

2. Institutional characteristics of Chilean budgeting

2.1. A historically centralised budget process focused on ensuring fiscal sustainability

Chile has a good reputation with regard to its fiscal responsibility, budget surpluses and macroeconomic stability. However, this has not always been the case. Prior to 1986, Chile had recurrent budget deficits. Fiscal sustainability in Chile has been achieved by concentrating the capacity to propose and increase public expenditure in the hands of the President, and reducing the role of the Congress. This was the result of a long process of concentration of fiscal powers in the hands of the executive, which took place from the 1943 Constitution reform which gave the Executive the initiative of new public expenditure, before a 1970 law made proposing new expenditure an exclusive prerogative of the President of the Republic (Box 2).

Box 2. Historical concentration of fiscal powers in the executive

Historically, the Congress enjoyed a very strong role in the budget process in Chile. Starting in the 1830s, the Congress began to exert an ever-greater role, and when the President tried to circumvent the budgetary powers of the Congress in the late 19th century, a civil war ensued. Those allied with the Congress emerged victorious in the Civil War of 1891, and the primacy of the Congress was confirmed in budgetary affairs and in general vis-à-vis the executive. The Congress, however, did not use its powers in a responsible manner, and it is generally believed in Chile that the Congress is always inclined to increase expenditure and budget deficits. A long series of reforms was therefore undertaken to reduce the capacity of the Congress to propose expenditure, concentrating budgetary powers in the hands of the executive, and in particular, of the President.

The role of the Congress diminished steadily, starting with the 1925 Constitution which created a Presidential regime. In 1943, a constitutional reform gave the executive the initiative of new public expenditure. However, this was still considered insufficient, and after several failed attempts, the constitution was again amended in 1970 (i.e. prior to the military government), to give exclusive initiative to the President of the Republic to propose increases to the General Budget Law, and other crucial initiatives for ensuring fiscal sustainability.

Source: Arellano, 2006.

Fiscal Sustainability was further reinforced by the military government in 1975 with the new Financial Administration Law, which concentrates all the power of controlling revenues and expenditures in the Ministry of Finance. These laws also integrated revenues and expenditures of all public agencies into the budget of the state and eliminated nearly all revenue earmarks. Interestingly, the military itself was exempt from the law.

The new Constitution of 1980 confirmed and reinforced these features, giving the President full responsibility and power over the financial administration of the State. This responsibility is delegated by the President to the Ministry of Finance, and in particular to the Budget Office, DIPRES, for its implementation (Box 3).

In particular, the Financial Administration Law stipulates that the Ministry of Finance and the DIPRES are in charge of designing, discussing and executing the budget. The role of DIPRES in the budget process is stronger in Chile than in most other OECD countries. In particular, the balance of power between the sectoral units that shadow respective line ministries and line ministries is in favour of DIPRES, and the ability of DIPRES to reallocate

Box 3. The Budget Office (DIPRES)

The Budget Office is an agency of the Ministry of Finance and is headed by the Budget Director. Although formally reporting to the Minister of Finance, the Budget Director is appointed directly by the President who may dismiss him/her at any time. The position of Budget Director is generally viewed as the equivalent of a senior ministerial position in the Chilean government.

In 2016, the Budget Office staff numbered 432 (including temporary staff). It is divided in a Budget Sub-Directorate (*Subdirección de Presupuestos*), which consists of the classic sectoral divisions shadowing respective spending ministries, a Sub-Directorate for Rationalisation and Public Service (*Racionalización y Función Pública*), in charge of economic studies, statistics and long-term budget studies, and four divisions: Public Management Control (*Control de Gestión Pública*), Public Finances (*Finanzas Públicas*), Internal Administration (*Gestión Interna*), and Information Technologies (*Tecnologías de la información*).

Source: DIPRES.

appropriations during the year is great. The role of Congress is on the contrary quite limited, as Congress cannot increase or reallocate expenditure. All public debt must be authorised by the Ministry of Finance, including for publicly owned enterprises, and municipal debt is prohibited unless specifically authorised by a law.

2.2. A Structural fiscal rule

Chilean fiscal policy has operated on a structural budget balance rule since 2001, aiming to ensure fiscal sustainability while allowing counter-cyclical policy actions. The 2006 Fiscal Responsibility Law defines the target of the structural balance as “the balance that the central government would have achieved if the economy was operating at potential, excluding the effect that the cyclical fluctuations in economic activity, the copper price, and other factors of similar nature, may have on the government revenues and expenditures” (Figure 8).

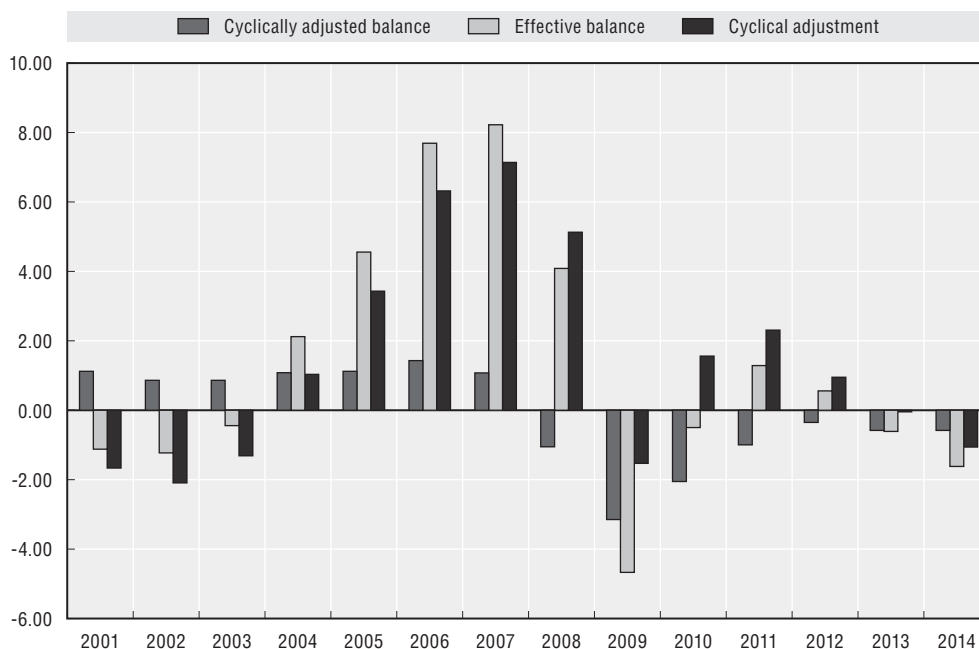
Under the fiscal rule, when the economy is performing above its long-term trend, the government should run a nominal surplus, and when the economy is performing below this trend, the government can allow a nominal deficit. This is conducted through the Economic and Social Stabilisation Fund, described in the next section. As a consequence, public expenditure is not defined taking into account the effective revenue of the government but the structural revenues, also known as cyclically adjusted revenues. The evolution of the fiscal rule and recent evolution of structural balance targets are studied in more detail in Section 3.

Key structural indicators used in the fiscal rule are calculated by two independent panels

Chile designed a mechanism very early on to ensure the independence of the two main inputs used to calculate the structural balance: the trend GDP growth and the evolution of the copper price.

In the first year of implementation (2001), the government created a panel consisting of experts to provide independent, technical inputs to estimate the effect of the economic cycle on tax revenue (the “output gap” panel). A year later (2002), the government created a similar panel to estimate the long-term price of copper (the “copper price” panel). These inputs are then used by DIPRES to calculate the structural GDP and the output gap.

Figure 7. **Cyclically adjusted balance, effective balance and cyclical adjustment (2001-14)**



Note: From 2001 to 2010 figures use 2003 national accounts, from 2011 to 2014 figures use 2008 national accounts.
Source: DIPRES, 2015b.

The “output gap” panel consists of about 15 economists appointed by the Minister of Finance for one year at a time. The same economists are generally re-appointed. The panel members are most often well-known economists from academia and research bodies, and a balance is kept between economists identified with the opposition political parties and with the ruling parties. The panel meets once during the budget season. The panel discusses methodological aspects of the model used. Then, each member of the panel submits a forecast for the various inputs required by the model. Each of the estimates is published anonymously so that each forecaster recognises his/her own. The two extremes on either side are discarded and then a simple average of the remaining forecasts is used. There is no discussion to achieve a consensus among panel members.

The “copper price” panel also consists of about 15 individuals appointed in the same fashion by the Minister of Finance. They are employees of mining companies and related enterprises, as well as academics and researchers. This committee estimates the average long-term (ten-year) price for copper as the reference price. Each panel member submits an estimate which is published anonymously. The two extremes are discarded and a simple average of the remaining forecasts is used. No consensus is sought. In most cases, panel members also send minutes and reports to support their projections.

2.3. Two Investment Funds: The Pension Reserve Fund and the Economic and Social Stabilisation Fund

The Pension Reserve Fund (PRF)

Since 1981, Chile replaced its pay-as-you-go public pension system with a private pension system. This new system aimed to be fully-funded based on individual savings that workers accumulated during their working lives. It is compulsory for all wage and salary

workers and involves the payment of 10% of gross earnings as a mandatory contribution (an additional fee ranging from 0.47% to 1.54% is charged by the pension fund manager). Individuals must select a private pension fund from a number of private companies known as pension fund managers (*Administradoras de Fondos de Pensiones*, AFPs), which are in charge of collecting the contributions and managing them.

This private pension system has been praised for providing a great amount of capital for domestic investment and reducing pressures on the public budget. However, contributions collected were lower than expected and a significant number of citizens were not entitled to receive a pension under the private pension system. The government was therefore obliged to finance poverty prevention programmes that placed pressure on the budget and these would grow significantly over time with demographic changes. The 2006 Fiscal Responsibility Law introduced a fund to finance these. In 2008, poverty prevention programmes were replaced with a new scheme of old-age and disability pensions. Under the new programme, all individuals in the lowest six deciles of income distribution who fulfil the age and residence requirements are entitled to a guaranteed basic pension regardless of their contribution history.

The Pension Reserve Fund was established with an initial contribution of USD 604.5 million. Its objective is to support financing government obligations arising from the government's guarantee to basic old-age and disability solidarity pensions. Accordingly, this fund serves as a supplementary source for the funding of future pension contingencies.

The Pension Reserve Fund's capital increases each year by an amount equivalent to 0.2% of the previous year's gross domestic product (GDP). If the actual fiscal surplus exceeds 0.2% of GDP, the Fund receives a contribution equivalent to said surplus, up to a maximum of 0.5% of GDP. This accumulation rule allows for new resources to be allocated to the fund in any given year regardless of the fiscal situation facing the country each year. The Pension Reserve Fund market value was USD 8.53 billion in March 2016.

The Economic and Social Stabilisation Fund (ESSF)

This fund was established with an initial contribution of USD 2.58 billion, much of which (USD 2.56 billion) was derived from the old Copper Stabilisation Fund that it replaces. The Fund aims to complement the fiscal rule, providing fiscal spending stabilisation. Indeed, it reduces dependency on global business cycles and revenue fluctuations due to copper price volatility by allowing government to draw from the Fund to finance fiscal deficits and amortisation of public debt.

The Fund receives each year the positive balance resulting from the difference between the effective fiscal surplus from the previous year and the contributions to the Pension Reserve Fund and to the Central Bank of Chile, discounting the payment of public debt and advances made the year before (Figure 7).

Since its creation, the ESSF has received contributions in 2007, 2008, 2010, 2012 and 2013. Some partial withdrawals have been made to finance the 2009 fiscal stimulus plan and to finance part of the contributions to the Pension Reserve Fund in 2010 and 2014 (Table 1). The ESSF's market value was USD 14.70 billion in March 2016.

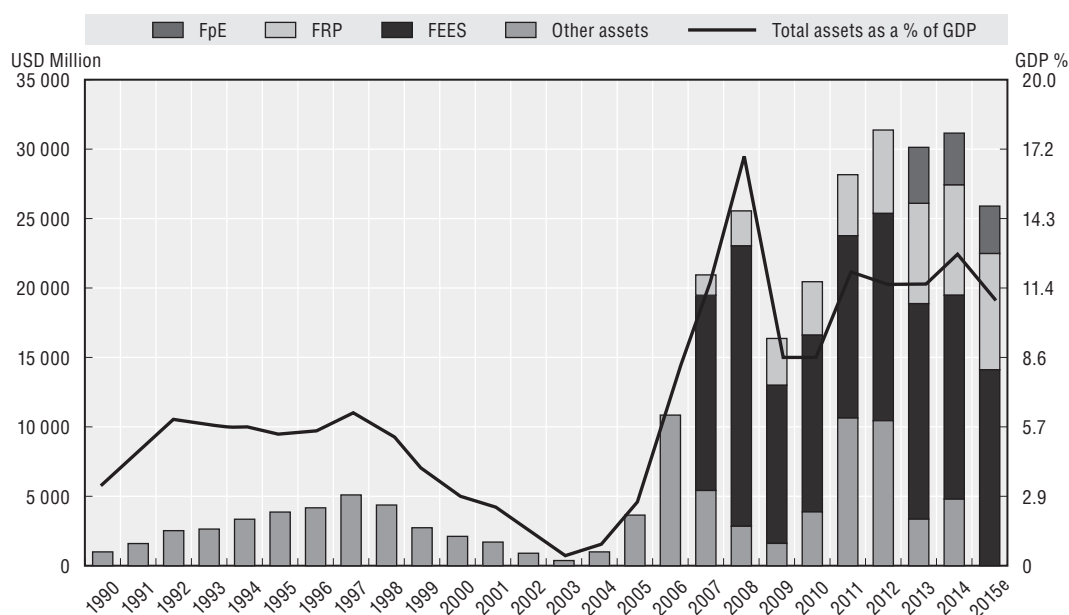
2.4. Actors involved in the budget process

Chile has a strong top-down budgetary process led by the Budget Office of DIPRES (Box 3). Line ministries and some independent councils and committees participate in the

Table 1. **ESSF's Contributions and withdrawals**

USD million		
Year	Contribution	Withdrawals
2007	13 100	–
2008	5 000	–
2009	–	9 278
2010	1 362	150
2011	–	–
2012	1 700	–
2013	603	–
2014	–	499
2015	–	464
Total	21 766	10 391

Source: Chile Ministry of Finance, 2014a (Sovereign Funds Annual Report).

Figure 8. **Public financial assets**

Source: DIPRES, 2015a.

budget cycle but most budgetary responsibilities and tasks are centralised in the Budget Office (Table 2). The power of the sectoral units within DIPRES – which “shadow” individual sectoral ministries is particularly strong, both during the budget formulation and budget implementation. Although the role of the Congress has increased in the last decade, it is still very limited compared with most other OECD member countries.

One particularity of DIPRES compared to most departments in other ministries in Chile is the stability of their staff. While in line ministries, there is a large turnover of staff with changes of government, staff in DIPRES are very stable during changes of government. This further increases the effective power of DIRES vis-à-vis line ministries and is often used as an argument for concentrating decision making power in the hands of DIPRES.

Table 2. **Actors involved in the budget process**

President of the Republic	<ul style="list-style-type: none"> ● Sets fiscal targets ● Presents the budget bill to the Congress
Ministry of the Presidency	<ul style="list-style-type: none"> ● Sets government priorities according to the government programme and fiscal context
Ministry of Finance (other than DIPRES)	<ul style="list-style-type: none"> ● Specifies the calendar for the budget law ● Forecasts tax revenues, tax expenditure, fiscal risks and interest rate, aligned with central bank guidelines (joint work with DIPRES)
DIPRES	<ul style="list-style-type: none"> ● Carries out macroeconomic assumptions for the budget parameters based on information provided by the "copper price panel" and the "output gap panel" ● Forecasts tax revenues, tax expenditure, fiscal risks and Interest rate, aligned with central bank guidelines (joint work with Ministry of Finance) ● Calculates spending limit in line with Presidential fiscal targets and macroeconomic assumptions ● Updates expenditure baselines ● Prepares detailed budget formulation instructions for line ministries ● Discusses sectoral allocations with line ministries ● Drafts budget bill ● Advises the Ministry of Finance during the budget debate carried out in the Congress ● Prepares the public finance report ● Sets annual rules for budget execution ● Proposes a budget execution programme to the Minister of Finance and drafts an expenditure programme defining expenditure levels and priorities ● Carries out programme evaluations supported by external evaluators ● Carries out <i>ex ante</i> evaluations of non-social programmes
Line Ministries	<ul style="list-style-type: none"> ● Prepare the relevant chapters of the budget law, following the precise and detailed instructions of DIPRES ● Discuss sectoral allocations with DIPRES ● Define indicators to monitor performance ● Execute the budget
Ministry of Social Development (MDS)	<ul style="list-style-type: none"> ● Carries out <i>ex ante</i> evaluations of social programmes ● Carries out <i>ex ante</i> evaluations of investment projects which require state funding to determine their social profitability
The "output gap panel"	<ul style="list-style-type: none"> ● Forecast the various inputs required to estimate the output gap
The "copper price panel"	<ul style="list-style-type: none"> ● Estimates the average long-term (ten-year) price for copper as the reference price
Fiscal Advisory Council	<ul style="list-style-type: none"> ● Participates as an observer in the "output gap" and "copper price panels" ● Provides advice to the Ministry of Finance regarding the cyclically adjusted balance rule ● Assesses eventual methodological changes to the rule proposed by the authorities ● Verifies mid-term projections of structural results included in the public finances report
Congress (special mixed commission)	<ul style="list-style-type: none"> ● Approves the budget law ● Follows budget execution
Comptroller-General	<ul style="list-style-type: none"> ● Pre-approves all transactions to ensure legality ● Publishes information on budget execution ● Carries out monitoring and evaluation ● Prepares "citizen friendly" publications on expenditure and programmes.

Source: DIPRES Website, Decree-Law 1263 (Organic Decree-Law for the Financial Administration of the State), Law 20128 (Fiscal Responsibility Law) and Political Constitution of Chile.

2.5. Budget calendar and process

Budget timeline

The timeline of the Chilean budget process is as follows: Formulation (April to September), discussion/approval (October to December), execution (calendar year) and evaluation (March to May) (Table 3).

Review of previous year's execution and evaluations

The budget formulation process is a top-down process driven by DIPRES. The budget season in Chile starts in April (Table 3). DIPRES then embarks on an internal process of reviewing the execution of the previous year's budget and evaluates the implementation of the budget into the current year. As part of these reviews, DIPRES calls meetings with the

Table 3. **Budget timeline**

April	● Review of previous year's execution and evaluations
April-May	● Baselines update
June	● Maximum amounts for ongoing programmes established ● Instructions sent from DIPRES to line ministries
June/July	● Line ministries prepare relevant chapters of the budget law ● Bilateral meetings between Budget Office and line ministries ● Meetings of panels on economic assumptions ("output gap" and "copper price" panels)
July-August	● The budget sectors (DIPRES) study the drafts sent by line ministries ● Technical commissions composed of officers from DIPRES and representatives from line ministries discuss the draft
End August	● Technical commissions present the budget bill to the Director of DIPRES and to the Finance Minister
August/September	● Copper and GDP panels issue their estimations
Early September	● The Finance Minister discusses the Budget draft with the President
End September	● Final preparation of documentation and pricing
Last day of September	● Budget proposal presented to the Congress
October-November	● Discussion of the budget Bill in the Congress
Last day of November	● Approval
December	● DIPRES prepares the budget execution programme
January	● End of the Budget year (t-1)
March-May	● Budget evaluation (t-1)

Note: Fiscal year = calendar year.

respective line ministries in order to exchange information. These reviews include an assessment based on the information provided by the evaluation process performed during the last phase of the previous budget cycle.

Updating baselines and setting sectoral ceilings

Following these reviews, DIPRES updates the baselines for on-going programmes which then serve as their initial expenditure ceilings. This amount includes a provision for wage settlements (as the negotiations finalise in December after the budget is approved), all expenditures that are mandated by law or contracts and discretionary spending that is judged as continual by its nature. This may include increased expenditures for initiatives that have been established in previous years and are being phased in. The expenditure ceilings are formulated by DIPRES in early June and are then officially communicated to line ministries.

Taking into account the ceilings and the detailed and precise instructions sent by DIPRES, line ministries prepare their submissions and relevant annotations (*glosas*). The use of annotations has increased significantly since the 2004 budget review exercise. This will be further discussed below.

Calculation of the structural (cyclically adjusted) revenues and total expenditure ceiling

Parallel to this process, the independent "output gap" and "copper price" panels meet in June/July to calculate the inputs of the structural budget balance (called cyclically adjusted balance since 2011). In August, this information is made public. Based on their conclusions, DIPRES calculates the structural (or cyclically adjusted) revenues and determines the overall level of resources available for the coming year in August/September. This information is published in October.

Defining sectoral allocations

Between July and August, DIPRES' sectoral units study the drafts presented by line ministries and prepare reports that are later presented to the Director of DIPRES and then to

the Minister of Finance. Extensive discussions will have taken place with the relevant line ministries during this time. After this internal process is concluded (around the first week of September), a draft budget law is presented to the President for his/her approval. The Ministry of Finance then communicates the final presidential decision to line ministries.

Finalising budget bill and submitting it to the Congress

The last step of the budget formulation process is for DIPRES to revise the annotations, finalise the budget documentation and put the budget on the appropriate price level, as all discussions would have taken place on the previous year's budget price levels. DIPRES also produces supplementary documents presenting additional information on performance and results for each of the 26 sectors of the government.

At the latest, the budget bill must be submitted to the Congress on the 30th of September.

2.6. The budget law

The Chilean budget law is divided into 27 portfolios (*partidas*), which correspond to the Ministries and the Treasury. Each portfolio is divided into chapters (*capítulos*), and each chapter is divided into programmes (*programas*) (Box 5). Programmes are usually followed by a large amount of annotations (*glosas*), which specify how the funds are to be spent.

Budget annotations (Glosas)

Chile's budget law has a significant number of annotations (*glosas*), which provide detailed instructions on how the funds are to be spent. Annotations are usually set by DIPRES. In some cases, they have been criticised for being used as a fast track legislative tool to introduce politically sensitive legislations (see more about this in Chapter 4).

Box 4. Characteristics of Chile's 2015 Budget Law

- Published on 6 December 2014.
- Projected total central government revenues: 33 356 904 CLP (21.3% of GDP).
- Projected total central government expenditure: 36 391 119 CLP (23.3% of GDP).
- Almost 800 pages.
- 26 portfolios (*partidas*).
- Almost 200 chapters (*capítulos*).
- More than 500 programmes (*programas*).
- More than 4000 budget lines (*ítems*).
- More than 2000 annotations (*glosas*).

Source: Law No. 20.798 2014.

3. Ensuring fiscal sustainability

3.1. An evolving structural fiscal rule

Since its introduction in 2001, the fiscal rule has been adjusted in terms of its base, targets, methodology, and institutional framework. Initially, the rule was based on a high-profile political commitment. It was only until 2006, with the adoption of the Fiscal Responsibility Law (FRL), that the implementation of the structural balance rule was supported by legislation.

The Fiscal Responsibility Law does not define a budget balance target. When taking office, the President defines the structural balance target for his/her administration. The President has to adopt, within 90 days of taking office, a “decree defining the fiscal fundamentals of his/her administration and the expected impact on the structural balance”. From 2001 to 2007, the government agreed on a structural surplus of 1% of GDP. The target of 1% surplus was mainly linked to the Central Bank recapitalisation process (Box 5), the exchange rate risk, and the existence of liabilities from concession contracts and the pension system. In 2008, this target was reduced to 0.5%, due to the evolution of these conditions and following the recommendations of an independent study. In 2009, it was reduced to zero to confront the consequences of the international economic crisis.

Box 5. Capitalisation of the Central Bank

The Chilean Central Bank suffered a strong deterioration of its capital situation, as a consequence of the 1982 financial crisis and the political decision then taken to rescue the banks, using mechanisms which implied a strong subsidy

To help improve the Central Bank’s financial situation, the Fiscal Responsibility Law stipulates that, for the first five years of application, if the effective surplus is higher than 0.5% of GDP, the government can spend up to 0.5% of GDP for recapitalising the Central Bank. This prerogative was used in 2006, 2007 and 2008. Despite the improvements achieved with this capitalisation measure, the capital balance continues to be negative.

Source: DIPRES (2010) and OECD (2011b).

The Fiscal Responsibility Law not only institutionalised the rule. It also authorised the re-capitalisation of the Central Bank (Box 5). It created two investment funds to manage fiscal surpluses: the Economic and Social Stabilisation Fund (ESSF) and the Pension Reserve Fund (PRF). Finally, it obliges the government to provide information on contingent liabilities and DIPRES must inform annually on the total amount and characteristics of state guarantees. Given the size of contingent liabilities, these are taken into account when calculating the structural balance target.

A “second generation” fiscal rule (2011)

In 2010, the government appointed an independent commission of eminent economists and policy makers, known as the Corbo Commission, to advise on how the fiscal rule could be improved the fiscal rule (Box 6). This process led to several changes in the fiscal rule – which became known as the “second generation” fiscal rule. In particular, the creation by law of an independent Fiscal Advisory Council – which is discussed below, the term “structural balance rule” was also replaced by “cyclically adjusted balance rule”.

Latest reforms of the fiscal rule (2015)

In 2015, the government introduced two additional changes to the cyclically adjusted balance rule. First, it simplified the calculation of the adjusted balance indicator, by eliminating the adjustment for the molybdenum income.¹ Second, it decided to use the inputs calculated by the independent panels to update the cyclically adjusted balance for the current year (before the reform, the inputs of the independent panels were only used to estimate the indicators for the budget of the following fiscal year).

Box 6. Key Recommendations of the Corbo Commission

Based on the recommendations proposed by the Corbo Commission, the Budget Office, DIPRES, presented the main elements of the second generation fiscal rule. The most relevant are:

- The term “structural balance rule” will be changed to the “cyclically adjusted balance rule” to better reflect its purpose. It will only be adjusted for cyclical incomes derived from GDP and from the price of copper and molybdenum.
- Other changes in incomes due to one-off factors will not be adjusted for.
- No cyclical adjustments will be made on interest gains on government assets. No adjustment will be made to “other incomes”.
- The long-term price of molybdenum will be estimated on the basis of a moving average of the actual price for the last seven years.
- The rule will be calculated on the basis of the global balance of the central government.
- Formal mechanisms must be created to ensure an *ex post* compliance of the rule. A section will be incorporated into the annual report on evaluation of the financial performance of the public sector describing the impact of adjustments and deviations from initial projections in the established policy targets.
- An independent fiscal council is to be created aiming to improve the quality of the methodology and the estimates to compute the cyclically adjusted balance.

While this adjustment allows for better comparability between structural balances of different years, it could also increase the variability of the cyclically adjusted balance and the public expenditure for the current year, which could lead to adverse macroeconomic effects.

Recent evolution of structural balance targets

Following the crisis, the government declared its intention to move back to sustainable fiscal settings over the medium term. At the beginning of 2011, President Sebastian Piñera set a medium-term objective of achieving a structural balance by the end of his term in 2014. Taking into account that the initial deficit was larger than expected, this initial target was revised and a new objective was set to achieve a 1% structural deficit by 2014.

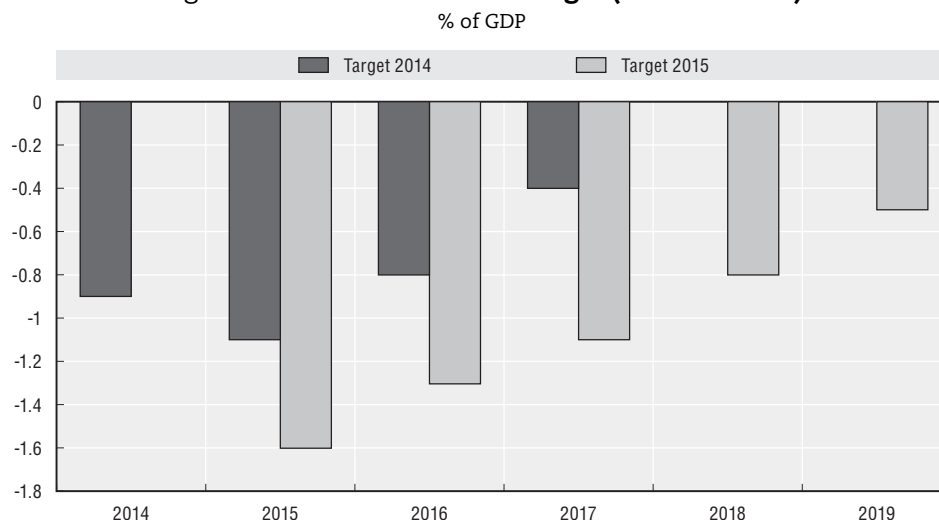
In a similar way, at the beginning of her term in 2014, President Michele Bachelet set a target of 0% deficit by 2018. However, given the macroeconomic circumstances, in 2015 the government postponed the objective, with a plan to gradually reduce the structural deficit by approximately 0.25 % of GDP per year, and aiming to achieve a structural deficit of 0.8% by the end of 2018 (DIPRES, 2015a) (Figure 9).

3.2. Fiscal Advisory Council

The Chilean Fiscal Advisory Council was created in 2013, following the recommendation by the Corbo Commission (Box 6). Its main mandate is to discuss, analyse and provide recommendations to the Ministry of Finance and the Budget Office, DIPRES, in matters related to the application of the cyclically-adjusted balance rule to the budget.

Specifically, the Fiscal Advisory Council has the following functions:

- Participate as an observer in the output gap and copper price panels;

Figure 9. **Structural balance target (2014 vs. 2015)**

Source: DIPRES, 2015a and Chile Ministry of Finance, 2014b.

- Verify that the mentioned variables are correctly reflected in the rule and its implementation, and takes position about the estimation of the cyclical adjustment to government revenue and balance prepared by DIPRES;
- Provide advice to the Ministry of Finance on specific aspects regarding the cyclically adjusted balance rule;
- Assess eventual methodological changes to the rule proposed by the authorities; and
- Verify mid-term projections of structural results included in the public finances report. The Fiscal Advisory Council issues minutes and press releases of all meetings and assessments carried out.

The Fiscal Advisory Council is composed of five members appointed by the Minister of Finance for terms of four year. They can however be replaced at any time. Members are typically academics and are not paid. It has no professional staff.

3.3. Other mechanisms for ensuring fiscal sustainability

Strong political commitment to fiscal sustainability

The political commitment towards fiscal sustainability is particularly strong in Chile, and while Presidents are free to set the fiscal target they like, they tend to be rather conservative. In addition, recent history has shown that Presidents (of different political affiliations) have not hesitated to postpone priorities or reduce their scope to accommodate for lower than expected revenues or catastrophic expenditure. For example, newly elected President Piñera changed his government programme to accommodate higher spending needs due to the 2010 earthquake, rather than absorbing this unexpected spending by increasing the deficit. In the same vein, President Bachelet had promised free education for all and is implementing a tax reform to finance this. But given the recent and foreseen structural slowdown in copper prices and economic growth, this promise has been reconsidered to only free education for the poorer 50% of the population.

Costing of new laws by DIPRES

Any new law submitted to Congress and which is expected to require funding must previously be costed by DIPRES, taking into account the medium-term financial implications

of the law. These costings are very influential given Chile's political culture in regard to fiscal responsibility.

Contingency reserve and in-year adjustments

The budget incorporates a contingency reserve. The amount of this reserve has been as high as 7.8% of total expenditures. The purpose of the contingency reserve is to fund legislation that the Congress may enact after the introduction of the budget. In particular, salary increases for government employees are finalised after the enactment of the budget in late December each year.

If financial conditions deteriorate during the year, DIPRES can unilaterally impose spending reductions and/or re-allocate funds between programmes. There is no need for Congressional approval for such in-year adjustments.

Control of Ministry of Finance over public borrowing

All debt issued by a public entity in Chile must be previously approved by the Ministry of Finance. The Ministry of Finance has full control over borrowing by public entities, including state owned enterprises and regional governments. Municipalities have budget autonomy, but need Congressional approval for borrowing, which implies approval by the Ministry of Finance as only the Executive can present laws. Finally, contingent liabilities (state guarantees) must be authorised by the Ministry of Finance. Since 2006, these are gathered in a register of contingent liabilities.

3.4. Recommendations on ensuring fiscal sustainability

The structural fiscal rule has been quite successful in smoothing public expenditure across the cycle, by forcing the government to save revenues due to cyclical upturns (such as high copper prices). Conversely, the government was able to draw from the ESSF Fund to finance a fiscal stimulus plan in 2009. The structural balance rule has also been quite successful in limiting budget deficits during short downswings, with the government taking immediate measures to counterbalance unforeseen reductions in revenues.

However, this strong emphasis on fiscal sustainability may come at the price of flexibility, which would be needed now that Chile is facing what seems to be the twin challenge of rising citizens' expectations and a longer-term slowdown in revenues, due to lower economic growth and a strong fall in copper prices. Changes in the fiscal targets and adjustments to the methodology for calculating the structural balance are frequent. For example, adjustments for molybdenum prices were included in the formula in 2005 and removed in 2015, adjustments for specific mining taxes were included in the formula in 2006 and modified in 2007, adjustments for the revenues of fiscal assets were included in the formula in 2008, and adjustments for other revenues were included in the formula in 2009). These changes may reflect the difficulties of calculating a structural balance, and the need of increasing room for manoeuvre to overcome economic slowdowns.

Allow for clear escape clauses rather than modifying the target

In recent years, with the worsening of the economic situation, the fiscal target has been modified to accommodate the desired contra-cyclical policy. In the long term, this may reduce the credibility of the fiscal rule. It may be more desirable to have a stable fiscal target and clear escape clauses during downturns, than to change the fiscal target according to the economic situation. Such escape clauses should clearly specify the conditions under which

they can be triggered and require for the government to submit a plan on how to go back to the fiscal rule. In OECD countries which use such systems, these plans can either take the form of political commitments, or be also enshrined in legislation.

There are different reasons why countries establish fiscal rules. In some countries, which have long traditions of running fiscal deficits (even during good economic times), fiscal rules aim to limit these deficits and increase fiscal credibility. Fiscal rules are very often used in federal countries or monetary unions, to ensure policy co-ordination on public deficits and debts with sub-national governments or member countries (for example, the Maastricht rules in Europe, or the Fiscal Pact in Germany). Other countries implement fiscal rules to secure public savings and unlink public expenditure growth from cyclical variations (for example those due to the price fluctuations of natural resources).

In the case of Chile, one of the main objectives of the structural fiscal rule is to separate public expenditure growth from the cyclical variations of natural resources prices (in particular copper), and ensure that savings are carried out during booms, so that public expenditure does not need to be cut during slowdowns. Allowing for an escape clause during downturns would not threaten this objective and would increase transparency and predictability during downturns. Germany for example allows for limited exceptions to its debt brake rule (Box 7).

Box 7. Germany's Debt Brake rule

Prior to 2009, Germany's fiscal policy course was influenced by a long-standing constitutional requirement that "revenue obtained by borrowing shall not exceed the total of investment expenditures provided for in the budget" subject to exceptions "to prevent a disturbance of the overall economic equilibrium". The rationale for such a "golden rule" was that capital investment should promote economic capacity and thereby increase the serviceability of debt. Over the decades, however, the rule proved ineffective at slowing the build-up of debt or of dampening pro-cyclical fiscal policy.

In 2009, on the basis of groundwork by the Federal Ministry of Finance and a proposal by the Federal Commission, the proposal to replace the golden rule with a debt brake was approved by the German parliament and enshrined in the Constitution. The avowed objectives were to improve the sustainability of the national finances with strengthened fiscal co-ordination among federal and *Länder* levels while providing flexibility to deal with cyclical and demographic challenges. The core elements of the debt brake are as follows:

- **Balanced budgets:** Both the federal and *Länder* governments must balance revenues with expenditures in their budgets, as a fundamental principle. In normal economic circumstances (i.e. when the output gap is closed), "balance" is assumed to be met for the federal government when net borrowing does not exceed 0.35% of GDP. (This is approximately a threefold reduction in the latitude for borrowing, as compared with the former golden rule.) There is no such latitude in normal times for the *Länder*.
- **Symmetrical adjustments over the economic cycle:** Automatic stabilisers will operate freely and fully over the cycle. In other words, cyclical deficits may be run in a downturn, and cyclical surpluses must be run in an upturn. The technical determination of the stage in the economic cycle is handled in line with EU methodologies, and is dealt with (for federal purposes) under an Act and a technical ordinance. The *Länder* make their own implementation arrangements.

Box 7. **Germany's Debt Brake rule** (cont.)

- **Underlying, not artificial, budget position:** “Financial transactions” within government, such as the sale of an asset yielding one-off revenues, must be netted off from the figures so that the true underlying budget position is used.
- **Control and Correction:** Deviations, either positive or negative, from the permissible borrowing amount that arise during budget implementation are not simply forgotten about: They are booked to a standing “control account” which must be balanced over time. (Deviations arising from unanticipated cyclical changes are not so booked: it is assumed instead that these issues will be covered through re-calculated automatic stabilisers.) Redemption of the control account is required once it reaches 1% of GDP; however, to limit pro-cyclical effects, redemption may be deferred during a downturn, and is in any event capped at 0.35% of GDP even during an upturn.
- **Limited exceptions:** Additional borrowing is allowed to deal with natural disasters and exceptional emergencies beyond state control, and with severe consequences for the public finances. A majority of Bundestag members must ratify any such decision, along with an amortisation plan to repay the borrowings “within an appropriate time period”.
- **Transitional arrangements:** Since the debt brake became effective in 2011, in the midst of the global financial crisis, additional borrowing latitude is allowed, but this must be phased out (i.e. the 0.35% limit for the federal government becomes fully effective) from 2016. For the *Länder*, the ban on structural borrowing will be fully effective from 2020 onwards.

Stabilise the methodology for calculating structural balances, and consider delegating this responsibility to an independent institution

While the projections of trend GDP and the reference (long-term) price of copper are carried out by independent committees, the methodology for calculating the cyclically adjusted GDP and balance is developed, implemented and regularly revised by DIPRES.

Variations in the methodology used to calculate the cyclically adjusted budget have been frequent in recent years, and are decided solely by DIPRES. In 2015, they were also supported by the Fiscal Advisory Council. Given the magnitude of the resulting changes in the structural balance, they have required changing the fiscal target to accommodate the new figures without incurring a severe policy change. For example, methodological changes in tax revenues and others from 2008 to 2009 had a +2.4% GDP effect on the initial year structural revenues (Marcel, 2012).

Having an independent institution responsible for the methodology – or at least, validating it – would increase the credibility of the rule. This function could be attributed to an independent Fiscal Advisory Council.

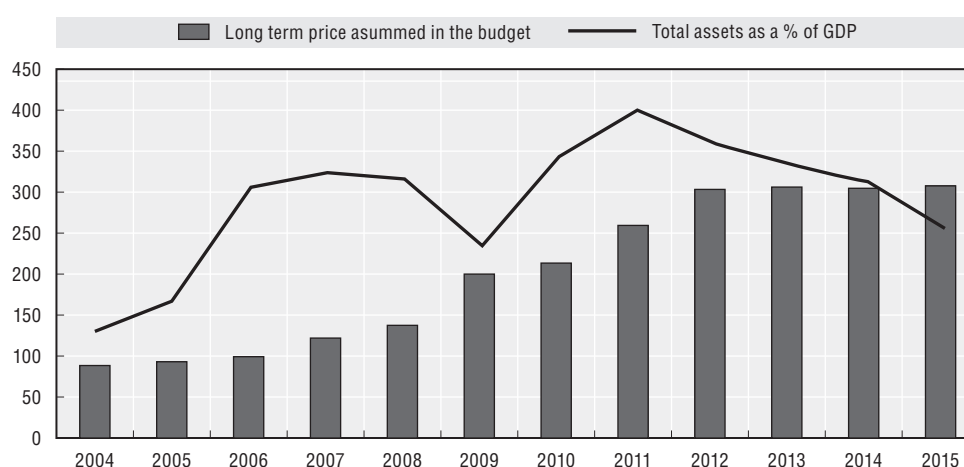
Introduce a control and correction mechanism

Today, there is no mechanism in the fiscal rule to correct for deviations, whether positive or negative, from the permissible deficit/surplus amount. Chile could envisage creating a “control account”, on the same vein as in Germany (Box 7), to keep track of deviations and compensate them in subsequent years.

Reform the Fiscal Advisory Council to ensure its independence

Recent changes in the base and methodology for the calculation of the cyclically adjusted budget balance showed how sensitive the fiscal rule is to the estimates of the structural revenues. In particular, any overestimation of the structural revenues will translate into higher expenditures and a more expansionary fiscal position (Dabán, 2010). Given the formula used to calculate the cyclically adjusted budget, any change in key parameters, such as the estimated long-term copper price (Figure 10), will have a direct effect in the cyclically adjusted balance and in the level of expenditure. Therefore, quality and precision of the estimates, and coherence between the methodology used and the objectives of the fiscal rule are key priorities.

Figure 10. Nominal copper price vs. long-term price assumed in the budget
USD Cents per pound



Source: OECD, 2015c (OECD Economic Surveys: Chile 2015).

The implementation of the recommendations of the Corbo Commission, are outstanding steps towards improving the base and calculation of the fiscal rule. However, the still very young Fiscal Advisory Council, which was established by decree, remains weak with limited institutional independence. For example, the current government replaced all members of the Council upon assuming office.

Special efforts are needed to bring the Council in line with the OECD Recommendation of the Council on Principles for Independent Fiscal Institutions (Box 8). A first step would be to establish the Council on a statutory basis. The Council's mandate should be defined in law and could be broadened to include additional tasks, such as analysis of long-term fiscal sustainability, in line with common practice in other OECD countries (see Table 4). The Council should be given sufficient resources commensurate with its mandate, in particular to hire professional staff. Mechanisms should be put in place to encourage appropriate accountability to the legislature, including submission of the Council's reports to the Congress in time to contribute to relevant legislative debate, and council members' participation in parliamentary hearings (see OECD Principles 5.1 and 5.2).

The Fiscal Responsibility Law states that the budget balance target must be set by the President at the beginning of his/her mandate. There is no counterbalancing force to this decision, so the soundness of the fiscal target depends on the soundness of only one

Box 8. OECD Recommendation Principles for Independent Fiscal Institutions

On February 2014, the OECD approved the following twenty-two Principles for Independent Fiscal Institutions (fiscal councils and independent parliamentary budget offices). The most relevant principles for the Chilean case are summarised below:

Local ownership

1. IFIs require broad national ownership, commitment, and consensus across the political spectrum.
2. Local needs and the local institutional environment should determine options for the role and structure of the IFI.

Independence and non-partisanship

3. Non-partisanship and independence are pre-requisites for a successful IFI.
4. The leadership of an IFI should be selected on the basis of merit and technical competence, without reference to political affiliation.
5. Term lengths and the number of terms that the leadership of the IFI may serve should be clearly specified in legislation as should be the criteria and process for dismissal for cause.
6. The position of head of the IFI should be a remunerated and preferably full-time position.
7. The leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws.
8. Staff should be selected through open competition based on merit and technical competence and without reference to political affiliation.

Mandate

9. The mandate of IFIs should be clearly defined in higher-level legislation.
10. IFIs should have the scope to produce reports and analysis at their own initiative, provided that these are consistent with their mandate.
11. Clear links to the budget process should be established within the mandate.

Resources

12. The resources allocated to IFIs must be commensurate with their mandate in order for them to fulfil it in a credible manner.

Relationship with the legislature

13. Legislatures perform critical accountability functions in country budget processes and the budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work.
14. The role of the IFI vis-à-vis parliament's budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation.

Access to information

15. IFI must have full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals.
16. Any restrictions on access to government information should also be clearly defined in legislation.

Transparency

17. Given that promoting transparency in public finances is a key goal of IFIs, they have a special duty to act as transparently as possible.
18. IFI reports and analysis (including a full account of the underlying data and methodology) should be published and made freely available to all.

Box 8. OECD Recommendation Principles for Independent Fiscal Institutions (cont.)

19. The release dates of major reports and analysis should be formally established, especially in order to co-ordinate them with the release of relevant government reports and analysis.

20. IFIs should release their reports and analysis, on matters relating to their core on-going mandate on economic and fiscal issues, in their own name.

Communications

21. IFIs should develop effective communication channels from the outset, especially with the media, civil society, and other stakeholders.

External evaluation

22. IFIs should develop a mechanism for external evaluation of their work.

Source: OECD (2014), Recommendation of the Council on Principles for Independent Fiscal Institutions.

Table 4. Typical functions of independent fiscal institutions

Country	Organisation	Functions					
		Analysis of long-term fiscal sustainability	Role in macroeconomic forecasts	Role in monitoring compliance with fiscal rules	Directly support legislature in budget analysis	Role in policy costing	Role in costing election platforms
Australia	PBO	●	○	○	●	●	●
Austria	Government Debt Committee	●	●	●	○	○	○
Belgium	High Council of Finance	●	●	●	○	○	○
Canada	PBO	●	●	○	●	●	○
Denmark	Danish Economic Council	●	●	●	○	○	○
Finland	National Audit Office of Finland	●	●	●	○	○	○
France	High Council of Public Finance	○	●	●	○	○	○
Ireland	Irish Fiscal Advisory Council	○	●	●	○	○	○
Italy	PBO	●	●	●	○	○	○
Korea	National Assembly Budget Office	●	●	○	●	●	○
Mexico	Centre for Public Finance Studies	●	●	○	●	●	○
Netherlands	Netherlands Bureau for Economic Policy Analysis	●	●	○	○	●	●
Portugal	Portuguese Public Finance Council	●	●	●	○	○	○
Slovak Republic	Council for Budget Responsibility	●	○	●	○	●	○
Spain	AIReF	●	●	●	●	○	○
Sweden	Swedish Fiscal Policy Council	●	●	●	●	○	○
UK	Office for Budget Responsibility	●	●	●	○	●	○
US	Congressional Budget Office	●	●	○	●	●	○
Total countries (no.)		18	18	18	18	18	18
● = Yes		16	2	12	7	8	2
○ = No		2	2	6	11	10	16
● = Other		0	14	0	0	0	0
Data not available		0	0	0	0	0	0
Total countries (%)		100%	100%	100%	100%	100%	100%
● = Yes		89%	89%	67%	39%	44%	11%
○ = No		11%	11%	33%	61%	56%	89%
● = Other		0%	78%	0%	0%	0%	0%
Data not available		0%	0%	0%	0%	0%	0%

Source: Von Trapp L., I. Lienert and J. Wehner (2016).

person. While setting the fiscal targets is seen as a political decision, they would certainly benefit from recommendations and/or approval from an independent Fiscal Advisory Council.

4. Aligning the budget with the strategic priorities of government

4.1. Including new programmes in the budget

Policy co-ordination

Funding of new programmes is mainly driven by presidential priorities. These are set out in the Presidential Programme. They are updated annually in the May 21st *Presidential Speech to the National Congress*, where the President presents what has been achieved in the past year and outlines the priorities for the coming year.

The General Secretariat of the Presidency (*Secretaría General de la Presidencia*), created in 1989, is in charge of co-ordination between ministries and with the Congress. Its main task consists of ensuring the implementation of the Presidential Programme, and in particular, ensuring the President's priorities are reflected in the budget. It is a key actor for co-ordinating multi-sectoral and multi-annual policies. It works closely with DIPRES and line ministries.

Ex-ante evaluation of new and reformulated programmes

In the year 2000, DIPRES introduced a standard form (*formato estándar*, FE) based on the logical framework, to standardise the information regarding programmes presented by line ministries during the budget process. During 2000-03, this form was made mandatory in order to request funds for new programmes, through a mechanism which was called the competitive fund (*fondo concursable*). Since 2003, the competitive fund is no longer used as such, but new and reformulated programmes must still be presented under this standard form and developed with the logical framework.

In 2008, DIPRES gave new impulse to *ex ante* evaluations of programmes applying for funds, through the creation of a division for providing technical assistance to institutions in formulating their programmes. During the 2008-10 period, the methodology was simplified and a web-based application was designed to provide technical assistance on-line. Objective criteria are established for the *ex ante* evaluation of programmes (diagnosis of problems, definition of the target population, objectives, strategy and use of funds).

In 2011, DIPRES implemented a further innovation: The “open window” *ex-ante* evaluation. This allows institutions to request and receive technical assistance as of April each year (i.e. two months before sending their formal request to DIPRES).

Since 2011, the Ministry of Social Development is responsible for implementing this *ex-ante* evaluation for social programmes, while DIPRES is still responsible for implementing these evaluations for the rest of the programmes. The Ministry of Social Development (MDS) was created in 2011, replacing the Ministry of Planning (MIDEPLAN) (Box 9). The main objective of this reform was to provide an institutional framework that guarantees co-ordination and coherence and hinder duplication of social development policy in government. Apart from strengthening social policy, the reform also aimed to increase evaluative information to allow informed decisions. Indeed, before any new social programme can go forward, it must perform an *ex ante* evaluation. In most OECD member countries, these functions are performed by the budget office.

Box 9. Ministry of Social Development (MDS)

Chile has a long history of planning, in particular in the areas of social development and social protection.

In 1990, Chile created the Ministry for Planning and Cooperation, in charge of designing national development plans, and co-ordinating policies for reducing poverty. In particular, in 2005, it was given the responsibility for creating, co-ordinating and promoting the Social Protection System in the whole country. In parallel, the Ministry of Planning started to carry out evaluations of public policies and programmes, in co-ordination with DIPRES and the Presidency.

In October 2011, the Ministry of Planning became the Ministry of Social Development (*Ministerio de Desarrollo Social*, MDS). The mission of the MDS consists of designing and implementing policies, plans and programmes for social development, with a special focus on eradicating poverty and providing social protection to vulnerable persons and groups, promoting social mobility and integration.

The MDS has two main functions: ensuring co-ordination, consistency and coherence of the policies, plans and programmes in terms of social development, both at national and regional levels; and evaluating investment projects which require state funding to determine their social profitability, and ensuring they respond to the strategies and policies of economic and social development of the country.

The MDS is divided into two sub-secretariats:

- **Sub-secretariat for Social Evaluation**, which is responsible for the design, co-ordination and evaluation of the government's social policies;
- **The Sub-secretariat for Social Services**, which co-ordinates the different social policies of MDS.

Source: Ministerio de Desarrollo Social website.

Ex-ante evaluations for social programmes, developed by the Ministry of Social Development assess three main points:

- The consistency of the programme with the government priorities (President's Programme) and the strategic objectives of the institution that presents it;
- The internal coherence of the design of the programme to achieve its stated objectives (relation between the objectives, the target population, the strategy); and
- Accountability mechanisms in place, such as the indicators which will be used to assess performance.

The Ministry of Social Development also monitors existing social programmes to ensure they comply with their objectives. Non-social programmes are evaluated *ex-ante* and monitored by DIPRES.

The results of the evaluations carried out by the Ministry of Social Development are public, and gathered in the Integrated Database of Social Programmes (*Banco Integrado de Programas Sociales*).

4.2. Medium-term perspective

In 2000, DIPRES started maintaining baseline projections of government revenue and expenditures for the next three years. The aim is to keep these projections constantly up to

date. These are formally reviewed twice a year: In May, when information on the execution of the previous year's budget is available, and in late September, when the budget bill and the official macroeconomic projections are incorporated into the projections for the following year.

However, projections are only presented to the Congress and shared with line ministries at a very aggregate level (Table 5): i) the level of aggregate expenditure permitted by the budget balance rule or (in the present context) target, given projected revenues; and ii) the level of committed expenditure (*gasto comprometido*), which is often referred to in other countries as “baseline” expenditure. The fiscal space is the difference between these two levels.

Table 5. **Medium-term fiscal projections of Central Government (2016-19)**

CLP million 2016 and percentage of GDP

		2016 Draft budget bill	2017 Projection	2018 Projection	2019 Projection
(1)	Total actual revenues	34 858 785	37 038 750	39 855 003	42 536 101
(2)	Total committed expenditure	40 277 024	42 371 429	44 193 401	45 386 623
(3)	Cyclically adjusted revenues	38 138 472	40 347 144	42 707 309	44 962 742
(4)	Target cyclically adjusted balance (% of GDP)	-1.3	-1.1	-0.8	-0.5
(5)	Expenditure compatible with target	40 277 024	42 164 547	44 055 488	45 880 798
(6)	Expenditure difference (fiscal space) (5)-(2)	0	-206 883	-137 912	494 175
(7)	Expenditure difference (USD million)	0	-296	-197	706
(8)	Expenditure difference (% of GDP)	0	-0.1	-0.1	0.3
(9)	Actual plan compatible with target (1)-(5)	-5 418 239	-5 125 797	-4 200 485	-3 344 697
(10)	Effective balance compatible with target (% GDP)	-3.2	-3.0	-2.3	-1.8

Source: DIPRES, 2015a and 2016 Budget Bill.

Indeed, DIPRES fears that sharing more disaggregated estimates would create a sense of commitment to the future budgetary funding levels for ministries and institutions concerned. For this same reason, forward estimates are largely prepared within DIPRES, with limited involvement from the spending institutions. However, it is often in the spending institutions that the greatest understanding of expenditure dynamics is to be found. Developing more of a partnership in the preparation of the estimates might therefore be a key means of improving their quality.

The medium-term expenditure projections document is not used as a tool for resource allocation: DIPRES uses it to evaluate the overall trend in public revenue and expenditure to see how the trend is compatible with the over-arching goal of maintaining the structural fiscal rule. As such, the document assists in determining the availability of total resources. The May update provides guidance on resource availability until the independent panels on the structural balance meet in August to finalise the level of resources available. There is no reconciliation between the projections from year to year in the public documents.

4.3. Programme budgeting

Format of budget submissions

In the year 2000, DIPRES designed a standard form based on the logical framework (*metodología de marco lógico*), for submitting requests for funding new programmes or increasing funding for existing programmes. This also separated baseline expenditure (*gastos inerciales*) from new programmes. This has now become a permanent requirement

of the budget formulation process, requiring ministries and agencies to provide key outcome and output information on all new programmes to be financed.

All the funding requests (both for social and non-social programmes) are scrutinized in detail by DIPRES.

Operational programmes vs. budgetary programmes

While the programmes defined through the budget submissions are defined in terms of related outcomes and outputs, the programme classification included in the budget itself is often not. Budgetary programmes pay more attention to organisational criteria than to the objectives of expenditure, and differ considerably from the classification included in the performance management system (see Section 7). These differences reduce the link between government priorities and budget allocations, and undermine the value of the budget as an instrument for expressing allocative choices.

Only a small share of the budget corresponds to programmes as traditionally understood in a programme budgeting context in the sense that these programmes do not necessarily reflect groups of related outputs which share a common outcome. For example

- The programme structure of the budget does not provide a sufficiently detailed classification of expenditure by objective. The budget programmes themselves are generally very high level, and there are no sub-programmes.
- The transparency of the allocation of resources to policy objectives is blurred by the inclusion of large amounts of money in programmes which represent transfers that are paid by the organisational unit concerned to other organisational units, for objectives which are covered by other programmes.
- The programme classification of expenditure in the budget is not accompanied by any statement of the objectives (intended outcomes) or key services (outputs) of the programmes.

The structural differences between the programmes included in the budget and the format of budget submissions have the result of separating the entity's strategic planning from its budgeting function. In a well-designed programme budgeting system, the strategic framework should be integrated with the budget via the budgetary programmes. Concretely, entities should be required to specify the objectives (intended outcomes) of every budgetary programme, and to develop performance indicators for each programme. However, in Chile performance indicators are linked to the strategic products rather than to budget programmes, and the objectives of the budget programmes are not specified.

Reforming the structure of the budget towards programme budgeting is an ambitious undertaking. France for example fundamentally reformed its budget structure, enacting in 2001 a new organic budget law structured along missions, programmes and actions (Box 10).

Box 10. French programme budgeting system

In 2001, France enacted a new organic budget law including a well-defined programme structure, shifting budget classification from nature of expenses to public policy objectives. According to this new approach, the budget must be divided into missions, programmes and actions:

Box 10. **French programme budgeting system** (cont.)

- A **mission** covers a series of programmes designed to contribute to a specific public policy. A mission can involve a single ministry or several ministries. The Parliament cannot change or adjust the Missions. It has to accept the budget allocations proposed by the executive government and has power only to vary the allocation between programmes.
- A **programme** covers a coherent set of activities of a single ministry targeted to a specific public policy objective. If more than one ministry participates in a large public policy, each of them should have a separate Programme, covering its own responsibility in that matter, and ensuring coordination. Thus a programme corresponds to a centre of responsibility. Accordingly, for every programme, a programme director is appointed. All the resources from the State Budget should be allocated and spent within a Programme. In a similar way, resources allocated by the Parliament to a particular programme cannot be spent by the ministers for another programme.
- An **action** covers a set of operational means to implement the programme. The budget breaks down resources allocated to the actions of each programme; however, this break down is indicative and not committing. There is indeed a high degree of freedom for expenditure choices for ministers, in order to allow the Programme to reach its forecasted performance. However, there is one exception to this increased freedom: Appropriations for personnel are not indicative but binding, in an asymmetrical way: Personnel appropriations can be used for other purposes, but appropriations for other purposes cannot be used for personnel costs.

The Organic Budget Law prescribes an extensive performance reporting process to integrate performance information in the budget system through the following two types of mandatory budget documents: annual performance plans (*projets annuels de performances*, PAP) and annual performance reports (*rapports annuels de performances*, RAP). For a given mission, the PAP provides a detailed description of its purpose, goals, policy targets and performance indicators. As part of the annual budget act, the PAP documents are forward looking and are meant to contribute to the public debate about the costs and benefits of public policy. The RAPs are published in the first quarter along with the budget review act; they focus on performance achievements and provide detailed information on programme implementation and results. The RAPs are thus backward looking and tend to contribute to the public debate on the administration's performance.

Source: *Loi organique relative aux lois de finances 2001*.

4.4. Use of budget restrictions and annotations (glosas)

The content of the Chilean budget law is very detailed compared to other OECD countries with more than 4 000 line-item appropriations (Table 6), and comprises a large amount of annotations for each budget chapter that further restrict their use.

Line-item appropriations are the most detailed level of spending mandated by the legislature. Depending on the country, the level of line-items may be as specific as financial inputs (e.g. travel), or more aggregated at the programme or agency level. The existence of many line-items often constrains managerial flexibility by detailing the specific inputs that can be used for specific areas. Relaxing central input controls can not only increase the effective use of resources, but with concomitant management reforms can foster accountability for results.

Table 6. **Number of line-item appropriations contained in the budget**

Below 300 line items	Between 300 and 1000 line items	Between 1000 and 2000	More than 2000
Austria	Australia	Denmark	Chile (> 4 000)
Canada	Czech Republic	Estonia	Spain (16 700)
France	Greece	Norway	Japan (23 000)
Italy	Finland	USA	Turkey (> 40 000)
Korea	Hungary		Portugal (> 40 000)
Netherlands	Ireland*		
Poland	Israel		
Slovak Republic	New Zealand		
United Kingdom	Slovenia		
	Sweden		
	Switzerland		

* The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD, 2014.

Chile's budget is divided in 26 portfolios (*partidas*), which correspond to line ministries, the Presidency, Congress, Judicial power and Supreme Audit Institution. Each portfolio is divided into chapters (*capítulos*: Almost 200 in total) which correspond to sub-secretariats. Some large organisations with a nationwide network divide their appropriations among several regions, i.e. each region is treated as a separate chapter. Each chapter contains one to ten programmes (*programas*). Finally, each account is divided into revenues (budgetary revenues and fees or transfers received) and expenditure. Expenditures are classified into personnel expenditure, purchase of goods and services, current transfers (subdivided into all the different recipients), purchase of non-financial assets (subdivided into vehicles, machines and equipment, computer equipment and software), capital transfers (subdivided into all the different recipients), debt service and liquidity. All these add up to more than 4 000 budget lines.

Restrictions on budget appropriations

Appropriations are considered maximums, i.e. there is no obligation to spend all appropriated funds. There are a number of restrictions for each account. These are common to all accounts and include a maximum amount that can be spent on four items of expenditure: Overtime, travel, training and consultants. The amount of the restriction originates with DIPRES in the budget proposal presented to Congress. The budget also contains a ceiling on the number of staff (posts) and the number of vehicles that each ministry and agency may have.

Budget annotations

In addition to the above mentioned restrictions, Chile's budget law has an important number of annotations (*glosas*). These are restrictions for specific appropriations. They generally earmark part of a larger appropriation for specific projects. These annotations are discussed with line ministries, but usually originate in DIPRES. They refer to a broad group of subjects and include very detailed instructions on how the resources should be spent (e.g. particular information and reporting requirements, type of expenses that are covered, limit to the number of goods or services that can be purchased, and specific procurement conditions). In some cases, they also contain more substantive provisions about the characteristics and targets of the programmes (e.g. definition of recipients and type of benefits).

These annotations serve as a tool to follow up and monitor expenditure for programmes of particular relevance. They can be viewed as a pragmatic approach to the lack of true “programme budgeting” (i.e. lack of correspondence between the operational programmes and the budgetary programmes), as they describe how these resources are to be used. But even then, these annotations do not specify the causal chain between the actions and the planned results, nor provide indicators on the situation it aims to address or the targets of the policy.

The use of these annotations has increased in recent years, and it is often criticised that the budget is used as a fast track legislative tool to introduce legislations which are of particular interest to the President, minimising the possibilities of debate in the Congress. This was for example the case for the new free higher education policy: An annotation in the 2016 Budget Law determines that higher education would be free for the 50% of the population with lower income, studying in specific type of institutions (for example non-profit institutions). This trend to broaden the scope of the budget law to substantive legislation for parliamentary reasons is shared – and often criticised – in other OECD countries.

4.5. Recommendations on aligning budget with medium-term strategic priorities

Make better use of the medium-term expenditure framework (MTEF) as a tool to identify fiscal space

Political decisions on spending priorities are taken by the President, and the strong centralisation of the budget process in the hands of DIPRES facilitates the alignment of the budget with these priorities. The Ministry of the Presidency plays a key role in co-ordinating presidential priorities, and has extensive working relations with DIPRES. DIPRES maintains a comprehensive MTEF that is updated in real-time. However, it is only an internal document.

MTEFs can strengthen the budget office’s ability to plan and enforce a fiscal path. They also help offset the annual focus of budgets, which tends to impede effective expenditure management decisions on resource allocation covering a number of years. Many policies require an extended time horizon, such as large capital projects, new programmes and organisational restructuring. The forward estimates of spending beyond the budget year make clear the medium-term implications of budget decisions. Most OECD countries have introduced MTEFs into the annual budget preparation process.

In a fiscal consolidation context, if the forward estimates show a spending increase in excess of the fiscal objectives, compensating reductions can be introduced into the forward estimates and clearly communicated to the line ministries.

While DIPRES fears that sharing the MTEF with line ministries may be understood as a commitment for future funding, in a downsizing environment, it could on the contrary be a tool for preparing line ministries to a slower growth in their budgets. This would put agency managers in a better position to plan their operations, as they have some indicative level of funding beyond the next budget. This would require a significant change in culture given Chile’s historically centralised budget process.

With the prospect of slower economic growth, the challenge is now to create sufficient fiscal space to finance new priorities. This requires making better use of existing information on performance and evaluation of programmes to phase out previous priorities or inefficient programmes.

Gradually move towards a more comprehensive programme structure of the budget

Over the years, the budget has become a long and cumbersome technical document, which is difficult for parliamentarians and citizens to understand. Moving towards a programme budgeting system, with clear targets, would help giving clarity to the budget. It would also allow reducing the number of budget lines, giving more room for manoeuvre to managers in line ministries while holding them accountable for achieving the targets rather than complying with input mix.

In moving towards programme budgeting, special consideration should be given to:

- Budget programmes should be designed to be as useful as possible as a tool for expenditure prioritisation and for the integration of budgeting and strategic planning.
- Giving priority to programmes that have particular political goals;
- Ensuring the programme structure provides a detailed classification of expenditure by objective, by i) breaking up certain highly aggregate programmes into two or more programmes, and ii) by introducing sub-programmes;
- Reviewing programmes to ensure that they are defined as groups of outputs with common outcomes;
- Identifying more clearly the specific objective (intermediate outcome) of each programme;
- Linking relevant outcome and output indicators to each programme and sub-programme.

Some line ministries in Chile have successfully experimented moving towards programme budgeting, and this small scale experimentation could be used as a starting point to scale up the experience. In 2014, for example, the Ministry of National Assets (*Ministerio de Bienes Nacionales*) identified three main lines of action: Property regulation, management of public assets and land registry. It therefore created four programmes: One for each of the above mentioned activities and one for fixed and non-attributable costs. This practice can still be improved by attributing all costs to operational programmes.

Define what subjects can be regulated in the budget law, and what subjects should be in permanent legislation

While annotations are useful tools to compensate the mismatch between the programme structure of the budget and operational budgets, their use for more substantive policy making may be criticised. Chile should define what could be ruled by annotations in the budget law, and what issues should be have a separate discussion in Congress, and be included in permanent legislation.

5. Budget discussion, approval and transparency

5.1. Parliamentary discussion and budget approval process

Legislatures are constitutionally mandated to hold governments to account. However, the role of the legislature in the budget process, and in particular its amendment powers, varies across OECD countries (Box 11).

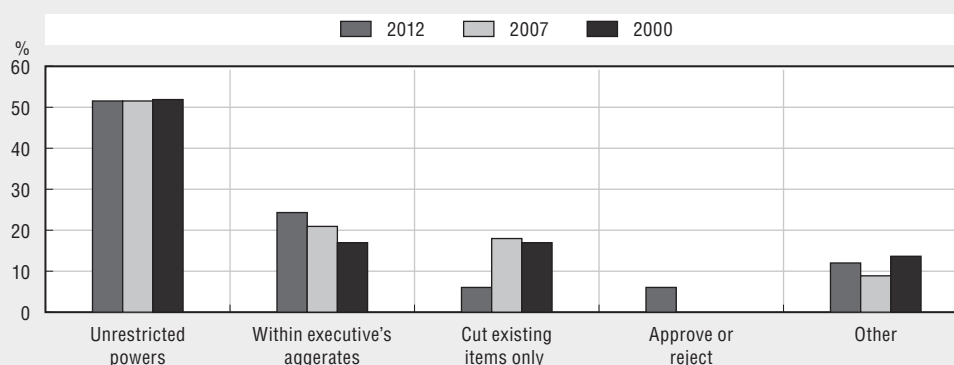
Limited amendment powers

The role of the Chilean Congress during budgetary discussion and approval is very limited despite recent reforms (Box 12). As discussed earlier, the Chilean Constitution imposes strict limits on Congress in regards to budgetary matters. The Congress only has the right to decrease expenditures proposed by the executive, and which are not determined

Box 11. Legislature's budget amendment powers in OECD countries

The legislature's formal amendment powers may be defined as unrestricted, restricted or prohibited.

- **Unrestricted:** The legislature may increase or decrease the level of revenues and/or expenditures without the consent of the executive.
- **Restricted:** The legislature is only able to make budget amendments insofar as the budget balance (surplus or deficit) of the executive's budget proposal is unchanged; or, alternatively, the legislature may only amend downwards any aggregates, often requiring overall reductions in expenditure.
- **Prohibited:** The legislature may not make any amendments to the executive's budget proposal, and must either approve or reject the budget in its entirety (Wehner, 2006).



Note: Percentage of participating OECD countries (33 in 2012, 33 in 2007 and 29 in 2000).

Source: OECD (2014).

It is important to distinguish between formal powers of amendment, such as those outlined in primary and secondary law, and actual practice, reflecting customs and conventions. While legislatures may have formal legal powers to amend the government's draft budget, their actual use may be curbed for reasons including fiscal rules and mandatory spending. Consultation and bargaining during the budget formulation stage may also reduce the size of the legislature's actual amendments during the approval stage. Conversely, This can also serve to increase the legislature's *de facto* amendment power. And some countries, particularly those with Westminster based systems, are effectively restrained from using amendment powers as votes on the budget are considered as a vote of no confidence in the government.

in permanent legislation. It may not increase expenditures, and it may not reallocate expenditures between programmes. Similarly, the Congress cannot amend the economic assumptions or the revenue forecasts employed in the budget proposal. The lack of an independent fiscal institution or internal body for calculating key parameters would not allow it to do so.

Budget annotations (*glosas*) can be discussed in Congress, but can only be amended with the consent of the government. The Congress can only add an "information annotation", requiring the government to report periodically on how specific appropriations are being used and progress towards any targets.

Box 12. **Chilean National Congress**

Chile's National Congress is located in the coastal town of Valparaíso. It is a bicameral institution composed of a Chamber of Deputies and a Senate.

Until 2005, the Constitution provided for former Presidents to serve in the Senate for life after they left office, as well as for nine other members to be appointed to the Senate for eight-year terms on an "institutional" basis, including four nominated by the military. Since 2005, all members of the Congress are elected by popular vote following a binomial system (i.e. two members represent each constituency), and can be re-elected. At present, the Chamber of Deputies has 120 members serving a four-year term, and the senate has 38 members serving an eight-year term.

A 2015 electoral reform increased the number of members to 155 deputies and 50 senators, and changed the voting mechanism from binomial to proportional. The reform will start implementation in the 2017 election.

Limited consultation on reallocations by DIPRES during budget implementation

Budget reallocations within ministries during the implementation phase are frequent, and in most cases do not require Congressional approval. Despite certain limitations imposed by law, the Ministry of Finance has great autonomy to make reallocations within line ministries, compared to other OECD countries. There are examples of individual budget appropriations being doubled during the implementation phase without consultation with Congress. This serves to undermine the role of parliament in the actual allocation of public funds.

A Permanent Joint Committee on Budget and five sub-committees

The President presents the budget bill to the Chamber of Deputies before the end of September each year. There is no discussion of the budget in plenary session of either chamber of the Congress. The bill is automatically referred to the Permanent Joint Committee on Budget (a joint committee of both chambers of the Congress) (*Comisión Especial Mixta de Presupuesto*) composed of 13 Senators and 13 Congressmen. In the past, this committee was a temporary *ad hoc* committee formed each year and operating only for a short period of time immediately following the introduction of the government's budget proposal. In 2003, the Budget Committee was institutionalised as one of the permanent committees of the Congress and operates year-round since.

During the first week of October, the Minister of Finance introduces the budget by making an address to the Budget Committee highlighting the state of the economy and major policy decisions contained in the budget. The following day the budget director makes an address to the Budget Committee highlighting the various technical aspects of the budget. After these introductory presentations, the Budget Committee divides into five sub-committees, each focusing on a different set of ministries. The scrutiny of the budget proposal takes place in these sub-committees. Each ministry and agency is examined during a four-week period. The sectoral minister and the heads of every agency under his/her responsibility attend the examinations. Following these examinations in sub-committees, the Committee reconvenes in plenary session and the conclusions of each sub-committee are discussed. As a rule, the Committee endorses the findings of the sub-committees.

Approval process

The budget is first referred to the Chamber of Deputies where it is discussed and then approved in a series of ministry-by-ministry votes, and then to the Senate. Traditionally, only a few topics were debated in Congress and the approval was rather fast. Today, discussions in Congress are much more extensive, and the budget is subject to significantly more negotiations than ten years ago. Numerous amendments are proposed at this stage by members of the Congress, some are dismissed as out of order and others are voted down by the government's majority. If the votes from both chambers do not coincide, a special committee of both houses is formed. This special committee will make a proposal which must be voted without amendment in both chambers.

The entire discussion and approval process cannot exceed 60 days (Table 7). If the Congress does not approve a budget by 30 November, the original government proposal becomes law. However, this has never occurred and would appear to be considered politically unacceptable. This opens the way to behind-the-scenes negotiations whereby the government itself decides to introduce amendments to the budget that are desired by Congress. Similarly, members of Congress have conditioned their vote on unrelated legislation upon desired changes in the budget, or threatened to reduce to one thousand pesos appropriations that are particularly sensitive for the government. The frequency of such behind-the-scenes interventions is, however, said to be rare. The Congress can also place restrictions on individual appropriations, for example by mandating that a certain part of the total appropriation be spent on a specified activity. This respects the constitutional provision that the total appropriation not be increased and at the same time demonstrates the will of the Congress. These restrictions are, however, also rare.

Table 7. **Congressional budget timeline**

Last day of September	Budget proposal presented to the Congress Budget referred automatically to the Permanent Joint Committee on Budget
First week of October	Minister of Finance makes policy address to the Budget Committee Budget director makes technical address to the Budget Committee
October-November	Budget Committee forms five sectoral sub-committees to scrutinise the budget proposal
Mid-November	Budget protocol signed between Budget Committee and DIPRES
1st January	Start of Fiscal year

Budget “protocols”

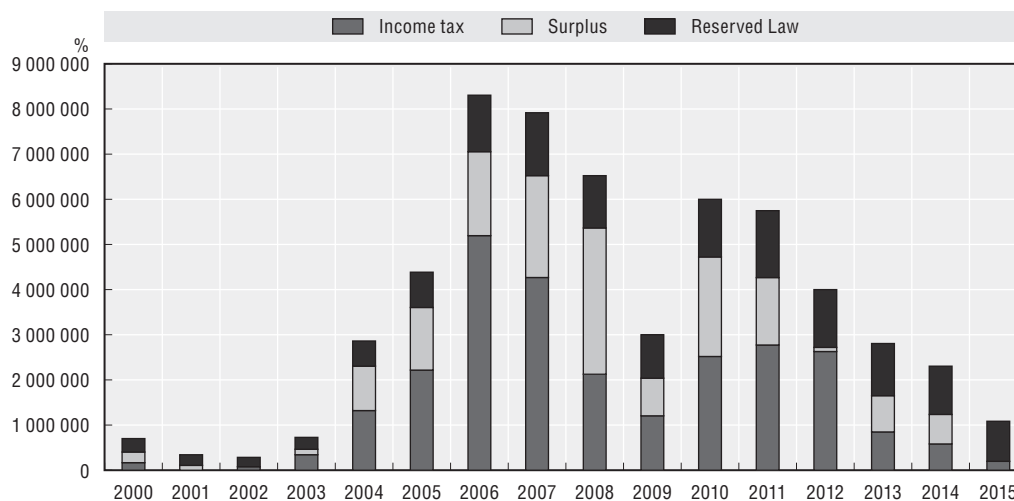
Since 1997, the Budget Committee and DIPRES have agreed on a Memorandum of Understanding (*Protocolo*) at the end of each budget approval cycle. This is not legislated but is rather a signed and formalised political document between the Congress and the government. The 2015 *Protocolo* is six pages in length and includes actions to be undertaken by the Ministry of Finance/DIPRES and specific line ministries. For example, it states that the Ministry of Finance will complement the resources available to finance investment projects for health through budgetary reallocations, and that the Ministry of Defence will present a bill to strengthen civil defence institutions. Other actions include studies, evaluations and reports to be undertaken by line ministries.

These budget protocols are not binding and cannot be enforced by the Congress. However, they are a key negotiating instrument to reach agreement during the budget approval process. The government (DIPRES and line ministries) does not carry out all the commitments included in the protocol, but a large proportion of them are implemented in order to increase support for other presidential initiatives that need Congressional approval.

5.2. Budgeting for the military

One of the legacies of military rule in Chile is that the military receives 10% of the sales of the government-owned copper mining company (CODELCO) to finance defence material and capital goods. These resources are transferred in similar shares to the army, the navy and the air force, in separate and secret special accounts. There is a minimum-revenue guaranteed by the Reserved Copper Law (*Ley Reservada del Cobre*): If resources do not reach this minimum, a budgetary appropriation must be made to cover the difference. However, there is no ceiling or maximum amount to be transferred to the secret accounts. This resulted in very significant transfers to the military during the boom years for copper prices (Figure 11).

Figure 11. **Total transfers from copper extraction to the central government (2000-15, USD thousand)**



Source: Data provided by DIPRES, 2016b.

These special characteristics of the off-budget earmarked funds for the military lead to inefficiencies and suboptimal allocation of resources. There is an arbitrary, permanent and invariable distribution of resources, which are not discussed or approved by Congress, and which does not take into account the real needs of the national defence sector. In addition, its rigid design does not allow effective prioritisation within the military sector and with the other sectors of the administration. There is also a complete absence of regular and objective evaluation and reviews, and there is almost no oversight or accountability for the use of these earmarked funds. In addition, resources are not managed in a transparent manner and documents are not accessible. Reserved Copper Law expenditure information is reported (aggregated in one general line item) only since 2003.

Conscious of the great limitations of the current system, the Chilean Government has attempted several times to abolish the Reserved Copper Law. In particular, the last two Presidents presented specific bills to the Congress in this regard. However, none of them were successful in their objective.

5.3. Parliamentary support and citizen engagement

The Budget Advisory Unit

One of the main obstacles for congressional involvement in the budget process is often the lack of capacity of members of parliament to understand and analyse the budget,

which is a very technical and long document. It is therefore important for legislatures to rely on experienced staff and expertise to exercise their oversight functions properly.

In 2003, together with the creation of the Permanent Joint Committee on Budget, the Senate and the House of Representatives joined forces and hired five experts specialised in budget issues to support the work of the Permanent Joint Committee on Budget.

The functions of this Budget Advisory Unit consist of providing technical support to the Permanent Joint Committee on Budget and its sub-committees, including analysing the budget proposal and related documents submitted by the government. All the reports produced by the Budget Advisory Unit are publicly available.

The work of the Budget Advisory Unit is however hampered by restrictions on access to some key assumptions and some data, especially at disaggregated levels. In addition, the Budget Advisory Unit lacks sufficient capacity, which leads to a limited scope and depth of analysis, and to some extent, a dispersion of the topics analysed.

Civil society participation in the budget discussions

As discussed earlier, the role of civil society has increased in the last decade, and many more stakeholders participate in political debates. Civil society organisations have flourished, analysing presidential programmes and monitoring their implementation. They only focus on the budgetary issues to a very limited and secondary degree. They find the budget information “too technical,” and thus difficult to use. They call for a more digestible “citizen’s budget”.

5.4. Transparency and reporting

Chile has made great progress in increasing transparency. Since 2002 Chile committed to following OECD best practices in transparency. Documents and databases related to the costing of new initiatives and laws, the cyclically adjusted GDP and balance, the budget proposal, budget implementation, *ex post* evaluations and performance indicators are now available (Table 8).

However, key assumptions and disaggregated data are not made available in certain instances, which then make independent replication of DIPRES’s calculations difficult for external analysts.

Contingent liabilities

Since 2007, DIPRES publishes a report on contingent liabilities yearly. The law does not specify a calendar. In practice, DIPRES requests information to the relevant agencies in September and the report is published in December. This report carries out sensitivity analysis on minimum income guarantee on concessions, state guarantee on debt of state owned enterprises, guarantee of higher education loans, state deposit guarantee, Chilean Economic Development Agency (CORFO) hedge fund risk and small business guarantee fund, and guarantees of the pension system.

Budget reports

A monthly report is prepared on the revenues and expenditures of the government. This is audited and is available 45 days from the close of each month (Table 8). The report specifies revenues and expenditures at a highly aggregated level. For example, expenditures are not classified by government organisations which are only published on a quarterly basis.

Table 8. **Public finances reporting**

Type of report	Content	Frequency
Budget execution monthly report	Total central government revenues and expenditures (economic classification), balance sheet	Monthly
Budget execution quarterly report	Total central government revenues and expenditures (economic classification), balance sheet, adjusted balance, tax expenditure, additional information on revenues, changes and balances of FEPP, FRP and FEES, gross public debt	Quarterly
State owned enterprises financial report	Assets and liabilities balance, by enterprise; income statement by enterprise, consolidated	Quarterly
Public finances statistics	Including municipalities, state owned enterprises and net public debt	Annually (July/August)
Public finances report	Draft budget law, public sector financial projections, central government assets and liabilities, improvements in quality of expenditures, tax expenditure	Annual (first week of October)
Contingent liabilities report	Current situation and projections, management of contingent liabilities, fiscal position analysis	Annual (December)
Central government debt	Current situation and previous years, total amounts; detail by maturity, currency, creditor; medium-term projections	Quarterly
Evaluation of the financial management of the public sector, updating of projections	Evaluation of previous year's financial management of the public sector, updating of fiscal projections current year	Annual (June/July)
Public debt report	Gross and net debt of the public sector; gross and net debt of Central Bank; explanatory notes and additional information	Quarterly
Report on financial assets of Public Treasury		Monthly
Monthly execution report on Pensions Reserve Fund		Monthly
Monthly execution report of the Economic and Social Stabilisation Fund		Monthly
Quarterly report on Pensions reserve fund		Quarterly
Quarterly report on Economic and Social Stabilisation Fund		Quarterly
Cyclically adjusted balance indicator	Methodological aspects; results of the calculation of the cyclically adjusted balance (previous year); conclusions and challenges	Annual (first quarter after reference year)

Source: DIPRES (2015a).

Additional summary information on the government's financial assets and liabilities is also presented on a quarterly basis. These reports are publicly available. An annual financial statement is prepared and is available one month following the close of the fiscal year. As it is based on the audited monthly reports, this document is not specifically audited by the supreme audit institution. The annual report is publicly available.

5.5. Recommendations on budget discussion, approval and transparency

Capacity of Congress on budgetary issues could be reinforced, in particular by strengthening the role of the permanent budget committee.

While still modest, the Congress has gained influence in the budget process. Debates are more comprehensive, as they now cover all aspects of the budget. For example, the legislature has begun to scrutinize the economic assumptions, asking DIPRES to provide more detailed explanations or its projections and underlying methodology.

Congress now has a permanent budget committee and budget advisory unit, but its analytical capacity and access to information should be reinforced, to better support parliament.

Legislative oversight of the budget is critical to promoting fiscal transparency and accountability. There may be concerns however as to the impact of a strong legislature on

fiscal discipline. A growing number of OECD countries have addressed these concerns by giving the legislature new influence in setting and approving overall budgetary targets while ensuring that subsequent legislative decisions adhere to those constraints.

Consider clearly defining the boundaries of the budget law

Several important pieces of substantive legislation are typically introduced in Congress as part of the budget. Transparency and democratic debate could be enhanced by clearly defining the boundaries of the budget. Other legislation should be the object of a separate legislative process, allowing for proper debate and scrutiny by the corresponding parliamentary commissions.

Improve alignment of budgetary programmes with operational programmes to increase readability of the budget document

Congress and citizens have a difficult time linking budget allocations to specific policies and targets, which reduces their capacity to deliberate them in a meaningful manner. This is due to the fact that budgetary programmes do not correspond to operational programmes. Moving towards programme budgeting and improving the alignment of budgetary programmes with operational programmes would facilitate comprehension of the budget by Congress and citizens. This would help hold the government to account. Such a reform could be carried out progressively, starting with the more reform oriented ministries for example, and gradually incorporating more areas into the new budget structure.

Fully disclose key assumptions and disaggregated data

DIPRES consistently publishes reports and the results of *ex post* evaluations, but could improve in the disclosure of underlying data, assumptions and methodologies used to carry out certain evaluations.

Integrate the budget for the military in the regular budget process

The Reserved Copper Law on the military budget was enacted during a particular moment of Chile's history. With a quarter century of democratic rule now in place, it may be appropriate for Chile to reassess this law and the special treatment given to the military budget. In addition to the lack of transparency of this process, linking the military budget to the price of copper instead of actual needs is not an efficient way of allocating resources.

6. Budget execution: Flexibility, human resource management, cash management and accounting

6.1. Budget flexibility

The budget law is effective from the 1 January to 31 December. During this period, disbursements are made to each institution, as well as monitoring, re-allocations, and reporting on budget implementation.

Budget implementation act

Each year, DIPRES publishes a book of "Instruction for the execution of the public budget" (*Instrucciones para la ejecución de la ley de presupuestos del sector público*). This brings together all decrees and guidelines for budget execution for the current year. It is a very detailed and extensive document including specific authorizations, budget classification, and other relevant regulations (e.g. human resources, public procurement, public