



**Conselho das
Finanças
Públicas**

AUTONOMOUS REGIONS BUDGET OUTTURN IN 2021 EXECUTIVE SUMMARY

January 2023

Report NO.

01/2023

EXECUTIVE SUMMARY

The release of the Regional Accounts by the Statistics Portugal (INE) on December 16, 2022 with provisional data for 2021, in parallel with the publication by the Court of Auditors (TdC) of its opinions on the Accounts of the Autonomous Region of Azores and the Account of the Autonomous Region of Madeira, respectively, on the 7th and 19th of the same month, completed the information on the economic, budgetary, and financial developments of those regions in 2021, which serves as the basis for this report.

One year after the pandemic crisis outbreak, the Autonomous Regions economic recovery was not strong enough to sustain an improvement in their budgetary position, still conditioned in 2021 by the significant impact of measures in response to the crisis.

In 2021, in national accounts, the budgetary developments of the two Autonomous Regions did not move along with the budgetary position improvement of the General Government. The budget deficit of the Regional Government as a percentage of GDP increased from 0.2% in 2020 to 0.3% in 2021. In the GG sector, considering the COVID-19 measures but excluding the positive effect of one-off measures, there was a deficit reduction of 1.9 p.p. of GDP.

Debt as a percentage of GDP, in the Maastricht definition, reduced in both in the Regional Government subsector and in the GG sector. In the Regional Government, public debt decreased by 0.1 p.p. of GDP, from 3.7% of GDP in 2020 to 3.6% of GDP in 2021. This recovery was due to the Autonomous Region of Madeira which, in 2021, resumed the downward trajectory of its debt ratio started in 2016, contrasting with the worsening of the same indicator in the Autonomous Region of the Azores, which has been on an upward path for more than a decade. By way of comparison, in 2021 the GG as a whole reduced its public debt ratio by 9.4 p.p. of GDP to 125.5% of GDP, thereby offsetting half (51%) of the deterioration of that indicator in 2020.

Autonomous Region of the Azores

The budgetary imbalance of the Autonomous Region of Azores remained high, still far from pre-pandemic levels. In 2021, the deficit was set at 8.7% of the Region's GDP (GDPR), i.e., a reduction of 0.3 p.p. of GDPR compared to 2020. The response measures to COVID-19 continued to penalize the budgetary balance, despite the decrease in financial support to SATA Air Açores. Excluding the impact of these emergency measures, as well as this financial

support, the deficit would have been 3.4% of GDP. This result, while benefiting from the recovery of the regional economy in 2021, still represents a budget deficit twice as high as in 2019 (1.7% of GDP).

Despite the economic recovery, the persistence of a high primary deficit continued to be the main determinant for the worsening of the region's Maastricht debt ratio. In 2021, the weight of debt in the production generated by the region deteriorated, reaching 60.7% (of GDP). Overall debt rose to 2636 M€ in absolute terms (59.6% of GDP), mainly reflecting the continued use of loans to finance measures in response to COVID-19. This evolution also reflects the settlement of arrears replacing commercial debt with financial debt, leading to a reduction of average payment periods to 130 days, after two consecutive years of worsening.

Contingent liabilities in 2021 totalled €1806 million (40.8% of GDP), representing an increase of €52 million relative to 2020. This increase results mainly from liabilities to public entities outside the budgetary perimeter. These include guarantees provided to SATA Group companies, which have since undergone a restructuring process.

The deteriorating trend of debt in the Azores, which in recent years has increased exposure to debt refinancing risks, along with the increase in contingent liabilities, continues to contribute to raise the sustainability risk of this autonomous region's finances.

Autonomous Region of Madeira

The significant impact of measures in response to the pandemic crisis implied, for the second consecutive year, a deterioration of the fiscal balance of the Autonomous Region of Madeira. In 2021, the deficit reached 4.4% of the region's GDP (GDP), 1.5 p.p. higher than in 2020 (2.9% of GDP). This deterioration occurred entirely in the primary balance (1.8 p.p. of GDP), which presented a deficit reflecting the impact of measures in response to COVID-19 of 5.5% of GDP in 2021, 2.3 p.p. higher than in 2020. Excluding this impact, the budget balance would result in a surplus of 1.1% of GDP, higher than the result achieved in 2019 (0.8% of GDP) and 0.8 p.p. higher than in 2020, when adjusted for the impact of those measures for that year.

The Maastricht debt ratio resumed the downward trajectory that had been observed since 2016, reaching 103.7% of GDP in 2021. The reduction of this ratio by 11.2 p.p. in 2021 was largely due to a nominal growth of the region's product above the implicit cost of debt, the so-called dynamic effect, which helped to recover almost half (47%) of the increase this indicator recorded in the year of the pandemic crisis outbreak. The overall debt decreased to €4926 million (100.6% of GDP), determined by the non-financial debt that

continued to sustain the decrease in average payment terms. These terms averaged 50 days in 2021, the lowest value since the Law on Commitments and Late Payments began to be applied in this Autonomous Region.

Contingent liabilities reached to €1348 million (27.5% of GDP) at the end of 2021, although maintaining the downward trend recorded in recent years. These liabilities were reduced by €130 million *vis-a-vis* 2020, of which €81 million resulted from the lower present value of future PPP expenses.

The suspension of the budgetary discipline rules established in the Autonomous Regions' Finance Law (LFRA)

The rules regarding the balanced budget (article 16) and the regional debt limit (article 40) provided for in the LFRA are suspended. Following the effects unleashed by the COVID-19 pandemic crisis, the second amendment to the 2020 State Budget introduced the suspension of the application of the provisions of those two articles to the Autonomous Regions, and the 2021 State Budget renewed that suspension. For the period 2014 to 2019, prior to the pandemic crisis, the CFP conducted a benchmarking exercise of these budgetary rules, which was published in its Report no. 1/2022, "[Evolution of the Finances of the Autonomous Regions in the period 2011 to 2020](#)".

In the current context of revision of the fiscal discipline rules at European level, it is also important, at national level, to rethink the internal framework of fiscal rules applicable to the various general government sub-sectors, including the autonomous regions. This is an opportunity to move forward with a reformulation of the national rules for the General Government and each of the General Government sub-sectors, in line with national specificities and the long-term sustainability requirements of Portuguese public finances, simultaneously guaranteeing compliance with the requirements that result from the reform of European Economic Governance.