Conselho das Finanças Públicas

LOCAL GOVERNMENT BUDGET OUTTURN IN 2025

EXECUTIVE SUMMARY

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This report analyses fiscal and financial developments in local government in 2025, based on information – mostly provisional – reported by the municipalities. Although progress has been made in terms of the coverage and quality of reporting, limitations remain that constrain the analysis. The analysis of fiscal developments is based on fiscal accounting figures from 307 local authorities, representing 99.9 per cent of the actual expenditure in 2024 of the 308 Portuguese local authorities.

In 2025, the municipalities in question increased their fiscal surplus. In that year, the municipalities are estimated to have recorded a positive balance of 492 million euros (M€), 224 M€ more than in 2024. This development resulted from actual revenue growth (14.6%) outpacing that of actual expenditure (13.0%).

Actual municipal revenue (14.4 billion € in 2025) recorded significant growth, driven by transfers from central government and by an increase in tax revenue (contributing 5.8 and 4.2 percentage points, respectively, to the 14.6% change in revenue). Transfers continued to play a decisive role, reflecting the increase in compensation granted to local authorities for the property transfer tax (IMT) exemption on the purchase of owner-occupied homes by young people, as well as the increase in funds allocated under the Financial Regime for Local Authorities and Inter-municipal Entities (RFALEI) and the process of decentralisation of powers. This performance was accompanied by greater use of European funds to finance municipal investment. Tax revenue showed a particularly favourable trend (+13.0%), underpinned by the IMT, against a backdrop of strong activity in the property market, whilst the recurrent municipal property tax (IMI) recorded more moderate growth. Non-tax own revenue continued to make a positive contribution, with the performance of local taxes – notably the tourist tax – being particularly noteworthy.

Actual expenditure by local authorities (13.9 billion €) rose by 13% in 2025, driven mainly by capital expenditure, particularly investment. This growth was significant and benefited from an increase in European funds, including allocations linked to the Recovery and Resilience Plan (RRP). At the same time, primary current expenditure also rose, with particular emphasis on staff costs and the procurement of goods and services, linked to the process of decentralisation of powers, pay rises and higher operating costs. Despite the acceleration in the execution of capital expenditure compared with 2024, municipal budgets continued to overspend on this item, with a difference of 3.3 billion € between the budgeted and actual figures.

Outstanding expenditure worsened in 2025, reversing the improvement observed in the previous year. Non-financial liabilities and accounts payable increased by 114 M€ and 81 M€, respectively, reflecting primarily the dynamics of investment. Arrears almost stabilised, rising by just 2 M€ to 19 M€. Most municipalities continue to show low levels of arrears, with overdue payments concentrated in a limited number of them. The average payment period stabilised at 22 days, remaining broadly below the legal limit, although more than a fifth of local authorities exceed 30 days and there are still isolated cases of significantly longer payment periods.

The total debt of local authorities rose again in 2025, confirming the turn in the downward trend observed up to 2023. Excluding legal exceptions, debt rose by 204 M€, totalling 3,856 M€. This increase resulted from rising debt in approximately half of the local authorities, only partially offset by reductions in the remainder. Nevertheless, the overall situation remains relatively favourable. The vast majority of local authorities (300 out of 307 for which data is available) continue to comply with the statutory debt limits. The decrease in the debt ratio resulted primarily from the denominator effect arising from growth in current revenue, underpinned in part by the dynamism of the property market, which automatically expanded the applicable limits in absolute terms and consequently reduced the aggregate debt ratio.

Despite the generally positive situation, there are signs of strain in some financial sustainability indicators. The narrowing of the debt margin over the course of the year and the slight increase in over-indebtedness reflected situations in which some local authorities exceeded their usable margin. There are still cases of higher risk associated with particularly high levels of debt. Specifically, seven municipalities are above the total debt limit and, within this group, two are in a state of financial distress, revealing more pronounced vulnerabilities.

The fiscal performance of inter-municipal bodies is analysed for the first time. In line with the strengthening of these bodies' role in implementing public policies, particularly in the transport sector, they recorded a significant increase in their financial weight within the sub-sector, with actual revenue of 542 M€ and actual expenditure of 509 M€.

There remains a lack of high-quality information regarding municipal expenditure in the context of the decentralisation of powers. In 2025, central government transfers under the Decentralisation Financing Fund (FFD) totalled 1,419 M€, of which 1,170 M€ was allocated to the education sector.

In summary, local government maintained a favourable fiscal position in 2025, with surpluses and debt levels generally under control. This is an achievement for the country that must be preserved. In this context, it is essential to enhance transparency, improve the quality and timeliness of reporting, as well as to conduct a more in-depth assessment of the impact of decentralisation and to reassess the local financial framework, particularly the mechanisms for borrowing and financial recovery.

As part of the review of the legislative framework, it is essential to simplify the local financial system and explicitly strengthen the role of the CFP in monitoring the fiscal and financial situation of local authorities and inter-municipal bodies, as well as in the early warning of risks. The legislative framework has been characterised by successive amendments to the local financial regime and the extension of exceptional arrangements, which have allowed for greater flexibility – particularly in the financing of investments supported by European funds – but have also introduced greater complexity into the verification of compliance with fiscal rules and the monitoring of financial implementation. Recent experience shows that the CFP's involvement has been crucial in ensuring rigorous monitoring of local finances, contributing to greater transparency and accountability in fiscal management.