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Conselho das Finanças Públicas
Portuguese Public Finance Council

Undergoing institutional reform in Portugal

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Outline

Two issues

1. What's the story behind CFP?

2. Subnational public finance challenges in Portugal 2012

1. The Portuguese Public Finance Council (CFP)

Why?

– Dynamic interdependence of public finances

Long-term or dynamic public budget constraint

$$\beta_0 = \sum_{t=1}^{+\infty} s_t v^t$$

β_0: Initial debt as % of GDP

s_t: Primary deficit at year t as % of GDP

Intertemporal discount factor ($v \equiv \frac{1+y}{1+i}$)

Initial debt stock ties annual public finances forever!

- Primary deficits are not possible every year
- The budget constraint assumes government's solvency (ability to pay debt while alive)

– Growing concern among economists about the quality of public finance management

– Political opportunity (2010)

(before the "troika" got in)

Part of an on-going budgetary framework reform

- Multiannual budget programming
- Accrual accounting improvement
- Independent institution to help the incorporation of future effects of policy decisions into the decision-making process
  - Monitoring of public finance sustainability
  - Issuance of prudential recommendations
  - Enlargement of decision-makers' information set:
    - Politicians
    - Public opinion at large

Organisation

- Senior Board
  - 5-person committee
  - Appointment (16 February 2012)
  - 2 non-resident members (currently, Prof. *Jürgen von Hagen (Vice-Chair) and George Kopits (Non Executive Member)*
- Staff
  - First recruitment process
  - Chosen by the Senior Board
  - Preference to civil servants with tenure
  - Restrictions to external recruitment

Mission (art. 4 of the Statutes):

- independent assessment on
  - consistency
  - delivery
  - sustainability of fiscal policy at large
- While boosting transparency so as to contribute towards
  - the quality of democracy and economic policy decisions
  - and the reinforcement of government’s financial credibility

Remit (art. 6)

a) Assessment of macroeconomic scenarios adopted by the Government and the consistency of budget forecasts with them

b) Assessment of compliance with fiscal rules

c) Analysis of the public debt dynamics and the evolution of its sustainability

d) Analysis of the commitments dynamics, with particular emphasis on pension and health systems, PPPs and public concessions at large; evaluation of their implications for public finance sustainability

e) Assessment of the financial situation of regional and local administrations

f) Assessment of the economic and financial situation of the public companies sector and its potential impact on the sustainability of consolidated public accounts

g) Tax expenditure analysis

h) Follow up of the fiscal outturn

Independence (arts. 5 and 12)

- Senior board members' appointment process
  - Who chooses them?
  - Tenure length
  - Exclusivity regime
- Budget
- Staff recruitment
  - Who decides the staff size?
  - Freedom to choose
  - Exclusivity labour contracts
- Does not receive instructions from other institutions
- Accountability before
  - Bank of Portugal and Court of Auditors (budget and wage policy)
  - Citizens at large

Major outputs and transparency: reports (arts.7 and 32)

- All public
- All sent to sovereignty bodies
- Compulsory reports followed by parliamentary hearing ad press conference
  - Stability Programme
  - Medium-term State budget programme
  - Annual draft State budget
- Compulsory periodic reports on public finance sustainability
- Other reports at the Council's discretion
- All reports in Portuguese and English

Access to information (art. 8)

- CFP has the right to access all economic and financial information required to fulfil its mission

- Failure to comply with information access will be reported in the CFP website

Effects of the Statutes on CFP's work

- Independence
- Right to information
- Transparency and public disclosure duties

imply that the CFP analyses must meet rigorous standards of

- complete and systematic information assessment
- partisan independence, good wisdom and technical quality

2. Some subnational public finance issues

Some subnational public finance challenges

- Acceleration of accrual accounting implementation
- Accounting consolidation within each governmental unit
- Adoption of medium-term budgetary programming
- Debt rules
- Political onus of own revenues
- Account reporting and monitoring
- Sanctions (fiscal rules)