Conselho das Finanças Públicas
Portuguese Public Finance Council

The Portuguese Public Finance Council

Presentation to the OECD High-Level Parliamentary Seminar

The Swedish Parliament, Stockholm
17-18 June 2013

Local ownership

- The CFP (acronym for Conselho das Finanças Públicas) has been active since February 2012.
- Its creation was part of an agreement between the two main political parties towards the approval of the 2011 State Budget.
- An independent working group was appointed in December 2010 with the task of drawing up the Council's statutes, which were approved by Parliament in October 2011. The CFP started its activities following the appointment of its senior board in February 2012.

Independence: the main concern

- Portugal has an established tradition of independent agencies in the case of the Court of Auditors (Tribunal de Contas) and the Central Bank (Banco de Portugal).
- The CFP statutes took advantage of this by determining that the members of the Council's senior board are appointed by the Council of Ministers, on a joint proposal of the President of the Tribunal de Contas and the Governor of the Banco de Portugal. They are also responsible for issuing a favourable opinion on the Council's budget before its submission for inclusion in the State budget.
- The CFP has a senior board of five members with a maximum of two non-national members. Their term of office is seven years and they cannot be removed from office except for specified reasons of incapacity or (proven) misconduct.

Access to information and communication

- The statutes grant the CFP access to all the economic and financial information necessary for the accomplishment of its mission.If this is not supplied the CFP should give public notice of the fact.
- All the Council's analyses and reports must be made available to the general public on its webpage, in Portuguese and in English.
- Preceding the relevant debates in Parliament, the CFP must present reports on:
  - the Stability Programme and other procedures within the regulatory European framework of the Stability and Growth Pact,
  - the multiannual budgetary framework and
  - the draft State Budget.

Main focuses

- Transparency:
  - Quality and consistency of data across the whole public sector
  - Data inclusiveness (commitments, SOEs, PPPs, etc.)
  - Information on measures and their expected or realised outcomes
- Forward looking analyses focused on medium-term stability and debt sustainability issues
  - The revision of the budget framework law that created the CFP also introduced a medium-term budgetary framework and a corresponding expenditure ceiling to be set in a Fiscal Strategy Document
  - The principles to be followed on the latter are still very incipient, the same being true of compliance

Reporting and communication

- The CFP must present reports on the Fiscal Strategy Document and on the annual draft budget.
- Specifically, it must assess the macroeconomic scenarios on which they are based, as well as the compliance with fiscal rules.
- The CFP has complied with these obligations, and also produced reports on subnational financing, as contributions to the on-going reform in the area.
- All the reports have been subject to Parliamentary hearings, as well as being widely discussed in the press, together with a number of other interventions by senior board members.

Underlying PFM problems remain

- So far experience shows that underlying public finance management problems still remain that constrain the implementation of a fully effective medium-term budget framework in Portugal.
- The fiscal framework is still too concentrated on the annual budget and its headline balance.
- The ingrained tendency for over-optimistic forecasts still persists.
- As a consequence, recourse continues to be made to temporary and one-off measures in order to bring the deficit in line with targets.
- At the same time public managers are not provided with the stability to plan their operations on a time scale that allows a more efficient expenditure management

Need for in-depth reform of the budget process

- The CFP Reports have clearly underlined these problems.
- The Council has also consistently supported the need for a further in-depth reform of the budget process.
- This is now foreseen for the end of the current year and the CFP intends to participate actively in its preparation and debate.
- Measures defended by the CFP concern the
  - improvement in the quality, coverage, consistency and transparency of public accounts,
  - introduction of an appropriately defined and monitored expenditure ceiling in the context of a medium-term framework, and
  - introduction of a regular spending review procedure.

Macro-fiscal forecasts

- Of particular interest to the CFP is the problem of macro-fiscal forecasts. According to its statutes, the CFP is responsible for assessing the macroeconomic scenarios adopted by the Government.
- The Council has no role in producing such projections and only knows the budget proposals and the projections on which they are based when they are made public, subject to strict delays for evaluation and Parliament approval.
- This is an area that would benefit from further consideration, given the absence in Portugal of an independent, professional institution, with a remit to monitor, analyse, conduct research and produce short-, medium- and long-term forecasts for the economy.

CFP staff

- At present, the CFP is still going ahead with the recruitment of technical staff, a process that has been made difficult by a clause in the statutes that inhibits CFP staff from university teaching or research.
- The CFP now counts on four staff members, recruited from other public sector agencies. From the on-going recruitment process, we expect to hire up to ten new staff members that should gain expertise on specific areas that are instrumental to the Council's work (e.g. public accounts and economic modelling and forecasting) or that the Council is supposed to analyse (e.g. health, pensions, subnational finances, public enterprises, tax expenditures, and public debt sustainability).

Complementary activities

- As a complement to its activities, the CFP is leading, together with Banco de Portugal and the Gulbenkian Foundation, a number of initiatives to discuss the reform of public sector governance in Portugal.
- A conference under the heading *Towards a Comprehensive Reform of Public Governance* took place in January 2013 (its Proceedings can be found here).
- From September onwards it will be followed by a cycle of monthly seminars on specific themes under the same heading. Portuguese and foreign experts are invited to present their experiences and advice, to be subject to open discussion with the audience.

Conclusion

- As a new institution, the CFP has been building its credibility by focusing on a number of subjects that need to be addressed in order to bring about a durable fiscal consolidation in Portugal.
- These imply institutional, organisational and managerial reforms leading to greater transparency and accountability, the need for which the Council has been advocating and is helping bring about within its remit.
- Its independence has been fully respected and its opinions are widely discussed and subject to debates in Parliament, forming a basis for a better understanding of the role of fiscal policy in Portugal.

Thank you for your attention