



**Main messages of the  
Autonomous Fiscal Council in Chile  
on the Exercise of its Duties and Powers<sup>1</sup>**

*Presentation before the  
Special Joint Budget Committee of Congress*

**September 3, 2019**

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<sup>1</sup> This document is an extract of a report previously published in Spanish. Specifically, it is the first section of the report of the Autonomous Fiscal Council on the Exercise of its Duties and Powers, presented to the Special Joint Budget Commission of Congress (September, 2019). The Spanish version of the complete document is available at: <https://www.cfachile.cl/publicaciones/informes/informes-al-congreso/informe-al-congreso-n-1-informe-del-consejo-fiscal-autonomo-sobre-el-ejercicio>

## **Main comments regarding the approval of the Law that creates the Autonomous Fiscal Council**

Law No. 21,148 published on February 16, 2019 created the Autonomous Fiscal Council (hereinafter also "the Council" or CFA), as an autonomous body, of a technical and advisory nature, endowed with legal capacity and its own assets, which is related to the President of the Republic through the Ministry of Finance.

The purpose of the Council is to contribute to the responsible management of the Central Government's fiscal policy, for which the law has defined a set of duties and powers.

Some of said duties and powers are similar, although with a clearer definition, to those previously held by the Fiscal Advisory Council, created by Decree No. 545 of the Ministry of Finance of 2013. Such is the case, for example, of the duty of participating as an observer in the procedures established to obtain the opinion of independent experts on factors that determine the trend level of revenues and expenditures of the Central Government, reviewing such calculations and expressing its opinion on them; the duty of evaluating and monitoring the calculation of the cyclical adjustment of actual revenues made by the Budget Office, and that of advising the Ministry of Finance on fiscal matters expressly entrusted to it by the latter and that are related to its purpose.

In addition, the law grants the Autonomous Fiscal Council a more active role by empowering it to make observations and propose to the Ministry of Finance methodological and procedural changes for the calculation of the Structural Balance, as well as to express its opinion on possible deviations from compliance with the Structural Balance targets, and to propose mitigation measures.

The law also establishes the Council's obligation to submit a report on the exercise of its duties and powers to the Special Joint Budget Committee of Congress, and empowers it to make reports on studies, analyses and other matters within its competence, and to inform the Finance Committee of the Chamber of Deputies and the Senate.

Another additional and very relevant power given by the law to the Autonomous Fiscal Council is that of evaluating the medium and long-term sustainability of public finances and disseminating the results of its evaluations.

Furthermore, once a year the Council proposes to the Minister of Finance the names of the members of Advisory Committees on Trend GDP and the Reference Price of Copper who will fill any seats that for some reason may have become vacant.

The various duties and powers of the Autonomous Fiscal Council established in Law No. 21,148 are detailed below:

1. To evaluate and monitor the calculation of the cyclical adjustment of actual revenues carried out by the Budget Office, pursuant to the methodology,

procedures and other regulations established by the Ministry of Finance, in accordance with Article 10 of organic Decree Law No. 1,263 of 1975 of the Ministry of Finance, on the Financial Administration of the State.

2. 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, in accordance with the provisions of the paragraph 3 of Article 10 of organic Decree Law No. 1,263 of 1975 of the Ministry of Finance, on the Financial Administration of the State, and to review said calculations and express its opinion on them.
3. To make observations and propose to the Ministry of Finance methodological and procedural changes for the calculation of the Structural Balance.
4. To express its opinion on possible deviations from the fulfillment of Structural Balance targets and propose mitigation measures.
5. To evaluate the medium and long-term sustainability of public finances and make the results of its evaluations available to the public.
6. To advise the Ministry of Finance on fiscal matters expressly entrusted by it and that are related to its purpose.
7. To carry out reports in relation to the studies, analyzes and other issues that are incumbent on it in accordance with this law, which shall be prepared in digital format. The Council shall send a copy of such reports to the Finance Committee of the Chamber of Deputies and the Senate within a period of five working days from their preparation.
8. To hire any studies and consultancy services that are required for the fulfillment of its functions.
9. To propose to the Minister of Finance, once a year, the names of members of advisory committees on the reference price of copper and the trend Gross Domestic Product that will occupy the positions that for some reason have become vacant.

It is important to note that in addition to the new duties and powers, the Autonomous Fiscal Council differs from the Fiscal Advisory Council in: (i) the legal rank of the institution, unlike the predecessor Council created by decree of the Ministry of Finance, (ii) members are appointed by the President of the Republic and must be ratified by the Senate through a

resolution adopted by two thirds of its members in office, while those of the Fiscal Advisory Council were selected by the Minister of Finance, and (iii) it has its own resources to carry out its duties and powers.

In fact, for the fulfillment of its duties, the law provides that the Council may hire such studies and advisory services as required, this being a key aspect for the independence of the Autonomous Fiscal Council. In line with the above, the financial reports that accompanied the law contemplated expenses in studies, personnel, office operating costs, in addition to the Council Members' per diem.

These new features make it possible to reinforce the Council's autonomy and capacity, and represent an advance when comparing fiscal institutions at the international level. From the database of Fiscal Councils of the International Monetary Fund<sup>2</sup>, we can identify at least seven aspects of possible improvements, such as: evaluating long-term fiscal sustainability, performing ex-post analysis, issuing public reports, having an impact on the media, legal independence, operational independence, and the right to select personnel.<sup>3</sup>

In line with the above, the creation of the Autonomous Fiscal Council has sought to strengthen fiscal institutional in Chile in the roles these fiscal entities have to promote sustainability of public finances, foster transparency, accountability, credibility, discipline, and a fiscal stability culture (regarding the role of Fiscal Councils see Debrun et al. 2013).

In this sense, we understand that the Autonomous Fiscal Council should act as a safeguard against the risk of systematic deviations from a sustainable fiscal policy, as a result of excessive deficits and spending pressures derived from cyclical revenues.

As identified by the IMF, the approach of Fiscal Councils to put the right incentives to fiscal policy comes from the angle of influence and persuasion, which is complementary to the fiscal rule, and generates a reputational cost for irresponsibility in the management of public finances. For this purpose, the Council has the tools for analysis, evaluation, information and recommendations.

With the presentation and submission of this report, the Council has complied with the legal obligation of the final paragraph of Article 2 of Law No. 21,148, which states that "in the months of April and September of each year, the Council shall present a report on the exercise of its duties and powers before the Special Joint Budget Committee, and shall respond to any queries of said legislative body."

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<sup>2</sup>Regarding the IMF database see Debrun et al. 2013 and Debrun et al. to be published.

<sup>3</sup> The International Monetary Fund (IMF) identifies 25 indicators for Fiscal Councils, to which it assigns a score of 0 if it does not meet and 1 if it meets a certain task. Chile's total score with the Fiscal Advisory Council was 7, while, on average for the 39 institutions identified by the IMF in the world as Fiscal Councils as of December 2016, the score was 14. With the new duties and powers of the Autonomous Fiscal Council this institutional framework catches up in international comparison (see Annex 2).

