## Budgetary Governance in Practice: Portugal

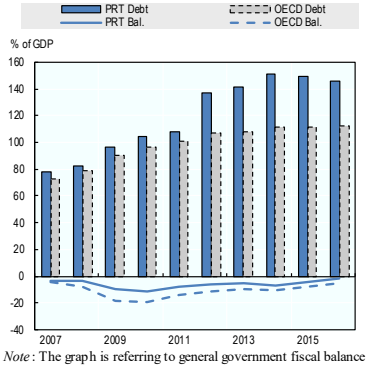
### *Economic context*

Economic growth in Portugal is projected to remain above 2% in 2018 and 2019, driven by both domestic demand and exports. Consumption growth will remain solid in response to further declines in the unemployment rate and stronger wage growth. Investment will be supported by a pick-up in major export market growth and increased public investment. Increased exports will be matched by higher imports as a result of the pick-up in domestic demand, leaving the current account balance relatively unchanged.

### *Fiscal policy plans*

The strategy is to improve the fiscal sustainability and to continue the recent fiscal adjustments. The targets for the headline deficit is -1.4% of GDP for 2017, -1.1% of GDP for 2018, and the medium targets are: -0.3% of GDP in 2019, 0.4% of GDP in 2020, 1.3% of GDP in 2021. For debt-to-GDP ratio, it is estimated at 126.2% for 2017, 123.5% in 2018, 120% in 2019, 117.6% in 2020 and 109.4% in 2021.

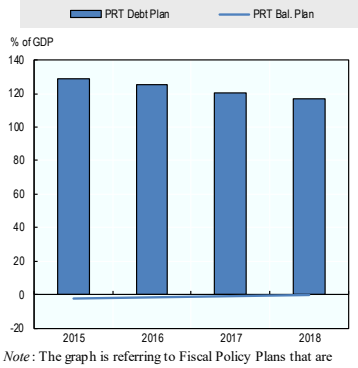
**A: Fiscal Balance and Public Debt**




*Note*: The graph is referring to general government fiscal balance and general government gross debt as defined in the OECD National Accounts Statistics.

*Source:* OECD National Accounts Statistics (database); Eurostat Government finance statistics (database).

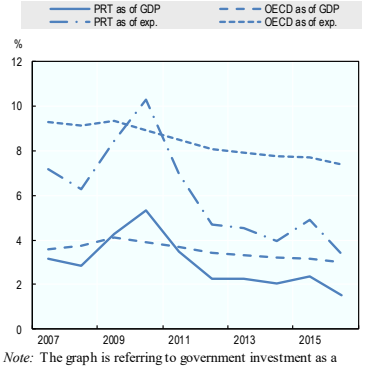
**B: Fiscal Policy Plans**




*Note*: The graph is referring to Fiscal Policy Plans that are implemented and/or officially announced as of November 2017 and as indicated by the country. Actual results in graph A may differ as the Fiscal Policy Plans are prepared by the country beforehand and as the Debt and Balance Plan reported by the country are based on the country's own definition; Data are referring to general government; No data available for 2019 and 2020.

*Source:* 2018 OECD Fiscal Plans and Budgeting Framework Survey.

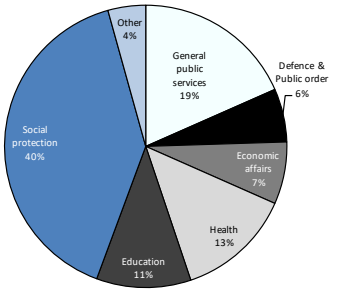
**C: Public Investment**




*Note:* The graph is referring to government investment as a percentage of GDP and as a share of total government expenditures.

*Source*: OECD National Accounts Statistics (database).

**D: Expenditure by function (2016)**




*Source:* OECD National Accounts Statistics (database); Eurostat Government finance statistics (database).

### *Developments in budgetary governance*

A new budgetary framework law (Law 151/2015 of 11 September), was adopted in 2015 to reinforce accrual accounting; further align major documents (e.g. the budget and the Stability Programme) with European fiscal surveillance requirements; increase responsibility for line ministries in budget execution; and reinforce programme and performance based budgeting.

The Portugal Participatory Budget (PPB) was introduced in 2017 as an opportunity for civil society to propose and vote on ideas for public investment of EUR 3 million in the areas of education and adult training, culture, science, agriculture and justice. In 2018, the PPB will comprise EUR 5 million and citizens will be able to propose ideas in all government areas. Portugal also has a wide range of participatory budgets at the local level with more than 80 on-going exercises.

| Central Budget Authority |
|---|
| Ministry of Finance.<br><br>Weblink: www.dgo.gov.pt |

| Legal Framework |
|---|
| The Constitution outlines the content, preparation and supervision of the budget. Other aspects of budgeting are covered in the budgetary framework law (latest version, Law 151/2015 of 11 September). |

| Budget coverage |
|---|
| The executive's budget covers general government. |

| Budget cycle | |
|---|---|
| Budget circular | April |
| Pre-budget fiscal policy statement | April |
| Negotiations with line ministries | April-Oct. |
| Executive budget proposal | 15. October |
| Parliamentary vote on budget | December |
| *Start of financial year* | *1 Jan.* |
| In-year budget execution reports | regularly |
| Mid-year implementation report | October |
| *End of financial year* | *31 Dec.* |
| Year-end budget execution report | April |
| Audited y/e budget execution report | n/a |
| Parliamentary accounting | November |

| Portugal's application of OECD budget principles "at a glance" | | |
|---|---|---|
| 1. | Fiscal policy objectives | In addition to the EU fiscal rules, an expenditure rule sets binding nominal expenditure ceilings by budget programme for the following year and indicative ceilings for the three following years. |
| 2a. | Strategic alignment | Only loose links between national framework and SDGs but Ministry of Foreign Affairs monitors the 17 SDGs and the National Statistical Institute makes information available when measurable. |
| 2b. | MTEF | The MTEF covers four years on a rolling basis with ceilings revised annually. |
| **3.** | **Capital and infrastructure** | **The budget process includes a Planning and Infrastructures Programme. Procurement under a PPP model is preceded by an analysis and proposal submitted through the PPP Unit.** |
| 4. | Transparency and accessibility | The budget is published with open data, data visualisation tools, and a citizens' guide. Distributional analyses are not published. |
| 5a. | Parliamentary engagement | The parliament holds a pre-budget debate but does not produce a report. Budget scrutiny is led by a budget committee which takes recommendations from sectoral committees into consideration. The legislature has unrestricted powers to amend the budget. Analytical support is provided by a specialised unit of around seven people. The legislature does not currently receive long-term sustainability analysis. |
| **5b.** | **Inclusive public / civic debate** | **Portugal is among only four countries that undertake participative budgeting on the national level.** |
| 6. | Budget accounting and financial reporting | Cash and/or commitment budgeting and reporting. |
| 7. | Budget execution | There is no single treasury fund; however there is a central treasury accounts system in which all general revenues are deposited. Central Government's entities revenues generally fall under the treasury unity regime, apart from certain exceptions approved annually. Social Security is separate. Line ministries and agencies have flexibility to reallocate funds, with prior approval of the Minister of Finance/Secretary of State for the Budget for certain categories of expenditure. |
| 8a. | Performance budgeting | Limited experience with performance budgeting. |
| 8b. | Evaluation and VFM | No programme evaluation requirements in place. There is an annual spending review process. |
| 9. | Fiscal risk and long-term sustainability | The Office of Planning, Strategy, Evaluation and International Relations in the Ministry of Finance produces projections covering up to five years and updated annually. The office is also responsible for identifying and managing overall fiscal risks. The Public Finance Council and parliamentary budget office also play a role identifying fiscal risks. There is a contingency reserve for unforeseen expenditure such as a natural disaster and for foreseen expenditure on policies not yet decided or announced. |
| 10. | Quality assurance and audit | The Public Finance Council assesses and endorses the macroeconomic forecasts and monitors the sustainability of fiscal policy and compliance with the fiscal rules. The parliamentary budget office provides complimentary analysis. Independent Court of Audit established in the Constitution audits government financial report. |

*Note*: Rows in **bold** represent notable international practice.

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