

# 9<sup>th</sup> OECD Paris Collaborative on Green Budgeting: The Portuguese Experience



Conselho das  
Finanças  
Públicas

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# Mission and tasks of the Portuguese Public Finance Council (CFP)



Portuguese IFI was created in 2011, following the amendment to the Budgetary Framework Law

## Mandate:

- Assessment of the macroeconomic scenarios and the consistency of budget projections with those scenarios;
- Assessment of compliance with the fiscal rules;
- Analysis of public debt dynamics and its sustainability;
- Analysis of dynamics of commitments, special emphasis on pensions and health systems and public-private partnerships and concessions;
- Assessment of the financial position of regional and local governments;
- Assessment of the economic and financial situation of public corporations;
- Analysis of tax expenditure;
- Monitoring of the budget outturn.



## CFP Approach to Climate Issues

- CFP started to address climate issues, including a specific section in the [2021 Fiscal and Sustainability Risks Report](#).
- In 2022 greater emphasis was given to climate change in the Portuguese economy and impact on public finances:
  - In CFP regular publications;
  - New research dedicated to this theme;
  - CFP organized with University of Evora a Conference on Green Budgeting, thereby stimulating the debate in the Portuguese society and academy.

## Research published by CFP staff in 2022



### **Climate change: macro-fiscal risks and challenges**

<https://www.cfp.pt/en/publications/other-publications/climate-change-macro-fiscal-risks-and-challenges>

### **The climate dimension of fiscal policy sustainability: best practices in Green Budgeting and lessons for Portugal**

<https://www.cfp.pt/en/publications/other-publications/the-climate-dimension-of-fiscal-policy-sustainability-best-practices-in-green-budgeting-and-lessons-for-portugal>

### **The Green Budget**

<https://www.cfp.pt/en/publications/other-publications/the-green-budget>

# CFP occasional paper

## Climate change: macro-fiscal risks and challenges



### **Approach:**

1. Map the problem of climate change in the Portuguese economy and understand its scope in public finances.
2. Main concepts underlying climate change and theoretical channels of transmission to the economy.
3. Existing empirical evidence for Portugal.
4. Analysis of GHG emissions and vulnerability/exposure to climate change indicators.
5. Planning tools and financial instruments adopted in Portugal.
6. Financial dimension of climate change policies in Portugal.

# CFP occasional papers on Green Budgeting

## The climate dimension of fiscal policy sustainability: best practices in Green Budgeting and lessons for Portugal



### Approach:

1. Green dimension of fiscal policy
2. Green Budgeting
  - Definition, context, tools and methodology (Green tagging)
  - Purpose and advantages:
    - Budget transparency adding to the (usual) financial dimension disclosing the impact of the budget on the environment;
    - Accountability of decision makers concerning climate goals;
    - Informed, evidence-based debate on sustainable growth.
  - Institutional Framework, reporting process, challenges and international technical support

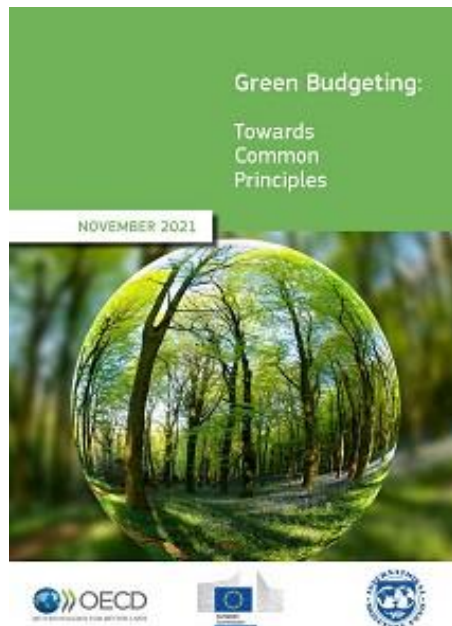
# CFP occasional papers

## The climate dimension of fiscal policy sustainability: best practices in Green Budgeting and lessons for Portugal



3. Best practices: Green budgeting, no common methodology but important steps already by EC, IMF & OECD in 2021

4. Case studies: France



- i) **green perspective in medium-term plans, integrating climate forecasts in macro-fiscal government forecasts**
- ii) introducing climate change and environmental degradation in the **assessment of fiscal risks to the sustainability of public finances**
- iii) Ex-ante and ex-post **evaluation of the impact of environmental policies** and systematic use of this information for budget decision making;
- iv) adoption of a **green perspective in the spending review exercise**, ensuring its alignment with environmental and climate policies;
- v) **green accounting balances**, through the standardization of definitions and classifications, producing reports that facilitate international comparisons;
- vi) institutional design based on a **legislated green budgeting process**, (...) focusing on: the role of the Ministry of Finance, the inclusion of the State-Owned Enterprises and the need for evaluation by independent entities.



## Portugal: Steps taken

- **Portuguese Climate Law** approved in 2021:
  - citizens' right to climate balance and commits to achieve climate neutrality by 2050
  - **Climate Action Council** that will act as an independent advisory body
  - **Climate Action Portal** to allow citizens to monitor all the relevant information) and
  
- **Green Taxation Reform** in 2014
- **Carbon tax** in 2016
- 2016: **Environmental Fund**
- **RRP** allocates 37.9% of the €16.6b to climate



# Portugal: Steps taken in the Budget



## SB/2023: Phased Approach

- Public entities asked to identify “Climate action initiatives” other than those included in the Recovery and Resilience Plan (RRP) – in compliance with Climate Law
- Measures were identified by Programme

### Article 29 (Climate Law)

#### Budget programming

1 – Without prejudice to its inclusion in several sectoral budgetary programmes, the budget appropriation for climate policy purposes should be consolidated in a State Budget account.

2-The Government ensures the integration of climate scenarios in the models that underlie the forecasts and macroeconomic scenarios that underpin the State Budget, which should explicitly include a forecast of greenhouse gas emissions for the economic year to which it relates.

3-The **State Budget** report shall:

- a) **Identify the measures to be adopted** by the Government in the field of climate policy;
- b) Indicate the consolidated budget allocation to be made available for the implementation of climate policy **in the various budgetary programmes**; and
- c) Provide an **estimate of the contribution** of the measures to the implementation of the goals provided for in this law.

4-The General State Account report shall:

- a) Identify the measures implemented by the Government on climate policy;
- b) Indicate the consolidated budget implementation of the climate action initiatives of the various budgetary programmes; and
- c) Provide an estimate of the savings achieved or expected in greenhouse gases for each of the measures.

5-The CAC issues an opinion on the State Budget and on the General State Account, under the terms of this law.

# Portugal: Steps taken in the Budget



- Measures categorized according to their contribution as "green" (in case of alignment), "yellow" (aligned aspects and aspects that need improvement) or "red" (needs improvement).
- According to the SB/2023 report, 48% of CG entities identified measures that complied with the requirements.
- Measures that contribute to main climate policy instruments on climate change mitigation and adaptation: 2519.5 M€
- No data released on measures with a "yellow" and "red" contribution to climate policy.

Methodology , coverage, responsibility and budget calendar as well as outturn monitoring to be **defined by the MoF to cover a significant part of the SB/2024.**

# CFP assessment

Analysis of the Draft State Budget for 2023 (cfp.pt)



## Noted the need for the following improvements:

1) The **methodology** should be aligned with international conventions:

- (i) colours adopted represent a departure from international colour code for the classification;
- (ii) coverage was limited to climate policy measures and not to public expenditure;
- (iii) classification of public revenue was not covered.

2) The **methodology and guidelines should be disclosed** to ensure harmonization, transparency and comparability of the data.

3) The SB/2023 represents only a **first step in Green Budgeting**.

# Portugal: what needs to be done



## Pre-conditions for green budgeting:

- Full implementation of accrual accounting & programme budgeting.
- The provisions of the Portuguese Climate Law should also be incorporated into the Budgetary Framework Law.
- Assessment of public policy impacts (*ex ante* and *ex post*).

Against (OECD, 2021b) benchmark - following improvements could be introduced:

- i. **Green tagging** of budgetary items;
- ii. **Environmental cost-benefit analysis** of the fiscal policy measures to be implemented;
- iii. **Assessment of the State Budget's environmental performance**;
- iv. **Auditing of the State Budget** along the same principles;
- v. **Regular reviews of tax expenditure and subsidies** according to their impact on climate and environment;
- vi. General Government **spending review from a green perspective**;
- vii. **Quantification of greenhouse gases** associated with the State Budget and with each of the fiscal policy measures to be adopted;
- viii. Inclusion of **climate and environmental considerations in long-term fiscal sustainability** analyses;
- ix. Adoption of a **green balance sheet**, which includes assets and liabilities related to the country's natural resources.



## Conclusions

- Better articulation between strategic tools and financial dimension.
- Achieving targets and addressing mitigation and adaptation impacts on economy/public finances:
  - Include climate dimension in macro-budgetary projections.
  - Expand traditional public debt sustainability analysis to encompass the climate/environmental dimensions.
- Green Budgeting has a potential to:
  - Align fiscal policy and climate and environmental goals.
  - Allow policy makers to make better informed decisions.
  - Pave the way to the emission of Green Bonds.
- Completing and complementing the Fiscal Framework is essential.



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**Thank you!**

