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Ministry of Finance of Chile
Investor Relations Office

Ministry of Finance Leads the Legislative Approval of the Autonomous Fiscal Council (CFA) Bill

The Autonomous Fiscal Council bill was approved by the legislative branch on January 10, 2018. Since 2001, Chile has based its fiscal policy on the Structural Balance Rule, under which public expenses are determined by an estimation of structural income and a structural balance target. Since its implementation, this rule has experienced several modifications, mainly related to the estimation methodology and the annual target (structural deficit/surplus). Although these changes intended to improve the precision of the structural balance estimation, they have generally undermined simplicity, making monitoring more difficult.

As a result, President Sebastián Piñera created the Fiscal Advisory Council (Consejo Fiscal Asesor or CFA, in its Spanish Acronym) in 2013, during his first administration. Its role so far has been to ensure transparency in the estimation of the structural balance, to advise the Ministry of Finance and to participate in the public discussion on fiscal matters.

In an effort to further strengthen the Council's autonomy and attributions, and to provide the Council with the appropriate resources to properly exercise its broader mandate, the Ministry of Finance presented the Autonomous Fiscal Council bill last year.

Leading international institutions, such as the IMF, the OECD, and the World Bank, among others, suggest that fiscal policy and the implementation of the fiscal rule are strengthened by independent fiscal councils. In addition, international best practice suggests these institutions should have budgetary autonomy, strong presence in the public discussion and the ability and mandate to monitor the fiscal rule at all times. Additionally, international experience has shown that independent fiscal councils, with specific responsibilities have been successful in ensuring transparency and proper fiscal policy implementation.

In this context, in June 2018 the government presented the Autonomous Fiscal Council (CFA) bill to Congress. The approval of this bill implies a very important step in strengthening our fiscal framework, aligning it with the best international practices.

The CFA is an autonomous institution of a technical nature that has the overarching objective of ensuring responsible fiscal policy.

The most important functions of the CFA include:

a) Already included in the Fiscal Advisory Council mandate:
   - To evaluate and manage the estimation of the cyclical adjustment of the effective income undertaken by the Budget Office.
   - To participate as an observer in the procedures undertaken by independent experts that provide the estimations for trend GDP and the long-term copper reference price.
   - To advise the Ministry of Finance on specifically requested fiscal matters.

b) Additional functions provided by the approved legislation:
   - To comment and propose methodological changes for the structural balance to the Ministry of Finance.
   - To comment on possible deviations from the structural balance's targets and to propose mitigation measures.
   - To evaluate and comment on the medium and long-term sustainability of public finances.
   - To propose the new members of the Council to the Ministry of Finance.

CFA Members: The CFA consists of five members, that are renowned experts in fiscal and budgetary matters. They will be nominated by the President and ratified by the Senate. The members will stay in their positions for five years, and can be reelected for one consecutive period.

The President of the Republic will designate the CFA's president; the vice-president will be selected by the Council's members from current members.

The CFA's technical counterpart will be the Budget Office, which will be responsible for providing the requested information when needed.