BUDGETARY TRANSPARENCY: CONTEMPORARY BUDGETING APPROACHES

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Budgetary transparency: contemporary budgeting approaches

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Abstract

Traditional budgeting, characterised by its rigidity and bureaucracy, faces increasing challenges in adapting to today's dynamic and uncertain world. The growing demand for transparency, driven by new technologies and societal expectations, is crucial for holding governments to account and engaging citizens in the policymaking process. In response to these challenges, budgeting systems have been evolving to incorporate more information about how resources are used, their objectives and their outcomes. The increasing complexity of public policy challenges has led to the development of innovative and flexible budgeting methodologies with more ambitious goals of promoting structural transformations in society. This study explores the evolution of various budgeting approaches, their advantages and disadvantages, and analyses the development of the Portuguese model in this context, identifying potential improvements to the budgetary process.

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Any errors and omissions are the sole responsibility of the author. The views expressed in this publication are solely the responsibility of the author and not of the Portuguese Public Finance Council.

1 Introduction

The national budget[1] is the main instrument available to governments for the financial implementation of public policy. Traditional, annual budgeting, characterised by a high degree of rigidity and bureaucracy, has not proved adequate for dealing with the dynamics and uncertainties of today's world, which requires more flexible solutions and instruments. Throughout the 20th and 21st centuries, successive reforms to budget systems have been implemented, with a view to providing new data on how public resources are used and for what purpose. The increase in the information being disclosed by governments contributes to greater transparency, as noted by various international institutions such as the International Budget Partnership (IPP), the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD). From the governments' perspective, transparency promotes greater accountability in the use of public resources and in the presentation of results. For citizens, who entrust governments with the management of public finances on their behalf and in their interests (Downes & Nicol, 2017), transparency fosters a better understanding of policies so that they can reap their benefits.

In recent decades, there has been a proliferation of new budgeting methodologies, some of which are instrumental to the implementation of public policies. Innovative approaches have demonstrated the need for a budgeting paradigm that is flexible and adaptable, involving, in a cross-cutting manner, all actors within the ecosystem in which they operate, and in particular citizens. This study analyses contemporary budgeting practices from the perspective of their contribution to the transparency of public policies and to the achievement of their increasingly demanding objectives, arguing that cross-cutting budgeting models may prove more suitable for the implementation of policies aimed at structural transformations in the economy and society, such as those required to respond, on the necessary scale, to the challenges of sustainability.

This study is structured into five sections. Following the first introductory section, section two sets out the conceptual framework, focusing on the various types of budgeting systems, whilst section three discusses the advantages and disadvantages of each system in promoting policy transparency and effectiveness. The fourth section analyses the evolution of the Portuguese fiscal system, whilst the final section presents some conclusions and suggestions for improving the current Portuguese fiscal system.

2 Conceptual framework of public budgeting systems

2.1 The concept of fiscal transparency in public budgeting systems

The State Budget (SB) is a fundamental economic and political instrument for any government, without which it is not possible to fulfil the State's main functions, ranging from the provision of public goods and services to policies for the redistribution of wealth, macroeconomic stabilisation and intergenerational justice (Musgrave, 1958).

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[1] Or the State Budget.

Essentially, the budget enables scarce public resources to be allocated amongst competing policies with a view to addressing different needs within society (Khan, 2019). As the national budget is funded by public money, governments have a duty to ensure transparency in its use, setting out the intended and achieved results of its implementation.

National budgets provide relevant information about a country's economy, its priorities and the way in which the state intends for government action to influence society and economic activity. They constitute an instrument of collective self-knowledge which, at any given time, reflects the public policy choices to be upheld, the constraints imposed by fiscal sustainability and the strategic ambitions that governments set out to achieve. The success of governments depends, to a large extent, on their ability to implement the objectives they set themselves, taking into account the economic, political, financial and administrative constraints within which they operate, but also on their ability to communicate these policies and to mobilise businesses, citizens and civil society to help achieve them, by enhancing fiscal transparency.

According to the OECD,[2] , fiscal transparency can be defined as the full disclosure of all relevant fiscal information in a timely and systematic manner. This concept has a multidimensional perspective, encompassing the clarity, completeness, reliability, timeliness, accessibility and user-friendliness of public information on public finances, as well as citizens' participation in the fiscal process. This same organisation identifies the most important benefits of fiscal transparency as the strengthening of accountability, legitimacy, integrity, inclusivity and the quality of fiscal decisions, which may ultimately foster trust between governments and citizens. De Fine Licht (2022) analyses the role of transparency in governance from the perspective of various types of actors (government, the public and civil society/the private sector), concluding that transparency enables citizens to monitor and analyse policy decisions and those responsible for them, encouraging public participation and demands for accountability, and allowing citizens, through their vote, to hold governments accountable for their results.

2.2 Fiscal transparency and the fiscal cycle: from short to the medium to long term

The evolution of budget systems has kept pace with this growing emphasis on transparency and accountability. The provision of clearer, more comprehensive and accessible fiscal information is not an end in itself, but rather a tool for enhancing the quality of public decision-making, the accountability of decision-makers and the monitoring of the results achieved. The way in which information is produced and disseminated is closely linked to the very design of the budget system, ideally enabling an understanding of the mechanisms for planning, implementing and controlling public finances.

Budget systems can also be analysed in the light of the time horizon within which the fiscal cycle unfolds. Best practices identified by international organisations are

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[2] Available at: https://www.oecd-ilibrary.org/sites/688822b9-en/index.html?itemId=/content/component/688822b9-en

increasingly moving away from an annual and incremental view of the budget,[3] towards a medium- and long-term orientation, in which the budget ceases to be merely an instrument for controlling expenditure and becomes a tool that provides a temporal framework for policy decisions, placing greater emphasis on the expected future effects of fiscal decisions. The cornerstone of a modern budget system is the medium-term fiscal framework, which positions the annual budget within a broader time horizon. The budget is conceived as an intertemporal, results-oriented instrument, incorporating mechanisms that enable the challenges that naturally arise to be addressed without compromising long-term sustainability.

This perspective enables policymakers to understand, *in advance,* the fiscal implications of immediate decisions and to introduce stability into the allocation of resources across different ministries and policy areas (programmes). If well designed and implemented, it makes it possible to predict, with reasonable certainty, the trajectory of projected revenue and expenditure under unchanged policies, and to understand the existing fiscal margin available to accommodate new policy measures. In scenarios where the margin is narrower, it provides essential information to trigger expenditure review exercises, which in fact amount to public policy review exercises, based on the need to find more efficient ways of implementing policies, without compromising – or even by improving – their effectiveness.

By establishing a multi-annual perspective for fiscal policy, ensuring consistency between strategic objectives, fiscal rules and resource allocation decisions, this multi-annual framework enhances the predictability, discipline and sustainability of public finances, whilst facilitating coordination between planning, fiscal programming and the evaluation of results. In this way, the fiscal system evolves from a predominantly annual and incremental approach to an intertemporal approach, geared towards results and the creation of public value in the medium and long term. Its effectiveness, however, requires a set of fundamental institutional and political conditions, including effective links between the various planning and fiscal programming instruments, a lasting political commitment to the defined targets, high standards of transparency and accountability, as well as the administrative and governance capacity to devise a coherent strategy and implement it consistently over the multi-annual time horizon.

Today's global challenges demand integrated solutions that combine scientific, technological and social innovation. They require coordination across government departments and the involvement of various sectors to promote more inclusive and sustainable growth, entailing a shift from isolated sectoral policies to systemic, mission-driven policies geared towards long-term objectives. New approaches focus on horizontal policies which, in addition to correcting market failures, shape new activities by the state and the market, thereby influencing supply, as systematised by Mazzucato *et al*. (2020). This approach aims to transform the desired future into a guiding principle for present-day decisions, strengthening the rationality, effectiveness and accountability of public policies, so as to prevent the future from being merely an automatic reflection of short-

[3] See https://economy-finance.ec.europa.eu/document/download/8973cfb2-be92-41a3-a252-5209f0161a3a_en?filename=dp189_en.pdf; https://one.oecd.org/document/GOV/SBO(2023)10/REV1/en/pdf; https://www.imf.org/-/media/files/publications/howtonotes/2024/english/htnea2024005.pdf; https://www.imf.org/-/media/files/publications/howtonotes/2024/english/htnea2024005.pdf

term choices. This logic, geared towards fiscal effectiveness, implies new competencies within public administration and a shift in mindset, both at government and parliamentary level, in the discussion and approval of fiscal documents.

2.3 Main public budgeting systems and their evolution: a brief overview

The evolution of the structure of fiscal documents and the budgetary process shows that, over time, these systems have incorporated new elements, which reflect different perspectives on the role of the budget: as an integral part of the process of formulating and implementing public policies, and as an instrument of governance and communication. Moving away from a traditionally more rigid approach, focused on resources (inputs) and the short term, the budget process in many countries has increasingly adopted a medium- and long-term perspective and has come to require new information, particularly on expected and actual outcomes and their respective impacts. In recent years, several countries have been adopting a more strategic and proactive approach, using the budget as a tool to drive change and efficiency gains (OECD, 2025).[4]

On another note, it is important to recognise the role that the national budget and the budget process play in coordinating different public bodies, including different levels of government, for the implementation of public policies. A well-designed national budget should ensure that the activities of each public body, along with its mission, targets and specific objectives, are aligned with the government's mission, targets and macro-objectives, so that the outcome of the activities carried out by these bodies contributes to fulfill the government's strategic vision. Such alignment is necessary to avoid internal conflicts and to ensure the coordinated and complementary implementation of policies; its importance increases in direct proportion to the ambition and complexity of the policies being implemented.

The preparation of a national budget, as well as its implementation, usually follows a set of formal rules that define the structure of the budget from the outset, guiding the way in which its implementation and monitoring take place. For some authors, a particular set of rules may be viewed as a budgeting theory (Hildreth, 2021), whilst for others they constitute budgeting systems (Khan, 2019) or budgeting techniques (Farazmand, 2023). Khan (2019) argues that the structure of public fiscal rules constitutes a budget system insofar as these rules define a set of elements that interrelate coherently to achieve the government's objectives and outcomes. Budget systems promote: (i) consistency, as they ensure the comparability of fiscal information over time; (ii) efficiency, by providing information that enables the measurement of resource utilisation and the outcomes achieved; (iii) coordination between bodies with distinct and complementary roles in the implementation of public policies; and (iv) transparency and understanding of the objectives set out in the budget, showing the resources allocated to policies, the responsible bodies and the intended outcomes.

The structure of each system allows for an understanding, to a greater or lesser extent, of how fiscal decisions are made, their impact on public bodies—in terms of their

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[4] Available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/12/sustainability-of-public-finances-in-oecd-countries_c19295e2/df89a38a-en.pdf.

functions, programmes and activities—as well as on the economy and the well-being of society as a whole. Different budget systems have different consequences for the structure of the budget, the information made available, and public perception and participation regarding the objectives and outcomes of public policies. And the budget process essentially reflects the characteristics of the budget system. During the implementation phase, the budget system provides a roadmap to guide the activities to be carried out and the accountability of the bodies involved in implementing policies, in order to achieve these objectives.

There are various types of budget systems, and a single budget system may comprise several different subsystems, reflecting the incorporation of new elements over time. De Campos & Rodrigues (2016), Khan (2019) and Brusca & Labrador (2023) have systematised the various types of budget systems discussed here, some of which may in fact be regarded as subsystems as they are adaptations of other systems.

The system traditionally used in the preparation of government budgets consists of presenting revenue and expenditure by line item, using one or more budget classifications (e.g. economic, functional and organisational).[5] Line-item budgeting is relatively simple to construct and analyse, allowing for a high degree of control over revenue and expenditure by entity and nature through the level of detail in the classification system used. Resources and their use are presented by specific line items without taking into account or specifying the specific objectives that justify such expenditure. As a rule, this type of budget is incremental (incremental budgeting), based on the previous budget, to which increments are added, generally to reflect inflation and other identified changes.

A programme-based budgeting system presents expenditure (and its respective sources of funding) by areas of government activity or public policy, alongside the traditional line-item classification structure. Budget programmes function as aggregators of revenue and expenditure, with a common purpose. In a programme-based budget, decisions on the allocation of resources take into account the objectives to be achieved in each programme, although these may not be explicitly stated.

Performance budgeting represents a further development of the programme-based budgeting approach, whereby the allocation of resources between different programmes is based on the service levels achieved (actual performance) and those intended to be achieved (budget).[6] In this type of system, the focus is less on expenditure and more on how this expenditure enables the objectives set for each programme to be

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[5] The economic classification reflects the nature of expenditure, the functional classification allows resources to be allocated to the different functions of the State, and the organisational classification aims to identify the entity responsible for the use of resources.

[6] Although it is a constantly evolving concept, the OECD defines performance-based budgeting as "the systematic use of performance information to inform fiscal decisions, either as a direct input into resource allocation decisions or as contextual information supporting fiscal planning. Its purpose is to promote greater transparency and accountability throughout the fiscal process, by providing information to government officials, legislators and the public on the objectives of expenditure and the results achieved." This system can give rise to four types of budgeting depending on the role that information plays in the process and the point at which it is used: informative budgeting, performance-informed budgeting, management budgeting and performance-based budgeting.

achieved and on its impact on society. Performance indicators are presented by programme and/or by activities and projects. From a conceptual point of view, the indicators establish a cause-and-effect relationship between the programme's targets, the allocated budget and the programme's results.

In zero-based budgeting, the budget is drawn up without taking into account the historical expenditure on activities of a similar nature. Each activity is justified on the basis of its cost-benefit ratio, regardless of past costs or outcomes, unlike in the traditional budgeting system where the previous year's expenditure serves as the starting point. The budget classification for presentation and decision-making purposes varies, and classification units used in other systems – such as programmes, activities or specific functional units – may be employed.

Strategic budgeting provides a broader view of the budget than traditional budgeting, in that the allocation of resources takes into account internal and external factors that may influence the State's activities. In this system, budgeting is continuously linked to strategic planning over a multi-annual horizon, with the budget being recalibrated in response to significant changes in the environment in which it operates and the need to adapt policies to the challenges they are intended to address. There is a clear link between strategic objectives (missions) and the role of the budget in achieving these objectives in operational terms.

In budgeting based on planning and programming (the planning, programming and budgeting system or PPBS), there are three fundamental elements. Planning enables the government to set targets and objectives and to determine the criteria for achieving them. The formal structure of the budget is based on a programme-based approach, which breaks down into results-oriented activities, linking allocated resources (by nature) to specific outcomes.

An outcome-based budgeting system has a fiscal structure similar to that of a performance-based budgeting system, placing particular emphasis on the long-term impact and consequences for society resulting from the policies reflected in the budget. The link between resources and the desired impact of policies is established throughout the fiscal process, so that the results achieved by the bodies implementing the policy contribute directly to the desired impact on society. This creates a cause-and-effect relationship between the activities of the public administration, the way in which it allocates resources, and the outcomes of the policy.

In the target-based budgeting system, the fiscal process is geared towards finding the solution that ensures the greatest effectiveness in achieving the desired outcomes. The process begins with the setting of targets for the expenditure levels of each public body, which may depend on the body's past performance or on the identification of priority areas to be addressed. Public bodies submit a budget for mandatory expenditure and a budget for discretionary expenditure, with the implementation of the latter being conditional upon compliance with the requirements relating to non-discretionary expenditure targets.

Priority-driven budgeting shares common elements with strategic and zero-based budgeting systems, in that it enables the identification of strategic priorities, the activities that best contribute to achieving them, and consequently the optimal allocation of resources. In this system, the starting point involves identifying foreseeable resources from all sources of funding. In other words, it is not based on the needs of public services, but rather on the possibilities for funding. The next stage involves identifying priorities (or missions, as in strategic budgeting), with a view to achieving results that are valued by society. This greater visibility and the possibility of public evaluation of results entail a demanding exercise in defining the activities to be carried out, in order to ensure the effectiveness and usefulness of policies.

Accrual budgeting is a budget system that recognises revenue and expenditure when the underlying transactions occur, regardless of when receipt or payment is expected to take place. It provides a comprehensive view of the financial impact of public policies, including items such as depreciation of assets, provisions and future liabilities. This system provides more comprehensive information on the actual costs of policies, the state of assets, accumulated liabilities and medium- and long-term financial sustainability, strengthening incentives for the efficient management of the capital stock, as it offers a broader view of its evolution and depreciation, thereby supporting better planning of the necessary investments.

Sustainability budgeting is another approach that combines elements from different systems. In this system, strategic priorities take on a more comprehensive nature with a view to bringing about long-term structural changes, in contrast to traditional systems, which are more focused on financial control (line-item budgeting), the achievement of objectives (programme-based budgeting), efficiency in the use of resources (performance-based budgeting) or the allocation of resources (zero-based budgeting). The approach in this type of system typically involves drawing up no-policy-change projections, analysing the government's balance sheet (assets and liabilities), analysing trends in relevant fiscal indicators (budget balance and public debt) and analysing generational accounting (assessing the future impact of current policies). It also involves identifying the public policies that contribute most to ensuring the desired level of sustainability.

The participatory budgeting system benefits from citizens' participation at various stages of the budget process. It is a more transparent and accountability-oriented process, in that it promotes scrutiny of policies by members of the public interested in monitoring their progress. Its proximity to citizens means it is a system more widely adopted by local government bodies such as local authorities. At its core, participatory budgeting is carried out through citizen involvement, specifically through the collection of proposals, their analysis, selection and prioritisation, approval, implementation and monitoring. Its effectiveness depends on three conditions (Julie Garrigues, 2016): the government must have the necessary resources for its implementation and the capacity to manage them; there must be citizen involvement in the process; and there must be transparency and accountability in the implementation of the budget.

In recent years, we have witnessed the emergence of a new budgeting paradigm based on mainstreaming, which requires that objectives be incorporated into the design and implementation of programmes from the outset. This approach tends to be more qualitative (Begg et al, 2024) and is transformational in nature (transformational budgeting), encompassing, in addition to the structure by budget line or programme, information on the impact of the far-reaching changes sought, using performance indicators to measure progress over time. The budget is used as a means to promote agendas for the structural transformation of the economy and society, which are prioritised and integrated with the other public policies underpinning the budget (Blanch et al, 2023). The budget process is used to achieve cross-cutting government objectives (transformational agendas), which require action across different areas of public policy. Transformational agendas are aspirational; they have quantitative and qualitative objectives, cross-cutting activities, common reporting lines across different areas, and are developed by multidisciplinary teams (Blanch et al, 2023). Applying this filter to the entire budget involves reviewing and assessing ongoing programmes and policies, identifying their impact on the agenda's objectives, for example through tagging. Information on activities and their outcomes is therefore of fundamental importance in consolidating the contribution of all policies. It is akin to conducting a review of cross-cutting expenditure for a specific agenda, encompassing a range of horizontal policies and measures.[7]

3 Information and transparency in budgeting systems

The previous section sought to systematise the budgeting systems already identified in the literature, highlighting the elements that distinguish them in terms of the information provided. Generally speaking, all systems incorporate elements of flexibility and transparency in the presentation of fiscal information, varying in the details they make available to the public. Traditionally, budgets have been more focused on presenting information on resources, that is, on how resources are allocated across different categories of revenue and expenditure and on who spends them (i.e. which entities). In this type of system, Aaron Wildavsky (1964) argues that fiscal decisions are fundamentally marginal. Given the high complexity of the fiscal process and the need to reach solid consensus, budgets are essentially an exercise of updating decisions taken in the past. This author views the traditional, incrementalist budget as a conservative instrument that perpetuates the past, lacking any real capacity for transformation.

More contemporary systems, which have been implemented in various countries, have kept pace with the expansion of public policies, both in terms of scope and sophistication, placing greater emphasis on the allocation of resources to different areas of public policy by specifically identifying the objectives and outcomes of these policies. These systems have built upon the old approaches, expanding and adapting the information provided, giving it a more strategic dimension geared towards improving the efficiency and/or effectiveness of the system and public administration in delivering outcomes that meet citizens' needs. Citizens' ever-increasing demands for governments to act in response to their needs, coupled with the fact that monitoring of government action is made increasingly easier by the media and, in particular, by social media, is another reason why budgets are becoming increasingly explicit regarding their objectives and the feasibility of achieving them.

The introduction of performance-based budgeting has brought more information into the budget process and, consequently, greater transparency regarding the causal link between policies and the changes intended through these policies. However, as Allen Schick (2014) points out, information does not equate to transformation, which means that making more information available is not, in itself, sufficient to bring about change.

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[7] This methodology underpins budgeting for the Sustainable Development Goals (B4SDG) in some regions and green budgeting. See: https://sdgfinance.undp.org/our-services/public-finance/budget.

Nor does more information necessarily mean better information (Curristine & Flynn, 2013). OECD studies show that changes in public administration performance are greater when they are triggered by actions other than the budget; – that is, when the budget is not the main driver of change, but rather the means used to demonstrate change through the information provided.[8] Regarding the role of information in the budget process, Nazaré Cabral (2008) discusses the extent to which the structure and content of the budget influence the achievement of policy objectives, arguing that information is used primarily to support rational decision-making by stakeholders. The budget thus emerges as an information tool that serves the purpose of optimising the allocation of resources to maximise social and collective well-being. Information makes it possible to identify citizens' demand for goods and services and, in this way, to forecast the level of provision of goods and services that governments consider appropriate.

PPBS, on the other hand, addresses other concerns. This system was introduced in the USA in the 1950s, combining planning, programming and business management techniques into a single model. Designed to accommodate the multiple functions of the budget, this system requires information that enables operational control, management and strategic planning (Cabral, 2008), and is complemented by performance targets and a programme-based fiscal budget structure, as a means of streamlining decision-making on the allocation of resources. It thus broadens the scope of control – internal and external, micro and macro – providing a comprehensive perspective on what is intended to be achieved through the implementation of the budget. Regarding this system, Melvin Ashen (1965) argued that, given that the essential role of the budget is to rationally guide the actions of all agents in the national economy, PPBS should replace traditional budgeting by providing the relevant information that enables agents to understand and interpret the direction and impact of expenditure on current and future public programmes.

In contrast, Allen Schick (2014) argues for limiting the application of performance-based budgeting, as it creates conflicts between different areas of activity and an excessive bureaucratic burden, arising from the need to collect information. For a performance-based budgeting system to contribute effectively to change, he argues that it should be applied only to the allocation of marginal resources; that is, it would not apply to mandatory, recurrent expenditure, but only to new policy initiatives (so-called discretionary expenditure). According to this author, this limitation allows for a better understanding of the impact of new policy measures on the economy and society, by presenting a scenario with unchanged policies and a scenario with measures

On a different note, accrual-based budgeting introduces significant specific features into the fiscal process and the associated budget structure, particularly regarding the timing of transactions, recognising their economic effects when they arise, irrespective of the corresponding cash flow. Transactions such as the revaluation of assets and the impact of methodological choices regarding depreciation or impairments require a high level of technical expertise and may introduce additional complexity into the budgeting process, potentially making it less transparent and less comprehensible (Blondal, 2004; Robinson, 2009). For this reason, even in systems that adopt the accrual basis, reconciliation with the cash basis remains essential, as the two must coexist; monetary cash flows continue

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[8] See, for example: OECD (2019), OECD Good Practices for Performance Budgeting, OECD Publishing, Paris.

to be a key element in the analysis of fiscal policy and parliamentary scrutiny. Reconciliation between accrual-based statements and cash flows is thus indispensable for ensuring transparency, fiscal discipline and the comprehensibility of the process for decision-makers and the public, notwithstanding the fact that the focus of this type of system continues to centre predominantly on the resources utilised and their allocation, rather than on the results or impacts produced by public action.

Participatory budgeting, which began in Brazil in the late 1990s, has been regarded as one of the finest examples of participatory democracy, owing to the role given to citizens in decisions regarding the allocation of public resources. This distinction is, in fact, based on the very nature of fiscal decision-making, contrasting the conventional model of representative democracy – in which the budget is drawn up by the Government and approved by Parliament – with participatory models that directly involve citizens in the fiscal process. Whilst it is true that many of the criticisms mentioned above still apply to this system (for example, the fact that decisions apply only marginally and not to the budget as a whole), the information made available during the budget process plays an important role in publicising the policies to be implemented and in mobilising stakeholders to bring them to fruition. More recent experiences have been fostering greater citizen involvement in the process of drawing up national budgets, for example through public consultations within a parliamentary context. This is the case in Australia, the United Kingdom, Canada, Ireland and France. This dialogue between citizens and governments can be transformative for both parties, contributing, on the one hand, to a better understanding of the complexity of the budget process and the allocation of resources underpinning it and, on the other, allowing feedback on policies from their potential beneficiaries whilst they are still being formulated. However, the breadth of the policies reflected in a national budget means that this dialogue with citizens cannot cover the entire budget, inevitably leading to a greater focus on the new measures or policies at any given time.

The successive changes that have been introduced to budget systems and the ease with which information can be accessed and processed have, in recent years, paved the way for the development of innovative approaches to budgeting – approaches that are more geared towards long-term objectives and the monitoring of progress over time, but also more focused on the cross-cutting nature of the governance processes required to implement them. The typical output of a transformational budget is a report identifying the activities aligned with each transformational agenda; it may also take the form of an expenditure budget or a thematic account. Examples of transformational budgeting include green budgeting, gender budgeting, budgeting for the Sustainable Development Goals (SDGs) and well-being budgeting. These approaches systematise solutions to wide-ranging contemporary social, economic and environmental challenges, drawing on the national budget to achieve systemic transformations over an extended time horizon. In many cases, they form part of the broader framework of mainstreaming, whose strength lies precisely in its ability to transform narratives, influence political priorities and shape the way in which cross-cutting objectives are integrated into public action across various domains (Halpern et al., 2008).[9] In this context, governments play a driving role through a package or programme of integrated policy measures with a strategic focus, ensuring holistic coordination across various areas of government and among different actors,

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[9] *Mainstreaming* is understood as the conscious, systematic and concrete integration of certain values and standards into policies, plans, programmes, priorities, processes and outcomes.

from both vertical and horizontal perspectives, with a view to achieving concrete results (Larrue, 2021). This approach is not necessarily an alternative to performance-based budgeting, but rather a complementary system that benefits from its integration. Both approaches seek to guide public policy choices and ensure that policy objectives are achieved. In mainstreaming, the main concern is to demonstrate, in the design of expenditure programmes, what is intended to be changed. Performance-based budgeting, on the other hand, shows the intended and achieved results of policy implementation, influencing policies at the operational level, whilst mainstreaming operates more at the strategic level.

Strategic budgeting has been gaining prominence in the context of the modernisation of public financial management, seeking to strengthen the link between strategic priorities, multi-annual planning and budgetary decisions. This approach aims to align public resources with medium- and long-term strategic objectives by integrating strategic planning into the fiscal framework. This type of budgeting enables the strategic allocation of public resources, particularly towards investment, with a view to achieving specific economic growth objectives and enhancing competitiveness. Instruments associated with European funds have increasingly incorporated this strategic approach, although challenges remain regarding the effective integration of policies, outcomes and impact assessment. Against this backdrop, the fiscal system is being progressively realigned around a framework of public value creation, reflecting a greater focus on the State's capacity to deliver concrete results, rather than merely on changes in the overall volume of expenditure. The budget thus takes on a multi-annual and intertemporal perspective, reinforced by the presentation of information on outcomes and a balance sheet of the State, the evolution of which highlights the accumulation of public investment assets and their effects over time on the sustainability of public finances and the economy's growth potential. Every fiscal decision reflects a choice regarding the expected future economic benefits. A link to outcomes is also established at the financing level, notably through thematic bonds (green, sustainable, etc.), thereby enhancing transparency and accountability and signalling the commitment to creating sustainable long-term value.

Recently, we have seen a new approach of conditional budgeting, driven by the need to ensure that certain cross-cutting and strategic objectives are met [10] – with a view to enhancing efficiency and accountability in the use of resources. Whilst performance-based budgeting links funding to the results and objectives to be achieved, conditional budgeting further introduces the possibility of releasing or adjusting these resources only when certain previously defined indicators, milestones or performance targets are met. In this way, funding is no longer linked solely to initial planning but also depends on evidence of results, encouraging management that is more focused on effectiveness and transparency, based on continuous monitoring of the policies or projects being funded.[11] This type of budgeting, which has been introduced at European level, aims to improve the resilience of the economies concerned, by creating incentives to implement essential reforms and investments (Larch, 2025), prompting reflection on its possible extension to

[10] Typically, these involve reforms and investments.

[11] An example of this budgeting model is the Recovery and Resilience Plans funded by the Recovery and Resilience Facility, which seek to allocate resources to three major strategic objectives: the green and digital transitions and the strengthening of Member States' resilience.

the entire national budget in Member States, drawing on the experience gained in aligning strategic priorities and funding, as well as the monitoring and control mechanisms already in place (Iain et al, 2024).

All budgeting systems have their advantages and disadvantages; there is no single model that can meet all the needs of all budget users across all jurisdictional contexts (see Table 1). Over time, the gaps and limitations of each system have been addressed through innovative approaches that reflect the concerns of each era, complementing the traditional system with new information. This new information provides a fresh perspective on the efficiency of public resource management – resources that are becoming increasingly scarce given the scope of state intervention (from the administration's perspective) – and on the effectiveness of policies (from the citizens' perspective). Approaches taken to place increasing emphasis on making information available regarding the intended outcomes of public policies, confirming the growing importance these policies have come to assume in various areas of public life and the level of expectation held by society at large regarding the way in which policies are formulated, designed, communicated and implemented. But this information also serves to help us learn more about current public policies and the way in which governments implement them, enabling to the identification of areas for improvement.

National budgets have increasingly come to be seen as instruments for communicating political strategies, with discussions on them serving to validate or shape policies in line with the needs and preferences of the society in which they operate. In this context, the nature of the information and the way in which it is presented in budgets plays a central role, also influencing levels of trust in governments and their governance.

Table 1 – Comparison of Budget systems

System	Focus	Advantages	Disadvantages	Transparency
Line-item budgeting	Revenue and expenditure by fiscal heading	Simple to construct and analyse, allowing for a high degree of control over revenue and expenditure by entity and type.	Resources are allocated to specific budget headings without regard to policy objectives and priorities; this does not promote efficiency in the allocation of resources.	High in terms of resources and how they are used. Nonexistent in terms of the public policies to be implemented and their objectives.
Programme-based budgeting	Programmes, activities and projects, and their respective objectives and targets	Provides a rational basis for the allocation of resources (programmes); facilitates the planning of activities to be carried out to achieve policy objectives.	It does not allow for the assessment of performance and does not provide information on the efficiency of resource management.	Programme-based reporting facilitates the evaluation of current policies and enables Parliament to discuss policies and their aims, whilst allowing citizens to monitor them.
Performance-based budgeting	Targets set for each programme	Promotes capacity-building and better governance and resource management to achieve objectives; links planning and budgeting with a view to improving the design and implementation of public policies.	An excessive focus on specific performance indicators may result in sub-optimal decisions that prioritise easily measurable indicators at the expense of other, broader objectives and priorities.	It promotes accountability amongst organisations and provides detailed information on the use of resources and their outcomes; it fosters a results-oriented organisational culture that benefits citizens.
Zero-based budgeting	Detailed analysis of targets, processes and resources	It allows the budget to be tailored to the needs of each government by identifying new decision-making units, without the need to adhere to a fixed structure.	Too many decision-making units make the process complex, hindering coordination between different organisations or areas. The absence of a fixed structure hinders historical comparability.	It enables the identification of policies to be implemented and their monitoring. It makes it difficult to track progress over time.
Strategic budgeting	Mission, vision, goals and objectives, mapping out strategies, policies and actions	Budgeting is constantly aligned with strategic planning; an action-oriented system designed to drive results and facilitate necessary adjustments.	Time required for the preparation and implementation of the budget, as it requires ongoing coordination with strategic documents.	High, in that it identifies the policies to be implemented and their progress over the medium term, enabling their monitoring. It provides an overview of the policies the government intends to implement and the results it aims to achieve.
Budgeting based on planning and programming	Planning, programming and budgeting	Link between a programme, its targets, objectives and financial resources.	A top-down approach resulting in a more rigid fiscal structure, hindering coordination between different public bodies.	High, highlighting policy planning, targets and allocated resources. Greater accountability for the implementation of policies and the budget.
Results-based budgeting	Long-term impact and consequences of policies	The cause-and-effect relationship between public administration activities and the way in which the allocation of resources affects policy outcomes.	A tendency to set targets too low in order to inflate the government's performance at the end of the year. Adequate oversight is required to ensure that realistic targets are set.	High in terms of identifying the desired outcomes for society and the path and measures required to achieve them.
Target-based budgeting	Targets for expenditure levels of each public body	Control of public expenditure.	High-quality revenue forecasts and a stable tax system are required to set expenditure levels.	Visibility regarding public policies is limited, as targets are more focused on expenditure control.
Priority-driven budgeting	Strategic priorities and the identification of activities that best contribute to achieving them	Identification of priorities at the level of public bodies with a view to achieving results that are valued by society.	This involves a demanding process of defining the activities to be carried out in order to ensure the effectiveness of policies.	Greater transparency and the possibility of public assessment of results.
Incremental budgeting	Financial impact of public policies	More comprehensive information on the actual costs of policies, the state of assets, accumulated liabilities and the government's financial position.	The process is more technical and requires greater accounting expertise. It does not preclude the presentation and reconciliation of information on a cash basis.	It ensures a high level of economic transparency by reflecting the cost of resources consumed, but needs to be combined with other systems or subsystems to ensure adequate visibility of public policies.
Budgeting for sustainability	Broader priorities aimed at bringing about long-term structural changes, ensuring solvency, economic growth, stability and intergenerational justice.	Identification of the public policies that contribute most to ensuring the desired level of sustainability.	A set of standardised and reliable indicators to measure impacts across various areas.	High, in that it not only provides an overview of short-term objectives but also places them within a medium- to long-term perspective, identifying the expected impact on the economy and society.
Participatory budgeting	Proposals from citizens.	Citizen involvement, notably through the collection, analysis, selection and prioritisation of proposals, as well as their approval, implementation and monitoring.	Insofar as policies are defined by citizens, their effectiveness depends on the availability of the resources necessary for their implementation, as well as information that enables their execution to be monitored.	It is a more transparent and accountability-oriented process, promoting scrutiny of policies by the general public, who are interested in following their progress.
Transformational budgeting	Transformative agendas to achieve long-term strategic objectives	A holistic and integrated view of public policies and their contribution improves coherence between strategic planning and the budget, enabling long-term goals to be clearly reflected in the budget. for cross-cutting agendas	Subjectivity in identifying and evaluating activities aligned with the agenda. Administrative effort involved in defining new methodologies, platforms and coordination requirements. Without strong governance, it may become merely a formal classification exercise.	High, as it provides visibility on the contribution of policies to transformational goals, clarifying costs, responsibilities and strategic alignments. The public dissemination of reports and data via digital platforms brings information closer to citizens and strengthens government accountability.
Conditional budgeting	Identification of structural reforms and investments	It increases the efficiency, effectiveness and impact of expenditure by creating financial incentives to implement necessary reforms and investments, with long-term effects.	Implementation is administratively demanding, requiring continuous monitoring and a high level of technical capacity. Misalignment between payments and outcomes may occur if targets and indicators are poorly defined.	Conditional budgeting enhances transparency by making the link between funding and concrete results explicit, enabling clear scrutiny of government performance.

Source: Adapted from Khan (2019), Blanch et al (2022) and Larch (2025).

4 The Portuguese budget system: the gradual incorporation of new public budgeting models and the strengthening of fiscal transparency

4.1 Historical development

The evolution of the Portuguese budget system reflects a gradual process of transformation, marked by successive legal and institutional reforms that sought to strengthen the link between planning, resource allocation and the evaluation of public policies. This process, far from being linear, highlights the coexistence of different paradigms – ranging from an economic planning approach to more recent performance-oriented approaches – resulting in a hybrid model that is still in the process of consolidation.

Ever since the first framework law on the State Budget (SB), provision has been made for the possibility of a programme-based budget structure in Portugal.[12] This possibility was first implemented for investment expenditure, with the creation of the Central Government Investment and Development Expenditure Programme (PIDDAC), and later in Law No. 6/91 of 20 February,[13] , through the establishment of specific programme-based tables for central government expenditure. Although this Act provided for the full (or partial) specification of the State Budget by multi-annual fiscal programmes, the indicators for assessing economy, efficiency and effectiveness were identified only for PIDDAC expenditure.

With the 2001 Fiscal Framework Act (Act No. 91/2001 of 20 August) and its implementing regulations (Decree-Law No. 131/2003 of 28 June),[14] there was an effort to refine the conceptual framework of programme-based budgeting, which came to be understood as a multi-annual cycle of planning, programming, budgeting, monitoring and evaluation of the performance of State activities. In this context, budget programmes would henceforth incorporate not only the financial dimension, but also objectives, targets and indicators enabling the economy, efficiency and effectiveness of public expenditure to be assessed, bringing the Portuguese system closer to international practices of results-oriented management. The third amendment to this law (Law No. 48/2004 of 24 August) moved towards a model of objective-based budgeting (or performance budgeting), and although some steps had been taken in this direction, the new model did not take hold.[15]

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[12] Law No. 64/77 of 26 August, the Framework Law on the State Budget.

[13] Law establishing the Framework for the State Budget.

[14] It provides for the possibility that the budgets of public administrative sector bodies may be structured, in whole or in part, by programmes, comprising measures and projects involving multi-annual expenditure, linked to macroeconomic policies defined by the Government. Fiscal programmes should set out the respective financial amounts, the indicators enabling an assessment of their economy, efficiency and effectiveness and, in the case of investment and development expenditure, their regional breakdown.

[15] Law No. 48/2004 retained the fiscal planning framework but introduced some changes to the design of budget programmes, in terms of structure and specification rules (Martins, 2020). Investment

In a subsequent legislative review, in 2011, programme-based budgeting ceased to distinguish investment expenditure, becoming a mandatory classification for all central government expenditure. A multi-annual budgetary programming law (the MFBF) was then adopted for the first time,[16] covering all expenditure financed by general central government revenue. The programmes created made it possible to group expenditure by measures, which work together in a coordinated and complementary manner to achieve the specific objectives of the public policies developed by each ministry. Although a multi-annual programming framework was established through the MFBF, this instrument did not establish a direct link to expenditure under budget programmes, as it covered only expenditure financed by general revenue. Within the framework of the State Budget, however, this law introduced new layers of information, complementing the so-called 'traditional' information on resources – classified by economic, functional and organisational categories – with a new classification by programmes, measures and projects or activities. This hybrid model has prevailed well beyond the entry into force of the current Fiscal Framework Law published in 2015, coexisting with the new programming structure provided for in the latter since the State Budget for 2022.[17]

Table 2 – Levels of Programme-Based Budgeting in the Portuguese System

Breakdown	Until 2024	After 2024
1st level	Programme grouping	Organic base mission
2nd level	Programme grouping	Programme
3rd level	Measure	Action
4th level	Project or Activity	Project or Activity

Source: Author's own work.

4.2 The current system

The Portuguese fiscal system has gradually incorporated various elements of the contemporary budget systems described above, which are currently set out in the BFL,[18] published in 2015. The performance-oriented budgeting model was clarified more recently in Decree-Law No. 86/2025 of 18 July, which laid down its regulations. Since this law came into force, the budget process is formally structured in two phases.[19] The first phase takes place in the spring and involves the preparation and submission of various strategic documents (Article 32), including the Stability Programme (now repealed by

expenditure remained subject to mandatory planning, whilst the planning of expenditure relating to service activities was optional.

16 The Multi-Annual Budget Programming Framework.

17 The 2022 State Budget Report introduced a pilot project for the new programme-based budgeting model, covering the Organic Base Mission (MBO) of the Sea. This model was subsequently extended to other MBOs, and in the 2026 State Budget proposal it covers all MBOs.

18 Law No. 151/2015 of 11 September.

19 Law No. 37/2018 of 7 August postponed the entry into force of the LEO to 1 April 2020, coinciding with the onset of the COVID-19 pandemic. Law No. 75-C/2020 of 31 December went on to approve the Major Policy Decisions Act, which incorporated the Multiannual Public Expenditure Framework for the first time; these instruments form part of the first phase of the fiscal process.

new European legislation),[20] the Major Policy Choices Act (GOp) and the Multiannual Public Expenditure Framework (MPEF). These three documents have been harmonised and with the European Semester, adopting a common four-year timeframe. In addition, the MPEF now incorporates the other instruments, being established by law as the fiscal framework that governs the strategic and programmatic options (defined in the GOp), which are subject to existing fiscal constraints. The MPEF aims to provide key information on the overall expenditure ceiling for central government and social security, consistent with the medium-term objectives for public finances. It also sets expenditure ceilings by organic base missions – corresponding to the different areas of public policy – and presents a projection of public revenue by source of funding, which must be consistent with the macroeconomic scenario projected for the same time horizon. The BFL also stipulates that the MPEF must identify the cumulative contractual commitments, an essential element for assessing the degree of expenditure rigidity and the available fiscal margin.

For these instruments to fulfil their role of anchoring economic and fiscal governance in the medium term, there must be effective coordination between them; however, despite the BFL being fully in force, this has not yet been sufficiently achieved.[21] The ongoing revision of the BFL – prompted by the need to transpose the changes arising from the EU's new economic governance framework, adopted in 2024 – presents an opportunity to revisit the medium-term fiscal framework and strengthen the link between the strategic and fiscal dimensions. This strengthening should take place not only in the first phase of the fiscal process, but also between this phase and the second phase (Articles 36 et seq.), so that the State Budget implements the guidelines previously defined in the medium-term fiscal strategy. This implementation is achieved, in particular, by breaking down the financial allocations for each MBO (approved in the first phase) into results-oriented budget programmes (in the second phase). This performance-based budgeting system has been progressively incorporated into the State Budget since 2022, whilst retaining traditional budgeting by headings (economic, functional, organisational and programme classifications).

With the widespread adoption of performance-oriented programme-based budgeting in the 2026 State Budget, the budget is now clearly structured by programmes, actions, objectives and indicators. However, some limitations remain that need to be addressed. For the budget to serve as a tool with the desired level of transparency, it must systematically set out the past decisions it intends to retain, how it aims to improve their efficiency and effectiveness, and what it aspires to achieve, identifying the baseline and the respective targets to be met in each financial year. Setting targets makes it possible to establish measurable commitments, assess the level of ambition and the pace of

[20] With the reform of European economic governance, adopted in April 2024, the Stability Programme was replaced by the National medium-term fiscal-structural plan. See Regulation (EU) No 1263/2024 of the European Parliament and of the Council of 29 April, amending Council Regulation (EC) No 1466/97.

[21] Firstly, because they are based on different accounting frameworks (the Stability Programme, now tacitly repealed, was presented using national accounts, whilst the MPEF is based on public accounting) and the instruments have different scopes (the Stability Programme covered the entire general government sector, whilst the MPEF only sets limits on central government and social security expenditure). Furthermore, the Stability Programme provided a consolidated view of the general government account, whereas the MPEF presents a non-consolidated view by MBO, even though it includes both consolidated and non-consolidated figures for total expenditure in the central government and social security sub-sectors, making it difficult to compare the two instruments.

progress, and strengthen accountability mechanisms. These are essential elements for the budget to become an analytical tool, enabling public policy choices to be understood as part of a deliberate process concerning the country's collective trajectory.

The national budget has been accompanied by various innovations – such as green budgeting, gender-responsive budgeting, budgeting for the Sustainable Development Goals and climate budgeting, the latter under Law No. 98/2021 (Climate Law) – which offer different perspectives for analysing the budget, but which are not yet fully coordinated with one another, nor with other medium-term instruments. The BFL also provides for the preparation of the budget on an accrual basis, albeit at a later stage.

An example of how different budgeting perspectives are coordinated within the national budget process can be found in a recent instrument. From a theoretical perspective, the Recovery and Resilience Plan (RRP) represents a pioneering initiative, of a transformational and structural nature, designed for the medium term, which has introduced a new layer into State Budgets, underpinned by a temporary source of European funding and based on principles of performance and results. The RRP is structured around three transformational and cross-cutting missions – digital transition, climate transition and resilience – broken down into components, which are implemented through projects, labelled as 'green' or 'digital'[22], to which quantifiable objectives, targets or timeframes and performance indicators are attached. This budgetary approach, based on results-oriented missions and programmes with labelling, did not, at the time of its design in 2020, find a compatible framework within the national budget system, which contributed to limiting its visibility in the State Budget.[23] However, it offers a reference model for the development of a more integrated, strategic budget system capable of responding to the challenges of long-term economic, environmental and social transformation. It also provides an opportunity to reflect on the limitations in the process of strategic planning, public policy formulation and the respective fiscal framework in Portugal.

This type of instrument highlights the importance of a budget system that goes beyond mere formal compliance with the current regulatory framework, acting instead as a strategic instrument of economic governance. It is increasingly important that the budget system ensures the production and provision of relevant, coherent and coordinated information that effectively supports the decision-making process within the public administration – particularly with regard to the appropriate allocation of public resources – and which, at the same time, meets the requirements of transparency and accountability that underpin public confidence, externally, by demonstrating the link between public resources spent and the results achieved. This information should also guide the formulation of sustainable public policies and their implementation, and provide clarity and predictability to economic agents, thereby contributing to stability and confidence in the macroeconomic and fiscal framework.

[22] Etiquetage refers to the process of classifying revenue or expenditure, typically used in green or gender-responsive budgeting.

[23] At that time, the Portuguese fiscal system was based solely on line-item and programme-based budgeting. Currently, line-item budgeting coexists with elements of performance-based budgeting and transformational (thematic) budgeting, which have been progressively introduced.

The ongoing review of the BFL thus represents a critical opportunity to consolidate the medium-term fiscal framework as a fundamental pillar of the economy's structural transformation and the sustained improvement of social wellbeing, in line with the principles of fiscal sustainability.

5 Conclusions

This study analyses the evolution of fiscal systems, highlighting the transition from traditional, rigid, incremental and annual models to more strategic approaches focused on performance, outcomes and structural transformation in the medium and long term. The growing complexity of public policies, economic, social and environmental challenges, and the demand for greater transparency have driven the adoption of new methodologies, emphasising the provision of relevant information, linking planning, budgeting and evaluation, and promoting accountability and greater citizen engagement. Transformational, conditional and strategic budgeting have emerged as a tool for promoting medium- and long-term structural agendas, integrating cross-cutting priorities and quantifiable targets, fostering coordination between different areas of government and societal actors, and identifying areas for improvement.

In the Portuguese context, the fiscal system has gradually incorporated elements from various models adopted internationally, becoming enshrined in law as a hybrid model featuring multi-annual planning, programme-based budgeting and performance monitoring mechanisms. Recent legislation, including the BFL (2015) and Decree-Law No. 86/2025, formally structures the budget process in two phases and provides for the coordination of medium-term strategic instruments, such as the Major Policy Choices Act and the Multi-annual Public Expenditure Framework, although this coordination remains visibly incomplete. Initiatives such as the Recovery and Resilience Plan highlight the potential of an integrated, strategic and results-oriented budget, with some of its key elements serving as a possible benchmark for the modernisation of the national system.

The ongoing review of the BFL presents an opportunity to consolidate the medium-term fiscal framework, strengthening the coherence between strategic planning, resource allocation and the assessment of results, centred on the creation of public value, whilst ensuring transparency, accountability and the capacity to respond to medium- and long-term challenges. The effective consolidation of this type of system in Portugal depends not only on technical reforms, but also on a shift in institutional culture and in the way the budget is understood and discussed: not merely as an annual exercise in resource allocation, but as a strategic instrument with clear objectives, serving a sustainable, inclusive and confidence-building multi-annual trajectory for society. From a theoretical perspective, transparency helps to reduce information asymmetries between public authorities and citizens, thereby strengthening accountability and democratic legitimacy. However, it is important to bear in mind that the positive effects of fiscal transparency also depend heavily on the levels of fiscal literacy amongst the population for whom it is intended, as well as on the clarity of the objectives set and the provision of accessible and accurate information on their fulfilment.

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