

PORTUGAL

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 92 226 km²
Population: 10.291 million inhabitants (2017), a decrease of 0.4% per year (2010-2015)
Density: 112 inhabitants / km² (2017)
Urban population: 72.9% of national population
Urban population growth: 0.6% (2017 vs 2016)
Capital city: Lisbon (27.5% of national population)

ECONOMIC DATA

GDP: 326.0 billion (current PPP international dollars), i.e. 31 673 dollars per inhabitant (2017)
Real GDP growth: 2.7% (2017 vs 2016)
Unemployment rate: 8.9% (2017)
Foreign direct investment, net inflows (FDI): 10 023 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 16.6% of GDP (2017)
HDI: 0.847 (very high), rank 41 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the Constitution ratified in 1976 and amended in 1982 and 1989, Portugal is a republic ruled by a semi-presidential system. Its legislative power is composed of a unicameral Parliament (Assembleia da República) whose members are elected for a four-year term. The Government is led by the Prime Minister and the Head of State is the President of the Republic who is elected for a five-year term. Local democracy was established in the mid-1970s and it has been developing ever since. The 1976 Constitution recognises the principle of local government and decentralisation. In 1976, the islands of Azores and Madeira were granted special status as autonomous regions (*Regiões Autónomas*). In 1999, several laws were adopted to enhance the responsibilities of the municipalities and parishes. A similar attempt was made in 1998 that sought to create eight self-governing regions, submitted to a national referendum. Although the referendum was invalidated by the low participation rate (below 50%), a majority (61%) of voters voted "no".

In 2007, a reform of the Local Finance Act (Law 2/2007) changed the grant system, creating the Municipal Social Fund (FSM). It also gave municipalities a participation of the personal income tax. In 2013, a new Local Government Reform (Law 73/2013) redefined municipal responsibilities. Revised regional and local finance laws (effective in 2014) were enacted with the goal of strengthening fiscal sustainability and increasing transparency and accountability. The reform also reduced the number of parishes, which are subdivisions of municipalities.

Since 2019, a new decentralisation programme is to be gradually implemented over three years, resulting from law no. 50/2018 (framework law on decentralisation of competences to municipalities and inter-municipal communities) and law no. 51/2018 which revised the Local Finance Law. The reform aims to transfer new responsibilities to municipalities in a wide range of domains, in particular education, healthcare and transport. The intention of the reform is to increase the share of resources spent at local level, and to increase inter-municipal cooperation, including at metropolitan level. Another discussion is on-going concerning the creation of the administrative regions in mainland Portugal, whose existence is provided by the 1976 Constitution but which were never established.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	308 municipalities (<i>municípios</i>)		2 autonomous regions (<i>regiões autónomas</i>)	
	Average municipal size: 33 524 inhabitants			
	308		2	310

OVERALL DESCRIPTION. According to the Constitution, Portugal has a three-tier system of local government, consisting of regions, municipalities and parishes. In practice, however, the regional level was not implemented in mainland Portugal, so the local government level consists of 308 municipalities (*municípios*), 3 091 parishes (*freguesias*) and two overseas autonomous regions. There are 278 municipalities and 2 882 parishes in mainland Portugal while there are 19 municipalities and 155 parishes in Azores and 11 municipalities and 54 parishes in Madeira.

AUTONOMOUS REGIONS. Azores and Madeira have specific status and legislative power. They are also recognised as the outermost regions at European Union level. The Azores archipelago is located in the North Atlantic, 1 500 km from the European mainland. The archipelago comprises nine islands and several islets, São Miguel being the largest and most populated one (56% of population), followed by Terceira. The archipelago of Madeira is located 520 km from the African coast and 1 000 km from the European mainland. It is composed of four main islands (Madeira, Porto Santo, Desertas Islands and Savage Islands, the last two islands being uninhabited). The legislative assembly (*Assembleia Legislativa*) is composed of members elected by direct universal suffrage for four years. The president (*President do Governo Regional*) co-presides over the regional government for the same period.

MUNICIPALITIES. All 308 municipalities have the same status in terms of responsibilities and powers. The deliberative body is the municipal assembly (*Assembleia Municipal*), which is composed of members elected by direct universal suffrage for a four-year term but also of the presidents of the parishes located within each municipality's jurisdiction. The executive branch is the executive council (*Câmara Municipal*), which is composed of members elected by direct universal suffrage for a four-year period. Both elections used the Hondt Method. The mayor (*Presidente da Câmara Municipal*) is elected for a four-year mandate and is selected as head of the list. Municipalities are large by international comparison, amounting to 33 500 inhabitants on average (vs 9 700 inhabitants in the OECD and 5 900 inhabitants in the EU28 on average). Around 13% of municipalities have fewer than 5 000 inhabitants (vs 44% in the OECD). In Portugal, 56% of the population lives in cities of more than 50 000 inhabitants and the share of the population living in cities with more than 500 000 people is 40% compared to 55% in the OECD area.

PARISHES. The merger reform in 2012-2013 reduced the number of parishes by 30%, from 4 260 to 3 091. Freguesias have an executive body (*Junta de Freguesia*) and a deliberative body (the *assembleia de freguesia*, "parish assembly"), whose members are elected every four years. The presidents of the parish boards are also members of the municipal assembly.

INTER-MUNICIPAL COOPERATION. Inter-municipal cooperation has been encouraged through the laws 10 and 11 of 2003 that create inter-municipal communities (*comunidades intermunicipais*), which can have specific or general purposes. In 2008, a reform of the inter-municipal cooperation (Law 45/2008) was approved in order to redesign the territorial scope of inter-municipal communities. Through Law 75 of 2013, 21 compulsory inter-municipal communities were created in mainland Portugal. Currently, all municipalities are engaged in one of the inter-municipal cooperative associations in Portugal. In order to develop multi-level contracts, Partnership Agreement with the European Commission is used to promote inter-municipal cooperation at the level of the new inter-municipal communities.

In addition, the two metropolitan areas of Portugal, *Area Metropolitana de Lisboa* (AML) and *Area Metropolitana do Porto* (AMP) are covered by metropolitan area governance bodies. They were first established in 1991, through a national law, but without a definition of their competences and resources. These two metropolitan bodies were further strengthened through two laws in 2003 and 2008 laws, and more recently by law 75/2013. Metropolitan areas, although they are not local authorities, manage their own services and aim to coordinate investments as well as some municipal services of a supra-municipal nature. The government is currently contemplating improving their metropolitan governance. Today, AML encompasses 18 municipalities, i.e. 2.8 million inhabitants (with the municipality of Lisbon having 552 700 inhabitants) while AMP comprises 17 municipalities, i.e. 1.7 million inhabitants.

STATE TERRITORIAL ADMINISTRATION. Portugal is also divided into five mainland regions and 18 districts, both for administrative purposes. The districts are deconcentrated central government districts and serve as the basis for few subdivisions, namely as electoral constituencies. The practical role of districts has decreased over time but abolishing them altogether would need a constitutional amendment. In the five mainland regions, five Commissions for Regional Coordination and Development (CRCD) have been established to coordinate the different sectoral interventions of the central government in each region and manage regionalised EU funds.

SUBNATIONAL GOVERNMENT 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 in their jurisdiction (organisation, financing and supervision).

At the municipal level, the competences are established by laws 159/99 and 169/99 modified in 2002 (law 5-A/2002), 2007 (reform of the LFL), 2013 (law 75/2013), and law 69/2015 which expanded the local authorities' competencies in education, teaching and vocational training. Parishes carry out some areas of responsibility such as green areas maintenance, road cleaning, fair and markets and issuing of pet licenses. Recently, law 50/2018 defined the framework for the transfers of new responsibilities to local authorities. Since 2019 the new decentralisation programme is to be gradually implemented over three years until 2021, aiming to transfer new responsibilities to municipalities in a wide range of domains, in particular education, healthcare and transport among others. It also transfers responsibilities to inter-municipal communities and parishes. The transfer of competencies started in 2019 for the local authorities that did not declare that they were unwilling to implement them.

Municipalities can delegate tasks to inter-municipal entities and parishes and can also sign contractual arrangements with the central government to exercise shared responsibilities. As a result, there is, in practice, a relatively complex network of functions. In addition, in Portugal, most local governments use, as regulated by law 50/2012, local enterprises and "municipalised" services (*serviços municipalizados*). Municipalised services are entities with a special statute, created with the aim of increasing flexibility in the provision of public services. The number of municipal enterprises dramatically decreased after the 2008 crisis, from 337 in 2011 to 192 by the end of 2017 and 188 at year-end 2018.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS (AUTONOMOUS REGIONS)	MUNICIPAL LEVEL
1. General public services	Organisation of regional administration and related services; Municipal affairs	Internal administration
2. Public order and safety		Civil protection (municipalities and parishes)
3. Economic affairs /transports	Agricultural and fisheries development; Commercial and industrial development; Tourism; Transport including roads, traffic and land transport and maritime and air transport between the islands	Local roads; Parks; Local ports (2021); Urban and public transports; School transport; Local tourism; Consumer protection; Local development; External cooperation
4. Environmental protection	Environment; Nature protection; Water, mineral and thermal resources and locally produced energy	Drainage and sanitation; Waste management; Forest fire fighting; Beaches; Animal health and protection (2021).
5. Housing and community amenities	Planning, accommodation; Urbanism and regional planning	Rural and urban infrastructure (municipalities and parishes); Energy; Communications; Home care for the elderly; Land use and urban planning (municipalities and parishes); Water supply
6. Health	Public health	Healthcare (construction and maintenance of primary health care centres) in 2021
7. Recreation, culture & religion	Heritage and cultural creation; Folklore and crafts; Sports	Heritage; Culture and science; Leisure and sport (municipalities and parishes)
8. Education	Primary and secondary education	Pre-schools; Non higher education; vocational education and training facilities
9. Social protection	Quality of life	Municipal social programmes (municipalities and parishes)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: at regional level, regional governments of the Azores and Madeira, regional autonomous Services and Funds (health, education), regional hospitals, regional public corporations; at local level, municipalities, parishes, local autonomous services, local public enterprises, inter-municipal communities and associations.

SNA 2008

Availability of fiscal data:
High

Quality/reliability of fiscal data :
High

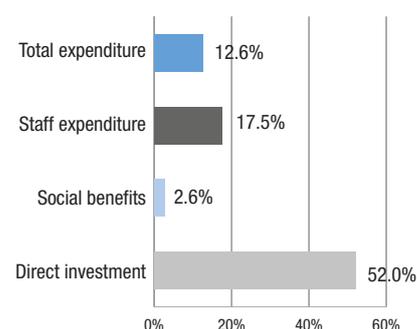
PORTUGAL

UNITARY COUNTRY

GENERAL INTRODUCTION. Fiscal provisions are set out in Article 238 of the Portuguese Constitution. Several fiscal reforms have taken place over the last 15 years. The reform of the LFL in 2007 created the Municipal Social Fund (FSM), an earmarked grant to finance specific expenditures in education, health and social policy, as well as giving municipalities a participation of up to 5% of personal income tax from their residents. The 2007 law also aimed at simplifying the intergovernmental system of transfers, introduced horizontal equalisation, tightened municipal fiscal rules and reformed the municipal accounting system. The new RFL and the LFL, adopted in 2013 and effective since 2014, were enacted with the goal of strengthening fiscal sustainability and increasing transparency and accountability. The amendments to the LFL introduced in 2018 (law 51/2018) have contributed to an even greater strengthening of fiscal sustainability, transparency and accountability.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	1 730	5.6%	100%	
Inc. current expenditure	1 450	4.7%	83.8%	
Staff expenditure	602	2.0%	34.8%	
Intermediate consumption	491	1.6%	28.4%	
Social expenditure	154	0.5%	8.9%	
Subsidies and current transfers	172	0.6%	9.9%	
Financial charges	31	0.1%	1.8%	
Others	0	0.0%	0.0%	
Incl. capital expenditure	280	0.9%	16.2%	
Capital transfers	39	0.1%	2.3%	
Direct investment (or GFCF)	241	0.8%	13.9%	

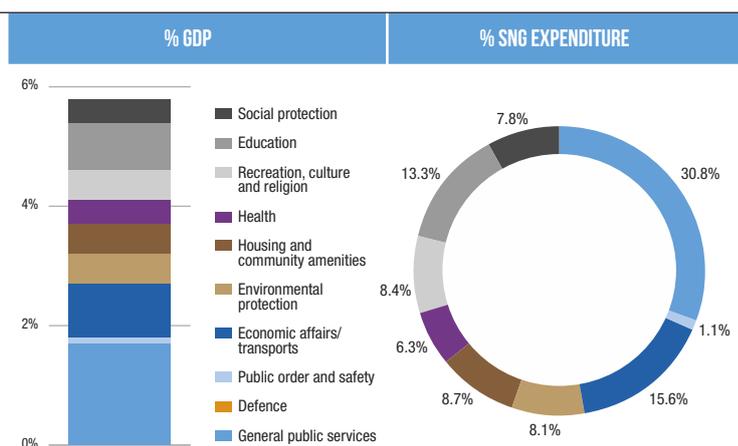


EXPENDITURE. Despite the decentralisation process, which began in 2011 and continued with the 2013 local government reform, Portugal is still a centralised country in terms of SNG spending responsibilities. The level of SNG spending in GDP and public spending are below the OECD average for unitary countries (9.2% of GDP and 28.7% of public spending) as well as below the EU28 average (15.5% of GDP and 33.4% of public expenditure). The SNGs role as a public employer is also limited relative to the OECD, even though staff spending accounts for one-third of SNG expenditure.

INVESTMENT. SNGs play a significant role in public investment, being responsible for 52% of total public investment, in line with the OECD average for unitary countries (50.7%). However, SNG investment accounted for only 0.8% of GDP, well below the OECD average for unitary countries (1.7%). SNGs have been severely hit by the crisis. Investment has been the adjustment variable. SNG investment decreased by 4.7% on yearly average in real terms between 2007 and 2017.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

General public services is the main spending area for Portuguese SNGs, a share much larger than the OECD average of 14.1% as a share of SNG expenditure. Inasmuch as SNGs are responsible for roads and transport local infrastructure and maintenance, economic affairs is another important spending area in line with the OECD average of both SNG expenditure and share of GDP (13.6% and 2.2% respectively). The third biggest item is education, although SNG expenditure in this area accounted for only 15% of total public spending in education. In addition, SNGs are responsible for the large majority of overall public spending in the areas of environmental protection and housing and community amenities, since they are responsible for public infrastructure linked with public services.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	1 875	6.1%	14.2%	
Tax revenue	766	2.5%	10.0%	40.9%
Grants and subsidies	617	2.0%		32.9%
Tariffs and fees	331	1.1%		17.7%
Property income	58	0.2%		3.1%
Other revenues	103	0.3%		5.5%

OVERALL DESCRIPTION. The LFL modified the local tax system, the central government grants system (change in the methodology for the calculation of transfers) and introduced new fiscal rules as well as surveillance and coordination mechanisms. Although belonging to the group of OECD centralised countries where SNGs have relatively few spending responsibilities and few resources, Portugal stands out by the importance of own-source revenues. Nevertheless, inter-governmental transfers are an important revenue source, representing in 2016 more around one-third of total revenue (vs 49% in OECD unitary countries on average). The reform of municipal spending assignments starting from 2019 will increase transfers to municipalities by between EUR 1 and 1.2 billion, including, starting in 2020, a new share of VAT receipts.

TAX REVENUE. Tax revenue is an important source of revenues for regions and municipalities, accounting for 41% of their revenue in 2016, in line with the OECD average for unitary countries (38.7%). However, SNG tax revenue is limited, representing 2.5% of GDP and 10% of public tax revenue, compared to 4.1% of GDP and 19.8% of public tax revenue in the OECD unitary countries. The two autonomous regions have a certain degree of tax autonomy as they are able to retain nearly all national tax revenue generated within their territories and adjust their rates (including PIT, CIT, VAT and excise taxes) and can create new taxes. They have strong control over rates and base, which has been reduced - however - by the 2013 RFL, in particular over tax exemptions.

Municipal tax revenues include both shared taxes and own-source taxes. Since 2007, 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). Municipal own-source taxes include the real estate property tax (IMI), which is levied annually on land or buildings by the municipalities. Cadastral value of 4.9 million properties were re-evaluated to underpin the new property tax regime. Revenue from property tax accounted for 32.4% of SNG tax revenue, 13.2% of SNG total revenue and 0.8% of GDP (vs 1.1% of GDP in the OECD). The 2013 LFL abolished the tax on property transactions, due to its disincentives with regards to urban sprawl. However, this abolition was never implemented (and the tax on property transactions was even discarded by the amendments to the 2018 LFL). As a result, this tax represented in 2016 almost 14% of municipal tax revenue and 5.6% of total SNG revenue. Municipalities also levy a vehicle tax and a municipal surtax on the corporate profit tax (*derrama*).

Overall, the regional and municipal PIT accounted for 0.4% of GDP, 17.2% of SNG tax revenue and 7% of SNG total revenue. The regional and municipal CIT accounted for 0.3% of GDP, 10.3% of SNG tax revenue and 4.2% of SNG total revenue. VAT accounted for 0.4% of GDP, 14.6% of SNG tax revenue and 6% of total SNG revenue.

GRANTS AND SUBSIDIES. The autonomous Regions of Azores and Madeira receive several types of transfers from the central government, including a lump-sum subsidy, a regional cohesion fund, national co-funding with EU funding and a fund to finance common interest projects.

Transfers from the central government to municipalities include 18.5% of the average revenue from the three major taxes (CIT, PIT and VAT), grouped into 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 and an 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 25.3% of all regional and municipal grants in 2016.

OTHER REVENUES. Service charges and fees (water, sewerage, waste collection and public transport) accounted for 17.7% of the total SNG which is higher than the OECD average (14.9% in 2016). Property income (rents, sales of assets), accounted for 3.1% of SNG revenue in 2016, a larger share than the OECD average of 2.0%.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	2 290	7.4%	5.1%	100%
Financial debt*	1 778	5.8%	4.2%	77.7%

* Currency and deposits, loans and bonds

FISCAL RULES. The LFL and RFL introduced a multi-annual budgetary framework and tighter budget balance rules, including arrears, off-balance sheet liabilities and expenditure ceilings. Fiscal coordination mechanisms between central and SNGs have been improved with the creation of the Public Finance Council whose mandate covers all levels of government.

DEBT. The RFL and LFL laws strengthened borrowing rules for SNGs. The RFL law stipulates that the autonomous regions' liabilities should not exceed one-and-a-half times their three-year average of net current revenue. The LFL introduced similar requirements for each municipality individually. Municipal individual borrowing is limited at 150% of the average municipal total net current revenue of the previous three years. Municipalities that exceed this debt ratio threshold must reduce the excess by a minimum of 10% a year until they reach the threshold. In addition, as the debt of municipalised services and local public enterprises had been increasing, it was decided to change the definition of debt, which was extended to include local governments themselves, municipalised and inter-municipalised services, inter-municipal entities, municipal associations, local enterprises, enterprises owned partly by municipalities, etc. Failure to comply with the limit leads to the imposition of a financial restructuring plan. If the debt ratio is above 300%, the municipality is obliged to follow the so-called municipal adjustment plan, which includes financial assistance to distressed municipalities from the Municipality Resolution Fund (FAM). Overall, in 2016, SNG debt was lower than the OECD average of unitary countries (14.5% of GDP and 20.7% of public debt). It is made up of other accounts payable (22%) and financial debt or "Maastricht debt" (78%). The financial debt comprises both loans (86% of debt stock) and bonds (14%).



World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
Last update: 02/2019

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Statistics Portugal (INE)

Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat

Other sources of information: Bertelsmann Stiftung (Forthcoming 2019) Local Public Finance in Portugal // European Commission. (2019) Country Report Portugal 2019. In 2019 European Semester: Assessment of progress on structural reforms. European Commission. // OECD (2018) Regions and Cities at a Glance // Silva, C. N. (2017). Political and Administrative Decentralization in Portugal: Four Decades of Democratic Local Government. Local Government and Urban Governance in Europe. // European Committee of Regions. (2016). Division of Powers - Fiscal Powers // Teles, F. (2016) Local government and the bailout: Reform singularities in Portugal. European Urban and Regional Studies // CEMR (2016) Local and Regional Governments in Europe Structures and Competences // OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries.