

**Chile: Report on Observance of Standards and Codes—  
Fiscal Transparency Module—Update**

This Update to the Report on the Observance of Standards and Codes on Fiscal Transparency for **Chile** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **July 13, 2005**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Chile** or the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND

CHILE

**REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)  
FISCAL TRANSPARENCY MODULE—AN UPDATE**

July 13, 2005

**I. INTRODUCTION**

1. This document updates the original fiscal ROSC, which was issued in July, 2003.<sup>1</sup> That document noted the high degree of transparency in Chile, and recommended, inter alia, consolidating good existing practices, following through on important new initiatives, and increasing the provision of information on extrabudgetary operations.
2. In May 2005, an FAD mission reviewed developments in the areas pertaining to Chile's observance of the fiscal transparency practices assessed in 2003, with a view to updating, where relevant, information on current practices and describing the implementation of the earlier ROSC's recommendations.

**II. DEVELOPMENTS SINCE ORIGINAL ROSC**

3. Chile has completed the first stage of the migration of its fiscal statistics to the IMF's Government Finance Statistics Manual (GFSM 2001). A main result of this migration is the production of the *operating statement*, corresponding to flow transactions, for the central government, the general government and the consolidated public enterprises. However, the treatment of interest payments on inflation-indexed bonds and on debt owed to the central bank differs from that in GFSM 2001. The authorities also reformed the budgetary classification and introduced a new functional classification of expenditures in line with GFSM 2001. In the second stage of the deployment of GFSM 2001, which is ongoing, the government is working toward developing estimates of consumption of fixed capital and fully consistent opening and closing balance sheets. Preliminary versions of these balance sheets could be ready by end-2005.
4. The government has increased the provision of information on extrabudgetary transactions. This includes the publication of information on extrabudgetary transactions going back to 1987. The information is presented in the GFSM 2001 format, both separately and consolidated with the information for the budgetary accounts of the central government.

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<sup>1</sup> The fiscal ROSC is available at <http://www.imf.org/external/pubs/ft/scr/2003/cr03237.pdf>.

As a result of these changes, fiscal statistics now show more clearly the evolution of the flows into and out of the copper and oil stabilization funds.

5. In particular, information on the relevant transfers from the state copper company (CODELCO) earmarked for the military have been, since October 2003, shown in the fiscal statistics as extrabudgetary operations, an innovation that had been foreshadowed in the original ROSC. By the time the ROSC was issued, the legal basis for providing this information had been put in place, but the details on the data to be published were still to be defined and no information had been published yet. The official data now provided show the amounts transferred and their use to cover primary and interest expenditures, amortization payments, and net additions to related cash balances. However, the data on the stock of military debt associated with the Reserved Copper Law continues to be unavailable.

6. The adoption of GFSM 2001 permits the use of a simpler procedure to go from the GFSM 2001-based official balance to the structural balance. The *Report on the Public Finances 2004* explained this and other methodological changes in detail. The rule the government has been following, consisting of targeting a structural surplus of 1 percent of GDP, has until now had an informal character. At the time of preparing this update, the authorities were considering whether to incorporate some aspects of the rule in a draft law, but no decision had been made.

7. The *Report on the Public Finances* (which accompanies the submission of the budget to Congress) included chapters on tax expenditures and contingent liabilities in 2003 and 2004. The reports themselves explain that the publication of tax expenditures estimates is a constitutional obligation. The chapters on contingent liabilities include annual projections of the cost of minimum pension guarantees, and estimates of the present value of the expected fiscal costs of the future operation of all of the public-private partnerships (“concessions”) which were in place as of the date of publication. The reports include a brief description of the methodology used for making this calculation. In addition, the *Report* for 2005 featured a thorough analysis of fiscal risks, using internationally accepted methodologies, including severe stress tests. The submission to the legislature of this report, which should include medium term projections, is required by the State’s Financial Management Law.

8. The government has discontinued the practice of maintaining idle treasury balances at Banco Estado. Now treasury balances kept there receive a fair yield based on a policy of investing in liquid instruments traded in the secondary market. The Banco Estado has developed new products and services that have proven profitable, which has helped it offset the loss of the implicit subsidy. The government has been amortizing ahead of schedule its debt to the Central Bank.

9. The implementation of the financial information management system (SIGFE) is quite advanced, having been installed and tested in 75 percent of the entities that make up the central government. Full deployment is expected for early 2006, which represents a small

delay relative to original plans. SIGFE will allow close monitoring of expenditure commitments.<sup>2</sup>

10. The coverage of electronic filing for income taxes reached 96 percent during the 2005 filing season. The Internal Tax Service has recently launched the “electronic invoice”, which integrates more closely the VAT with business-to-business transactions. The draft law establishing first-round appeal tribunals independent of the tax agencies had not been approved yet at the time this update was prepared.

### **III. IMF STAFF COMMENTARY**

11. As indicated already in the original ROSC, Chile has achieved a high degree of transparency in its fiscal operations. Since the publication of that report, the country has continued to make significant improvements in this area. It is worth highlighting the advances in the introduction of GFSM 2001, the follow through on commitments to disclose some of the extrabudgetary transactions related to military spending financed by transfers from the state copper company, the advance in the implementation of the financial management system, the reduction in quasi-fiscal activity in relation with the Banco Estado, and the continuing efforts to facilitate taxpayer compliance. One of the main issues raised in the original ROSC which remain outstanding is the disclosure of information on defense-related debt under the Reserved Copper Law.

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<sup>2</sup> SIGFE has the following modules: budget, program execution, commitment, accounting, and treasury.