October 15, 2025

CONSEJO FISCAL AUTÓNOMO

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

Presentacion before the Special Joint Budget Committee of National Congress

Message

Message[1]

The country is heading toward a third consecutive failure to meet the Structural Balance (SB) target, in a context where the corrective actions plan proposed by the Executive at the beginning of the year has not progressed as committed. This points to a situation of prolonged fiscal stress, reflected in persistent structural deficits, limited fiscal space, debt approaching its prudent level, and macro-fiscal risks in the short and medium term. In this scenario, the CFA reiterates that greater fiscal effort is needed to minimize the deviation from the SB target in 2025, to meet it in 2026, and to avoid exceeding the prudent level of public debt, with the aim of restoring fiscal credibility through a clear commitment by all political actors.

In particular, for 2025 Dipres projects a structural deficit of –2.2% of GDP versus an SB target of –1.6%, and to date no additional spending cuts have been observed to achieve it. This occurs amidst pressures on current expenditure, which has grown above projections, and slower growth in capital expenditure. The CFA recommends that spending adjustments should mainly focus on current expenditure.

At the same time, the fiscal scenario projected by Dipres for 2026 is demanding. On the one hand, revenue projections include increases subject to a significant degree of uncertainty, such as revenues associated with the Tax Compliance Law (LCT); on the other, substantial efforts to contain spending are required. This calls for active monitoring of revenue projections and an effective commitment by all political actors to contain spending. Another deviation from the SB target in 2026—on top of those in 2023[2] and 2024 and the one projected for 2025—would increase the likelihood that, in the coming years, public debt will exceed its prudent level, set at 45% of GDP, and would severely undermine the credibility of the fiscal rule.

In the medium term, it is also worth noting that limited fiscal space is estimated based on a financial program of operational continuity that contemplates a significant reduction in real investment and is subject to various risks and fiscal pressures. These include risks associated with the measurement of structural parameters—the trend non-mining GDP and the copper reference price—, the projection of the effective copper price, and LCT revenue, all of which could negatively affect the estimate of future structural revenues. Additionally, projections do not contemplate a rebuilding of Public Treasury assets, which declines as a share of GDP over the financial programming horizon.

In this context, the Council recommends: (i) implementing additional current-expenditure cuts during 2025 to minimize the potential failure to meet the SB target; (ii) maintaining the prudent debt level at 45% of GDP; (iii) continuing to strengthen processes for projecting and monitoring fiscal revenues; (iv) reviewing the methodologies for trend non-mining GDP and the copper reference price, the cyclical adjustment, and the copper price assumptions; and (v) advance an agenda strengthen expenditure management and efficiency, in order to reinforce fiscal sustainability.

[1] This report represents the consensual and unanimous view of the CFA.

[2] It should be noted that in 2023 the noncompliance refers to the Structural Balance established in that year's Budget Law.

In this semiannual report, the CFA analyzes the public finances outlook for the current year, for 2026, and for the period covered by the financial program[3] (2027–2030). It also analyzes medium- and long-term sustainability and compliance with fiscal targets.

I. Dipres's projection for 2025 entails a breach of the SB target (–1.6% of GDP), with a structural result reaching –2.2% of GDP, and no additional spending-reduction measures observed. This occurs in the context of pressures on current expenditure and slower growth in capital expenditure.

For 2025, Dipres projects a structural deficit of –2.2% of GDP vis-à-vis an SB target of –1.6%, formalized in Ministry of Finance Decree No. 542, published in the Official Gazette on October 10, 2025. This potential deviation was flagged by the CFA in its last report, which, when analyzing the fiscal situation, considered a baseline scenario with a structural deficit of 2.1% of GDP.

In the current scenario, the government has not implemented additional spending cuts to meet the SB target, and the corrective actions plan announced in the Public Finance Report (IFP) for the first quarter of 2025 (IFP1T25) has not advanced as committed. Although the IFP1T25 announced corrective actions—both administrative and legislative—amounting to 0.58% of GDP for 2025, only administrative spending cuts of 0.16% of GDP have materialized, corresponding to the measures approved under the Framework Agreement for the Budget Law (Acuerdo Marco)[4]. In addition, administrative cuts equivalent to 0.12% of GDP are currently being implemented[5].

Considering budget execution through August, pressures on current expenditure are evident. Total spending execution shows a 2.6% expansion, in line with the projection for the year, implying that this growth pace would need to be maintained from September to December.

However, current expenditure grew by 2.6% in real annual terms in the first eight months, versus a Dipres projection of just 0.2% for 2025. Meeting Dipres's estimate would therefore require an interannual contraction of 4.7% between September and December. Meanwhile,

[3] According to Dipres: "The State Financial Administration Law establishes that the Chilean budgetary system consists of a financial program covering three or more years and an annual budget, the latter of which must be approved by law. The financial program, which since 2019 has covered the four years following the Budget, is published annually in the third-quarter Public Finance Report, together with the submission of the Budget Bill to Congress. This program serves as a medium-term framework and is updated throughout each fiscal year in the quarterly Public Finance Reports.

[4] The Framework Agreement made it possible to secure approval of the budget and, according to Dipres, was implemented within the first ten days following the entry into force of the 2025 Budget Law.

[5] Linked to specific adjustments between the spending projections contained in the IFP4T24 and the IFP1T25. It should be noted that, unlike the other administrative measures—which include revenue increases of 0.04% of GDP and an additional spending cut of 0.01%—the nature of the specific adjustments, as clarified by Dipres to the CFA, provides a greater degree of certainty regarding their implementation.

capital expenditure shows cumulative execution through August of 2.2% in real annual terms, below the 18.1% growth projected for 2025.

The foregoing shows that the main risks lie in the composition of spending, given the greater dynamism of current expenditure. It is bearable to recall that the Council has previously recommended that any adjustments should fall mainly on current expenditure and not on capital expenditure, as the latter affects the economy's growth capacity.

As for fiscal revenue projections for 2025, these have been repeatedly adjusted. In particular, the latest estimates cumulate a downward correction of 1.3 percentage points of GDP relative to the IFP for the third quarter of 2024 (IFP3T24), of which 0.2 percentage points of GDP correspond to the revision between the most recent IFP and the second-quarter IFP (IFP2T25). It should be noted that execution through August 2025 shows under-execution in property income and other revenues—components not considered in Dipres's work with the IMF technical mission. Nevertheless, in the final months of the year these revenues could be boosted by transitory factors; for example, potential dividends from state-owned enterprises in the case of property income.

It is worth highlighting that public spending growth has slowed from 4.8% annually between 2010 and 2019 to 2.4% over the last three years (including Dipres's estimates for 2025). This slower pace reflects a containment effort which, however, has not been sufficient to meet SB targets.

Beyond short-term pressures, the fiscal scenario reveals tensions and challenges for sustaining the convergence path committed to by the Executive and avoiding public debt surpassing the prudent level of 45% of GDP. The combination of deficits and repeated deviations from SB targets, together with high levels of other below-the-line capital requirements, has brought the debt ratio closer to that threshold (42.4% projected by Dipres for 2025). This scenario, along with a set of risks affecting macro-fiscal variables, underscores the need to strengthen the discipline and credibility of the fiscal framework, applying a prudent approach to fiscal policy management.

Regarding spending quality, the Organisation for Economic Co-operation and Development (OECD), in its report Programme and Performance Budgeting in Chile (2025), issued a set of recommendations aimed at improving spending efficiency and strengthening the link between budget allocations and results. In addition, the Advisory Commission for Structural Reforms to Public Spending proposed a set of adjustment and containment measures. Both works, requested by Dipres, aim to help address the aforementioned challenges this year and in the years ahead.

II. The fiscal scenario projected by Dipres for 2026 is demanding. On the one hand, revenue projections consider increases with significant uncertainty, such as revenues associated with the LCT, and on the other hand, important efforts are required to contain spending. This requires active monitoring of revenue projections and an effective commitment by all political actors to effectively contain spending.

With respect to revenues, Dipres's projections for 2026 carry risks, especially in estimating tax revenues from the remaining taxpayers. Despite the downward revision of those revenues in 2025, Dipres projects a recovery in 2026 to 17.5% of GDP, 0.5 percentage points above the 2025 estimate. Added to this is uncertainty regarding revenue associated with the LCT, whose financial note estimates an additional contribution in 2026 of 0.36 percentage points of GDP compared with 2025 and a cumulative yield of 0.73% of GDP.

The uncertainty stems from the fact that, while Dipres's Financial Report projects a steady-state (2028) LCT contribution of 1.47% of GDP, evidence gathered by the IMF shows that reforms of a similar nature have generated revenues of around 0.5% of GDP[6]. This underscores the need to monitor the effectiveness of the measures and the evolution of the projected receipts. Given the relevance of these estimates for calculating structural revenues—and therefore for spending space—it is essential that the Executive formulate them with a prudent approach.

Furthermore, revenue projections include the recovery of unreported balances under the Preferential School Subsidy (SEP), which should be treated with caution, since these resources were incorporated as transitory revenue (amounting to US$196 million, equivalent to 0.05% of estimated 2026 GDP) through a provision in the 2026 Budget Bill. If that provision is not approved, the 2026 revenue projection should be revised downward by the same amount.

On the spending side, Dipres projects for 2026 real growth of 1.7% relative to the initial 2025 Budget Law (a figure that does not include the 0.16% of GDP adjustment from the Framework Agreement), plus indexation and special laws. If the comparison is made against the 2025 spending projection, the expansion amounts to 2.5%[7]. This is consistent with the 2026 SB target of –1.1% of GDP and with expected growth in structural revenues.

[6] For further details, see IMF Country Report No. 23/37 – Chile: Selected Issues, January 2023.

[7] Dipres's spending projection includes an administrative cut equivalent to 0.28% of GDP, composed of two main measures. Of this total, 0.16% of GDP corresponds to the spending adjustment agreed between the Executive and Congress in the Framework Agreement that enabled approval of the 2025 Budget Law, while the remaining 0.12 percentage points of GDP are associated with specific spending adjustments, which Dipres classifies as having a high degree of certainty in their implementation. It is worth noting that both administrative measures are part of the corrective actions plan promoted by the Executive in response to the breach of the Structural Balance target recorded in 2024.

It should be noted that this projection incorporates the decision to keep public-sector wages in nominal terms relative to 2025—that is, it does not contemplate expected inflation adjustments in budget item 21 (personnel spending). If implemented, this would constitute a concrete effort to contain the growth of Central Government current spending. Effective compliance will be essential; any additional measures adopted must fall within the limits of the approved budget, in order to safeguard the 2026 SB target. Conversely, if this effort is not realized, it would place considerable pressure on the remainder of the 2026 budget and on compliance with the fiscal target.

In addition, the structural parameters used in the SB methodology increased relative to the previous year. Specifically, trend non-mining GDP rose to a 2.6% growth rate, and the copper reference price increased from US¢409/lb to US¢438/lb. These adjustments translated into projected higher structural revenues of close to 0.4% of GDP from the non-mining component and around 0.2% of GDP from the mining cyclical adjustment—figures that the CFA recommends treating with caution, avoiding commitments to permanent spending in light of the risk that these parameters could reverse in coming years.

Thus, the passage and execution of the 2026 Budget Law are both a challenge and an opportunity to help restore the credibility of the fiscal rule and to signal commitment by all political actors to the SB convergence path. Another deviation from the SB target—on top of previous years' breaches—would increase the likelihood of exceeding the prudent debt level of 45% of GDP in the near term. In this context, it will be essential to monitor both revenue developments and spending pressures, making timely and effective corrections to ensure compliance with SB targets.

III. The projected medium-term gap between spending compatible with the SB target and committed spending remains narrow. This limits the Executive's ability to address contingencies without jeopardizing compliance with its fiscal targets and the capacity to implement the next government's programmatic priorities.

Dipres's most recent estimates show that between 2027 and 2030 fiscal space—defined as the difference between spending compatible with the SB target and committed spending—would be slightly positive, around 0,13% of GDP on average, representing an improvement versus previous projections. However, this space remains limited and does not allow financing of significant new spending commitments without additional permanent revenues. Over the same period, to meet the committed targets, spending would need to grow around 1,2% per year in real terms. Moreover, it is important to note that the so-called "fiscal space" arises in the context of persistent fiscal deficits and proximity to the prudent debt level and is subject to various risks and fiscal pressures.

The slight easing in medium-term fiscal space relative to IFP2T25 estimates is due both to the update of structural parameters by the expert committees, which raised trend non-mining GDP and the copper reference price, and to the projection of the metal's effective price contained in the fiscal scenarios. In particular, the change in structural parameters explains an increase of 0.6% of GDP in structural revenues by 2030 relative to IFP2T25. For its part, the Ministry of Finance's estimate for the effective copper price—that projects a real decline from US¢434/lb in 2026 to US¢396.5/lb in 2030—generates an increasingly negative gap versus the long-term reference price (US¢438/lb), resulting in a growing cyclical adjustment that reaches 0.6% of GDP in 2030 (US$2,674 million)[8]. In this context, the Council emphasizes—on prudential grounds—treating the increase in structural revenues arising from structural parameter estimates with caution and undertaking a review of the methodologies used to estimate trend non-mining GDP and the cyclical adjustments to fiscal revenues.

It should be noted that the calculation of fiscal space considers only committed expenditures for meeting fiscal obligations, operational continuity of services, and within investment—only acquired commitments and project carryovers. It therefore does not include additional spending pressures such as real increases in wages and in the education subsidy or maintaining public investment at its current share of GDP. On this last point, the Council notes that projected public investment contemplates a reduction of 1.0 percentage point of GDP (on the order of US$3 billion) toward the end of the decade compared with 2025[9].

The above implies that the effective fiscal space could be smaller—or even negative—relative to what the government projects, since committed expenditures do not incorporate likely spending over the medium-term horizon. This heightens the importance of including more detail and transparency in the assumptions of the financial program and, in parallel, advancing a complementary medium-term fiscal framework with program-level projections of revenues, expenditures, and fiscal risks.

IV. There is a significant probability, close to 50%, that the prudent level of gross debt will be exceeded by around 2027. This trajectory has been driven in recent years both by the effective deficit, which averaged 3.1% of GDP over the last decade, and by other below-the-line capital requirements averaging 1.7% of GDP.

[8] The calculation of the copper price gap is estimated by Dipres based on the 2026 reference price established by the Advisory Committee for the Copper Reference Price, expressed in 2026 dollars and extrapolated through 2030 using the same figure. The Ministry of Finance's copper price projection, meanwhile, is estimated in nominal terms at US¢438 in 2030, to which the U.S. PPI Commodities projection is applied as a deflator to obtain its value in 2026 dollars—resulting in a real price of US¢396,5, lower than the current copper price. This is inconsistent with the assessment made in the Public Finance Report, which described a 'global scenario of greater mineral deficit.

[9] Meanwhile, capital transfers decrease by 0.3 percentage points of GDP (US$1,133 million).

The public-debt projections prepared by the CFA for this report show that, although the central trajectory lies slightly below the prudent level in the baseline scenario, there is a significant probability, close to 50%, that this threshold will be surpassed by around 2027. This situation should not lead to raising the prudent level, but rather to maintaining it as a permanent reference and applying the necessary adjustments to restore the fiscal trajectory. It should be recalled that this threshold was defined considering structural features of the economy, such as its size, productivity, and reliance on volatile revenues like copper. Changing it in the current context would weaken the signal of fiscal discipline and could erode the credibility of the rule in the eyes of markets.

In the Council's view, keeping the current prudent level is especially relevant considering the rapid increase in debt in recent years, the growth of interest expenses, and the risk of repeating earlier episodes of deterioration that resulted in sovereign rating downgrades[10]. Alternative scenario exercises by the CFA show that, under assumptions of lower revenues or a more persistent structural deficit, gross debt would exceed 45% of GDP in 2028, following a path incompatible with long-term fiscal sustainability.

Exceeding the prudent debt level would not only constitute non-compliance with one component of the dual fiscal rule but would also imply that a larger share of public resources would be devoted to interest payments instead of financing social and investment policies, directly affecting people's quality of life. In 2025 alone, interest payments are expected to reach 1.3% of GDP (US$4,416 million), equivalent to the approved 2025 budget of the Ministry of Housing and Urban Development (Minvu) (1.2% of GDP) and three times the budget of the Ministry of Social Development and Family (0.4% of GDP).

Debt dynamics depend not only on the fiscal balance but also on other capital requirements—such as the provision of loans, capitalizations of state-owned enterprises, and other financial asset and liability transactions—which, according to CFA estimates, averaged about 1.7% of GDP annually over the last decade, directly increasing financing needs. Dipres projects a reduction in these requirements in 2025 (1.0% of GDP) and in subsequent years. However, figures through August 2025 show an acceleration in their execution compared with 2024, when more than budgeted was executed, particularly in housing loans.

Various recent reports by rating agencies[11] have warned that the trajectory of public debt will be decisive for maintaining the sovereign rating, noting that a rising trajectory and a

[10] Since 2016, the three main international rating agencies—Moody's, S&P, and Fitch—have made two successive downgrades to Chile's sovereign credit rating, attributing them to the sustained increase in public debt and weaker economic growth.

[11] Fitch Ratings (2025), Moody's (2025) y S&P (2024).

lower asset buffer of the Public Treasury could result in a downgrade if fiscal commitment is not consolidated.

V. Sovereign funds currently stand at levels that limit their ability to fulfill the objectives for which they were created.

The Economic and Social Stabilization Fund (FEES) stood at 1.1% of GDP at end-August 2025, which constrains its role as a fiscal buffer against contingencies and forces greater reliance on borrowing. This situation contrasts with international recommendations, such as those of the IMF, which suggest maintaining assets equivalent to 5%–7% of GDP to face crises.

The Pension Reserve Fund (FRP), which stood at around 2.9% of GDP as of August 2025, will face pressures stemming from higher pension spending in the medium and long term associated with demographic transition. This reinforces the importance of strengthening the role of this fund in support of fiscal sustainability.

In this context, Law No. 21.735 (Pension Reform) required the Executive to submit a bill to regulate contributions to and withdrawals from the sovereign funds; this bill has been introduced and is currently being considered in Congress. While the Council has not analyzed this bill in detail, it underscores the importance of establishing clear rules, including strategies and targets for the gradual rebuilding of the FEES and the FRP, given that asset accumulation is key to providing greater certainty about the country's ability to face contingencies and long-term commitments.

According to Dipres projections, Public Treasury assets would decline from 4.3% of GDP in 2025 to 3.8% of GDP in 2030, a reduction of 0.5% of GDP. This trajectory has an equivalent effect in easing pressures on gross debt, but it is not consistent with rebuilding the sovereign funds or with setting explicit accumulation targets. In this sense, the need is reaffirmed for the SB to converge at least 0% of GDP so that rebuilding these funds is effective.

Priority recommendations

In the CFA's view, the changes in targets applied by the government on the grounds of exceptional circumstances, together with the ex-post breaches of those fiscal targets, warrant a deeper reflection. The recent modernization of the institutional framework, embodied in the 2024 Law that Promotes Responsibility and Transparency in the Financial Management of the State, which amended the Fiscal Responsibility Law, was precisely intended to strengthen fiscal discipline and establish mechanisms to allow timely correction of imbalances during the year or, failing that, to offset them in the following year through corrective measures. However, this institutional framework has not proved fully effective. Hence, alongside the regulatory advances, it is necessary to promote institutional

strengthening and more active mechanisms for monitoring and accountability. On this basis, the Council sets forth the following recommendations.

1. **Implement additional current-expenditure reductions over the remainder of 2025 to reduce the deviation from the Structural Balance target.**

The Ministry of Finance and Dipres are advised to adopt additional, rapidly executable, current-spending cuts during the rest of the year to minimize the deviation from the target.

2. **Maintain the 45% of GDP threshold as a permanent anchor and implement the regulation of the fiscal responsibility law, which is essential to safeguard the credibility of the rule.**

The recommendation is reiterated to the next administration to maintain the prudent debt level of 45% of GDP as a permanent fiscal reference and to avoid modifying it in the event that it approaches or exceeds this level.

It is recommended to disclose the assumptions used to project gross debt in medium-term programming, including more detailed information on other capital requirements. This is essential for a full assessment of fiscal sustainability.

Any response to a potential breach of the debt threshold should focus on fiscal adjustments and not on loosening fiscal targets. In the short term, this calls for spending-containment and efficiency measures; in the medium- and long-term, it is equally important to strengthen revenue-collection efficiency and foster greater economic growth capacity.

It is recommended that the regulation to be issued under the Fiscal Responsibility Law regarding deviations from SB targets should reasonably narrow the definition of "extraordinary causes" and clarify aspects related to the nature of corrective measures and their accountability, ensuring that they are applicable and implemented by the Executive Branch.

3. **Continue strengthening revenue-projection processes and monitoring of LCT-related collections.**

It is recommended to continue strengthening fiscal revenue projections, and the recommendation is reiterated to resume publishing the rationale for those projections together with the Budget Bill.

The recommendation is reiterated to the Ministry of Finance and Dipres to establish, as from 2025, an annual monitoring system of the actual collections linked to the LCT, given the gap

between the official projections in its financial note and international evidence—thus complementing the external evaluation scheduled for the third year of implementation and allowing timely correction of potential overestimates[12].

The recommendation is reiterated that the Internal Revenue Service (SII) publish periodic reports on the evolution of tax evasion, disaggregated by tax type, taxpayer, and economic sector, using methodologies aligned with international standards.

It is suggested to institutionalize ex-post reviews of previous tax reforms, incorporating their results into the Budget Law discussion, which would help reduce the risk of missing fiscal targets[13].

4. **Review the methodologies for calculating trend non-mining GDP and the copper reference price, the cyclical adjustments to fiscal revenues, as well as the assumptions used in projections of the effective copper price, to reduce risks of volatility and bias in the calculation of the Structural Balance.**

The recommendation is reiterated to the Ministry of Finance and Dipres to review the methodologies used to estimate trend non-mining GDP and the copper reference price, the cyclical adjustments to fiscal revenues, as well as the assumptions used to project the effective copper price, in order to avoid volatility or bias in the calculation of structural revenues.

5. **Advance an agenda to strengthen expenditure management and efficiency that contributes to reinforcing fiscal sustainability.**

Regarding the recommendations of the OECD study Programme and Performance Budgeting in Chile (2025), the CFA recommends that Dipres report in the IFPs on progress in improving instruments and processes to strengthen the link between budget allocations and results, and to improve spending efficiency—providing evidence thereof.

With respect to the recommendations of the Advisory Commission for Structural Reforms to Public Spending, the CFA recommends that Dipres continue reporting on their incorporation into the IFPs, providing evidence of their contribution to reducing deviations and to fiscal convergence.

[12] Law No. 21.713 provides in its final article that: "Three years after the entry into force of this law, pursuant to the first paragraph, the Ministry of Finance shall commission an external evaluation assessing the implementation and application of the measures contained herein, addressing at least their effect on fiscal revenue, their impact on economic activity, their distributive effects, and compliance with the spending commitments undertaken during the legislative process."

[13] These proposals were presented by the CFA in its presentation to the Senate Finance Committee, as part of the discussion of the bill on tax compliance, which concluded with the approval of the LCT.

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