Fiscal Responsibility and Macroeconomic Performance: The Case of Chile
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

Source: Central Bank of Chile and IMF
Fixed Capital Investment

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

Source: Central Bank of Chile
Inflation is at World Levels

(% change dec/dec)

Source: INE
Poverty Reduction

(% of the population)

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 no 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)

Estonia, Chile, Sweden, Germany, Spain, France, United States, Ireland, Portugal, Italy, Greece

Gross  Net

*Chile: Central Government
Source: Eurostat, IMF and DIPRES
2012 - 10 Year Sovereign Bond Issuance

(Yield, %)

Source: Ministry of Finance
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