



**Conselho das
Finanças
Públicas**

AUTONOMOUS REGIONS BUDGET OUTTURN IN 2022 EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

In a context of a return to pre-pandemic normality, the two Portuguese Autonomous Regions showed strong economic growth in 2022. This performance, coupled with the partial withdrawal of the extraordinary support measures adopted in response to COVID-19, helped to slow down the Autonomous Regions' financing needs, in a year in which the transfers from Central administrations to the Regions foreseen in the Autonomous Regions Finance Law fell. This reduction is the result of the change in GDP lagged by two years (2020) as determined by the legal formula.

In 2022, in national accounts, both Autonomous Regions followed the reduction in the budget deficit of the General Government (GG), of which they are part. In fact, the deficit of the autonomous regions went from 0.3% in 2021 to 0.2% of GDP in 2022. This reduction of 0.1 p.p. of GDP compares with a reduction of 2.6 p.p. of GDP in deficit of GG adjusted for one-offs.

With regard to debt in the Maastricht definition, the ratio of regional public debt fell by 0.4 p.p. of GDP, from 3.6% of GDP in 2021 to 3.3% of GDP in 2022, a debt ratio still higher than in 2019. This development contributed to a reduction in the public debt ratio for the GG as a whole by 12.1 p.p. of GDP to 112.4% of GDP in 2022, a level lower than that of the pre-pandemic year.

The contingent liabilities of the Autonomous Regions, expressed as a ratio of GDP, maintained a downward trend in line with the evolution shown by the GG as a whole since 2015. Excluding the liabilities of public entities involved in financial activities that are not part of the GG, these liabilities totalled 1.5% of GDP in 2022, approximately half of what was seen in 2015. This ratio compares with 10.1% of GDP in 2022 for the GG as a whole, almost two-thirds of the figure for 2015.

Autonomous Region of the Azores

Despite the reduction in the budget deficit, the budget situation in the Autonomous Region of the Azores still remained below pre-pandemic levels. In 2022, the Azores had a deficit of 7.7% of the region's GDP (GDPR), a decrease of 0.7 p.p. compared to 2021, despite the 1.1 p.p. drop in transfers under the Autonomous Regions' Finance Law. The partial dissipation of the effect of the measures adopted in the context of the pandemic (1.6 p.p. of GDPR) largely contributed to this development. However, this effect was counteracted by the new financial support from the Regional Government of the Azores to SATA Air Açores, S.A., which in 2022 increased its impact on the Autonomous Region of the Azores financing needs (1.2 p.p. of GDPR), limiting the recovery of the

budgetary situation. Removing the absolute impact of these effects, the region would still have a deficit of 3.1% of GDP, almost double that seen in 2019.

Reflecting these developments, the debt ratio in the Maastricht definition worsened, reaching a new maximum. In 2022, this indicator totalled 3064 M€, equivalent to 60% of the region's GDP, an increase of 0.6 p.p. compared to 2021. Although in 2022 the region's nominal GDP recorded its highest growth (12%) since 1995, this change was insufficient to reverse the successive worsening of the region's debt ratio over the last fourteen years. Overall debt, which also includes commercial debt, increased to 3108 M€ (60.8% of GDP), mainly reflecting the financing of the deficit, the assumption of financial debt of some regional public companies and the realisation of the SATA Air Açores S.A. capital increase.

Contingent liabilities increased again to 2439 M€ in 2022 (47.7% of GDP), mainly as a result of liabilities to public entities outside the budget perimeter, particularly those related to SATA Group companies undergoing restructuring.

The growing expression of contingent liabilities, which has been accentuated since 2015, coupled with the successive worsening of financial debt and the consequent refinancing needs contribute to raising the risk of sustainability of the finances of this autonomous region.

Autonomous Region of Madeira

In 2022, the deficit of the Autonomous Region of Madeira stood at 2.4% of GDP, 1.9 p.p. less than in 2021. The partial dissipation of the effect of pandemic response measures equivalent to 3 p.p. of GDP was decisive in reducing the budget deficit, in a year in which the transfers received under the Law saw a decrease equivalent to 1 p.p. of the GDP generated in the region. Excluding the transitory effect of those emergency measures, a balanced budget position would be reached in 2022, albeit below the surplus achieved in 2019 (0.8% of GDP).

For the second consecutive year, the debt ratio in the Maastricht definition fell, consolidating the downward trend that had been in place since 2016. In 2022, the weight of debt in the region's GDP stood at 83.2% (GDP) lower than in the pre-pandemic year, corresponding to the lowest debt ratio since 2010.

Contingent liabilities continued the downward trend of recent years, totalling 1272 M€ (21.1% of GDP) at the end of 2022. The reduction of 76 M€ compared to 2021 reflects the lower present value of future PPP charges, which more than offset the increase in the debt of regional public companies outside the budget perimeter.