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Balanced Budget Rule - Survey

6. Balanced Budget Rule - Fiscal Accounts 7. Aggressive Countercyclical Rule - Survey; 8. Aggressive Countercyclical Rule - Fiscal Accounts; 9. Surplus Target Shock - Survey; 10. Surplus Target Shock - Fiscal; VI. Summary: References; Appendices; 1. Population Growth; 2. Optimality Conditions for OLG Households; 3. Consumption and Wealth; 4.

Optimality for Manufacturing Firms

Sommario/riassunto

The paper analyzes Chile's structural balance fiscal rule in the face of copper price shocks originating in foreign copper demand. It uses a version of the IMF's Global Integrated Monetary and Fiscal Model (GIMF) that includes a copper sector. Two results are obtained. First, Chile's current fiscal rule performs well if the policymaker puts a small weight on output volatility (relative to inflation volatility) in his/her objective function. A more aggressive countercyclical fiscal rule can attain lower output volatility, but there is a trade-off with (somewhat) higher inflation volatility and (much) higher volatility of fiscal variables. Second, given its current stock of government assets, Chile's adoption of a 0.5% surplus target starting in 2008 is desirable from a business cycle perspective. This is because the earlier 1% target would have required significant further asset accumulation that could only have been accomplished at the expense of greater volatility in fiscal instruments and therefore in GDP.