The study of budget credibility examines the extent, nature, causes and consequences of deviations from approved budgets. In this series, part of the International Budget Partnership’s Assessing Budget Credibility Project, 24 civil society partners in 23 countries probed a specific area in which execution of the national budget repeatedly diverged from the approved plan to learn whether adequate reasons were provided for the deviation. The broader synthesis report on these findings can be found here.

According to the IMF, Portugal has the lowest level of public investment among the advanced economies. Moreover, annual public investment is no longer even enough to compensate for the depreciation of existing investments, per the IMF Fiscal Monitor 2018 report. The need for enhanced public investment is evident across sectors. For example, the São João Hospital’s pediatric services are currently offered in containers and hallways, because the hospital has not received funding yet to construct a pediatric wing. Likewise, public trains along certain railway lines are becoming over-crowded as ridership increases without a commensurate rise in the number of trains.

**PORTUGAL: PUBLIC INVESTMENT**

Despite the great need for major capital improvements, the budget for public investment has consistently been underspent. Between 2013 and 2018, the execution rate of the investment budget has ranged between 72 and 96 percent.

**PUBLIC INVESTMENT IN PORTUGAL: EXECUTION RATE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Approved Investment (Million €)</th>
<th>Executed Investment (Million €)</th>
<th>Underspending (Million €)</th>
<th>Execution rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2,175</td>
<td>1,645</td>
<td>530</td>
<td>76%</td>
</tr>
<tr>
<td>2014</td>
<td>2,576</td>
<td>2,139</td>
<td>437</td>
<td>83%</td>
</tr>
<tr>
<td>2015</td>
<td>2,988</td>
<td>2,879</td>
<td>109</td>
<td>96%</td>
</tr>
<tr>
<td>2016</td>
<td>3,167</td>
<td>2,519</td>
<td>648</td>
<td>80%</td>
</tr>
<tr>
<td>2017</td>
<td>3,184</td>
<td>2,292</td>
<td>893</td>
<td>72%</td>
</tr>
</tbody>
</table>

*Source: Enacted budget and year-end executive implementation reports by the Ministry of Finance*
WERE EXPLANATIONS FOR THE DEVIATIONS FOUND IN GOVERNMENT REPORTS?

No. None of the following reports contained justifications for budget deviations:

- Enacted budget reports
- Analysis of the budget by the Portuguese Public Finance Council
- Year-end executive implementation reports
- Analysis of the year-end execution implementation reports by the Technical Unit for Budget Support

DID THE GOVERNMENT AGREE TO BE INTERVIEWED TO EXPLAIN FURTHER?

Yes. Interviews were conducted with:

- An official from the Ministry of Finance
- An anonymous representative from a state-owned firm that manages public investment
- A spokesman for the Social Democratic Party

Four possible reasons were identified through these interviews: (a) lengthy bureaucratic procedures, (b) delays with utilizing EU funds until the end of the multi-year EU budget cycle, (c) challenges with identifying firms to execute construction-related contracts, and (d) political factors, because cutting public investment is considered less costly, politically, than cutting other types of spending to achieve fiscal goals.

WERE THE REASONS PROVIDED BY GOVERNMENT ADEQUATE?

No reasons were provided in official printed reports, and while the interviewees provided four explanations, these reasons did not explain the variation in budget execution at the sector level or year-to-year. More specifically, it is unclear why the issues raised in reasons “a” and “c” have not been addressed, given that they are policy-related and persistent. We would expect that such issues would be addressed over time, or that budgets would be reduced in recognition of the fact that budgeted levels have been repeatedly unrealistic. Further, reason “b” does not align with government data because the growth rate for the execution of projects financed by the EU is almost constant throughout the years, and there is not a major surge in expenditure in the last year of the EU budget cycle.