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REPORT OF THE AUTONOMOUS FISCAL COUNCIL ON THE EXERCISE OF ITS FUNCTIONS AND POWERS

Presentation to the H. Joint Special Budget Committee of the
National Congress

Message^{1 2}

The persistence of structural deficits over several years has brought gross public debt close to its prudent threshold of 45% of GDP, thereby constraining the current and future fiscal space. In this context, the country faces a turning point. The prolonged state of fiscal stress is evident not only in the proximity of debt to its prudential level and the negative fiscal space projected for the medium term, but also in the fact that the Economic and Social Stabilization Fund (FEES) stands well below the levels that enabled the country to respond effectively to past crises. For these reasons, the Autonomous Fiscal Council (CFA) reiterates its recommendation to the Executive and Legislative branches to design and agree upon a concrete agenda, not only to meet the fiscal targets for 2025 and 2026, but also to strengthen long-term fiscal sustainability.

Although Chile maintains a lower level of public debt compared to other emerging economies, its upward trajectory over several years reflects a persistent fiscal imbalance that should be corrected. The rising trend in public debt has outpaced that observed in countries with similar credit ratings, indicating that Chile has, for years, relied on its available fiscal buffers. Furthermore, the ongoing imbalances in the Structural Balance (BE), with expenditure exceeding structural revenues, show a failure to uphold one of the core principles of fiscal responsibility: that permanent expenditure should be financed with permanent revenues.

The failure to meet the 2024 structural target reflects a lack of timely spending adjustments and corrections to fiscal revenue projections. Since revenue forecasting errors also impacted the 2025 Budget Law, significant spending cuts are now required this year to meet the BE target.

A sign that fiscal stress has become persistent is that further noncompliance with the current BE targets is expected in both 2025 and 2026, underscoring the need for mitigation measures that do not depend on the approval of new legislation. Beyond the corrective actions proposed for 2025, the CFA recommends that the Ministry of Finance set out a plan of additional administrative measures for 2026, no later than the presentation of the corresponding project of the Budget Law for this year. The Council also notes with concern that the Ministry's proposal to revise the fiscal targets repeats a practice that has undermined fiscal consolidation, by shifting part of the adjustment burden onto future administrations.

Regarding the corrective actions announced by the government for fiscal convergence, the CFA welcomes the inclusion of both administrative and legislative measures. However, it warns that the legislative measure envisaged for 2025 are subject to a high degree of uncertainty. The Council is particularly concerned by the Executive's decision to present a conditional BE target of -1,6% of GDP for 2025, contingent on the approval of proposed legislation, while simultaneously projecting a structural deficit of 2,0% of GDP if those measures are not enacted. This approach casts doubt on the Executive's control over fiscal target compliance, introduces uncertainty about its effective fiscal commitment, and complicates accountability in the event of deviations.

Given that administrative actions alone are insufficient to meet the fiscal targets, the authority should establish a timeline for progress on the proposed measures, an early-warning mechanism,

¹ The statistical closing date of this report is April 25, 2025.

² This report reflects the unanimous and consensual view of the Autonomous Fiscal Council (CFA).

and a contingency plan comprising additional actions within the Executive's scope of control. The CFA also reiterates its concerns regarding fiscal accounting, pointing to the lack of clear rules for financial reporting and the potential existence of inconsistencies in the recording of revenues and expenditures.

The Council emphasizes that, for the first time, the government is invoking what the law describes as "other extraordinary causes" to modify the fiscal policy decree. This highlights regulatory challenges, as these causes are not defined in the recently reformed Fiscal Responsibility Law. While the reform has helped reduce executive discretion, it fails to establish specific criteria for the application of "other extraordinary causes", unlike the escape clauses, for which the Council recommends regulatory improvement.

Regarding the specific reasons cited by the authorities as "extraordinary causes" to ease the BE targets, the Council believes that only some of them align with the exceptional nature required by the current fiscal framework. Nonetheless, it recommends pausing the proposed decree amendment given the prevailing uncertainty in international markets, to avoid a pattern of recurrent changes to fiscal targets.

Moreover, the Council underscores that if, in practice, it has become increasingly difficult to implement significant public spending reductions, this should prompt a deeper reflection on the State's institutional framework and its actual capacity to execute fiscal adjustments when necessary.

Finally, the Council stresses that the fiscal effort required must be understood in the context of an exceptional situation marked by multiple years of structural deficits and a rising debt trajectory. This places the country at a critical juncture that demands equally exceptional responses. Therefore, in the CFA's view, the current fiscal conditions call for a substantial shift in the management of public finances, towards a stronger capacity to effectively adjust spending in response to lower structural revenues.

I. The persistence of structural deficits over several years has brought gross public debt close to its prudent threshold of 45% of GDP, thereby limiting the current and future fiscal space. The country is facing a prolonged period of fiscal stress that has led to a critical turning point, not only because Chile has recorded structural deficits in 15 of the last 17 years, but also due to the increasing difficulty in implementing either public spending adjustments or increases in structural revenues that would allow the fiscal accounts to align with the BE targets set by the Ministry of Finance. If the fiscal imbalance observed in recent years persists, the prudent debt threshold will be exceeded in the short term, and the country may face less favorable financing conditions, further narrowing the space available for priority expenditures. The prolonged fiscal stress is reflected in the proximity of debt its prudent level, the projected negative fiscal space for the medium term, and the fact that the FEES remains well below the level that allowed Chile to respond to past crises³.

³ In 2024, the FEES reached 1,2% of GDP, well below its historical average of 5,1% of GDP for the 2007-2024 period, and only comparable to the 0,9% of GDP recorded in 2021, which was driven by the pandemic.

Recommendations:

- **Build and deepen broad political consensus on fiscal sustainability:** the CFA reiterates its recommendation to the Executive and Legislative branches to design and agree upon a concrete agenda, not only to meet the fiscal targets for 2025 and 2026, but also to implement measures that strengthen long-term fiscal sustainability. These should include initiatives to increase permanent fiscal revenues, adjust spending paths through permanent efficiency gains, and rebuild the FEES as a fiscal buffer. (In this regard, it is worth recalling the Executive's legal obligation to submit project law by September that must also include provisions regarding the Pension Reserve Fund, FRP). This concern for fiscal sustainability should also be reflected in the discussion and analysis of various legislative proposals with significant fiscal impact, to ensure that they are supported by properly identified and quantified funding sources.

II. Although Chile maintains a lower level of public debt that other emerging economies, its upward trajectory over several years reflects a persistent fiscal imbalance that should be corrected, given the limited remaining space before reaching the prudent threshold of 45% of GDP in gross debt. While the country continues to hold a relatively strong debt position and low sovereign risk compared to its emerging market peers, the rate of increase in public debt has outpaced that of countries with similar credit ratings⁴. This suggests that Chile has relied for several years on its available fiscal buffers, which are now largely depleted. In addition, the persistent BE deficits, where expenditures have consistently exceeded structural revenues, highlight a failure to comply with one of the core principles of fiscal responsibility: permanent expenditures should be financed with permanent revenues. Moreover, there are significant below-the-line financing needs (e.g., in education and housing) that have not been fully covered by fiscal revenues and have also contributed to the sustained rise in public debt. In this regard, there is still a lack of sufficient transparency to allow for better monitoring, accountability and control.

The Council further notes that the medium-term fiscal spending projections require greater explanation from the Executive, particularly regarding the sharp decline in public investment estimated by 2029. Similarly, significant variations are observed in below-the-line loan disbursements, for which no detailed information is currently available. It is also important to understand the criteria used to classify various financial asset transactions (below-the-line) and expenditure (above-the-line), as weak classification practices may impair the structural balance indicator's ability to accurately reflect the state of public finances. Likewise, concerns persist over fiscal accounting due to the absence of clear rules and the potential existence of inconsistencies in the recording of revenues and expenditures.

⁴ Countries with a credit rating similar to Chile's -such as Israel, Lithuania, Malta, and Slovakia- have recorded more moderate changes in their debt-to-GDP ratios compared to Chile. Between 2007 and 2024, their average public debt as a percentage of GDP rose from 44,7% to 53,2%, an increase of 8,5 percentage points (pp). In contrast, Chile experienced a much more significant rise over the same period, with its debt increasing from 3,9% to 41,7% of GDP, equivalent to a 37,8 pp increase.

Past deficits, combined with other capital requirements currently above the historical average (2,0% of GDP in 2024 versus 1,2% of GDP average from 2010-2023), have driven a sustained increase in gross and net debt of 37,7 and 44,7 percentage points (pp) of GDP⁵, respectively, over the 2008-2024 period. This trajectory cannot be allowed to continue without surpassing the prudent debt threshold. Failing to respond urgently to the current fiscal stress could soon render the situation unsustainable. Indeed, maintaining a structural deficit path near 2,0% of GDP, such as the one projected by the Dipres for 2025, should the proposed legislative corrective measures not be implemented, and which mirrors the average structural deficit of the past 17 years⁶, would result in public debt exceeding the prudent threshold as early as 2027.

Recommendations:

- **Maintain the prudent debt threshold at 45% of GDP:** the CFA reiterates⁷ that it is imperative to preserve this limit beyond a single administration, in order to ensure stability and reinforce its role as a permanent fiscal anchor based on medium-term considerations, without yielding pressure to adjust the threshold as debt approaches this limit.
- **Ensure transparency in fiscal projections and accounting classification criteria, both above- and below-the-line:** the CFA recommends that the Dipres disclose short- and medium-term projections for both above-the-line expenditures and below-the-line financial asset transactions, clearly explaining the underlying assumptions. Furthermore, it recommends that Dipres clarify the criteria used to classify transactions above- and below-the-line, and, where appropriate, revise certain transactions to ensure the integrity of fiscal indicators. In this regard, it is worth noting that Dipres has informed the CFA of its plans to publish a report on this matter during the first half of the year.

III. The failure to meet the 2024 structural target reflects both a lack of timely spending adjustments and an absence of corrections to fiscal revenue projections, which also affected the 2025 Budget Law. As a result, significant spending cuts are now required in 2025 to meet the BE target, an added challenge given that they must be made to already approved expenditures. In 2024, a significant deviation from the BE target was observed: a deficit of -3,3% of GDP, compared to a target of -1,9%. The Council reiterates that this deviation was extraordinarily large for a non-crisis year, exceeding historical averages for comparable periods. It also emphasizes that this outcome is concerning, as it undermines fiscal convergence and sends a negative signal about the government's commitment and/or capacity to meet its fiscal targets. While the government implemented a US\$800 million spending cut in 2024, which the CFA acknowledged positively, this was insufficient to correct

⁵ In 2007, gross public debt stood at just 3,9% of GDP, while net debt was -7,6% of GDP, meaning that the Central Government held more assets in the Public Treasury than liabilities recorded as gross debt.

⁶ Over the 2008-2024 period, the average structural deficit was 2,0% of GDP.

⁷ This recommendation was previously made in the CFA's [Report on the Exercise of Its Functions from September 2023](#).

the imbalance. An additional adjustment of approximately US\$4.600 million⁸ would have been necessary.

Regarding 2025, it is important to highlight that, despite the CFA's warnings about downside risks to revenue projections, these were not corrected in time during the legislative process for the 2025 Budget Law. The failure to act on these warnings in a timely manner has contributed to the current situation, in which approved expenditures now require a significant adjustment (0,97% of GDP, equivalent to US\$3.310 million⁹) to meet the current BE target of -1,1% of GDP. Having more accurate revenue projections during the budget approval process would have eased fiscal management by avoiding the need for major spending cuts to meet established targets. Approving a budget based on overly optimistic projections leads to the commitment of public expenditures without the corresponding revenues, making it difficult to reverse once approved. In this regard, the Council welcomes the technical assistance provided by the International Monetary Fund (IMF) to improve revenue projections and notes positively that the Dipres has already begun implementing some of its recommendations. However, the Council urges further progress along this path.

Recommendations:

- **Continue strengthening the quality and transparency of fiscal projections:** the CFA recommends that the Ministry of Finance and the Dipres improve the transparency and substantiation of fiscal revenue projections, ensuring they accurately reflect available information and are updated when there is well-founded evidence. In particular, it suggests that progress on implementing IMF recommendations be reported periodically, and that efforts continue to enhance areas of the projection system not covered by the IMF study.
- **Advance the introduction of a “comply or explain” principle regarding CFA recommendations:** the CFA recommends incorporating this principle, used in the fiscal frameworks of other countries, whereby authorities receiving CFA recommendations must either implement them or publicly and in writing explain the reasons for rejecting them. This approach preserves the non-binding nature of the CFA but enhances the impact of its advice and increases the accountability of fiscal authorities.

IV. A clear sign that fiscal stress has become permanent and is expected to persist is the projected failure to meet the BE targets for both 2025 and 2026. For 2025, the fiscal authority has acknowledged that it will not meet the current target of -1,1% of GDP. While it has presented a plan to comply with a more lenient target of -1,6% of GDP, its own projections indicate a structural deficit of 2,0% of GDP. Similarly, for 2026, the Ministry of

⁸ Given the official closing of the structural balance for 2024, the amount of additional adjustment required increases from US\$4.299 million to US\$4.578 million.

⁹ This required adjustment, aimed at meeting the current BE target for 2025, includes the spending cut of 0,16% of GDP (US\$555 million) agreed upon in the [framework Agreement between the Executive and members of Congress](#) to facilitate the approval of the Budget Law for that year.

Finance is also proposing a revised structural target of -1,1% of GDP¹⁰, but its projections show that committed expenditures, absent additional corrective measures, would lead to a structural deficit of 1,7% of GDP. This figure is consistent with the average pace of fiscal deterioration observed over the past 17 years. Thus, the current projections from the Dipres show that even with the fiscal policy decree change proposed by the Ministry of Finance, the 2026 BE target would not be met.

Projected fiscal space for 2026 is negative under both the current BE target (-0,5% of GDP) and the newly proposed target (-1,1% of GDP). In the scenario under the current target, and with no corrective measures, the gap would reach -1,2% of GDP (US\$4.299 million); if administrative measures are included, the gap would narrow to -1,1% of GDP (US\$4.133 million); and with full implementation, it would be reduced to -0,9% of GDP (US\$3.273 million). Under the revised target, the absence of mitigation measures would imply a negative fiscal space of 0,6% of GDP (US\$2.104 million); if administrative measures are considered, -0,5% of GDP (US\$1.937 million); and with full implementation, the deviation would be reduced to 0,3 points of GDP (US\$1.077 million). It is worth noting that under the new target proposed by the Ministry of Finance, the real annual growth of expenditure compatible with the BE rule would be 0,7% in 2026. This highlights that achieving a path of fiscal consolidation will require, at some point, a significant slowdown in spending growth, substantially below the 4,9% average annual real growth recorded between 2010 and 2024¹¹.

With only a few months remaining before the submission of the 2026 Budget Law, this situation reflects a structural misalignment that must be addressed, either by increasing structural revenues, reducing public expenditures beyond what has already been contemplated in corrective measures, or by modifying the BE target. However, even in the latter case, i.e., adopting the new decree proposed by the Executive, current projections indicate that the target would still not be met. This reinforces the urgency of undertaking additional fiscal adjustments or identifying new sources of permanent financing.

Recommendation:

- **Explicitly define additional corrective actions for 2026 in light of the projected negative fiscal space:** given that Dipres' projection scenarios, both with and without corrective measures, indicate negative fiscal space for 2026¹², the Council recommends that the Ministry of Finance present a plan outlining additional administrative corrective actions specifically for that year. This should ensure that the BE target is consistent with committed expenditures and should be presented no later than the submission of the 2026 Budget Law.

¹⁰ The [Decree No. 755 of 2022](#) established a BE target of -0,3% of GDP for 2026. This target was later revised by [Decree No. 1.387 of 2023](#), increasing it to -0,5% of GDP. Now, in the IFP1T25, an even more expansionary target of -1,1% of GDP is being proposed.

¹¹ The average annual real growth rate, excluding the Covid-19 pandemic period (2020-2022), was 4,4%.

¹² The fiscal space for 2026 in the scenario without corrective measures is -0,6% of GDP (US\$2.104 million), while in the scenario with corrective measures it is -0,3% of GDP (US\$1.077 million).

V. The Council welcomes the corrective actions for fiscal convergence announced by the Ministry of Finance in response to the failure to meet the 2024 fiscal target, and values the inclusion of both administrative and legislative measures. However, it warns that administrative actions alone are insufficient to meet the fiscal targets. Greater efficiency efforts are required, even in areas of public spending that the Dipres classifies as legally mandated. With respect to the corrective measures¹³ -both administrative and legislative¹⁴- announced by the Ministry of Finance to increase revenues and reduce public spending over the 2025-2029¹⁵ period, the Council notes that these are designed to meet the new BE targets proposed by the Executive, which are more expansionary for 2025 and 2026 than those established in the current [Decree No. 755 of 2022](#) and not the targets currently in force. Therefore, these actions do not provide full mitigation.

This fiscal plan can be disaggregated into three components: (i) Administrative actions, under the direct control of the Executive, which account for a smaller portion of the 2025 adjustment and are in addition to the spending cuts already agreed upon in the [framework Agreement between the Executive and members of Congress](#) to facilitate the approval of the 2025 Budget Law; (ii) Legislative actions, which require not only collaboration but also active leadership from the Executive to move through Congress, and whose effective implementation depends on timely approval during the current administration; and (iii) A deferred component, explicitly transferred to the next administration, via the extension of the fiscal convergence path under the new BE targets, through both administrative and legislative measures, thereby reducing the adjustment effort required of the current administration.

In particular, the Council considers that the additional administrative spending adjustment of 0,13% of GDP for 2025 (equivalent to US\$433 million) is insufficient given the challenges facing public finances. It emphasizes the need for deeper cuts, ensuring that they do not affect the provision of priority social benefits nor disproportionately target public investment, though efficiency gains in these areas should not be ruled out.

Furthermore, the Council finds that the fiscal estimates associated with the legislative measures proposed for 2025 carry a high degree of uncertainty, as they may fail to be approved, be passed later than expected, or undergo substantial changes during legislative

¹³ According to Article 1 of [Law No. 21,683](#), corrective actions must be established to return to a sustainable fiscal position: "When, at the definitive close of the fiscal year, fiscal policy deviates from the targets established in the current fiscal policy decree without meeting the conditions to trigger the escape clause defined in Article 1 ter, the Ministry of Finance must set out, in the immediately following Public Finance Report, the necessary corrective actions to return to a sustainable fiscal position. These actions must be reported to the Finance Committees of both Chambers of the National Congress and to the Autonomous Fiscal Council. The latter shall have thirty days from the publication of said report to issue a reasoned opinion on the corrective actions."

¹⁴ The Council has not conducted an in-depth analysis of each individual legislative measure, but rather of their aggregate impact.

¹⁵ The total value of new measures considered for 2025 amounts to 0,42% of GDP, of which 0,19% corresponds to spending adjustments and 0,23% to increased revenues. The spending adjustment is broken down into 0,13% of GDP in administrative measures and 0,06% in legislative measures, while the revenue increase includes 0,04% of GDP in administrative measures and 0,19% in legislative measures. It is worth noting that during the legislative process of the 2025 Budget Law, a spending cut of 0,16% of GDP was established relative to the original proposal in the Law.

debate, all of which may alter their fiscal impact. This uncertainty is exacerbated by the absence of a clear timetable from the Executive to track the progress of each initiative, assess its political feasibility, and better estimate its timing and effect.

In this regard, the Council expresses particular concern that the 2025 First Quarter Public Finance Report (IFP1T25) presents a conditional BE target of -1,6% of GDP for 2025, contingent on the approval of the proposed legislative measures, while simultaneously projecting a structural deficit of 2,0% of GDP if those measures are not enacted. This presentation casts doubt on the Executive's control over the fulfillment of the fiscal target, introduces uncertainty regarding the actual fiscal commitment, and complicates accountability in the event of deviations.

Recommendations:

- **Monitoring system for the implementation of committed measures:** the CFA considers it essential that the Ministry of Finance establish a publicly available monitoring system, ideally updated monthly, that tracks the progress of committed measures, differentiating between administrative and legislative actions, and reporting their cumulative impact on the effective and structural balances.
- **Establish explicit timetables for legislative progress:** given that the fiscal impact of legislative measures depends on their timing, the Council recommends that the Executive publish the dates by which it expects each measure to come into effect in order to produce the fiscal impact included in its projections. Additionally, it recommends that the Executive establish clear legislative timelines to improve the assessment of the feasibility and timing of each measure's impact on the committed fiscal consolidation path.
- **Establish an early warning mechanism:** the Council emphasizes the need for an early warning system to enable timely government response to delays that may jeopardize compliance with fiscal targets. This is especially relevant in the case of setbacks in the legislative component of the plan.
- **Develop a contingency plan:** the Council underscores the importance of the Executive having a backup plan for 2025, consisting of additional measures within its direct control, which can be deployed promptly in the event of significant delays or modifications in the legislative process for the proposed measures, to ensure compliance with the BE target.
- **Define a single baseline scenario with its BE target:** the CFA suggests that the Executive adopt a single, realistic baseline scenario with demanding but achievable BE targets based on measures under its direct control, to clearly represent its actual fiscal commitment. Conversely, the possible non-approval of legislative measures deemed necessary by the Executive should be incorporated into an alternative, pessimistic scenario that includes the projected fiscal impact of such an outcome.
- **Focus the adjustment on current spending:** the Council reiterates its recommendation that the Ministry of Finance direct the required fiscal effort

toward reducing current expenditures, rather than enacting new cuts to capital spending, as occurred in 2024. This approach would help address the fiscal imbalance without undermining public investment capacity, which is key to economic recovery and future revenue generation.

VI. Although the Dipres projects a reduction in the structural deficit leading to a balanced BE 0% by 2029 and the stabilization of gross debt below 45% of GDP, the newly proposed, more expansionary BE targets for 2025 and 2026, as well as the negative fiscal space that would exist without corrective measures, indicate that achieving these outcomes will require a substantial fiscal effort. In the medium term, while Dipres projections point to a balanced BE by 2029 and gross debt remaining below its prudent threshold of 45% of GDP, fiscal space¹⁶ for the 2026-2029 period is negative under the new BE targets and in the absence of corrective measures. On average, committed expenditures exceed the level of spending compatible with the BE targets by 0,3% of GDP per year (equivalent to US\$1.129 million annually)¹⁷. It is worth noting that fiscal space would be even more negative under the current BE targets, averaging 0,5% of GDP annually over the same period (equivalent to US\$1.927 million per year). This demonstrates that meeting fiscal targets will require a significant adjustment effort during the next administration. In particular, absent new revenue measures, the real growth of public spending compatible with the new BE target for 2026 would be just 0,7%, and the average for the 2026–2029 period would be 1,5% in real annual terms, figures well below the average spending growth observed over the past 15 years. This reinforces the need for a broad consensus on fiscal sustainability.

VII. In addition, the country faces a series of risks that may materialize in the short and medium term, potentially making it even more difficult to meet fiscal targets. These risks must be closely monitored and managed by the fiscal authority. The CFA identifies several risks that could hinder fiscal convergence, including: i) the recurrence of BE target deviations such as that observed in 2024; ii) the failure to implement the mitigation measures proposed by the Ministry of Finance, particularly the legislative ones; iii) an escalation of the trade war, the uncertain effects of which have not yet been incorporated into Dipres' current macroeconomic scenario; iv) in line with the above, there is a risk associated with Chile being less fiscally prepared than in past crises to face a potential external shock, as the country currently has a lower level of public treasury assets and a higher level of debt; v) the evolution of the nominal exchange rate could significantly impact fiscal performance, as it affects the composition, size, and cost of public debt; vi) in addition, interest payments on public debt have risen from 0,7% of GDP (2,8% of total expenditure) in 2015 to 1,2% of GDP (4,9% of total expenditure) in 2024. The CFA notes that the growing share of interest payments within total public spending reduces the fiscal space available for budgetary priorities; vii) the ongoing fiscal stress increases the risk that debt maturities may be

¹⁶ Fiscal space refers to the difference between the level of spending compatible with the BE targets and the level of committed expenditures.

¹⁷ In the previous Public Finance Report (IFP), committed expenditures exceeded the level of spending compatible with the BE targets by an average of 0,4% of GDP per year (equivalent to US\$1.487 million annually).

refinanced under less favorable conditions, such as higher interest rates. A significant portion of debt is set to mature over the coming decade: approximately 65% of the Central Government's total outstanding debt is due between 2025 and 2035, with 38% maturing between 2025 and 2030 alone.

Recommendation:

- **Strengthen fiscal response capacity in the face of macro-fiscal risks:** given the risks identified, and others that may emerge, the Council recommends that Dipres systematically assess fiscal risks in each IFP, including a dedicated section on fiscal risks. This section should provide an analysis of the probability, estimated magnitude, and potential impact of each risk on the structural balance and public debt.

VIII. **The change in fiscal targets proposed by the Ministry of Finance repeats a practice that has hindered the consolidation of public finances by shifting part of the adjustment effort onto future administrations.** In the IFP1T25, Dipres and the Ministry of Finance proposed revisions to the BE targets for 2025 and 2026, the final two years covered by the current administration's fiscal policy framework¹⁸. Under the proposal, the BE targets for 2025 and 2026 would be -1,6% and -1,1% of GDP, respectively, both more expansionary than those set in [Decree No. 1.387 of 2023](#)¹⁹. It is worth recalling that [Decree No. 755 of 2022](#) had originally established an BE target of -0,3% of GDP for 2026. This was later revised upward in [Decree No. 1.387 of 2023](#), allowing for a higher structural deficit of -0,5% of GDP. Now, IFP1T25 proposes a further upward revision, increasing the target to -1,1% of GDP²⁰. It is also important to note that modifications to fiscal policy decrees have been frequent. Since the publication of the 2007 IFP, fiscal targets for either the current year or the medium term have been revised on 24 occasions, each time toward less stringent objectives. The Council warns that this constitutes an inappropriate practice that has delayed fiscal consolidation efforts, placing the burden of adjustment on future administrations. In turn, successive governments have continued this pattern, leading to a trend that has prevented the country from achieving convergence to a balanced BE and has contributed to the sustained rise in public debt.

Recommendation:

- **Ensure continued convergence of BE targets beyond the current administration, at a minimum, toward a structurally balanced position (0% of GDP), as reflected in future fiscal policy decrees:** the CFA reiterates that stabilizing gross debt below its prudent threshold of 45% of GDP requires a structural balance path that converges to zero. This involves both the current administration's targets and those to be set

¹⁸ It is worth noting that the Ministry of Finance has not proposed modifying the prudent debt level, which constitutes the other component of the dual fiscal rule.

¹⁹ It is worth highlighting that the fiscal target for 2026 has already been modified once since the beginning of the current administration. Therefore, the newly proposed target would represent the third projected figure for that year.

²⁰ It is also worth noting that a change has been introduced in the BE assumptions for 2027, a year for which the target will need to be set by the next administration, shifting from a structural balance of -0,5% of GDP to -0,75% of GDP.

by the next administration. Moreover, to rebuild the FEES, it would be necessary in the medium term to move toward achieving fiscal surpluses.

IX. The change in fiscal targets on this occasion marks the first time such a modification has been made under the new framework established by the Fiscal Responsibility Law, which has strengthened requirements and accountability mechanisms in this area. Notably, it is also the first time that the Ministry of Finance has invoked what the law refers to as “other extraordinary causes” to modify the fiscal policy decree, highlighting challenges in the regulatory framework, as such causes are not specifically defined in the legislation. The adjustment to the BE targets announced by the Ministry of Finance constitutes the first application of the “other extraordinary causes” provision under [Law No. 20.128](#) on Fiscal Responsibility, as amended by [Law No. 21.683](#) on Responsibility and Transparency in the Financial Management of the State in August 2024. Unlike the previous legal framework, which allowed modifications to fiscal policy decrees with minimal restrictions, the updated institutional framework requires a formal justification, an opinion from the CFA, and the appearance of the Ministry of Finance before the Finance Committees of the National Congress. In the Council’s view, this legal update helps reduce Executive discretion over the fiscal rule by imposing formal conditions for modifying key elements of fiscal policy, such as the BE targets or the prudent debt level.

However, the law does not establish specific criteria for applying the “other extraordinary causes” clause, unlike the escape clauses²¹, which do include defined requirements: that the event be extraordinary, beyond the control of the government, and have severe effects on the economy or public finances. This omission, which the Council warned about during the legislative process²², is also evident in the legislative history of the law, where no definition is provided, leaving room for broad interpretations of the permitted exceptions.

Recommendation:

- 1) **Amend the law so that fiscal targets can only be modified through the activation of an Escape Clause, eliminating the possibility of invoking other less stringent “extraordinary causes”:** the Council reiterates the need for the Ministry of Finance to promote an amendment to [Law No. 20.128](#), making the activation of an escape clause the sole legal basis for modifying fiscal targets. In the Council’s view, maintaining the provision for “other extraordinary causes” without clearly defined criteria undermines the credibility of the fiscal rule and creates space for discretionary interpretations.

²¹ In the Article 1 ter of [Law No. 21.683](#) defines the Escape Clause as the mechanism that “will allow the Government to deviate for up to two years from the Structural Balance fiscal targets, toward more deficit-oriented results, with higher levels of debt measured as a percentage of Gross Domestic Product. This mechanism shall only be applicable in the face of extraordinary and transitory events, beyond the control of the administration, that cause significant deterioration in economic activity, employment, or severely harm the country’s financial situation or economic and/or social sustainability, and which require fiscal outlays beyond what is permitted by the Structural Balance and debt objectives.”

²² During the legislative process of [Law No. 21.683](#), the CFA warned of this issue and recommended not incorporating causes other than Escape Clauses, in order to avoid creating room for overly flexible use of this exception (CFA Note No. 12 (2022) and [Presentation before the Honorable Finance Committee of the Senate, October 2022](#)).

X. Within the current legal framework for modifying fiscal targets, regarding the specific reasons presented by the Ministry of Finance as “extraordinary causes” to ease the BE targets, the Council considers that only some of them align with the exceptional nature required by the current fiscal responsibility framework. Notwithstanding this assessment, the Council recommends pausing the modification of the decree given the current context of uncertainty. Below are the main points analyzed by the Council concerning the justifications put forward by the Ministry of Finance and the Dipres for amending the decree that sets the foundations of fiscal policy:

1) Impact of the macroeconomic scenario update, leading to a worsening of the structural position without an improvement in the effective position:

- In the CFA’s view, the deterioration in structural revenues primarily reflects forecasting errors and revisions to macro-fiscal data within the regular framework for calculating the BE. Most of the deterioration observed in 2024 and 2025 is attributable to projection errors and the correction of revenue forecasts following the recommendations of the [IMF technical assistance](#), and to a lesser extent, to methodological factors within the normal process of updating BE calculations²³.
- Regarding methodological factors, while the update to the National Accounts (CCNN) explains a significant portion of the decline in structural revenues, the Council notes that revenues were also affected by changes in the effective and long-term RIOMA rate²⁴. In the CFA’s view, although such changes are relevant, they should not be invoked as grounds for altering fiscal targets. Instead, their unintended effects should be addressed through a dedicated methodological review. It is worth noting that, contrary to what Dipres implies in the most recent IFP, the negative fiscal impulse required between the current 2025 BE target and the 2024 NE outturn is primarily due to the high structural deficit in 2024, and only marginally due to the macroeconomic scenario update, which worsened the 2024 BE by just 0,1 percentage points of GDP after the release of the updated CCNN.
- Although the cyclical adjustment in 2024 reduced structural revenues by 0,4% of GDP compared to projections in the 2023 Third Quarter Public Finance Report (IFP3T23), which served as the basis for the 2024 Budget Law discussion, the CFA does not consider this outcome to be extraordinary. In fact, in 13 of the past 17 years, the variation in cyclical revenues was greater, and in 7 of those years, the increase was larger than in 2024.

²³ In 2024, the deviation in structural revenues amounted to 1,7% of GDP (US\$5.661 million) compared to what was projected during the discussion of that year’s Budget Law, explained primarily by a shortfall of 1,3 points of GDP (US\$4.299 million) in effective revenues. In 2025, the downward revision in projections is 1,1% of GDP (US\$3.849 million), also attributable to a drop in effective revenues (1,0% of GDP, equivalent to US\$3.562 million) which reflects the magnitude of the estimation error.

²⁴ The RIOMA rate is the rate applied to the Adjusted Operational Mining Taxable Income (*Renta Imponible Operacional Minera Ajustada*) of copper-extracting mining companies in the country and is also known as the mining royalty. In the calculation of the BE, the cyclical adjustment of tax revenues from private mining uses as a parameter the gap between a RIOMA rate based on the effective copper price and a long-term RIOMA rate, which is based on a reference copper price.

- The estimated fiscal effort (measured as the annual improvement in the BE) required to meet the current 2025 BE target is 2,2 points of GDP, which is indeed high by historical standards (excluding 2022, when much of the extraordinary pandemic-related spending was withdrawn). However, the CFA points out that this effort results directly from the significant noncompliance with the 2024 target and from revenue projections for the 2025 Budget Law that did not appear consistent with the data observed toward the end of 2024, projections that allowed for a higher level of spending this year, despite the Council's prior warnings²⁵.
- 2) *The impact of the discrepancy in 2024 revenue estimates and the refinement of the methodology over the medium-term horizon:*
- While the correction of forecasting errors and methodological improvements in fiscal revenue projections is desirable, the CFA considers that, in general, these do not constitute extraordinary grounds to justify altering previously established commitments, neither those set forth in the fiscal policy decree nor those formalized in the framework agreement between the Executive and a group of parliamentarians during the 2025 Budget Law discussion²⁶, as reflected in Article 16 of the 2025 Budget Law.
 - Furthermore, the Council warns that the rationale put forward by the Ministry of Finance to justify the modification of the decree breaks with the principle of symmetry of the fiscal rule, thereby undermining its legitimacy and consistency. The rule is designed to operate in a balanced manner over the long-term, accommodating both favorable and unfavorable scenarios. However, in practice, there has been a tendency to loosen fiscal targets during adverse conditions, without having tightened them when conditions were significantly more favorable²⁷.

Moreover, the Council considers it relevant to note that although the IFP1T25 was published on April 23, 2025, its statistical closing date, as reported by Dipres, was March 27, prior to the announcement of the significant tariff hikes by the United States on April 2. This means that the macroeconomic figures used to estimate the structural balances for 2025 and 2026 are very similar to those in the IFP4T24 and do not incorporate the effects of the trade war. In the Council's view, the trade war introduces high uncertainty²⁸, which may affect

²⁵ In its [second quarter 2024 report](#), the Council had already warned about the difficulty of meeting the Executive's revenue projections for that year, an alert that was reiterated in the [October 2024 report to Congress](#). This overestimation of revenues in 2024 led to the commitment of a level of spending that now poses a significant challenge to reverse, making it harder to meet the current fiscal targets.

²⁶ See [item 3 of that agreement](#). It stipulated that, based on the improvements in projections included in the current IFP1T25, Dipres would determine the level of expenditures compatible with meeting the BE target of -1,1% of GDP, and from there, identify the necessary adjustments to achieve it.

²⁷ For example, when the Treasury received extraordinary revenues from the Substitute Tax on Final Taxes (ISIF, *Impuesto Sustitutivo de Impuestos Finales*), the fiscal targets for 2024 and 2025 were not revised upward. Similarly, exceptional revenues from ENAP dividends in 2023 increased general government revenues, and the extraordinary income from lithium in 2022 and 2023 was used to finance public spending, none of which resulted in more stringent fiscal targets.

²⁸ The VIX index, which measures volatility in the U.S. financial market, rose from 21,8 in March to an average of 33,3 in April, reaching as high as 52,3 on April 8, levels comparable to those observed during the 2009 financial crisis and the onset of the Covid-19 pandemic. However, by the end of the month, it had declined to levels around 25.

macroeconomic and fiscal variables in various ways. For this reason, the Council considers it prudent not to proceed at this time with a decree change that would set less stringent fiscal targets.

Recommendation:

- **Pause changes to the Structural Balance target:** the CFA recommends that the Ministry of Finance suspend any modifications to the fiscal target, focusing instead on implementing significant adjustments to public spending -while safeguarding investment and social expenditures- and on generating higher structural revenues. This approach aims to avoid a series of target revisions amid ongoing international market uncertainty.
- **Beyond the specific BE targets set for 2025 or 2026, it is essential to adhere to the convergence path toward structural balance without further deviations:** in the Council's view, given the current context of tight fiscal margins and heightened external uncertainty, the discussion should not focus solely on the specific structural target for 2025, but rather on ensuring that any target adopted aligns with a sustainable path of fiscal consolidation and is effectively implemented.

XI. **The Council underscores that if, in practice, it has become difficult to implement significant reductions in public spending, this should prompt a deeper reflection on the institutional framework of the State and its actual capacity to carry out fiscal adjustments when needed, identifying whether political, legal, or administrative barriers exist.** In the past, meaningful spending cuts were possible; more recently, the previous administration proposed a fiscal adjustment that was approved by Congress and executed by the current administration in 2022, which involved withdrawing most of the extraordinary measures adopted during the pandemic. This led to a significant real annual reduction in public spending of 23,1%, a move the [Council positively recognized at the time](#). This demonstrates that, when political will and institutional coordination exist, substantial fiscal consolidation plans can indeed be implemented.

In this context, it is worth noting that Dipres, in its most recent IFP, presented an analysis of the adjustability of the current year's budget, concluding that "92% of the budget corresponds to expenditures mandated by law, items excluded from the budget adjustment agreement, or expenditures directly related to public order, justice administration, or public investment." While the Council appreciates this initial assessment, it considers it essential to undertake a more in-depth analysis of the composition of public spending and its degree of rigidity. It is also important to bear in mind that the high share of seemingly rigid budget items, due to laws passed in previous years, does not preclude the possibility of pursuing efficiency efforts, for example, by adjusting administrative spending. That said, the CFA emphasizes the importance of progressing toward a plan to adjust these rigid expenditures, including any necessary legislative changes. Advancing this effort is critical, as the need for fiscal consolidation requires overcoming legal, administrative, or political constraints to reducing expenditure, if fiscal rules are to be realistically enforceable and credible.

Recommendation:

- **Prepare and publish a detailed and up-to-date technical report on the composition of public spending and its degree of rigidity:** the CFA recommends that Dipres carry out this study, identifying the legal, administrative, or political constraints that contribute to expenditure rigidity²⁹. This report would serve as a necessary complement to the efforts undertaken by the recently established Advisory Commission for Structural Reforms to Public Spending, an initiative the Council values, as it aims to identify areas for reform that enhance the permanent efficiency of public expenditure, and to do so by building broad consensus around them.

XII. Finally, the Council emphasizes that the fiscal effort required must be understood in the context of an exceptional situation, marked by multiple years of structural deficits and a steadily increasing public debt trajectory, which places the country at a turning point that calls for exceptional responses. In this regard, it is important to note that reaching a BE of 0% over the medium term (and even more so, achieving structural surpluses to contribute to the rebuilding of the FEES), will inevitably require several years of spending growth below historical levels, unless higher structural revenues are secured. Therefore, in the CFA's view, current fiscal conditions demand a turning point in the management of public finances, specifically, the need to achieve a greater capacity for effective spending adjustment in response to declines in structural revenues.

As the Council has reiterated on multiple occasions, this shift in direction requires a broad agreement in favor of fiscal sustainability as a national objective, involving both the Executive and Congress. Such an agreement is essential to ensure consistency between permanent expenditures and their sources of financing. This broad consensus will require substantial efforts in 2025 and beyond, extending to both the current and future administrations. In the short and medium term, the CFA stresses that the agreement must focus on achieving permanent efficiency gains in public spending. At the same time, as the Council has previously indicated, four main sources of financing must be considered in a balanced manner over the medium and long term: i) higher potential economic growth, ii) permanent efficiency gains in public expenditure, iii) reduction of tax evasion and avoidance, and iv) new tax revenues.

²⁹ Previous experiences, such as the Dipres study "[Budget Reallocations in Chile: Conceptualization and Quantitative Analysis, 2004](#)", provide a useful methodological foundation for advancing this task, which should now be updated accordingly.

PRESENTATION TO THE H. JOINT SPECIAL BUDGET COMMITTEE OF THE NATIONAL
CONGRESS

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