

# National ownership of European fiscal rules in Portugal: a good or a bad student case?

Cláudia Braz

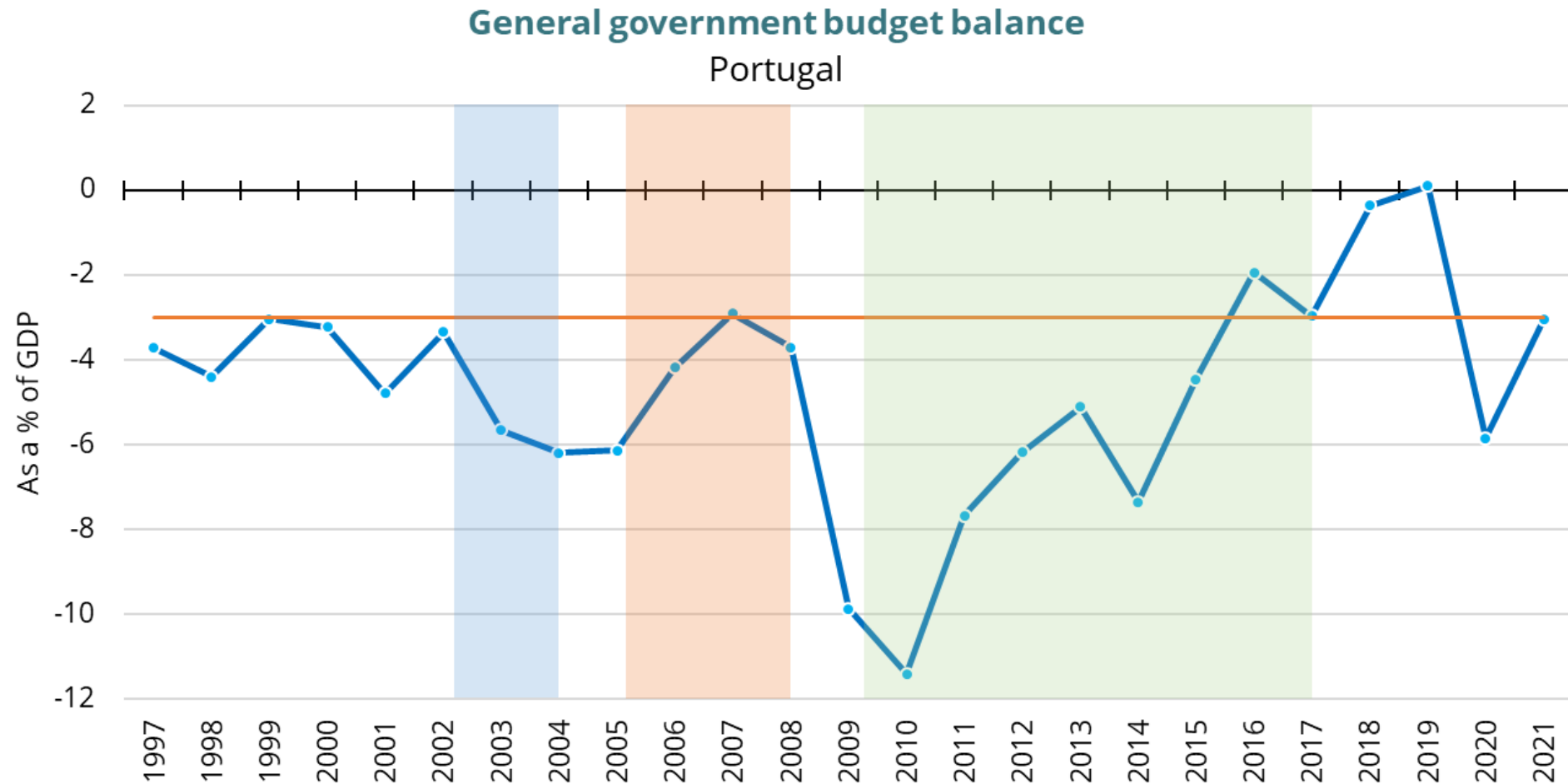
Disclaimer: The views expressed here are my own and do not necessarily represent those of Banco de Portugal or the European System of Central Banks.

Challenges of fiscal policy

15<sup>th</sup> meeting of the Network of Public Finance Economists in public administration by DG ECFIN

European Commission, 23 March 2022

# Fiscal behaviour in Portugal in the last decades may suggest a low level of national ownership of European fiscal rules



Sources: Statistics Portugal and own calculations.

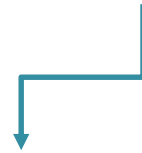
Note: The shaded areas correspond to periods when Portugal was under an excessive deficit procedure.

Still, the European fiscal surveillance mechanism was, to a certain degree, effective

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The counterfactual – what would have happened in the absence of European Fiscal rules - is impossible to build

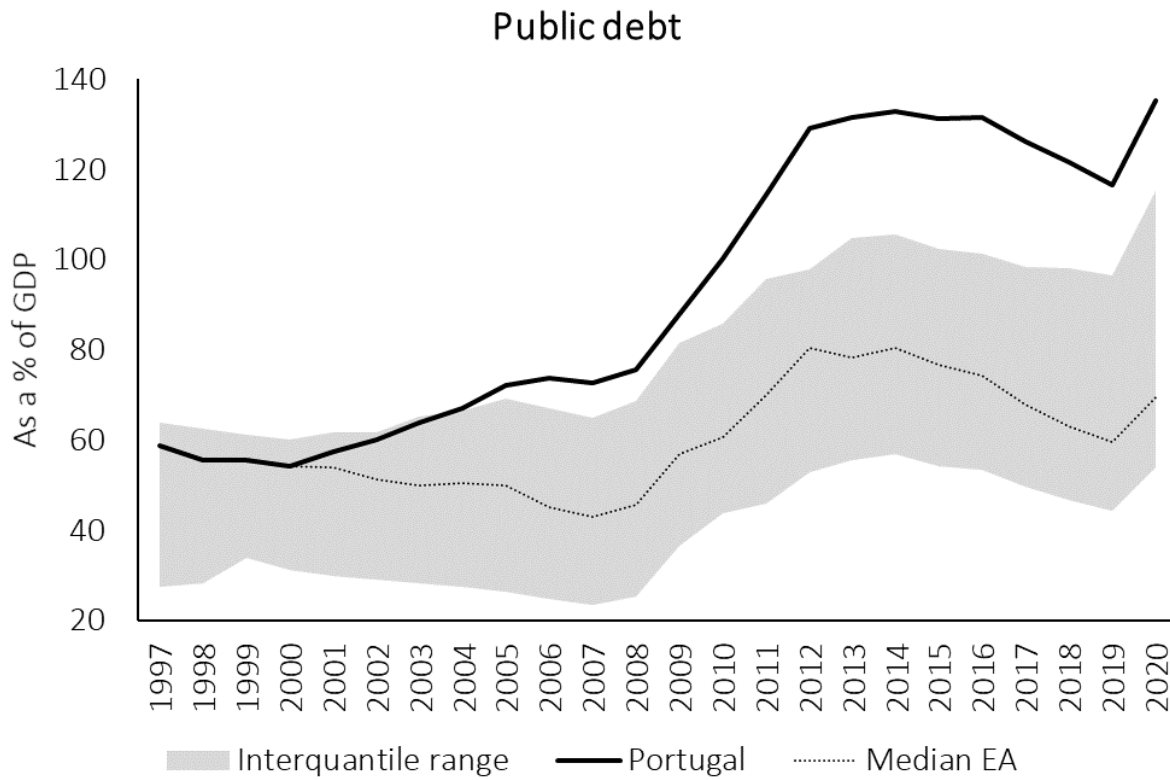


It seems quite plausible that the outcomes would have been much worse:

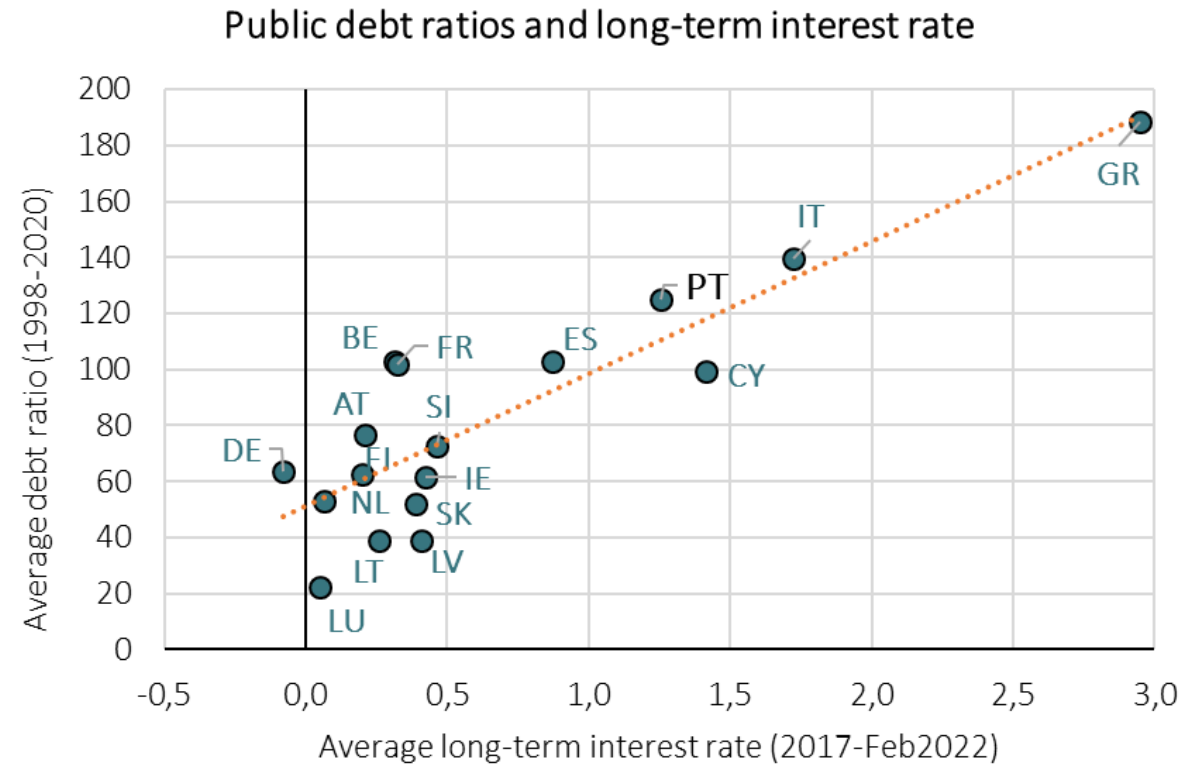
- European fiscal rules have helped detecting in advance wrong fiscal conduct;
- They have set the correction mechanism and targets when the fiscal situation required;
- They provided a ‘justification’ for the adoption of less popular measures by the government, helping the communication to the general public;
- They have also facilitated negotiations within government.

# European fiscal rules are not the only fiscal disciplining device: financial markets play a very important role too

➔ The sovereign debt crisis raised awareness on the vulnerability of the country to financial markets' assessment



Source: Eurostat and own calculations.



Source: Eurostat, ECB data warehouse and own calculations.

# The contribution of the national fiscal framework to fiscal discipline was limited...

## ➔ Transposition of the Fiscal Compact to national legislation:

According to the Commission's review of 2017, all countries have complied with the requirements, including PT, but conditional on formal commitments by the national authorities

In practice, in PT:

- The decision of literally transposing EU law into the national Budgetary Framework Law (BFL) was inadequate
- In August 2020 the BFL was revised, among others, to clarify the correction mechanism in case of significant deviation and the comply-or-explain principle

- ✓ The current draft of the BFL remains problematic
- ✓ Following the review of the SGP, significant amendments will be required
- ✓ Enforcement was never put to the test

Overview of the “conditioning factors” referred to in the Commission’s review of compliance with the fiscal compact

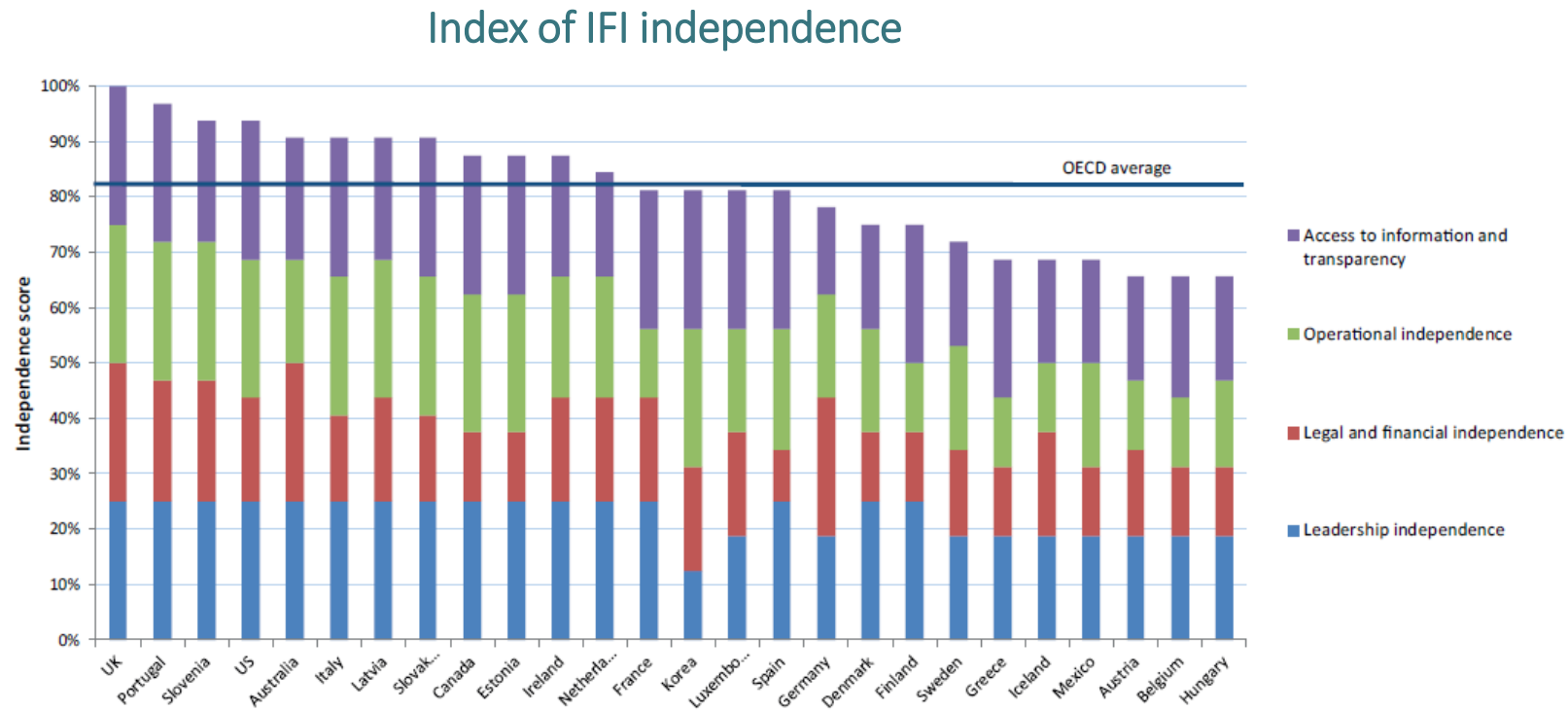
	balanced budget rule	correction mechanism	fiscal council	comply/explain principle
formal commitments	DK, FR, CY, LT, NL, RO	FR, LV	DK, ES, FR, LU, NL	DK, ES, FR, IT, LU, AT, PT, SK
clarifications		BE, DK, IT, LT, LU	LT, NL, PT	
legal amendments			BE	BE, GR
actions to be taken			SI	

Source: ECB Economic Bulletin, Issue 4/2017.

## ... but the influence of the Fiscal Council is gradually improving

➔ The Portuguese Public Finance Council (CFP) began its activity in February 2012.

- Independence is not an issue
- The CFP is in a gradual process of building up a reputation and finding ways to improve the effectiveness of its communication
- Its mandate might be enlarged (for example, to encompass the scrutiny of budgetary projections or discretionary measures)...



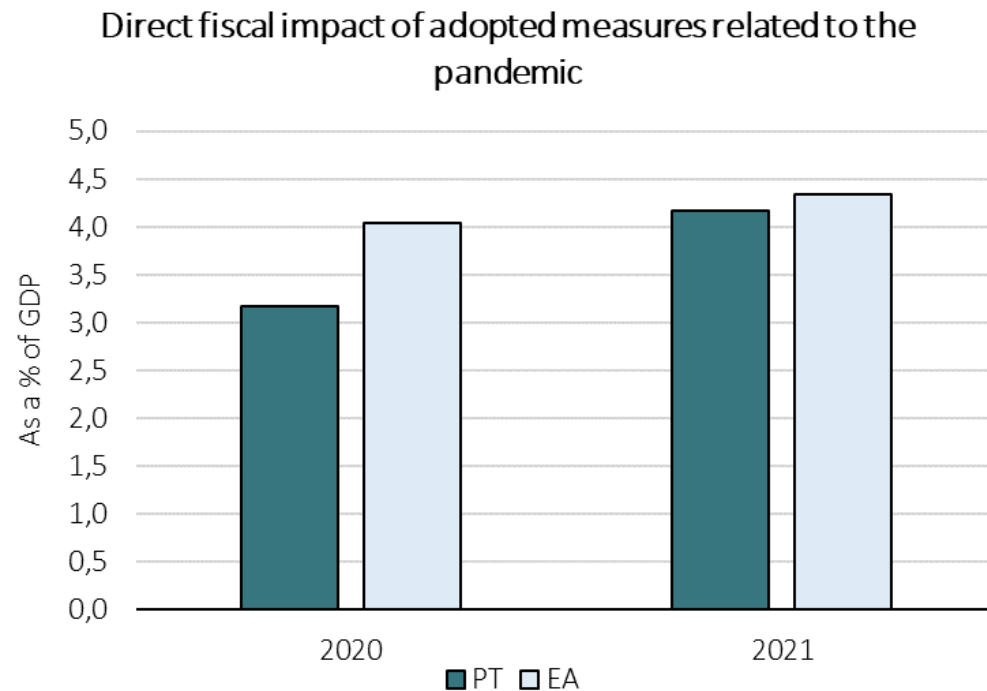
Source: von Trapp and Nicol (2018).

... but:

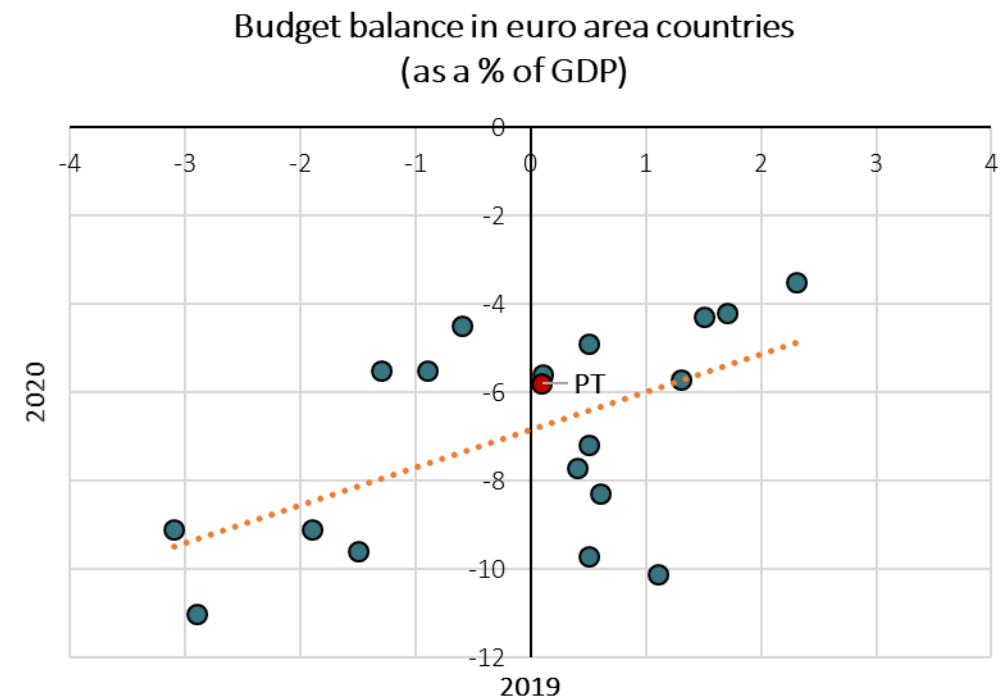
- ✓ This increases the risk of 'reverse responsibility'
- ✓ Lack of support from the government is likely to occur

# The very recent policies seem to show that a learning process has probably occurred

- The fact that a small surplus was reached in 2019 provides some evidence in this direction: the pandemic crisis prevented the observation of ensuing policies



Source: ESCB Working Group on Public Finance.  
Note: In 2021 the fiscal stimulus is net of NGEU grants.



Source: Eurostat.

- The order of magnitude of the fiscal stimulus in PT as a response to the pandemic is sensible.

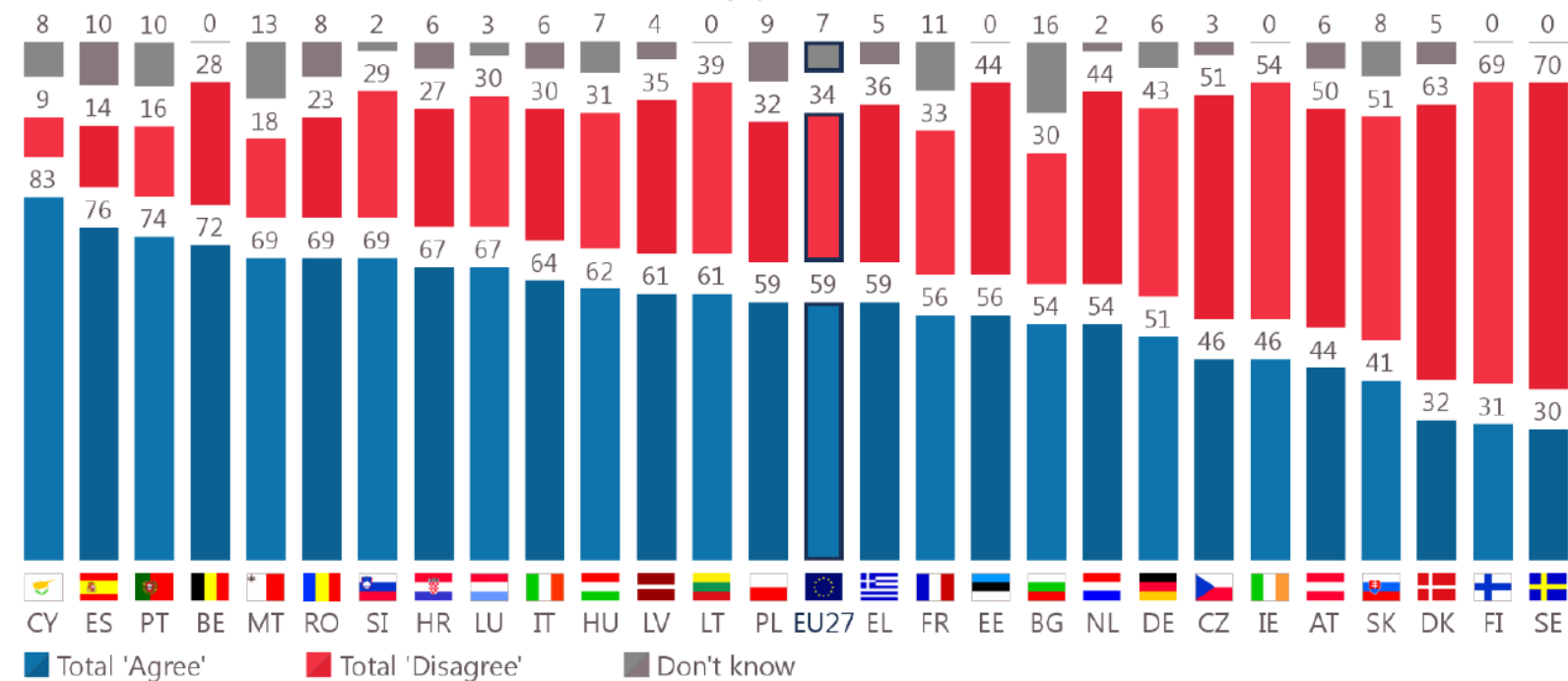
# And it is remarkable that the population continues highly supportive of the European project

➔ Hopefully, the idea that discretionary fiscal policy faces boundaries is more widespread among the Portuguese population (and politicians...)



For the general public, this does not imply a deep understanding about the multilateral surveillance framework (and this is not a valid argument to advise for simplicity)

**QA11.3** To what extent do you agree or disagree with each of the following statements?  
**More decisions should be taken at EU level (%)**



Source: European Commission (Standard Eurobarometer 95, Spring 2021).



To sum up, we may (tentatively) conclude that:

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- ✓ After the start of the euro area, Portugal was a 'bad student' regarding the soundness of adopted fiscal policies, which might point to a low level of national ownership of European fiscal rules at that time
- ✓ Among others, the multilateral fiscal surveillance mechanism (hopefully) proved to be an 'effective teacher', contributing to the correction/improvement in fiscal outcomes and, simultaneously, national ownership
- ✓ Still, for the time being, a centralised fiscal surveillance mechanism may prove to be more effective given existing fragilities at the national level

Thank you for your attention!