

- In the last years significant progress was made in reducing the public deficit.
- For this reduction, the contribution of the current expenditure, namely the wages and salaries of public employees and the social expenditure was important.
- However, in the future, one can not count on the same additional contributions of some of these measures, namely the freezing of automatic promotions, the new conditions for receiving unemployment subsidy and the results of changing the statute of public hospitals from administrative units to enterprises.

- So a strategy to increase the contribution of these kind of expenditures is needed, which imposes a permanent review of the results associated with the reform of public administration, namely the programme PRACE, the new model of careers in the public administration and introducing the changes needed to improve their effectiveness.

- How the current financial crises may affect this situation? It depends on several variables, two of them are crucial: the duration of the crisis and its effects on the real economy and the possibility to revert in due time some of the measures taken to counter the effects of the crisis.
- While the functioning of the automatic stabilizers allows for a rapid adjustment, discretionary measures imposing reductions in revenues or increase in expenditures may affect in a very negative way the sustainability of public finances in the medium or long term.

- One important point in the debate on the efficiency of the public sector is that expenditure should be assessed in terms of its economy, efficiency and effectiveness.
- To do this assessment is not easy. For instance, is the investment in a new hospital or school an expenditure with higher quality than expenditure on training doctors or teachers?

- I was involved in two projects in this area: the ECORDEP project and the transformation of hospitals in corporations.
- ECORDEP objectives were:
 - To identify the main tools that the Government can use to promote the quality and efficiency of public expenditure;
 - To make policy recommendations in the use of these tools;
- In the hospitals project the objective was to change the governance to improve efficiency.

- In both cases it was clear the need of setting benchmarks.
- Taking into account the difficulties we faced in setting benchmarks, the recent ECOFIN decision to improve the analysis, the methodology and quantification of the Public Finance quality is very important, and welcome.

- The indicators of QPF can boost the public debate: clear messages go to wider public and to policy makers.
- However, they serve mainly in **evaluating** past policy or options (globally or on some aggregated level). They are no substitute to **cost-benefit** analysis of new initiatives or projects.

- Indicators of QPF with high public visibility can be targeted.

- Example, the deficit and debt limits, led to:
 - Changes in Public Administration composition: traditional entities becoming commercial entities;
 - Assumption of debts in some sectors, influencing the evolution of public deficit and debt;
 - Uptake of future revenues at the expense of revenues in the future.

- There is no definitive solution to this problem. It is common to both private and public sectors. It is necessary to be permanently vigilant and impose regularly external scrutiny by independent entities.
- For the private sector, the current financial crises is a good example with the contribution of banks' off-balance sheet operations and the mark-to-market criteria for valuation of their assets.

Policy lag

- From a public debate point of view, messages from the indicators are stronger if they give information to evaluate the policies adopted by current incumbents.
- However, due to the lags in getting results this is not, as a rule, the case. Therefore, policy lag means that the scoring from indicators must be taken with care, particularly to avoid inducing governments to give excessive preference for short-term measures.

Scoring

- Scoring is mainly an exercise of static comparison, which should be complemented by an analysis of time series.
- For example, based on some preliminary results of QPF indicators, Portugal had a 0.2% of GDP in GG primary surplus in 2007, which compares with a deficit of 3.5% in 2005 and a score of -11.8 (very poor).
- In this case, the very good results in 2007, when compared with 2005, had no reflection in the classification.

Misleading or misuse of indicators

- Media loves simple indicators and messages. In emotional political debate, “mechanistic” use of indicators is unavoidable. Therefore, the question is “How should be the presentation of indicators to avoid or, at least, mitigate the misuse of indicators?”
- The response, even if it is very difficult to achieve, must be: Complete transparency in the construction of indicators and a comprehensive qualitative analysis.

Data

- Some indicators use data that come from private sources.
- These data raise issues such as: methodology used in the collection and compilation; consistency and future availability.

Benchmarking

- An example of preliminary use for benchmarking (Portugal-Spain)
- According to the indicators, expenditure in education in Portugal is close to 140% of the average of the 5 best MS and the outcome indicator points to -20.
- Spain spends about 80% with -10 in the outcome indicator.

- To support discussions and analysis about innovation and efficiency in the public sector, aggregated indicators have to be completed with benchmarking analysis for similar institutions, namely Universities and State Laboratories.