

Fiscal Responsibility and Macroeconomic Performance: The Case of Chile

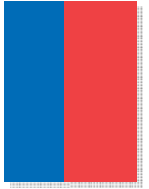


**Gobierno
de Chile**

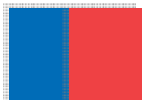
Ministry of
Finance

Juan A. Correa
Head of Research Department
October 2013

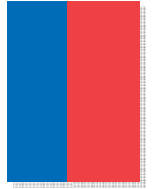
Responsible Fiscal Policy is Good for Growth



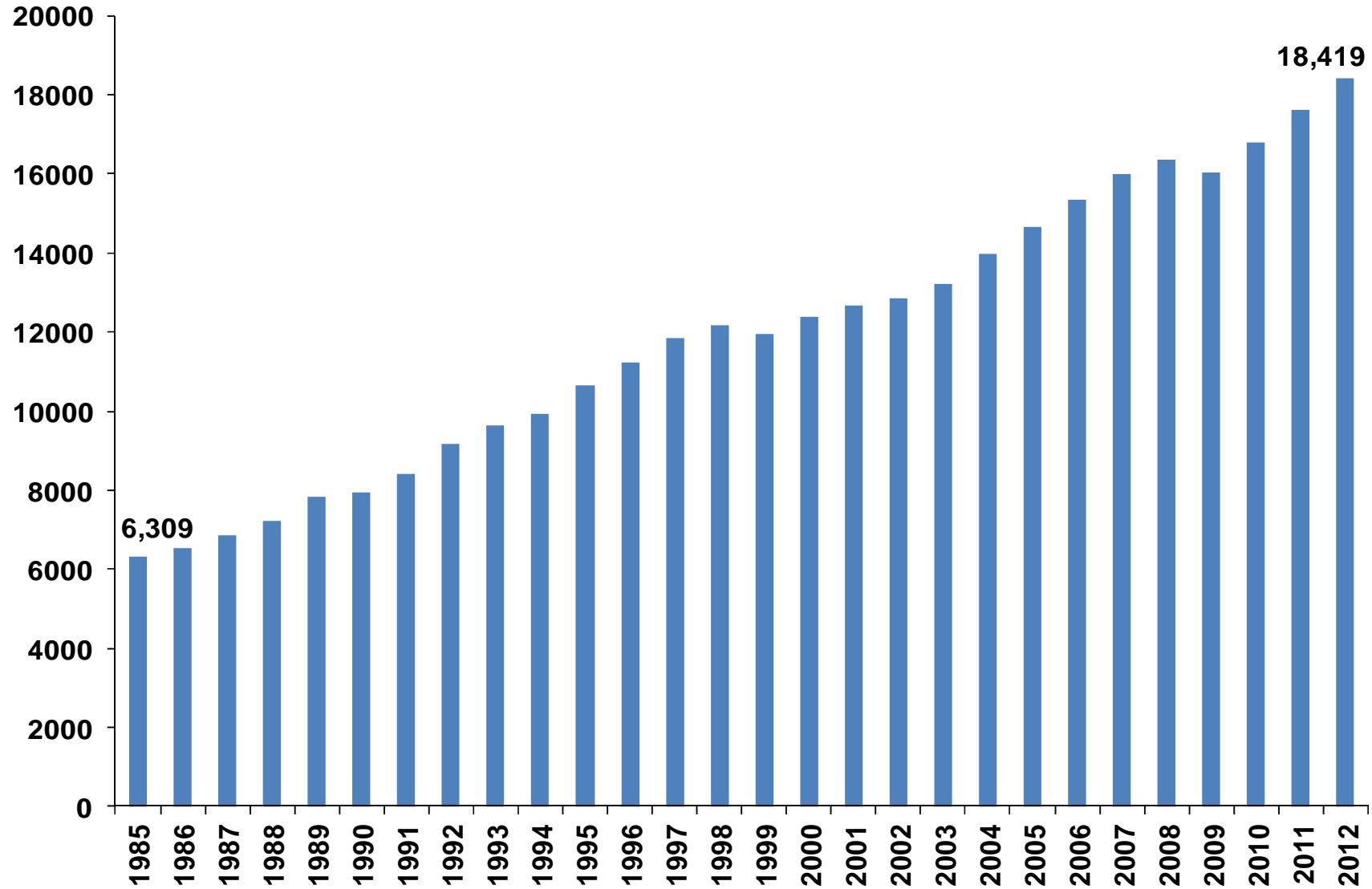
- Fiscal discipline decrease sovereign risk
- Increasing inflows of foreign capital and decreasing outflows of local capital
- Improving debt position to face international crises
- Allowing sectoral long-term strategies => improving the quality of government expenditure



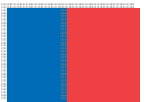
Per Capita GDP has Tripled since the mid-80s



(GDP per capita, PPP, 2012 US\$)

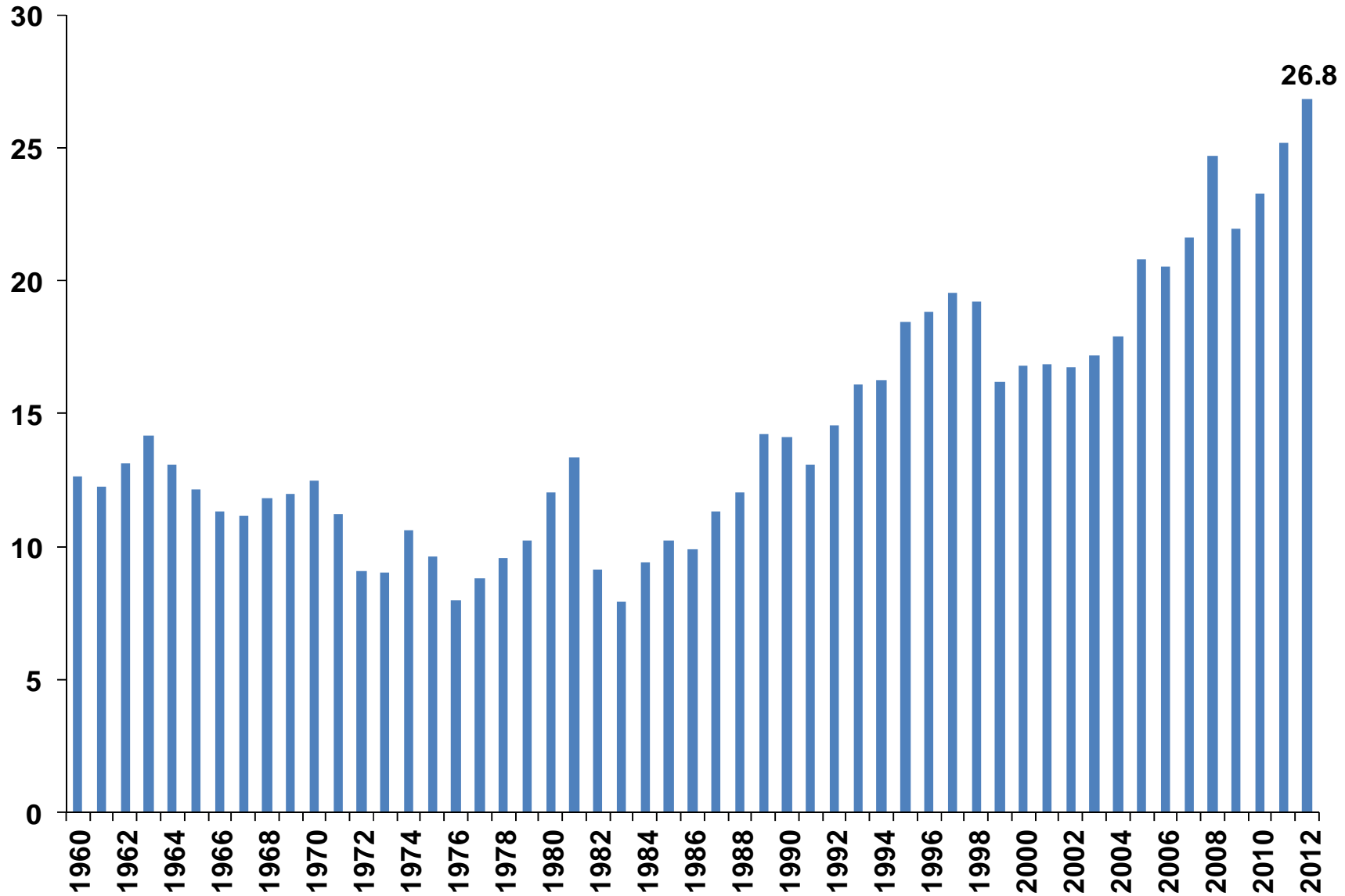
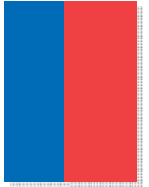


Source: Central Bank of Chile and IMF



Fixed Capital Investment

(Fixed Capital Investment Rate, % of GDP, constant prices)

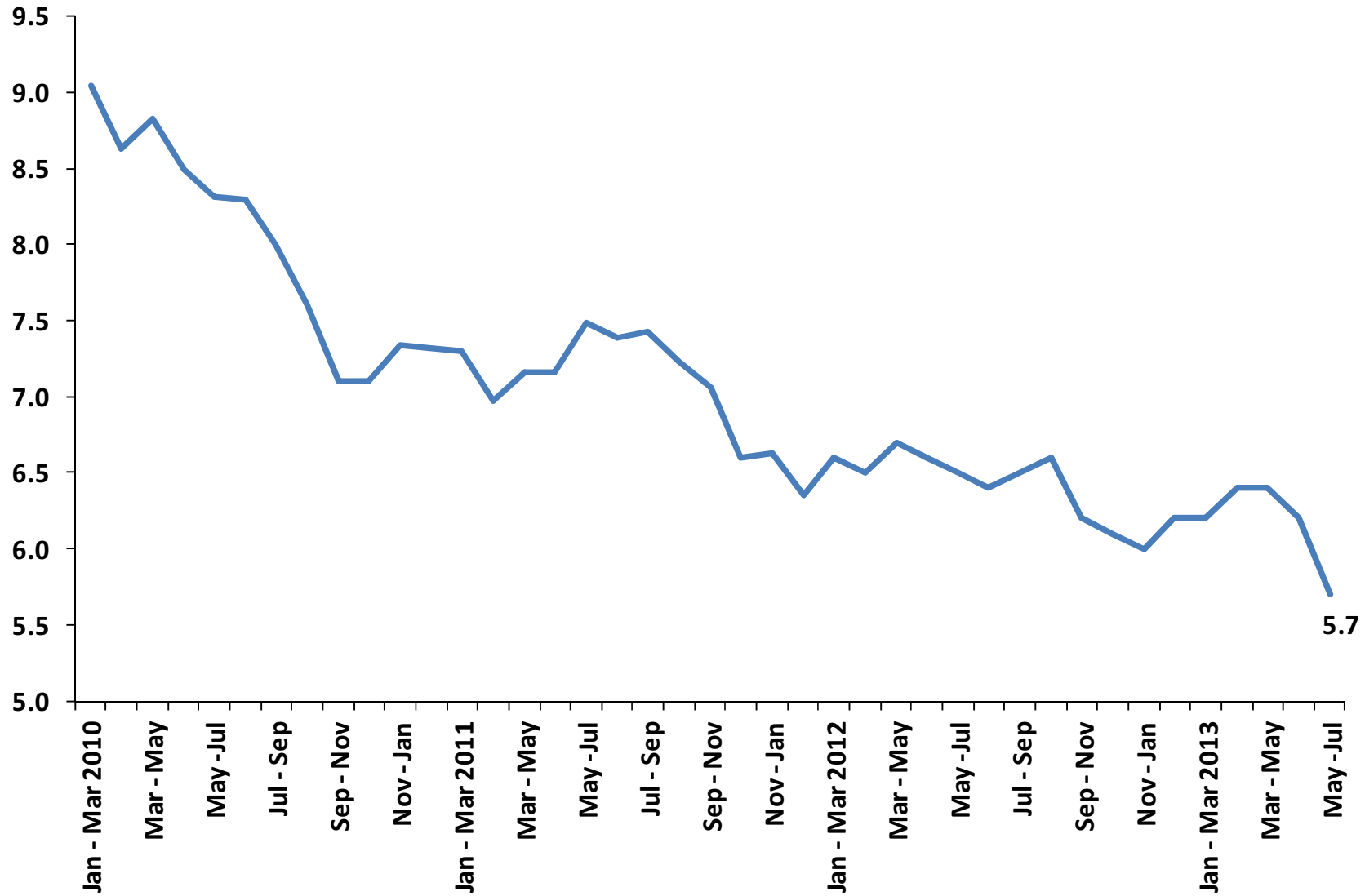


Source: Central Bank of Chile



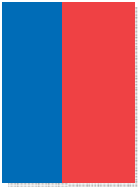
Unemployment Rate

(mobile quarters, %)

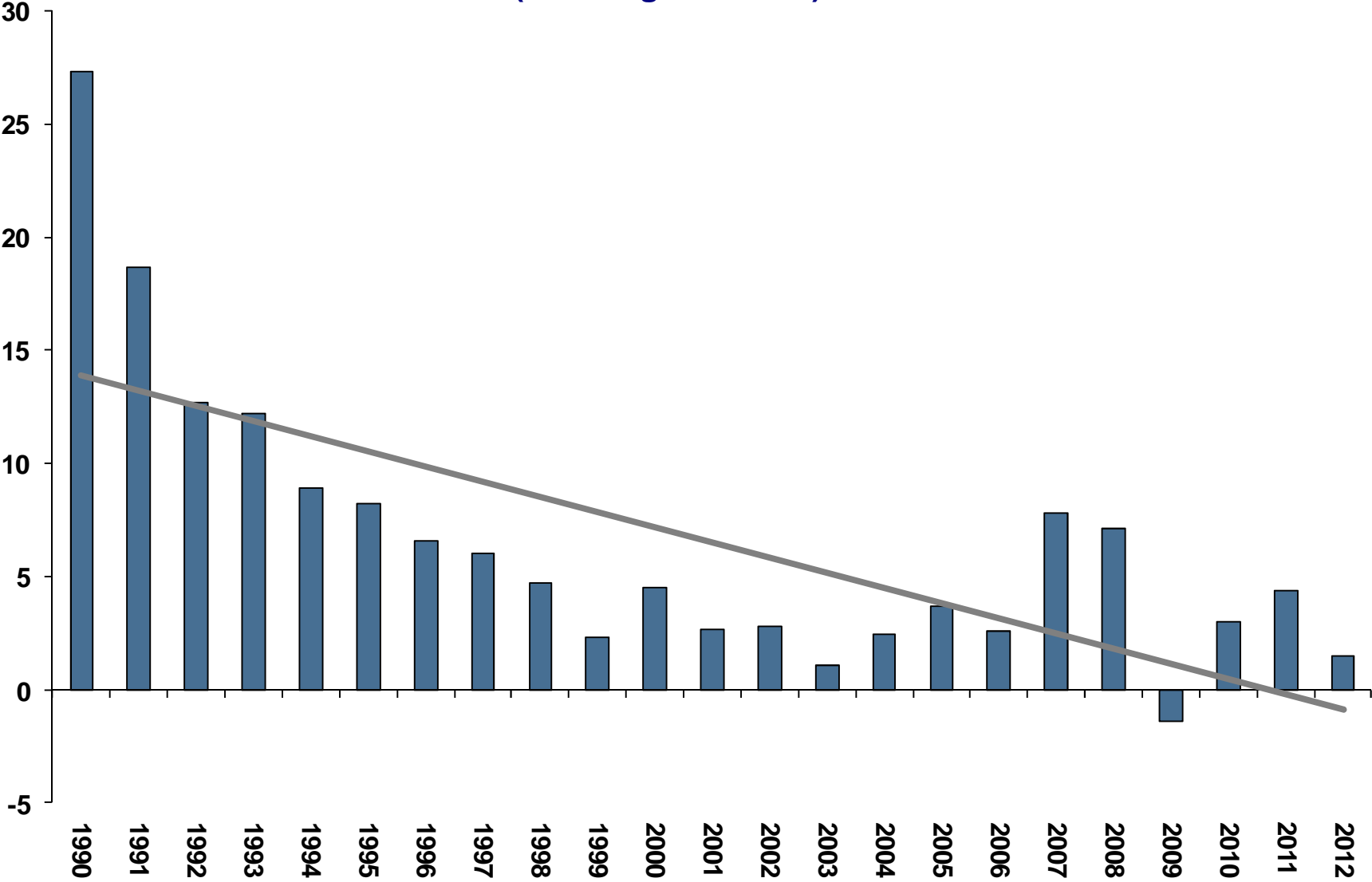


Source: INE

Inflation is at World Levels



(% change dec/dec)

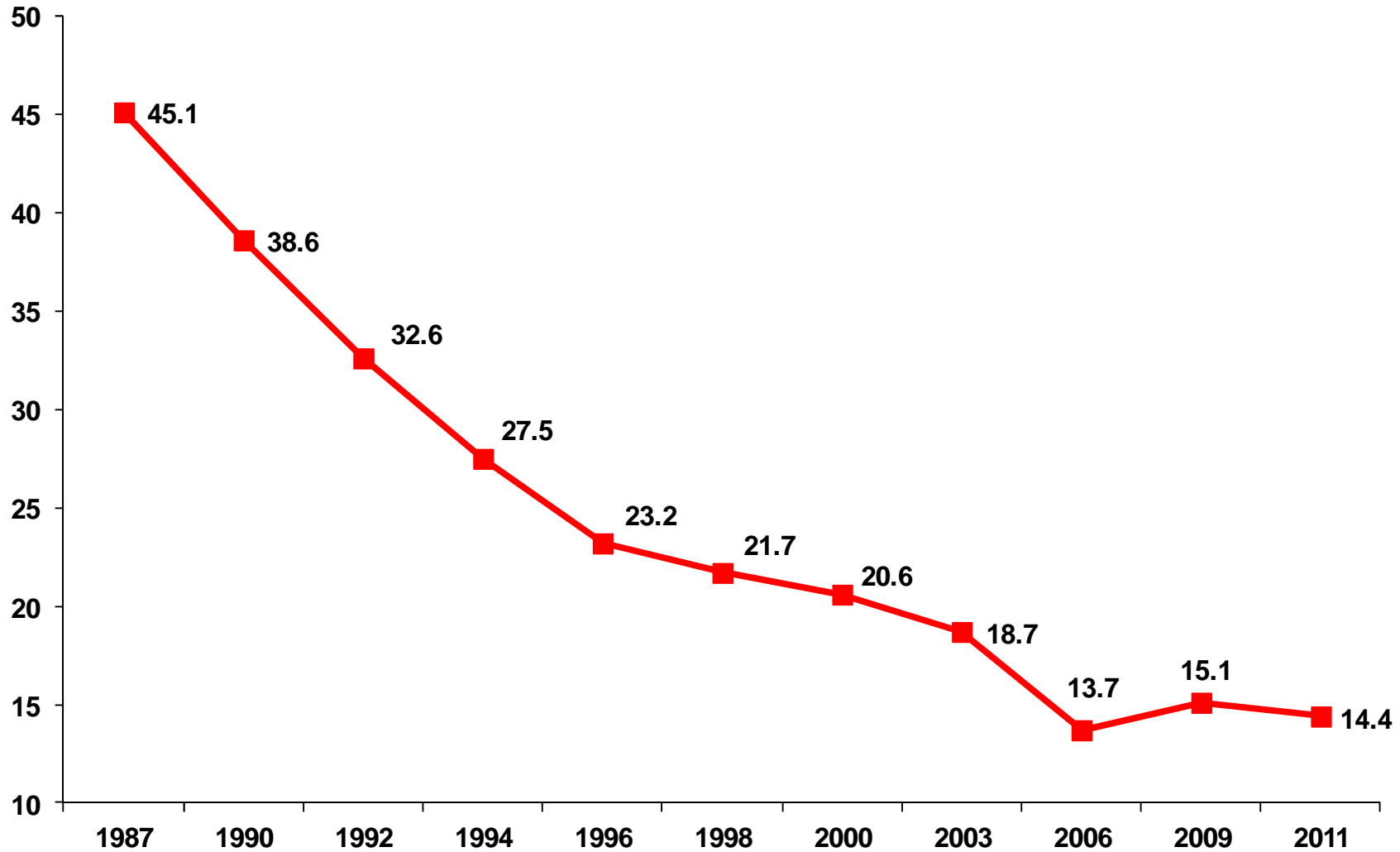
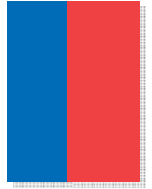


Source: INE



Poverty Reduction

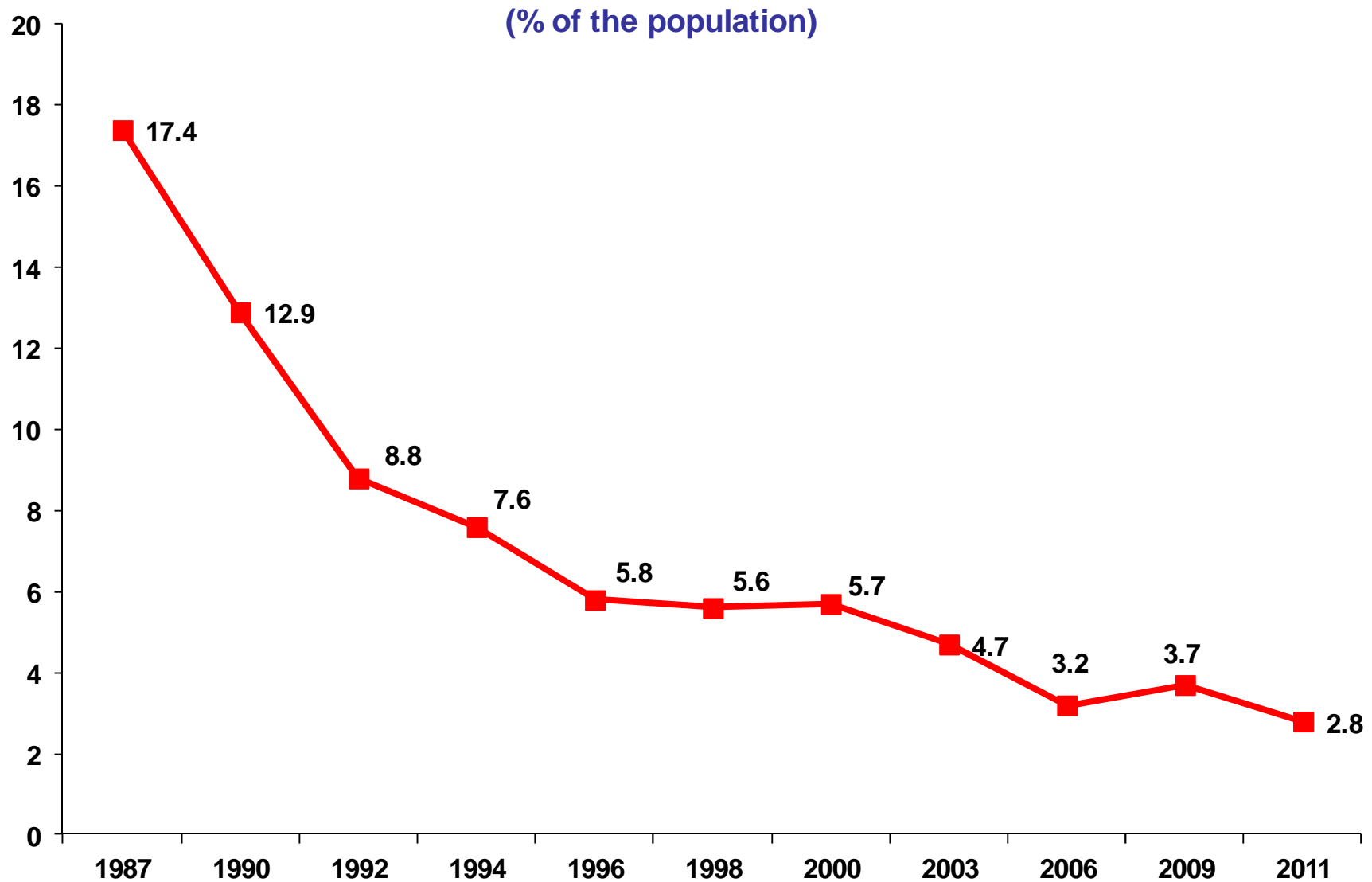
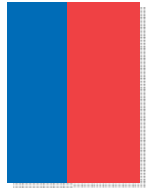
(% of the population)



Source: MIDEPLAN



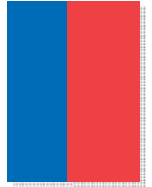
Extreme Poverty Reduction



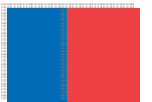
Source: MIDEPLAN



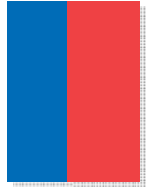
The Chilean Fiscal Rule and its Determinants



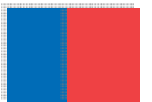
- Launched in 2001, set in Law in 2006
- Small and open economy with flexible exchange rate => Monetary Policy Matters
- Smooth government spending:
 - Save during economic booms, when extraordinary revenues are received
 - Disave in downturns, when fiscal revenue drops
 - Result: fiscal surplus in good years and deficit in downturns



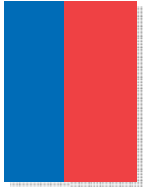
The Structural Fiscal Rule: Determinants



- Main government income sources => mining and non mining sectors
- Two independent experts committee:
- Long term GDP growth committee
 - $Y = A K^\alpha L^{1-\alpha}$
 - 6 years projections for inputs
 - We calculate structural non mining income, given the elasticity of GDP to non mining income
- Long term copper price committee
 - 6 years projections for copper price and 4 years projections for molybdenum price
 - We calculate structural private mining firms contribution via taxes and royalty and Codelco contribution



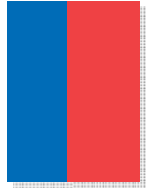
The Structural Fiscal Rule: Determinants



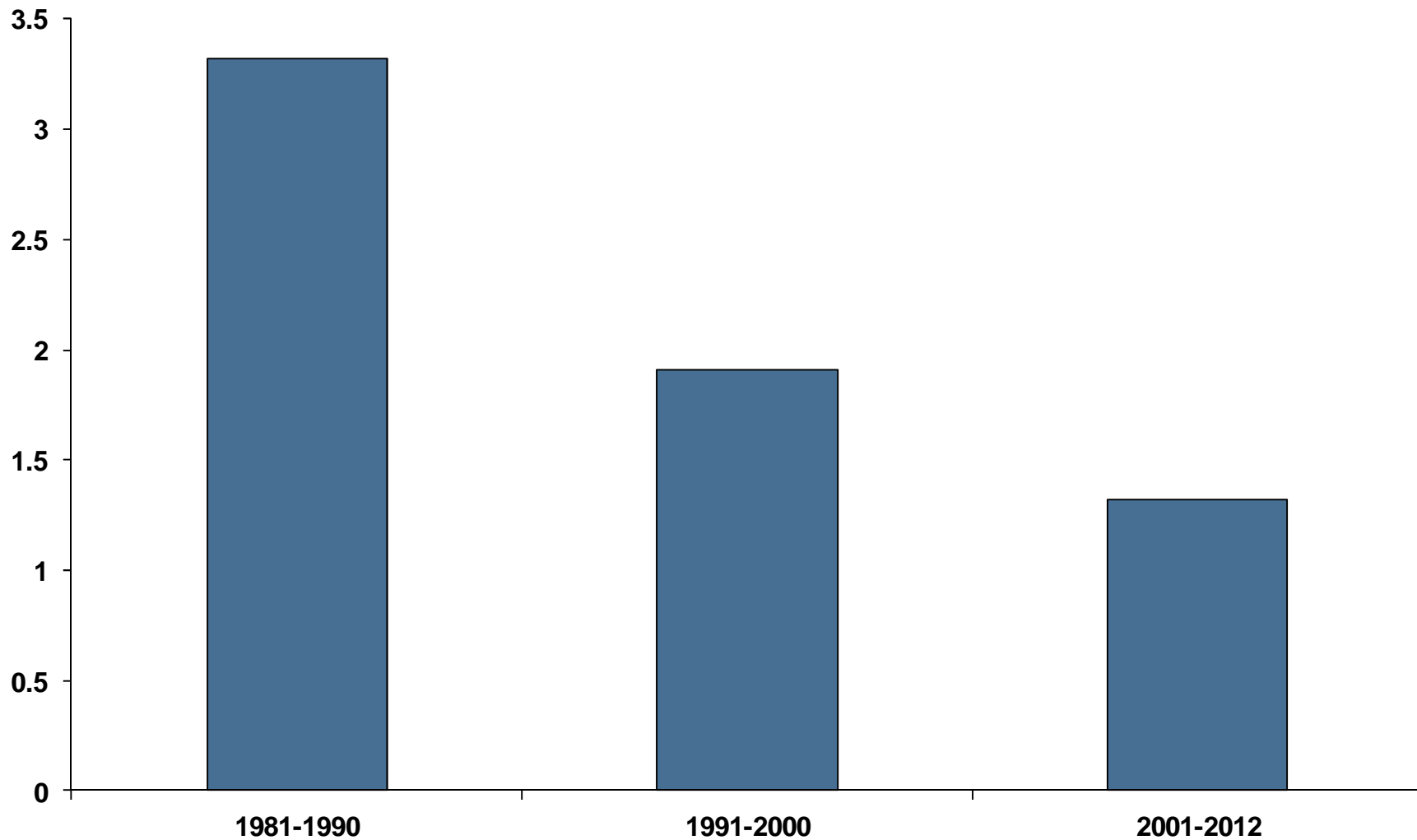
- During booms => resources are invested in the Economic Stabilization Fund and the Reserve Pension Fund
- During downturns => liquidation of assets
- Recent modifications:
 - Fiscal Council supervising the fiscal rule methodology



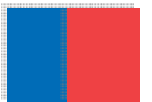
Fiscal Rule and SFs: Lower Volatility of GDP Growth



(average of four-quarter trailing standard deviation of GDP growth)

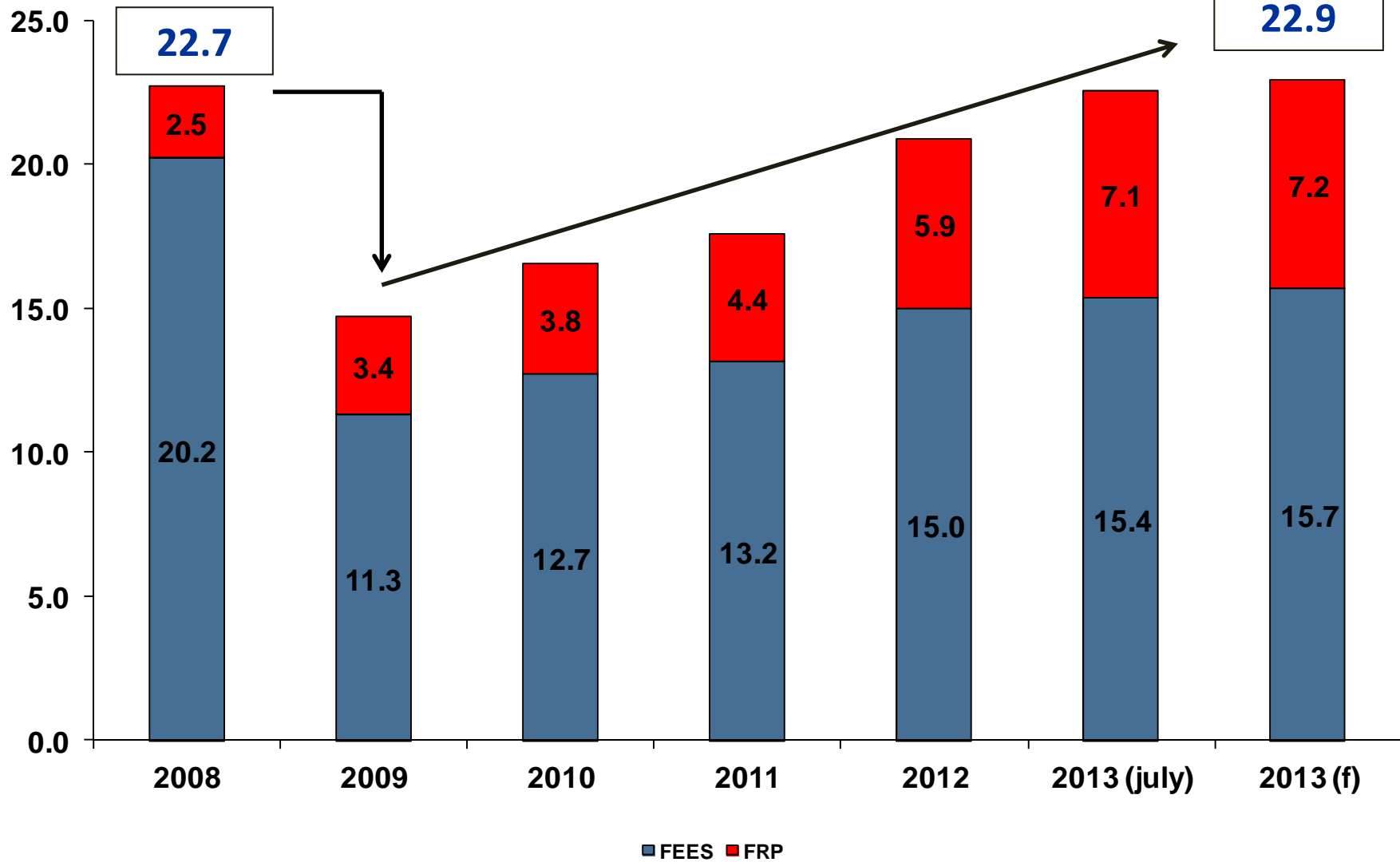
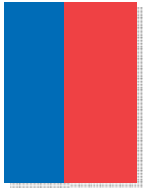


Source: Central Bank of Chile



Sovereign Funds

(billion dollars, december)

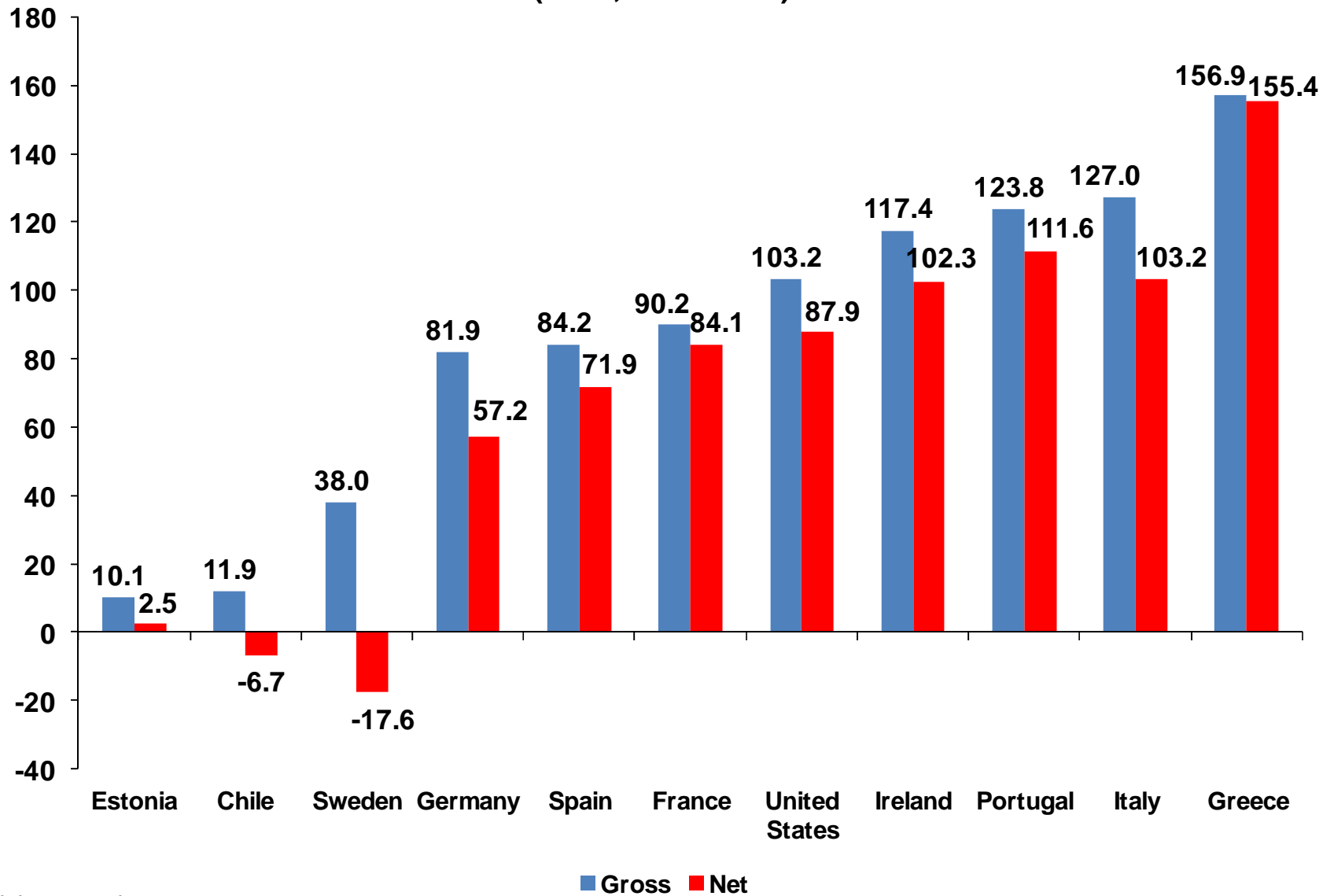


Source: MF-Chile



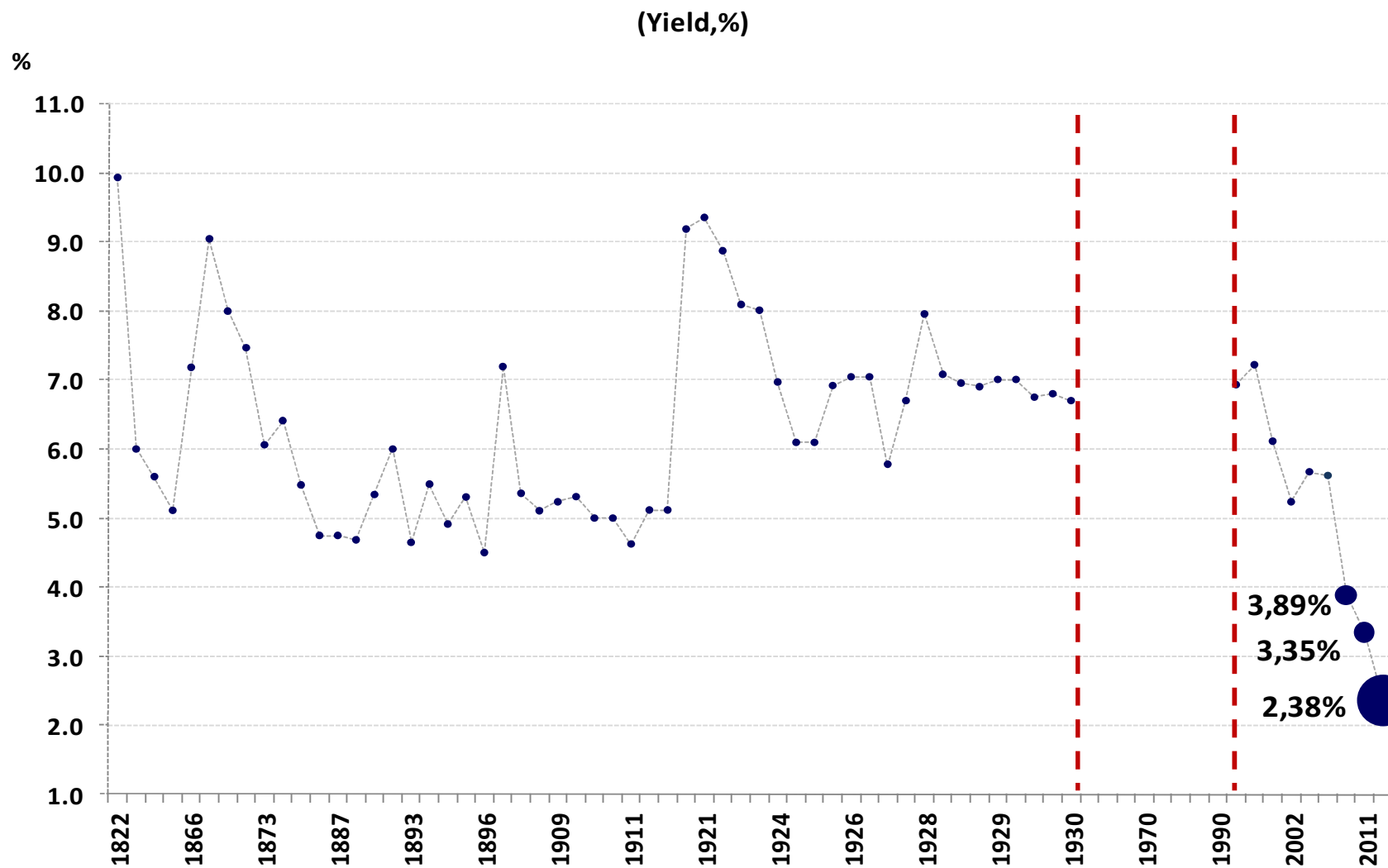
Public Debt Burden: A Comparison

(2012, % of GDP)

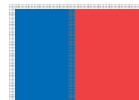


*Chile: Central Government
Source: Eurostat, IMF and DIPRES

2012 - 10 Year Sovereign Bond Issuance



3,89%
3,35%
2,38%



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