

# PORTUGAL

UNITARY COUNTRY

EUROPE

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - HIGH INCOME: OECD Local currency - Euro (EUR)

### POPULATION AND GEOGRAPHY

AREA: **92 226** km<sup>2</sup>

POPULATION: **10.401** million inhabitants (2014), a decrease of -0.4% per year (2010-14)

DENSITY: **113** inhabitants/km<sup>2</sup>

URBAN POPULATION: **62.9%** of national population

CAPITAL CITY: **Lisbon** (27% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

### ECONOMIC DATA

GDP: **299.1** billion (current PPP international dollars) i.e. 28 760 dollars per inhabitant (2014)

REAL GDP GROWTH: **0.9%** (2014 vs 2013)

UNEMPLOYMENT RATE: **13.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **12 410** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **15%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.830** (very high), rank 43

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>308</b> MUNICIPALITIES (MUNICIPIOS) AVERAGE MUNICIPAL SIZE: <b>33 400</b> INHABITANTS	-	<b>2</b> AUTONOMOUS REGIONS (REGIÕES AUTÓNOMAS)	<b>310</b>

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** The Constitution, ratified in 1976, recognises the principle of local government and decentralisation. Portugal has a two-tier system of local government, consisting of two overseas autonomous regions (Azores and Madeira) and 308 municipalities. The two autonomous regions have specific status and legislative power, also recognised as outermost regions at European Union level. The Constitution also provided for the creation of self-governing regions covering continental Portugal. However, the proposal to create eight self-governing regions was rejected by a referendum in 1998. Municipalities are divided into 3 091 sub-municipalities (*freguesias*), a number resulting from a 2012-13 reform which reduced their number (from 4 259). *Freguesias* have elected executive and deliberative bodies. Portugal is also divided into five mainland regions for administrative purposes. Until 2011 the country was also divided into 18 administrative districts.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Autonomous regions' responsibilities are extensive, covering health and social welfare, education, roads and transport, economic development, environment, culture, regional planning, water, tourism, etc. They are also responsible for municipal affairs (organisation, financing and supervision). At the municipal level, current legislation, adopted in 2013 Local Government Reform, reaffirms the principle of clause of general competence. Municipalities can delegate tasks to inter-municipal entities and *freguesias* and can also sign partnership agreements with the central government to exercise shared responsibilities. As a result, there is, in practice, a complex network of functions. Main municipal competences include local roads and public transport, primary education, culture and heritage, leisure and sport, healthcare (municipal centres), social welfare (elderly, nursery, municipal social programmes), housing, environment, water supply and waste, local economic development, spatial planning and urban development, municipal police and civil protection, etc. A new programme of decentralisation is currently under preparation, which would include new transfers of responsibilities in sectors such as transport, education, healthcare, culture and social assistance and reinforce inter-municipal cooperation, including at metropolitan level.

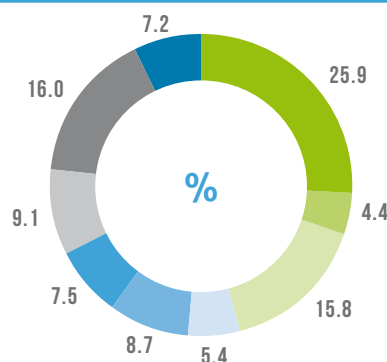
## SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	6.6%	13.3%	100%
CURRENT EXPENDITURE	5.4%	-	81.2%
STAFF EXPENDITURE	2.2%	17.9%	33.3%
INVESTMENT	1.1%	51.0%	16.5%

Despite the decentralisation process started in 2011 (cf. Green Paper) and continued with the 2013 local government reform, Portugal is still a centralised country in terms of SNG spending responsibilities. The level of SNG spending in GDP and public spending are well below the OECD average for unitary countries (13.4% of GDP and 29.0% of public spending). The SNG role as a public employer is also very low, although staff spending represents one-third of SNG expenditure. SNGs play a significant role in public investment, however this involvement is lower than in OECD unitary countries on average, where it accounted for 56.4% of public investment in 2013, representing 2.0% of GDP.

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Just below spending related to general public services, which is the top expenditure item, education and economic affairs/transport are the two main priority areas, weighing similarly in local government budget. In addition, SNGs are responsible for the large majority of overall public spending in the areas of environmental protection and housing and community amenities (over 80% of public spending).

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	6.9%	15.3%	100%
TAX REVENUE	2.4%	9.5%	34.3%
GRANTS AND SUBSIDIES	2.8%	-	40.6%
OTHER REVENUES	1.7%	-	25.1%

Fiscal provisions are set out in Article 238 of the Portuguese Constitution as well as in Regional Finance Law (RFL) and Local Finance Law (LFL). The LFL, adopted in 2013 (entered in force in 2014) modified the local tax system, the central government grants system (change in the methodology for the calculation of transfers) and introduced new fiscal rules and surveillance and co-ordination mechanisms.

**TAX REVENUE.** SNG tax revenue is limited, representing 2.4% of GDP to be compared to 7.0% in the OECD on average (4.9% of GDP for OECD unitary countries only). However, the two autonomous regions enjoy a certain degree of tax autonomy as they are able to retain nearly all national tax revenue generated within their territories (including PIT and CIT) and can create new taxes. They have strong control over rates and base, which has been however reduced by the 2013 RFL. Municipalities have shared taxes and own-source taxes. Since the 2007 LFL, municipalities receive a share of the PIT (IRS), capped at 5% of tax receipts collected from local residents (municipalities can decide to reduce this percentage). Own taxes include the property tax (IMI), the tax on real estate transactions (ITI), the municipal vehicle tax as well as a municipal surtax on the corporate profit tax (*derrama*) of up to 1.5% of taxable income. Property tax is levied annually on land or buildings by the municipalities which are free to set the rate within a 0.3- 0.8% bracket of the taxable value of the rural or urban property. Revenue from property tax (0.8% of GDP in 2014) is expected to increase in the near future thanks to a major initiative involving the revaluation of 4.9 million properties. The 2013 LFL also abolished the ITI tax from 2018 onwards, which will be compensated by additional transfers from central authorities.

**GRANTS AND SUBSIDIES.** Autonomous Regions receive six kinds of transfers from the central government, including a lump-sum subsidy, a regional cohesion fund, a national co-funding with EU funding, a fund to finance common interest projects, etc. Transfers from the central government to municipalities include 18.5% of the average revenue from the three major taxes (CIT, PIT and VAT), regrouped in the Financial Equilibrium Fund (*Fundo de Equilíbrio Financeiro*, FEF). The FEF is divided equally into two funds, a General Municipal Fund (*Fundo Geral Municipal*, FGM) and a Cohesion Fund (*Fundo de Coesão Municipal*, FCM). The FGM is distributed according to population, surface area, and other cost factors. The Cohesion Fund is an equalisation fund targeted at less developed municipalities. Its allocation is based on municipal tax capacity as well as by taking into account index of municipal social development. Other transfers to municipalities include earmarked grants through the Municipal Social Fund (*Fundo Social Municipal*, FSM) to finance policies in the areas of education, health, and social action. Overall, capital grants represented 36% of all regional and municipal grants in 2013.

**OTHER REVENUES.** The share of other revenues in SNG revenue is particularly high, above the OECD average of 19.0% in 2013. Service charges and fees (water, sewerage, waste collection and public transport) accounted for 15.6% and property income (rents, sales of assets), 4.1%.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	8.3%	5.9%

The 2013 LFL and RFL introduced new budgeting rules for SNGs, including regarding arrears, off-balance sheet liabilities and expenditure ceilings. The laws also strengthened net debt ceilings, borrowing constraints for municipalities and a debt service rule for the regions. An early-warning system for debt accumulation, different types of adjustment or restructuring plans for over-indebted municipalities, as well as a Municipal Resolution Fund (FAM) were also created to provide assistance to distressed municipalities. Finally fiscal co-ordination mechanisms between central and subnational governments have been improved with the creation of the Public Finance Council whose mandate covers all levels of government. Overall, in 2013, SNG debt was lower than the OECD average of unitary countries (15.1% of GDP and 12.0% of public debt). It is made up of other accounts payable (25%) and financial debt (78%), comprising most exclusively loans.

A joint-study of:



Sources: OECD National Accounts Statistics • OECD (2016 and 2015) Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016), "Multi-level governance reforms: Overview of OECD country experiences" OECD Publishing • OECD (2014), OECD Economic Surveys: Portugal 2014 • European Committee of the Regions (2014), Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • Portuguese Public Finance Council (2013) "Analysis of the Legal Proposals for New Subnational Finance Laws", Report No. 1/2013 • Congress of Local and Regional Authorities (2012) Local and Regional Democracy in Portugal", CG(22)11.