Conselho das Finanças Públicas

Session 5 – OECD Best Practices for Parliaments in Budgeting - Implementation

The Portuguese Public Finance Council (CFP) and its role in the Budget cycle and other Legislature initiatives.

15th Annual Meeting of the OECD Working Party for Independent Fiscal Institutions and Parliamentary Budget Officials, Reykjavík

14/4/2023

Overview of the Portuguese Parliament (*Assembleia da República – AR*) powers in the Budget Process

- Approval of the Budget (legal authorization for expenditure appropriations and revenue collection);
- Amendments to the Budget proposal by the Government;
- Approval of Revision Laws (required if new programs are created or in case of increase of the overall amount of expenditure);
- Control of budgetary execution (e.g. approval of final Accounts).
- **Moreover, power to tax creation (‘*no taxation without representation*’).**

Shortcomings in the Portuguese Legislature in front of OECD’s Best Practices (fiscal responsibility)

Best practices (p. 4)

- ✓ Examine long-term fiscal sustainability analysis in order to debate risks;
- ✓ Debate budgetary priorities and trade-offs to inform budget preparation;
- ✓ Review and approval of budget’s totals, with a strict frame for debate on allocative choices and potential amendments in the annual budget.

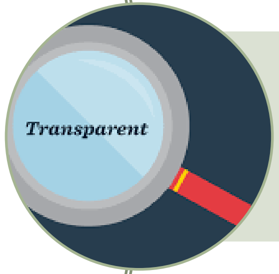
Shortcomings

- ❖ Long-term risks are underestimated (short-term bias; political and electoral opportunism);
- ❖ Weak acknowledgment and enforceability of medium-term programming instruments (the practical downgrading of the 1st stage of the budget process);
- ❖ Weak enforceability of the multiannual expenditure ceilings (they can be revised by the annual budget itself).

Note: The pandemic has accentuated all these caveats in the Portuguese budgetary system!

Other drivers for Legislature shortcomings in the budget process

Despite the creation of a support and scrutiny unit (UTAO) within the services of AR, the debate about budget priorities, budget ceilings and constraints, allocations of expenditure and respective impacts remain poor on technical grounds and captured by political ‘fait-divers’.



Budget documentation although comprehensive is not always transparent: e.g. insufficient justification for new policy measures; insufficient assessment of its impact on public and national accounts; unjustified reflection of these measures in terms of budget programs and allocations; lack of information regarding programs performance.

Despite the coverage by the media (including a Parliament Broadcast with transmission of hearings in committees and in the Assembly’s Plenary), insufficient citizens’ participation and scrutiny of the main budgetary decisions notably when they involve long-term or intergenerational effects.

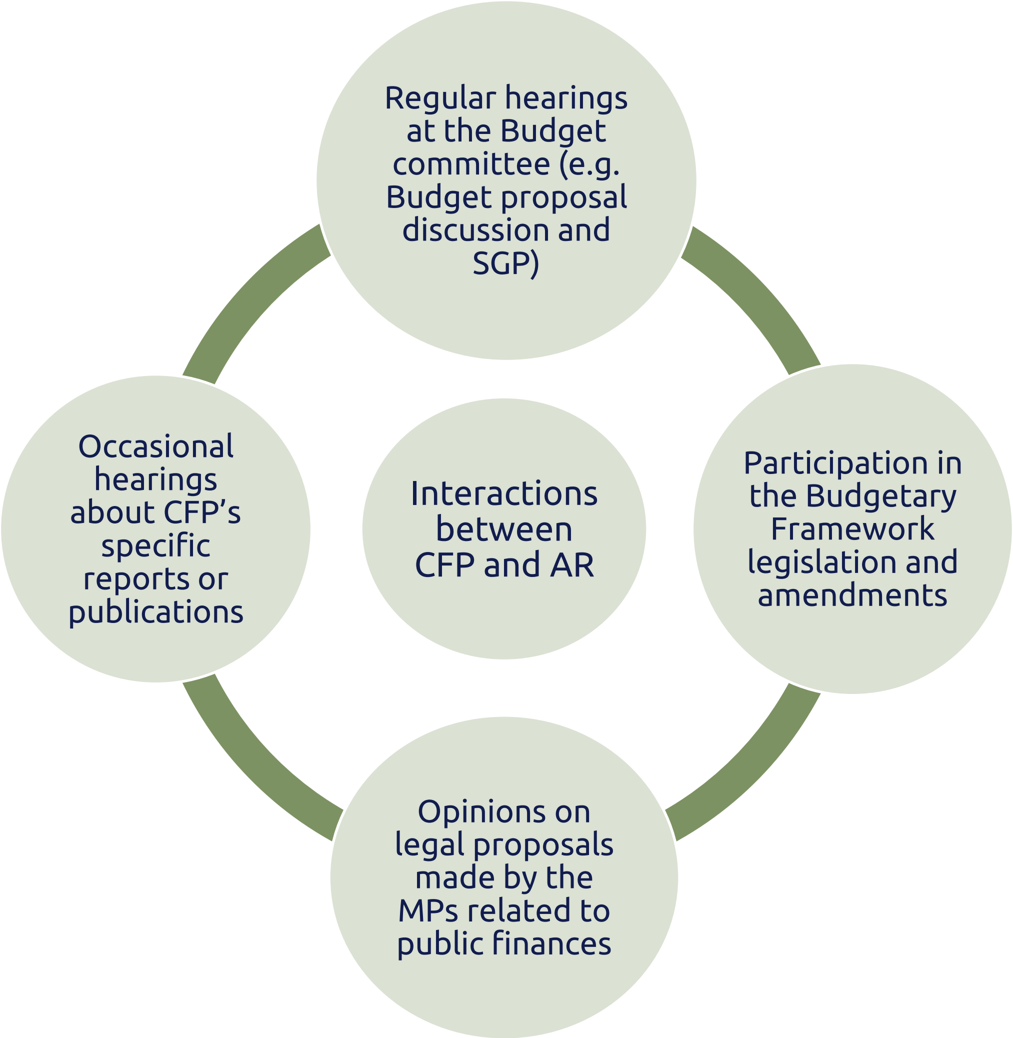
CFP's role in the improvement of the Legislature work throughout the budget cycle

> *"The capacity of the legislature to engage in the budget process and broader fiscal policy debates is enhanced by the establishment of an independent fiscal institution."*

OECD, 2023 (p. 6).

The CFP is the Portuguese IFI created by the Budgetary Framework Law (in 2011) and with its mandate, organization and functioning set by the respective Legal Statute (2011). Both laws were enacted by the Parliament.

Interactions between CFP and the Parliament



Interactions between CFP and the Parliament

Regular hearings at the Budget Committee (on the occasion of the draft budget discussion and sometimes the Stability Programme) with a focus on:

- The macro scenario;
- Trajectory of main fiscal variables;
- Fiscal stance and debt trajectory;
- Policy measures;
- Specific topics.

Interactions between CFP and the Parliament

Participation in the Budgetary Framework legislation and amendments:

- The CFP has played a proactive role in the 2020 amendment to the Budgetary Framework Law (most of the CFP's proposal were accepted by MPs);

- A critical view about the Climate Base Law (enacted in 2021) has been presented by the members of CFP's board in a newspaper article (*Expresso*).

Só se assegurarão os objetivos da política climática com finanças públicas sustentáveis e estas só se manterão sustentáveis se o combate às alterações climáticas for bem-sucedido

A nova Lei de Bases do Clima e a erosão das regras do processo orçamental

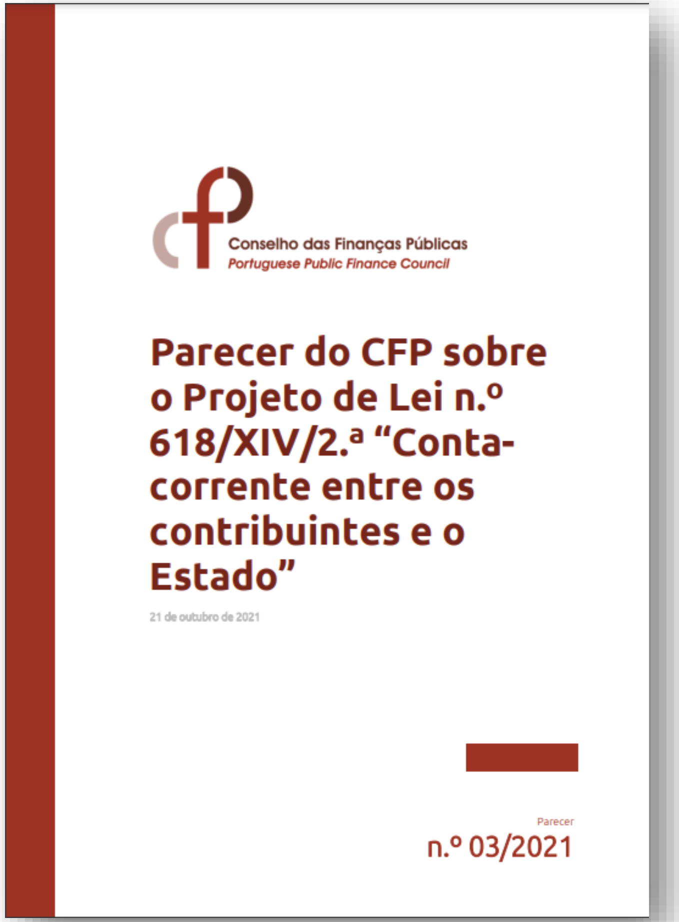
Nazaré da Costa Cabral, Carlos Marinheiro e Miguel St. Aubyn

Instituições fortes, que resultam do cumprimento das regras, solidificam a credibilidade e a boa reputação da governação, tanto no plano interno como externo

Interactions between CFP and the Parliament

Opinions on legal proposals made by the MPs related to public finances:

- The case of the proposal made by CDS-PP (a Portuguese political party) regarding compensation of tax claims;
- The opinion issued by CFP was taken in consideration (problematic aspects identified by the CFP were eliminated).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Parecer do CFP sobre o Projeto de Lei n.º 618/XIV/2.ª "Conta-corrente entre os contribuintes e o Estado"

21 de outubro de 2021

Parecer
n.º 03/2021

Interactions between CFP and the Parliament

Occasional hearings about CFP’s specific reports or publications:

- The recent case with the SOEs Report (published by the CFP in February 2023).
- The Party IL required the presence of CFP board for a hearing to discuss the main conclusions and findings of that Report, which took place March 2023.

Echoes of CFP’s interactions with AR

- ✓CFP has been increasingly seen a ‘respected voice’ by MPs (of all political parties) and its reports and conclusions are usually quoted in Plenary debates;

- ✓The media gives notice of CFP presence at AR, thereby echoing CFP’s voice for the public opinion.

However, remaining risks and caveats…

- Changes in the European Economic Governance that can negatively affect IFIs' role in fiscal surveillance;

- Changes in internal legislation downgrading CFP's mandate (e.g. the case with Regional finances);

- Risks related to the insufficiency resources (human, financial and technical) to move on with CFPs usual tasks and to develop other tools (e.g. long-term modelling to incorporate demographic and climate impact) in order to better analyse long-term fiscal risks and future sustainability of the Portuguese public finances.

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Takk fyrir!

Obrigada!