur with the highest frequency, while earthquakes are the third most frequent event, representing a significant percentage of mortality and economic damage. The 2010 earthquake and associated tsunami are estimated to have had an economic impact of 18 percent of GDP and a fiscal cost of 12–15 percent of GDP.[94] Chile is prone to frequent flooding which can impact, critical infrastructure, water quality, energy and agricultural

[93] https://reliefweb.int/sites/reliefweb.int/files/resources/WorldRiskReport-2020.pdf

[94] OECD (2019) Fiscal Resilience to Natural Disasters: Lessons from Country Experiences.

production. Chile was affected by extensive wildfires in 2017, which impacted human health, urban populations, forests and agricultural land. Chile has suffered many instances of drought, including a drought between 2008-2015 that affected much of the southern and central areas impacting food and agricultural production. Rising temperatures and changing climatic patterns could impact the incidence of droughts and floods. The Chilean government identifies and discusses qualitatively potential environmental risks in the context of *The Disaster Risk Reduction and Reconstruction Plan of the Ministry of Housing and Urban Development*; and the 'Atlas of Climate Risks for Chile' a project of the Ministry of the Environment that identifies and maps climate risks to support the design of public policies and the implementation of adaptation measures.

144. The Chilean authorities recognize the significant fiscal impact that natural disasters can have on public finances. As a one-off, the 2018 IFP disclosed the fiscal impact of natural disasters since 2010, showing that the historical fiscal cost of such disasters on the budget was an average of 167,922 million pesos per annum (abstracting from major catastrophes like the 2010 earthquake which in theory should be a once in 75-year event) see Figure III.5. Although not published, the Debt Office of the MoF prepared comprehensive analysis to identify and quantify natural disaster risks, their impact and expected loss to determine where insurance would be a useful risk mitigation mechanism. This work paved the way for Chile to issue a CAT Bond to capital markets along with the Pacific Alliance and the World Bank to insure against disaster risks from earthquakes for the period 2018-2021. The Chilean government also requires that infrastructure investments awarded in concessions be covered by natural disaster insurance.

Figure III.5. Expenses for Reconstruction and Emergencies due to Disasters, 2010-2018

(millions of pesos of 2018)

	Earthquake 2010	Earthquake 2014	Earthquake Coquimbo	Landslide 2015	Volcanic Activity	Flood	Fire 2014	Forrest Fire 2017	Total
2010	864,267								864,267
2011	849,062								849,062
2012	958,315								958,315
2013	683,731								683,731
2014	302,071	42,950			344		27,599		372,964
2015	117,822	105,198	18,920	192,593	5,393	3,094	35,272		478,292
2016	89,029	71,498	19,104	129,086	1,471	17,540	32,403		360,131
2017	74,196	51,657	45,682	54,401		419	28,879	78,301	333,535
2018	49,943	38,174	32,452	65,701		1,744	19,903	55,677	263,594
Total	**3,988,436**	**309,477**	**116,158**	**441,781**	**7,208**	**22,797**	**144,056**	**133,978**	**5,163,891**

Source: IMF Staff, DIPRES 2018 IFP.

145. Looking ahead, DIPRES should systematically publish a quantitative assessment of the fiscal risks of natural disasters. Currently the IPC does not mention environmental risks, including those that emanate from global pandemics, like COVID-19. While these risks fall outside the technical definition of contingent liabilities, they do represent risks that could have a significant impact on the economy and on the budget as past events have shown. DIPRES should systematically identify, discuss, quantify and publish the possible fiscal implications of environmental risks and actions to mitigate them. This thinking appears to already be done internally and has been partially disclosed on ad-hoc basis. The historical information on the fiscal impact and incidences of natural disasters published in 2018 could be used to inform this analysis.

3.3 Fiscal Coordination

3.3.1	Subnational Governments	Advanced

146. Chile remains one of the most centralized countries in the OECD and as a result the size of subnational finances is relatively small compared to OECD peers. For example, in 2014, the size of SNG sector expenditure was around 3.0 per cent of GDP, compared with an OECD average of 16.6 percent.[95] The sub-national government (SNG) in Chile comprises 345 municipal and 16 regional entities. Together, the size of the sector in 2020 reflects revenue of 4.2 percent of GDP and expenditure of 4.0 per cent of GDP.[96] SNG have limited own-source revenues and most transfers are earmarked by the central government to be spent on specific sectors or activities.

147. Regional entities that manage health and education services, receive 100 percent of their income from the central government. Therefore, they do not have a financial existence distinct from that of the central government. Although, they are considered in Chile as private as opposed to public entities, further analysis would be needed to understand their classification according to international standards. As the longstanding decentralization agenda unfolds, regional entities will receive greater autonomy over their budgets, but funding will remain part of the central government sector for some time, at least over the next few years.

148. Municipalities are funded mostly from territorial taxes that go into the Municipal Common Fund and are distributed centrally according to an agreed formula. The central government also makes a small contribution to the Common Fund each year through the budget. In 2020, municipal revenues were 2.1 percent of GDP and expenditure was 1.9 percent of GDP, leading to an overall surplus of 0.2 percent of GDP.[97]

149. Chile is the only OECD country where subnational borrowing is prohibited. Municipalities have the authority to independently manage their budgets, but borrowing is prohibited by law except when explicitly authorized by the MoF. This restriction also applies to municipal corporations and to any debt guarantees issued by municipal governments. Gross liabilities of municipalities at end December 2020 totaled 0.03 percent of GDP[98] and it has been constant at this level since 2017. The main component of municipality liabilities is leaseback operations (85 percent at end 2020), which is governed by the leaseback policy.[99] The leaseback

[95] OECD (2017) Making Decentralization Work in Chile.
[96] DIPRES Quarterly Statement of Operations March 2021.

[97] DIPRES Quarterly Statement of Operations March 2021. Note: this reflects the net size of the SNG sector after consolidation with the CG, as regional bodies receive all of their income from the central government.

[98] The 2020 December Quarter Debt Report (April 2021).
[99] https://www.dipres.gob.cl/597/articles-201467_doc_pdf.pdf

policy, strengthened in 2018, sets out the conditions and ongoing requirements for approval of leaseback arrangements by the MoF. Other liabilities of municipalities include accounts payable (mostly debt to suppliers) and in exceptional cases loans from the central government. Repayments of these loans are reflected by lower distributions from the Common Fund. An accumulation of unauthorized liabilities could occur due to temporary delays in contributions to pension funds or arrears to suppliers, however major movements in expenditure from month-to-month are monitored.

150. The financial condition and performance of municipalities is published quarterly. Three separate agencies produce separate reports regularly on the finances of municipalities, as set out in Table III.3. DIPRES produces quarterly general government operations and debt reports which contain a picture of the consolidated municipal sector. These reports include revenue, expenses, debt and assets, along with an explanation of major movements in assets and liabilities each quarter. DIPRES relies on CGR data to produce these reports. CGR reviews municipal transactions weekly. They require that municipalities submit budget execution data monthly and publish municipal compliance rates with these requirements, which average 96.8 percent over a 12-month period.[100] Data is published quarterly. Annual financial statements are prepared by individual entities and submitted to CGR. No audits will be undertaken in 2021, as a result of the transition to IPSAS by municipal governments. Annual financial statements for the municipality sector are published in the IGFE.

Table III.3. Summary of Reporting and Monitoring of Municipal Governments in Chile

Agency	Report	Published	
DIPRES	General Government Statement of Operations Report – '*Informe del Estado de Operaciones del Gobierno General Trimestral*'	Quarterly (Consolidated Sector)	Yes
	General Government Debt Statistics Report - '*Informe de Estadísticas de la Deuda del Gobierno General Trimestral*'		Yes
CGR	Review Transactions	Weekly	No
	Budget Execution Data	Monthly	No
	Database of Budget Execution Data	Quarterly	Yes
	Annual Financial Statements (IGFE)	(Annual Consolidated Sector)	Yes
SUBDERE	Quarterly Performance and Monitoring Report	Quarterly	No
	Annual Performance Report	Annual	Yes

Source: IMF staff.

151. The Sub-secretariat for Regional and Administrative Development (SUBDERE), the national body responsible for promoting regional and local development, also undertakes

[100] IGFE 2020.

regular monitoring of municipal finances. SUBDERE has a special role to collect, process and disseminate information related to municipal financial management and service provision, through the Sistema Nacional de Información Municipal (SINIM).[101] SUBDERE also publishes an annual report on the performance of the municipalities and conducts quarterly internal monitoring using SINIM. Looking ahead SUBDERE are making further enhancements to SINIM to improve and automate analysis by developing a range of risk indicators and red flags that would identify any major variations in the financial accounts of subnational bodies accounts.

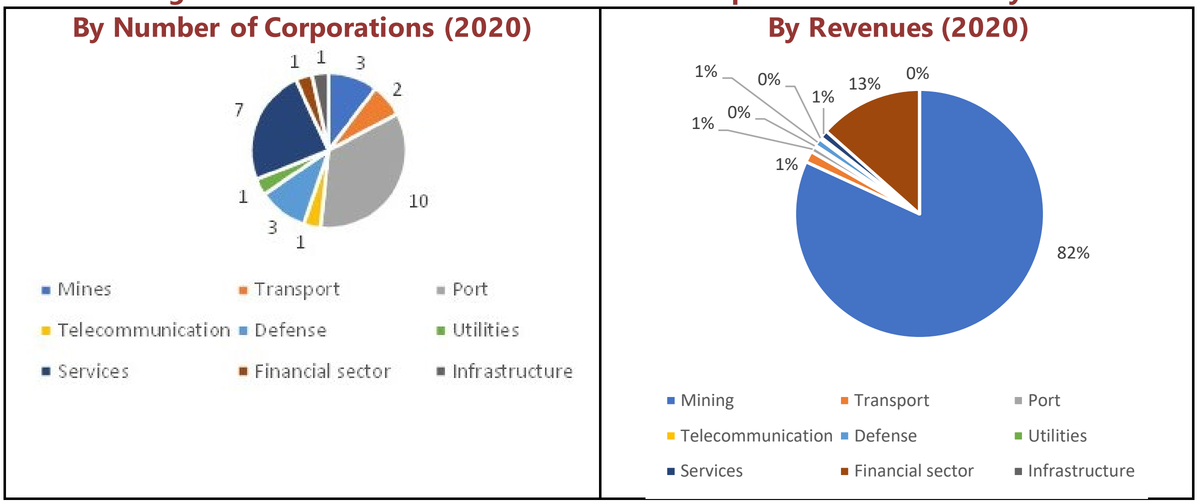
3.3.2	Public Corporations	Basic

152. Due to their weight in the Chilean economy and their links with the government, public corporations are a potential source of fiscal risks for the Chilean government. As of December 2020, the liabilities of public corporations presented in the OECD statistics communicated by DIPRES[102] amounted to about 42.1 percent of GDP. As mentioned in indicator 3.2.3, state guarantees for the debt of public corporations represent 1 percent of GDP. The financial oversight of the portfolio is exercised by DIPRES (including following the budget process for the relevant companies), while the line ministries are involved in the operational plans and development. The SEP (*Systema de Empresas Públicas*), a technical body, has also been created to enhance the strategic oversight of the public corporations in specific sectors (transport, port, services).

153. DIPRES oversees a portfolio of 29 public corporations, with an important weight given to CODELCO. The breakdown of the portfolio by economic sector is shown in figure III.6. Beyond those 29 public corporations, 4 public corporations are currently in a winding-up process (ENACAR S.A., a carbon mining company, La Nacion S.A., a newspaper company, EMAZA, in charge of supplying goods to isolated communities, and Lago Puñuelas S.A., a utility company). While there is an important number of ports owned by the government (10 public corporations, or a third of the portfolio), the main economic contribution comes from the mining sector, and in particular from CODELCO, which represents 57 percent of the total revenues of the public corporations. The evolution of revenues, net operating results and the balance sheet of the SOE portfolio is presented in Figure III.7. The only public corporation present in the financial sector is Banco Estado. The evolution of the net operating results (before taxes) shows that the financial performance of public corporations has faced adverse scenarios in the past.

[101] http://sinim.subdere.gov.cl/
[102] Available at https://www.dipres.gob.cl/599/articles-64217_recurso_1.pdf

Figure III.6. Breakdown of Chilean Public Corporations Portfolio by Sector



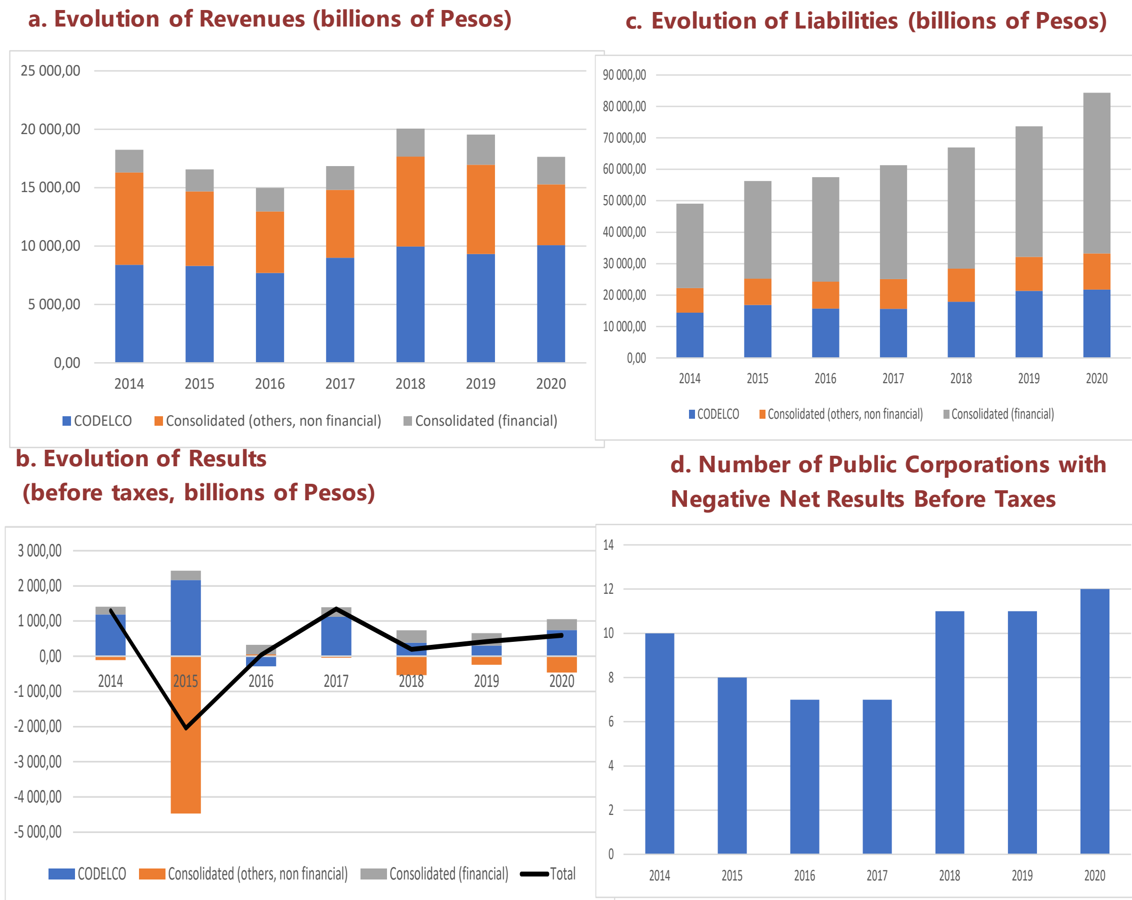
Source: DIPRES.

154. DIPRES annually publishes the annual transfers between the government and the public corporations. Those transfers, published on the DIPRES website, are presented at the corporation level and detailed by type of transfers as presented in Figure III.8. Transfers from the government to the public corporations represent close to 2 percent of central government expenditure, while transfers from the public corporations to the government represent closer to 3 percent. Information on potential on-lending operations involving public corporations is presented in the quarterly report on debt statistics.

155. There is currently no ownership policy for the public corporations. Public corporations are usually created by a law, which details their mandate and missions. There are however discussions to develop such a general policy, which could include the statement of the government's objectives as a shareholder, the requirements of public corporations (including expectations of financial performance, dividend policy, reporting requirements), the state's expectations of the corporations (including social responsibility considerations), the remuneration policy or the legal and governance frameworks (including relationships between the board of directors, the management and the shareholders).

156. There is no estimate or disclosure of quasi-fiscal activities undertaken by public corporations. While occasionally mentioned in companies and fiscal reports, public corporations' quasi-fiscal activities are not systematically identified nor evaluated. Examples of public policy activities carried by the public corporations include social projects undertaken by public corporations in the transportation sector or specific support to some populations.

Figure III.7. Economic Presentation of the Public Corporations Portfolio



Source: DIPRES

157. The financial accounts of individual public corporations are monitored and publicly reported, but there is no detailed analysis of the overall performance of the state's public corporations. There are various publications covering the financial accounts of the public corporations (e.g., financial reports from the public corporations, financial accounts consolidated by the CGR, financial reports from the SEP and from the DIPRES). The report disclosing information transmitted to the OECD between 2014 and 2020[103] presents some key financial aggregates (e.g. revenues, expenses, net profits before tax, part of the assets and liabilities). However, there is no report covering the overall financial performance of the public corporation sector, with a more detailed and comprehensive view on the key financial aggregates. Such a report should also include a range of indicators on companies profitability (e.g., profit margin, return on equity, return on assets) and risks (liquidity risks, leverage, solvency). It could also consolidate information on transfers with the government. In the recent years, various countries have developed such reports[104] and included in them the main analysis of the evolution and the performance of the portfolio, an analysis

[103] Available at https://www.dipres.gob.cl/599/articles-64217_recurso_1.pdf

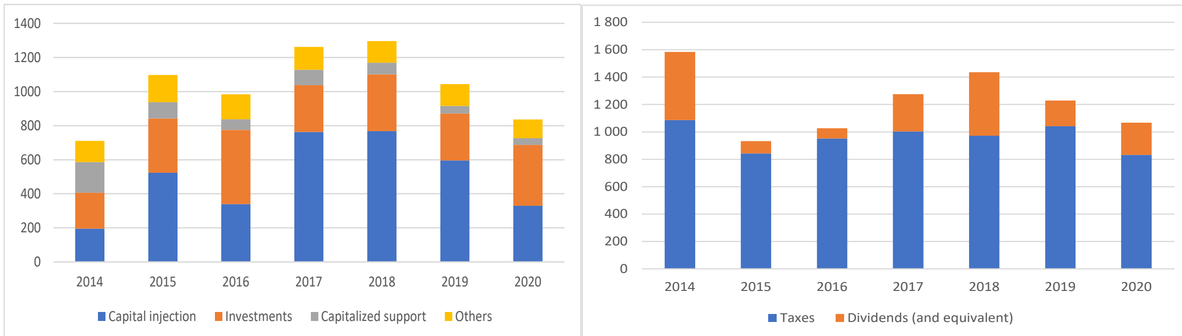
[104] See for instance: Côte d'Ivoire, France, Lithuania, Morocco, Norway, South Africa, Sweden.

of the performance of the public corporations at the individual level, and a review of the State strategy.

Figure III.8. Transfers Between the Government and the Public Corporations

a. Transfers from the Government (billions of Pesos)

b. Transfers to the Government (billions of Pesos)



Source: DIPRES.

3.4 Conclusions and Recommendations

157. Based on the above assessment, the evaluation highlights the following priorities for improving the transparency of fiscal risk disclosure and management:

- **Recommendation 3.1: Improve transparency and reporting of macroeconomic risks to the fiscal position:**

- Systematically publish within the IFP accompanying the budget, an analysis of the impact of macroeconomic risks on the fiscal position (including sensitivity analyses of the macroeconomic and fiscal forecasts to the main macroeconomic variables, as well as alternative macroeconomic scenarios) (3.1.1)

- **Recommendation 3.2: Expand disclosure of fiscal risks to cover a broader and more comprehensive range of risks:**

- Develop and publish a comprehensive fiscal risk statement with the budget documentation (for 2023 budget) and gradually expand to include and analyze more risks (building on and expanding the information and analysis presented in the IPC) (3.2.1)
- *Environmental risks* - Routinely and systematically publish analysis that identifies the major sources of natural disaster risk, quantifying the potential fiscal impact and articulating a risk management strategy (3.2.2)
- *Natural Resource risks* – Publish information on natural resources in a comprehensive fiscal risk statement – focusing first on the volume of reserves and progressively deepening the analysis to cover economic value under different scenarios (3.2.3)
- *Subnational governments* - Integrate the results of the existing and comprehensive monitoring of the financial performance of municipalities into the broader fiscal risk discussion, publishing an analysis and assessment of the fiscal risks. This could be quite short setting out potential risks and the mechanisms already in place that mitigate these risks. While risks from SNGs are low, this may change as the decentralization agenda evolves (3.2.4).
- *Financial obligations associated with PPPs* – Disclose the government's exposure of total obligations under PPP contracts by publishing expected annual receipts and payments over the life of the PPP contracts and the total rights and obligations of these arrangements, adding to the IPC analysis. This could be done as a part of a summary fiscal risk report, or the Ministry of Public Works websites (3.2.5).
- *Financial performance and risks associated with Public Sector Corporations* – perform and publish analyses of the profitability of SOE and a review of various risks (e.g., liquidity, solvency) drawing main messages from the enhanced monitoring of public corporations (3.2.6).

- **Recommendation 3.3: Strengthen disclosure and risk management of assets & liabilities**.

- *Increase disclosure of risks associated with debt dynamics* - publish quantitative risk analysis on debt on a regular basis and a medium-term debt strategy. In the longer-term, Chile could publish a balance sheet strategy considering all assets and liabilities and associated risks. A summary, or main messages from this analysis should also be included in a more comprehensive fiscal risk statement (3.3.1).

- *Improve management of cash account balances* - Improve the Treasury Single Account (TSA), almost all central government accounts should be maintained in the TSA, with daily transfers to the main account and fungibility on the use of the accounts (3.3.2).
- *Increase disclosure and monitoring of the performance of Public Sector Corporations* - Develop and publish an annual report on the financial performance of SOEs, including analyses of the profitability and various risks (e.g., liquidity, solvency). A summary from this analysis should also be included in a more comprehensive fiscal risk statement. In addition, the authorities should design and publish an ownership policy for public corporations (3.3.3).

• **Recommendation 3.4. Strengthen long-term fiscal sustainability analysis by regularly publishing debt sustainability analysis and projections of the main fiscal aggregates**

- *Improve long-term fiscal sustainability analysis* - Include within the budget documentation long-term projections (10 years as a first step, which could be increased to a thirty to fifty years horizon) of the main fiscal aggregates (e.g., fiscal balance, debt). This could support the debt sustainability analysis and the medium-term debt strategy proposed in recommendation 3.3 (3.4.1).
- *Generalize regular long-term analyses of other Pension schemes*– Consistently publish long-term analyses for all the pension schemes creating fiscal risks. Beyond the FRP and the report on contingent liabilities, this should also include DIPRECA and CAPREDENA (3.4.2).
- *Develop scenarios analyses for long-term sustainability analyses* – Long-term fiscal sustainability analyses for debt and other main fiscal aggregates, for the pension schemes and for the health system should progressively include multiple scenarios analyses (macroeconomic assumptions, hypotheses on natural resources, demographic assumptions, etc.), as it is already the case in some reports, to cater for the high uncertainty of long-term projections (3.4.3).

Table III.4. Summary Assessment of Fiscal Risks Management and Disclosure

Principle		Assessment	Issues and Importance	Recs
Risk Disclosure and Analysis	Macroeconomic Risks	**Not met:** Macroeconomic risks are not regularly discussed in the budget documentation, except in times of high uncertainty.	**High:** The Chilean economy is open and highly dependent on some macroeconomic factors (e.g., price of copper), which can have sizeable impacts on the budget.	3.1
	Specific Fiscal Risks	**Not met:** The Chilean government does not publish a summary report covering all main fiscal risks.	**Medium:** A summary report would provide a comprehensive picture of the totality and interconnectedness of fiscal risks to the budget from a broad range of sources that could potentially impact the fiscal position.	3.2
	Long-Term Fiscal Sustainability Analysis	**Not met:** The Chilean government regularly publish long-term projections on the pension and health systems. However, projections on the main fiscal aggregates including debt are limited and more ad hoc.	**High:** A long-term view on the projections of the main fiscal aggregates (including debt and fiscal balance) is key to analyze and mitigate fiscal sustainability risks and make informed decisions in a context of increasing debt levels.	3.4
Risk Management	Budget Contingencies	**Advanced.** Budget contingencies are regularly reported with transparent access criteria.	N/A.	N/A
	Asset and Liability Management	**Basic.** All borrowing is authorized by law and debt information is regularly disclosed but risks to assets and liabilities are not disclosed and Treasury accounts do not have full fungibility.	**Medium**: A MTDS and a comprehensive asset and liability strategy would help to better identify, manage and disclose risks.	3.3
	Guarantees	**Advanced:** All guarantees are quantified and disclosed. Sensitivity analysis is performed and limits apply.	N/A.	N/A
	PPPs	**Not met:** Chile has a well-established process to manage and limit PPP obligations but needs to increase the transparency of the government's total financial obligations under PPP contracts.	**Low:** It is important for there to be full disclosure of both total financial obligations and annual receipts and payments the government is exposed to over the life of PPP contracts to improve understanding of the total impact of these arrangements on the fiscal position.	3.2
	Financial Sector Exposure	**Advanced:** Explicit support to the financial sector is disclosed and quantified. The financial sector is regularly assessed but there is no macroeconomic and financial market scenarios.	**Low:** The current framework covers the main risks and information is regularly published by the different supervisory bodies.	N/A
	Natural Resources	**Not met:** Revenue from natural resources is correctly reported but there is no information on the volume of reserves.	**Low:** Publishing official information on the value of copper reserves is an important step for a comprehensive picture of net worth and understanding risks.	3.2
	Environmental Risks	**Basic:** The main sources of natural disasters are identified and disclosed.	**Medium:** A published view of the potential fiscal impacts of environmental risks ensures they are identified and improves the coordination of their management across government.	3.2
Fiscal Coordination	Subnational Governments	**Advanced:** Borrowing is prohibited except with approval from the MoF. Quarterly reporting is performed.	**Low:** Integrating the results of SNG monitoring into a consolidated report helps to inform a comprehensive view of fiscal risks.	3.2
	Public Corporations	**Basic:** Annual transfers are disclosed and annual accounts are published. However, there is no annual performance report nor is there an ownership policy.	**Medium:** Thorough analysis and publication of the financial performance, as well as a published ownership framework, would improve the management and disclosure of the related fiscal risks.	3.2 and 3.3

Annex I. Detailed Assessment Against FTC

		BASIC	GOOD	ADVANCED
1	**FISCAL REPORTING**	**Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance**		
1.1	***Coverage***	***Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector and its subsectors, according to international standards.***		
1.1.1	Coverage of Institutions	Fiscal reports consolidate all central government entities according to international standards.	Fiscal reports consolidate all general government entities and report on each subsector according to international standards.	Fiscal reports consolidate all public sector entities and report on each subsector according to international standards.
1.1.2	Coverage of Stocks	Fiscal reports cover cash and deposits; and all debt.	Fiscal reports cover all financial assets and liabilities.	Fiscal reports cover all financial and non-financial assets and liabilities, and net worth.
1.1.3	Coverage of Flows	Fiscal reports cover cash revenues, expenditures and financing.	Fiscal reports cover cash flows, accrued revenues, expenditures and financing.	Fiscal reports cover cash flows, accrued revenues, expenditures and financing; and other economic flows.
1.1.4	Coverage of Tax Expenditures	The estimated revenue loss from tax expenditures is published at least annually.	The estimated revenue loss from tax expenditures is estimated by sector or policy area, and is published at least annually.	The estimated revenue loss from tax expenditures is estimated by sector or policy area, and is published at least annually. There is control on, or budgetary objectives for, the size of tax expenditures.
1.2	***Frequency and Timeliness***	***Fiscal reports should be published in a frequent, regular, and timely manner.***		
1.2.1	Frequency of In-Year Reporting	In-year fiscal reports are published on a quarterly basis, within a quarter.	In-year fiscal reports are published on a quarterly basis, within a month.	In-year fiscal reports are published on a monthly basis, within a month.
1.2.2	Timeliness of Annual Financial Statements	Audited or final annual financial statements are published within 12 months of the end of the financial year.	Audited or final annual financial statements are published within 9 months of the end of the financial year.	Audited or final annual financial statements are published within 6 months of the end of the financial year.
1.3	***Quality***	***Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent***		

		BASIC	GOOD	ADVANCED
1.3.1	Classification	Fiscal reports include administrative and economic classifications consistent with international standards, where applicable.	Fiscal reports include administrative, economic and functional classifications consistent with international standards, where applicable.	Fiscal reports include administrative, economic, functional and program classifications consistent with international standards, where applicable.
1.3.2	Internal Consistency	Fiscal reports include at least one of the following reconciliations: (i) fiscal balance and financing, (ii) debt issued and debt holdings, or (iii) financing and the change in the debt stock.	Fiscal reports include at least two of the following reconciliations: (i) fiscal balance and financing, (ii) debt issued and debt holdings, or (iii) financing and the change in the debt stock.	Fiscal reports include all three of the following reconciliations: (i) fiscal balance and financing, (ii) debt issued and debt holdings, and (iii) financing and the change in the debt stock.
1.3.3	Historical Revisions	Major revisions to historical fiscal statistics are reported.	Major revisions to historical fiscal statistics are reported with an explanation for each major revision.	Major revisions to historical fiscal statistics are reported with an explanation for each major revision and a bridging table between the old and new time series.
1.4	***Integrity***	***Fiscal statistics and financial statements should be reliable, subject to external scrutiny, and facilitate accountability.***		
1.4.1	Statistical Integrity	Fiscal statistics are disseminated in accordance with international standards	Fiscal statistics are compiled by a specific government agency and disseminated in accordance with international standards.	Fiscal statistics are compiled by a professionally independent body and disseminated in accordance with international standards..
1.4.2	External Audit	An independent supreme audit institution publishes an audit report on the reliability of the government's annual financial statements.	An independent supreme audit institution publishes an audit report stating whether the government's annual financial statements present a true and fair view of its financial position and without a disclaimer or adverse audit opinion.	An independent supreme audit institution publishes an audit report consistent with international standards which states whether the government's annual financial statements present a true and fair view of its financial position and without major qualifications.

		BASIC	GOOD	ADVANCED
1.4.3	Comparability of Fiscal Data	At least one fiscal report is prepared on the same basis as the fiscal forecast/budget.	Fiscal forecast/budget and outturn are comparable plus the outturn is reconciled with either the fiscal statistics or final accounts.	Fiscal forecast/budget and outturn are comparable plus the outturn is reconciled with both fiscal statistics and final accounts.

2	**FISCAL FORECASTING AND BUDGETING**	**Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.**		
2.1	***Comprehensiveness***	***Fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects***		
2.1.1	Budget Unity	Budget documentation incorporates all gross domestic tax revenues, expenditures, and financing by central government ministries and agencies.	Budget documentation incorporates all gross domestic tax and non-tax revenues, expenditures, and financing by central government ministries, agencies and extra-budgetary funds.	Budget documentation incorporates all gross domestic and external revenues, expenditures, and financing by central government ministries, agencies, extra-budgetary funds, and social security funds.
2.1.2	Macroeconomic Forecasts	The budget documentation includes forecasts of key macroeconomic variables.	The budget documentation includes forecasts of key macroeconomic variables and their underlying assumptions.	The budget documentation includes forecasts and explanations of key macroeconomic variables and their components, as well as their underlying assumptions.
2.1.3	Medium-term Budget Framework	Budget documentation includes the outturns of the two preceding years and medium-term projections of aggregate revenues, expenditures, and financing.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditures, and financing by economic category.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditures, and financing by economic category and by ministry or program.

		BASIC	GOOD	ADVANCED
2.1.4	Investment Projects	One of the following applies: (i) the government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; or (iii) requires all major projects to be contracted via open and competitive tender.	Two of the following apply: (i) the government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; or (iii) requires all major projects to be contracted via open and competitive tender.	All of the following apply: (i) the government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; and (iii) requires all major projects to be contracted via open and competitive tender.
2.2	***Orderliness***	***The powers and responsibilities of the executive and legislative branches of government in the budget process should be defined in law, and the budget should be presented, debated, and approved in a timely manner.***		
2.2.1	Fiscal Legislation	The legal framework defines one of the following: (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; or (iii) the legislature's powers of amendment to the executive's budget proposal.	The legal framework defines two of the following: (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; or (iii) the legislature's powers to amend the executive's budget proposal.	The legal framework defines all of (i) the timetable for budget preparation and approval; (ii) the key content requirements for the executive's budget proposal; and (iii) the legislature's powers to amend the executive's budget proposal.
2.2.2	Timeliness of Budget Documents	The budget is submitted to the legislature and made available to the public at least one month before the start of the financial year and is approved and published up to one month after the beginning of the financial year.	The budget is submitted to the legislature and made available to the public at least two months before the start of the financial year and is approved and published by the start of the financial year.	The budget is submitted to the legislature and made available to the public at least three months before the start of the financial year and is approved and published at least one month before the start of the financial year.
2.3	***Policy Orientation***	***Fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability.***		

		BASIC	GOOD	ADVANCED
2.3.1	Fiscal Policy Objectives	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is either precise or time-bound.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is both precise and time-bound.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is both precise and time-bound and has been in place for 3 or more years.
2.3.2	Performance Information	Budget documentation includes information on the inputs acquired under each major government policy area.	Budget documentation reports targets for, and performance against, the outputs delivered under each major government policy area.	Budget documentation reports targets for, and performance against the outcomes to be achieved under each major government policy area.
2.3.3	Public Participation	Government publishes an accessible description of recent fiscal performance and economic prospects, as well as a summary of the implications of the budget for a typical citizen.	Government publishes an accessible description of recent fiscal performance and economic prospects and a detailed account of the implications of the budget for a typical citizen, and provides citizens with a formal voice in budget deliberations.	Government provides an accessible description of recent fiscal performance and economic prospects, a detailed account of the implications of the budget for different demographic groups, and provides citizens with a formal voice in budget deliberations.
2.4	***Credibility***	***Economic and fiscal forecasts and budgets should be credible.***		
2.4.1	Independent Evaluation	Budget documentation includes comparisons between the government's economic and fiscal projections and those of independent forecasters.	An independent entity evaluates the credibility of the government's economic and fiscal forecasts.	An independent entity evaluates the credibility of the government's economic and fiscal forecasts, and its performance against its fiscal objectives.
2.4.2	Supplementary Budget	A supplementary budget regularizes expenditure exceeding the approved budget.	A supplementary budget is required prior to material changes to total budgeted expenditure.	A supplementary budget is required prior to material changes to total budgeted expenditure or substantially altering its composition.

		BASIC	GOOD	ADVANCED
2.4.3	Forecast Reconciliation	Differences between the successive vintages of the government's revenue, expenditure, and financing forecasts are shown at the aggregate level, with a qualitative discussion of the impact of new policies on the forecasts.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are broken down into the overall effect of new policies and macroeconomic determinants.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are broken down into the effects of individual policy changes, macroeconomic determinants, and other factors, such as technical or accounting adjustments.

3	**FISCAL RISK ANALYSIS AND MANAGEMENT**	**Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.**		
3.1	***Risk Disclosure and Analysis***	***Governments should publish regular summary reports on risks to their fiscal prospects.***		
3.1.1	Macroeconomic Risks	Budget documentation includes discussion of the sensitivity of fiscal forecasts to major macroeconomic assumptions.	Budget documentation includes sensitivity analysis and alternative macroeconomic and fiscal forecast scenarios.	Budget documentation includes sensitivity analysis, alternative scenarios, and probabilistic forecasts of fiscal outcomes.
3.1.2	Specific Fiscal Risks	The main specific risks to the fiscal forecast are disclosed in a summary report and discussed in qualitative terms.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude and, where practicable, their likelihood.
3.1.3	Long-Term Fiscal Sustainability Analysis	The government regularly publishes projections of the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 10 years.	The government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years using a range of macroeconomic assumptions	The government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years using a range of macroeconomic, demographic, natural resource, or other assumptions.
3.2	***Risk Management***	***Specific risks to the public finances should be regularly monitored, disclosed, and managed.***		

		BASIC	GOOD	ADVANCED
3.2.1	Budgetary Contingencies	The budget includes an allocation for contingencies.	The budget includes an allocation for contingencies with transparent access criteria.	The budget includes an allocation for contingencies with transparent access criteria and regular in-year reporting on its utilization.
3.2.2	Asset and Liability Management	All borrowing is authorized by law and the risks surrounding the government's debt holdings are analyzed and disclosed.	All borrowing is authorized by law and the risks surrounding the government's assets and liabilities are analyzed and disclosed.	All liabilities and significant asset acquisitions or disposals are authorized by law, and the risks surrounding the balance sheet are disclosed and managed according to a published strategy.
3.2.3	Guarantees	All government guarantees, their beneficiaries, and the gross exposure created by them, are published at least annually.	All government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually. The maximum value of new guarantees or their stock is authorized by law.	All government guarantees, their beneficiaries, the gross exposure created by them, and the probability of their being called are published at least annually. The maximum value of new guarantees or their stock is authorized by law.
3.2.4	Public Private Partnerships	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over the life of the contracts.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over the life of the contracts. A legal limit is also placed on accumulated obligations.
3.2.5	Financial Sector Exposure	The authorities quantify and disclose their explicit support to the financial sector at least annually.	The authorities quantify and disclose their explicit support to the financial sector at least annually, and regularly undertake an assessment of financial sector stability.	The authorities quantify and disclose their explicit support to the financial sector at least annually, and regularly undertake an assessment of financial sector stability, based on a plausible range of macroeconomic and financial market scenarios.

		BASIC	GOOD	ADVANCED
3.2.6	Natural Resource Stocks and Flows	The government publishes annual estimates of the volume of major natural resource assets, as well as the volume and value of the previous year's sales and fiscal revenue, in line with international standards.	The government publishes annual estimates of the volume and value of major natural resource assets, as well as the volume and value of the previous year's sales and fiscal revenue, in line with international standards.	The government publishes annual estimates of the volume and value of major natural resource assets under different price scenarios, as well as the volume and value of the previous year's sales and fiscal revenue, in line with international standards.
3.2.7	Environmental Risks	The government identifies and discusses the main fiscal risks from natural disasters in qualitative terms.	The government identifies and discusses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences.	The government identifies and discusses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences, and managing them according to a published strategy.
3.3	***Fiscal Coordination***	***Fiscal relations and performance across the public sector should be analyzed, disclosed, and coordinated.***		
3.3.1	Subnational Governments	The financial condition and performance of subnational governments is published annually.	The financial condition and performance of subnational governments is published annually, and there is a limit on their liabilities or borrowing.	The financial condition and performance of subnational governments is published quarterly, and there is a limit on their liabilities or borrowing.
3.3.2	Public Corporations	All transfers between the government and public corporations are disclosed on at least an annual basis.	All transfers between the government and public corporations are disclosed, and based on a published ownership policy, a report on the overall financial performance of the public corporations' sector is published on at least an annual basis.	All direct and indirect support between the government and public corporations is disclosed, and based on a published ownership policy, a report on the overall financial performance of public corporations' sector, including estimates of any quasi-fiscal activities undertaken, is published on at least an annual basis.

Annex II. Action Plan

	Activity	Timeline 2021 H2	2022 H1	2022 H2	2023 H1	2023 H2	2024 H1	2024 H2
1. Fiscal Reporting								
1.1	**Expand the institutional coverage of fiscal reports and consolidate the general government, the non-financial public sector and the public sector in accordance with international standards**							
1.1.1	DIPRES working with CGR should establish a working plan at the start of 2022 targeting the inclusion of all adjustments by the May 2024 IGFE or before as indicated in the recommendations.							
1.1.2	Introduce fiscal data on public universities into the statistical yearbook and gradually incorporate these institutions into the quarterly fiscal statistics report. Classify public universities under the extra-budgetary subsector in the statistics and consolidated into the CG and GG in the statistical tables.							
1.1.3	Prepare consolidated financial statements of the GG sector by consolidating chapters 1, 2, and 4 of the IGFE, and present the new consolidated statements in an additional chapter of the IGFE.							
	Prepare consolidated financial statements of the entire public sector by consolidating chapters 3 (public corporations) and 5 (central bank) with the new general government chapter. Introduce the public sector statements as another additional chapter in the IGFE report.							
1.2	**Improve the coverage of stocks and flows in fiscal reports, by including missing assets, liabilities and fiscal flows in accordance with international standards**							
1.2.1	Record and disclose the pension liabilities related to the PAYG pension schemes of CAPREDENA and DIPRECA in the annual financial statements (IGFE).							
	Record and disclose the monetary value of copper reserves at present value.							
	Intoduce the recognition pension bonds as a liability in the balance sheet.							
	Complete the recognition of PPP liabilities in the balance sheet in accordance with IPSAS 32 to reflect the total rights and obligations of these arrangements.							
	Complete the recognition of the total liabilities at the subnational level.							
	Account for the debt securities (BTPs, BTUs and Global) at market value and accrued interest on those securities accordingly and record the corresponding other economic flows in the balance sheet and fiscal statistics.							
1.2.2	Improve the classification of CG liabilities to better report the categories of accounts payable and other liabilities.							
	Harmonize the concept of "net debt" between MoF debt unit and DIPRES to ensure consistent reporting of key fiscal aggregates.							
	Revise statistical treatments and classifications including disaggregation of the category "subsidies and grants" in the CG and GG statistics into two separate line items. Also disaggregate of the category "compensation of employees and use of goods and services" in the public corporations statistics into two separate line items.							
	Calculate the "net lending / net borrowing" in the public corporations statistics by deducting the net acquisition of non-financial assets from the net operating balance (not gross) to take into account the depreciation.							
	Record capital transfers from the central government to private sector entities, public corporations, and local government as spending (transfers to private sector, subsidies to public corporations or grants to municipalities) and not as acquisition of non financial assets.							
	Introduce the statement of other economic flows.							

1.3	**Improve fiscal data quality by ensuring internal consistency in fiscal reports, introducing functional codes in budget classifiers- CoA, and providing detailed explanations on revisions to fiscal statistics**
1.3.1	**Strengthen internal consistency in fiscal reports by:**
	Introducing in the 1st quarter IFP and in the debt reports the reconciliation between the financing and the change in the debt stock.
	Comparing the below-the-line financing figures for the budgetary central government drawn directly from the budget execution system (SIAP-SP) with the information on changes to net credit to government assessed by BCCh's monetary survey.
	Establishing procedures and database within the debt management back-office to collect information on the stock of debt held by counterparties (such as foreign governments banks pension funds and investors) to enable reconciling debt issued and debt holdings.
1.3.2	Continue to use and publish the functional classification in the upcoming quarterly IFPs including as part of the budget (proposal and approved) and in-year fiscal reports. Publish a bridge table or methodology that allows replicating the functional classification to a partial section of the budget.
	Complement the CoA incorporated in the Decree 854 with alternative classifications of spending to include functional and programmatic perspectives.
1.3.3	Introduce a dedicated section in the annual and quarterly fiscal reports to clearly explain the differences between previous and revised statistics, with a quantitative comparison between the old and new figures.
1.4	**Strengthen external scrutiny to annual financial statements to ensure they represent a true and fair view of government's financial position**
1.4.1	Perform financial audits on individual entities based on the recently developed manuals by CGR and publish an audit opinion based on the findings.
1.4.2	Produce an audit report on the annual financial statements and issue a qualified opinion assessing the reliability of the statements.
1.4.3	Transfer the preparation of financial statements to the MoF or establish protocols for clear separation on the exchange of information between the CGR Accounting and the Audit Divisions.
1.4.4	Establish a Working Group on statistics consistency with DIPRES, INE, BCCh.
	Continue to strengthen the independence of fiscal statistics by transferring responsibility to a professionally independent agency, increasing the separation of duties between the users and compilers of fiscal statistics. Interim measures to strengthen the autonomy of the Fiscal Statistics Department within DIPRES should also be considered.
1.4.5	Introduce bridge tables in IGFE to reconcile main aggregates (revenue, expenditure, financing) with corresponding budget outturns and fiscal statistics figures.
2. Fiscal Forecasting and Budgeting	
2.1	**Strengthen the medium-term orientation of the budget through more detailed and credible forecasts both on the revenue and on the expenditure side, underpinned by a fully-fledged MTBF**
2.1.1	Gradually advance towards complementing the fiscal rule and the corresponding compatible expenditure levels with aggregate sectoral level expenditure ceilings in the context of a MTBF.
2.1.2	Publish the total expected cost of investment projects on a regular basis alongside the annual budget documentation, including the total expected cost of multi-annual investment projects, and any changes to total estimated project costs over time.
2.1.3	Complete the publication of macroeconomic forecasts by expanding the details of the underlying assumptions (e.g., interest rates, external sector and labor market variables).
2.1.4	Standardize the reconciliation tables for the short and medium-term forecasts and target the reconciliation exercise on medium-term forecasts in the IFP for the 1st and 3rd quarters, and on in-year projections only in the IFP for the 2nd and 4th quarters.

2.2	**Reinforce the existing fiscal rule through the addition of a well-defined escape clause and an increased role for CFA**
2.2.1	Establish a clearly defined escape clause to temporarily suspend the fiscal policy objectives in response to exceptional shocks (severe economic downturns, large natural disasters and states of emergency). The activation of the escape clause should receive a positive opinion from CFA, and should predefine the timeframe and procedures for returning to compliance with the rule, commensurate with the size of the shock.
2.2.2	Clarify and formalize the mandate of the CFA to provide a role in evaluating the credibility of the economic and fiscal forecasts.
2.3	**Increase the emphasis on public participation, facilitated by further progress in the budget's performance focus and an enhanced stress on policy objectives and outcomes**
2.3.1	Leverage the existing legal framework for public participation throughout the budget cycle and publish timely and specific feedback on how public inputs have been incorporated or not in official policy or advice.
	Improve the dissemination of the Budget Priorities Booklet and define specific objectives for the Open Budget Portal.
2.3.2	Adjust the program classification to capture the policy programs and initiatives, and include them as part of the COA.
	Publish clear strategic objectives related to development and wellbeing and align them to programs
	Establish formal linkages and feedback mechanisms between public participation and performance budgeting.
2.4	**Introduce additional specific measures to support and sustain overall budget transparency**
2.4.1	Include in the budget documentation package the estimated revenue and expenditure of the main extra-budgetary entities, notably Universities.
2.4.2	Formalize in more detail the contents that should be included in the executive budget proposal.
2.4.3	Continue to publish the compendium of last year's draft laws as part of budget documentation, further clarify if in-year budget modifications will impact the overall budget ceiling or will be done through reallocations.
3. Fiscal Risk Analysis and Management	
3.1	**Improve transparency and reporting of macroeconomic risks to the fiscal position**
3.1.1	Systematically publish within the IFP accompanying the budget, an analysis of the impact of macroeconomic risks on the fiscal position (including sensitivity analyses of the macroeconomic and fiscal forecasts to the main macroeconomic variables, as well as alternative macroeconomic scenarios).
3.2	**Expand disclosure of fiscal risks to cover a broader and more comprehensive range of risks**
3.2.1	Develop and publish a comprehensive fiscal risk statement with the budget documentation (for 2023 budget) and gradually expand to include and analyze more risks (building on and expanding the information and analysis presented in the IPC).
3.2.2	Routinely and systematically publish analyses that identify the major sources of natural disaster risk, quantifying the potential fiscal impact.
	Articulate a strategy for mitigating and managing the potential fiscal impact of environmental risks.
3.2.3	Publish information on natural resources in the comprehensive fiscal risk statement focusing first on the volume of reserves and progressively deepening the analysis to cover economic value under different scenarios.
3.2.4	Integrate the results of the monitoring of the financial performance of municipalities into the broader fiscal risk discussion, publishing an analysis and assessment of the fiscal risks.
3.2.5	Publish expected annual receipts and payments over the life of PPP contracts.
	Publish the total rights and obligations of PPP arrangements.
3.2.6	Integrate into the comprehensive fiscal risk statement the summary results from the report on the financial performance of SOEs, with a specific focus on related fiscal risks.

3.3	**Strengthen disclosure and risk management of asset and liabilities**							
3.3.1	Increase disclosure of risks associated with debt dynamics - publish quantitative risk analysis on debt on a regular basis and a medium-term debt strategy.							
	In the longer-term Chile could publish a balance sheet strategy taking into account all assets and liabilities and associated risks. A summary from this analysis should also be included in a more comprehensive fiscal risk statement.							
3.3.2	Improve the Treasury Single Account management, with almost all central government accounts maintained in the TSA and with daily transfers to the main account and fungibility on the use of the accounts.							
3.3.3	Develop and publish a report on the financial performance of SOEs, including analyses of the profitability and various risks (e.g., liquidity, solvency). A summary, or main messages from this analysis should also be included in a more comprehensive fiscal risk statement.							
3.4	**Strengthen long-term fiscal sustainability analysis by regularly publishing projections of the sustainability of the main fiscal aggregates**							
3.4.1	Include within the budget documentation long-term projections (10 years as a first step, which could be lengthen to a thirty to fifty years horizon in the longer term) of the main fiscal aggregates (e.g., fiscal balance, debt).							
3.4.2	Consistently publish regular long-term analyses and actuarial studies for all the pension schemes creating fiscal risks. Beyond the FRP and the report on contingent liabilities related to some pension schemes, this should also include DIPRECA and CAPREDENA.							
3.4.3	Progressively and systematically include multiple scenarios analyses (incorporating different macroeconomic assumptions, hypotheses on natural resources, demographic assumptions, etc.) to cater for the high uncertainty of long-term projections.							

Annex III. Improving Medium-Term Budgeting in Chile

For Chile to move towards a fit for purpose MTBF, some elements need to be improved which are discussed below. Essential areas for progress concern:

- *Putting in place expenditure ceilings disaggregated at the level of ministries, programs or policy areas.* The perimeter of such ceilings should be chosen carefully to ensure proper accountability (one single responsible person), coherence with the performance strategy and to allow for a degree of internal flexibility (a perimeter large and diverse enough in terms of types and dynamics of expenditure can facilitate internal reallocation if need be). The nature of ceilings (indicative or binding) could evolve over time once actors have gained experience with the system.
- *Ensuring that the expenditure ceilings are rolled over from one year to the next*. The ceilings or forward estimates elaborated in a given MTBF must serve as starting point for the design of the next year's budget and MTBF and differences must be systematically accounted for at an adequate level.
- *Transitioning to a single process for preparing MTBF and annual budget, including fully integrated documentation.* Under the current situation, the budget discussions with line ministries focus only on the next year's budget and forward estimates (baselines) remain an exercise largely internal to DIPRES. This is reflected in the budget documentation for individual ministries, which focuses only on the budget year and does not present – even in a purely informative manner – elements relative to the out-years of the financial program. It also affects the reliability of the forward estimates, which could be improved if they were fully shared with line ministries.
- *Allowing for adequate planning margins.* Setting an excessive planning margin may lead to very long discussions over the final allocation of this margin and defeats the purpose of a MTBF, which is to ensure a degree of predictability for managers over their resources. Conversely, if the planning margin is set at a too low level, it may leave the MTBF more vulnerable to medium-sized shocks that may then be addressed only by revisiting decisions on allocation across policy areas. Hence, the planning margin should be set at an adequate level – ideally increasing over the time horizon, as uncertainties are bigger in the 3rd out-year than in the 1st out-year. While the Chilean MTFF incorporates some reserves (fiscal space), their level is not calibrated to ensure the strength of the MTFF, especially when reserves in the 3rd out-year are very low or even negative, as was the case for the fiscal years 2019 to 2021.
- *Authorizing some limited carry-forward of expenditures.* As a rule, Chile does not allow carry-forward of unused payment appropriations from one year to the other. A well-functioning MTBF may give managers some freedom to reallocate spending over the course of the MTBF in accordance with their priorities and objectives, as long as some limitations are in place to ensure compatibility with the overall fiscal path, which remains centred on the fiscal targets in each single fiscal year. This may mean limiting carry-forwards to a small percentage of initial appropriations and / or actively managing carry-forwards through bilateral discussion with the main actors involved (as is already the case for investment projects), to avoid an excessive consumption of carried-forward appropriations over a given fiscal year.