SUMMARY

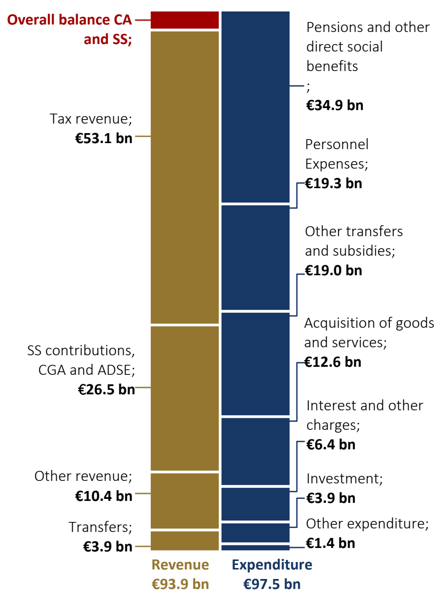
The Court issues an Opinion on the 2022 General State Account (GSA), comprising an assessment of the State's financial activity as reported in the GSA and expressing reservations and emphasis, supported by 57 recommendations to the Government and the Parliament, aimed at addressing the identified weaknesses. **(See Part D and Judgment)**

1. **In 2022, the GSA accounted a deficit of €3.6 bn (1.5% of GDP), an improvement of €4.7 bn compared to 2021 and a return to a balanced budget path, although being a value three times higher than the best budget balance in the pre-pandemic period (€-1.0 bn in 2019).** Expenditure and revenue, compared to 2021, increased by €5.0 bn (5.4%) and €9.8 bn (11.6%) respectively. The deficit reflected the impact of public support to mitigate the effects of the geopolitical shock, including inflation, that amounted to €5.6 bn. It was partly offset by the downgrade of most supports related to the COVID-19 pandemic, that induced an expenditure decrease of €1.1 bn. It also reflected an increase of 14.5% in tax revenues (plus €6.7 bn) and 9.3% in Social Security (SS) contributions and *Caixa Geral de Aposentações* - CGA, the Civil Servants Pensions Scheme - (plus €2.3 bn), mainly as a result of inflation and rise in employment and wages. **(See points C.1.1 and C.1.2)**

2. **The Account includes the budget execution of 482 Central Administration (CA) entities and the consolidated account of 12 Social Security entities. Six Central Government entities are missing from this universe. In 2022, the negative balance in the Central Government Account (€-7.6 bn) was largely offset by the surplus in the Social Security Account (€4,068 m), which reflected the strong increase in revenue and budget balances.** It should be noted, however, that revenue growth reflects predominantly the cyclical context. On the other hand, expenditure pressures are structural in nature, strongly driven by the need to finance pension expenditure, through transfers from the State Budget, which in 2022 increased by €1.0 bn (+ 10.8%), to cover the extraordinary increase in pensions (€139 m) and the exceptional pension supplement (€987 m). **(See point C.4.1)**

3. **Revenue amounted to €93.9 bn, 85% from tax revenue, social security contributions and CGS. Expenditure amounted to €97.5 bn, of which 56% related to pensions (and other social benefits) and personnel expenses.** In addition to spending measures to mitigate the impact of the geopolitical shock, expenditure increases were observed in almost all other components, notably: €1.1 bn (9.4%) for the purchase of goods and services (mainly in the health area), €580 m (1.7%) for pensions and other social benefits and €313 m (1.6%) for personnel expenses (mainly in the areas of health and internal administration). There was a moderate growth of investment expenditure, only €460 m, and mainly concentrated in railway infrastructure and military investments. Of a predominantly lasting nature, pensions paid by the Social Security and CGA, amounting to €30.7 bn, are particularly relevant, reflecting the largest increase of the last 4 years (plus €1.8 bn compared to 2021). **(See point C.1.2)**

Distribution of revenue and expenditure of CA and SS



4. **Public debt remained high at €25.9 bn. The increase in expenditure (20% in the last 5 years) has compromised the reduction in public debt, which, in nominal value, still grew by €3.3 bn compared to 2021.** Although more than half of the direct debt was owned by the Bank of Portugal (43.3%) and by the European Central Bank (8.6%), the main source of net financing for the year came from households, through the subscription of savings certificates which increased by €7.2 bn, benefiting from an attractive interest rate. In turn, the interest charges amounted to €5.8 bn, a 6% reduction compared to 2021, still related to debt issued in previous years at lower (or negative) interest rates. The debt growth over the past 5 years (plus €22.1 bn), in parallel with risks stemming from geopolitical tensions, rising interest rates and the ending/reduction of financial asset purchase programmes by the European Central Bank, increases the risks for future financing, given the high amount of debt to be refinanced between 2024 and 2027. **(See point C.2.5)**

5. **Although the GSA Report includes more complete information on guarantees, it does not comprise a fiscal risk analysis concerning contingent liabilities.** In cumulative terms, outstanding guarantees amounted to €18.8 bn (€1.7 bn less than in 2021) and the risks associated with possible called of guarantees granted to entities outside the budgetary perimeter (€14.7 bn, €1.1 bn less than in 2021) are of particular importance, since they might have an impact on expenditure and debt and consequently on the GSA and on the sustainability of public finances. **(See point C.4.5)**

6. **Even though they do not affect the deficit, the Court notes that there are still transactions classified as financial assets that essentially aim to pursue social and public policy objectives and are not intended to produce financial returns.** In 2022, this was the case of the TAP Group's capital increase of €304 m. In national accounting, some of these transactions are reclassified, thus with an impact on the State balance. **(See. Box 3)**

7. **Two of the areas relevant to the year's public financial management – the flows of the Recovery and Resilience Plan (RRP) and decentralization – have reporting weaknesses that hinder its analysis and control.**

   The implementation of the RRP is significantly lower than the predictions submitted to the EU and accounting records display weaknesses. The budget execution of the RRP expenditure registered €970 m in the 2022 Account, and its cumulative execution amounted to €1.0 bn (consolidated expenditure), which is significantly lower than the predictions submitted to the EU (€5.4 bn). After two years of the implementation period of the RRP, which is to be completed by 2026, the level of budget execution, accounted in the direct and final beneficiaries of the RRP by 31 December 2022, is only 19% of the planned amount of the financial execution schedule for the period in question. Weaknesses in accounting records and differentiated practices among Central Government and Social Security beneficiary bodies, were identified in accounting receipts and use of funds originated from the RRP. As a result, accounting records in the 2022 GSA do not reflect the full amounts received by RRP beneficiaries, affecting the reliability of the information, and hampering the monitoring of the budgetary implementation of the RRP. **(See point C.4.2.3).**

   The Account does not include detailed information about the fiscal dimension of the decentralization, despite the relevance of this public policy. Regarding the transfer of powers from the State to local authorities and inter-municipal entities, the GSA did not incorporate sufficiently detailed information on transferred funds, by area and associated legal regime. This situation must be addressed, considering the strategic importance, at national and local level, of the decentralization process, as well as the scale of its financial impact. **(See. Box 4)**

PUBLIC FINANCE REFORM

8. **Increasing delays and limited progress in the projects related to the implementation of the Budgetary Framework Law, jeopardize their financing under the RRP and will make it impossible for the Court to certify the 2023 State Account.** Of the total planned funding of €122 m, only €2.5 m (2%) are implemented. A GSA, based on the new instruments included in the Budgetary Framework Law, namely financial statements, is expected to be postponed for at least 3 more years. In terms of the application of the New Accounting Standards for Public Entities, although the number of accounts reported to the Court under the new accounting framework increased by 68, they still cover only about a quarter of the GSA total expenditure. **(See points A.1, A.2 and Box 2)**

9. **The reform, which began more than eight years ago, covers areas recognized by the Government as essential for improving public financial reporting. However, the lack of progress maintains the reporting of 2022 GSA, to a large extent, similar to that of previous years.** Delays cover the various components of the reform, including core projects such as the State Accounting Entity and Programme Budgeting. Therefore, increased efforts are required to implement them, including the development of information systems. From the outset, the implementation plan of the Budgetary Framework Law, although adjusted in early 2022, is under revision. The State Accounting Entity, although already regulated, is still dependent on conceptual developments (including the treasury management and control model) and the acquisition of technological solutions. Regarding programme budgeting, the Decree-Law setting out the respective specifications and guidelines, foreseen for June 2021, has not yet been published. In turn, the pilot programme – Sustainable Development Programme for the Economy of the Sea, included in the 2022 State Budget, presented a limited scope and usefulness, as it did not link the resources used with most of the previously defined result indicators. **(See point A.1)**

10. **The lack of progress in the implementation of the programme budgeting project has once again led to an allocation of expenditure by budgetary programme in the 2022 GSA on a mere ministerial distribution without added value.** Such a report does not reflect the allocation of resources by public policies and the GSA Report does not link results to cost component, making it useless as a tool for assessing the efficiency of public spending. **(See point C.2.3.2)**

BUDGETARY PROCESS

11. **Progress in the report on the implementation of policy measures improved showing a better articulation and coherence among documents on the budgetary process. However, it is still lacking an appropriate multiannual framework.** The GSA Report identifies, for almost all measures, their fiscal impact. On the other hand, the multiannual framework reflecting policies, budgetary targets and expenditure ceilings for 2022 were affected by the fact that the proposal for Major Options Law 2022-2026 was presented only with the proposal for the State Budget for 2023, the Stability Programme 2022-2026 did not disclose the policy options and the approval of the Multiannual Public Expenditure Framework only took place under the 2023 Budgetary framework process. **(See point B.1)**

12. **Some revenue and expenditure components have, since 2017, recurrently differed between budget forecasts and execution.** These deviations translate into the under-budgeting of tax revenue and social contributions and the overbudgeting of revenue from European funds and most expenditure items, in particular investment, which in 2022 was €2.0 bn lower than expected. **(See point B.2)**

13. **The use of special allocations included in the budget of the Ministry of Finance during the year has increased and it was mainly aimed at covering under-budgeted expenditure on education and health.** The use of these allocations for the reinforcement of others has almost doubled between 2019 and 2022 (from €760 m to €1.5 bn). This practice goes against the principle of specification, reduces the usefulness of expenditure forecasting by budgetary programmes and distorts the purpose of these budgetary management tools. The provisional allocation (€564 m), which is intended to cover exceptional, unforeseeable, and unavoidable expenditures, was mainly used to reinforce under-budget allocations, including personnel expenses on education (€220 m). In turn, the centralized allocation "regularization of liabilities and application of assets" (€433 m), budgeted in financial assets (without impact on the balance), was used to reinforce actual expenditures on health and social security (with impact on the balance). **(See point C.2.1)**

CENTRAL ADMINISTRATION ACCOUNT

14. **Central Administration revenue (€71.3 bn) grew by €7.5 bn (11.7%), even though measures to mitigate the geopolitical shock reduced tax revenue by €2.1 bn.** Tax revenue, which amounted to €52.9 bn, increased by €6.7 bn, with VAT performance accounting for half of this change and the IRC for nearly a third. **(See point C.2.2)**

15. **Tax revenue is undervalued by €754 m due to incorrect accounting, particularly in the context of extraordinary support to households.** There were some revenue deductions that should have been accounted as expenditure: i) €611 m in the IRS related to extraordinary support to households, wrongly accounted as repayments; ii) €143 m related to the assessment and collection costs of the Tax and Customs Authority. In addition, part of these charges (€119 m) is overstated, as they have been established on the basis of the total tax revenue of IRC, IRS and VAT, rather than, as determined by law, on an estimate of the revenue resulting from inspection and supervision activities. **(See point C.2.2.1)**

16. **The lack of progress in the implementation of the State revenue accounting regime (approved 23 years ago) continues to penalize the accuracy and timeliness of accounting information.** One of the central aspects of this scheme that remains to be implemented is the interconnection of the revenue management systems with central systems, which leads to delays in the classification and recording of revenue and the absence of a clear identification of all those responsible for the accounting process. **(See point C.2.2)**

17. **Earmarked tax revenues totalled €4.4 bn (8.3% of tax revenue) and reflect a practice that has been increased since 2018, constraining overall financial management.** This practice does not comply with the principle of non-assignment established in the Budgetary Framework Law which states that all revenue must be used to cover all planned expenditure. **(See point C.2.2.1)**

18. **The irrecoverable debt (€8.7 bn) represents more than a third of the debt under coercive collection by the Tax and Customs Authority (€24.3 bn) and has more than doubled since 2016.** About two-thirds of this debt relates to taxpayers that ceased activity in VAT. The financial crises, the COVID-19 pandemic, and the energy crisis, contributed to the increase noted, as well as the change in the case-law regarding the calculation of the period until the debt is time-barred and consequently extinguished. To promote tax compliance by taxpayers in 2022, new schemes have been introduced to facilitate debt payment in instalments (before or after the initiation of the tax enforcement process), which will have an impact on the future progress of debt portfolio. **(See point C.2.2.3)**

19. **Central government expenditure (€78.9 bn) increased by €4.4 bn (6.0%), nearly half, in response to the effects of the geopolitical shock (€2.1 bn).** In this context, we highlight supports for the reduction of gas (€1.0 bn) and electricity prices (500 m euros), implemented by the Environmental Fund, and the exceptional supplement to pensioners (€339 m), paid by the CGA. There were also significant increases in

the purchase of health goods and services (€867 m) and transfers to local government (€500 m), notably to finance the process of decentralization of competences. **(See point C.2.3)**

20. **Despite the fact that, at the end of 2022, debts of more than 90 days fell to €72 m, over the course of the year they maintained a monthly average of €547 m.** This decrease mainly reflects the effect of capital contributions to cover losses to health public enterprises. Nevertheless, these provisions were insufficient to cover the full payment of the total overdue costs of these entities (€507 m at the end of the year), reflecting the need to revise their financing model. **(See point C.2.3.3)**

21. **Central systems of the Ministry of Finance still do not include the recording of materially relevant amounts of off-budget operations, which hampers the control of the movement of funds by entities within the budgetary perimeter.** This is still due to inadequacy of information systems and failures to report entities (covering at least €4.3 bn of revenue and €4.4 bn of expenditure) or incomplete design of the procedure (in case of delivery to municipalities and autonomous regions of their share of taxes collected, €5.6 bn in 2022, without identifying the entity responsible for authorizing the extra-budgetary expenditure and ensuring their accounting records). **(See point C.2.4)**

22. **The reporting of the General State Account on Public Debt is incomplete and inconsistent.** The Account omits the debt stock of autonomous services and funds and reclassified public entities amounting to €29.7 bn (€284 m more than in 2021). On the other hand, the account's maps on State's Direct Debt use different perspectives and concepts, making it difficult to understand the data of some debt instruments, although the inclusion of explanatory notes helps to alleviate these difficulties. **(See point C.2.5)**

23. **Despite some improvements, financial assets information reported in the Account is still incomplete, reinforcing the need for financial statements.** The value of the financial assets determined by the Court is €126.1 bn, €1.3 bn less than in 2021, with more than half of the portfolio (64.2%) consisting of assets relating to entities within the scope of the Account, resulting in consolidated financial assets of €45.2 bn. The State portfolio continues to include assets that need to be reviewed and managed more efficiently, specifically regarding assets with no prospect of generating value or with management costs in excess of the amounts to be recovered, and also of entities that are extinct or in process of liquidation. In turn, at the end of 2022, more than half of the financial assets of the services and funds and reclassified public entities (54.2%) were held by five entities: the Agency for Competitiveness and Innovation (IAPMEI), *Caixa Geral de Aposentações (CGA), Parvalorem*, Agency for Development and Cohesion and *Parpública*. **(See point C.2.6)**

24. **Expenditure on financial assets continued to be overvalued.** In 2022, €1.1 bn (2021: €1.1 bn) regarding inflows of capital to state-owned enterprises to cover losses were unduly recorded as financial assets. **(See point C.2.6)**

25. **There has been no progress in the inventory of the State's real estate and the information in the GSA Report is very limited and unreliable, even regarding the year's transactions.** Weaknesses of the State Real Estate Information System remain, which limits the conditions necessary for the existence of financial statements, a fundamental component of the State Accounting Entity's future account. In addition, the development of a new information system, currently framed in the RRP, is delayed due to procedures still under way and lack of approval of tendering documents, which conditioned the funding agreement. Although the new information system is fundamental, it does not exempt the approval of a Real Estate Management Programme and an Inventory Programme (the last approved covering the period 2009-2012), provided for in the respective legal framework, which is essential for a strategic and integrated approach to real estate management.

As regards the real estate operations of the year, revenue from the sale of real estate, of €104 m, and expenditure on land, dwellings and buildings, amounting to €322 m. However, it is worth highlighting the omissions and inconsistencies of €78 m between the information in the GSA Report and that recorded by entities in the budget execution. **(See point C.2.7)**

26. **The Account's information on the treasury balance is incomplete, it omits, in particular, assets that entities are authorized to hold in commercial banking.** Even so, the State's cash balance at the end of 2022 amounted to €12.8 bn (plus €159 m compared to 2021). **(See point C.2.8.1)**

27. **There was a decrease in the number of entities non-compliant with the principle of the State treasury unity, although the number of entities exempted by law and by Government order increased.** In 2022, 28 entities unduly held €48 M€ of assets outside the Treasury (compared to 54 entities and €263 m in 2021) and 169 entities were exempted from compliance with the treasury unit, covering assets totalling €6.7 bn (149 entities and €5.9 bn in 2021). In addition, there is still a need to review the legal framework of the State treasury to address the legislative fragmentation in this area. **(See point C.2.8.2)**

28. **Despite favourable developments, the reporting of tax expenditure in the Account is still limited because it covers only about two-thirds of the tax benefits (208 out of 321).** €16.4 bn of tax expenditure was reported, further €4.1 bn (33.6%) than in 2021, reflecting an increase associated with the generality of taxes. Tax expenditures of 'non-habitual residents' amounted to €1.4 bn and represent 67.2% of the tax expenditure of the IRS, the second highest in 2022 (only exceeded by VAT tax expenditure); compared to 2021, it increased by €401 m (41.8%), reflecting the increase in the number of non-habitual residents. Although it is essential to establish the full tax expenditure, so that the timeliness and effectiveness of the benefits can be assessed, comparing its cost to the non-fiscal objectives they aim to achieve, the Technical Unit planned since 2020 to make this assessment (among other objectives) is not operational. In addition, due to the outdated classification of tax benefits, the residual heading 'Other economic affairs' is increasingly high (82.5% of total tax expenditure), reducing the usefulness of this classification. **(See point C.4.4)**

29. **In 2022, the Parliament authorizations to create new tax benefits were not used.** New benefits have been created (recover tax incentives, VAT exemption for certain products, transitional reduction in the VAT rate on electricity supply and exemption from delivery of half of the third advancement of IRC). However, the Parliament authorizations to the Government to create environmental deductions in IRS and the tax benefit regime regarding the Interior Valorisation Program were not used. **(See point C.4.4)**

SOCIAL SECURITY ACCOUNT

30. **In 2022, the social security account recorded the largest balance in years, with the actual balance reaching €4.1 bn, 74.7 % more than in the previous year, mainly due to an unprecedented increase in employer and employee contributions revenues and expenditures growth close to zero.** Positive labour market dynamics in terms of employment and declared remuneration, as well as the recovery of collected revenue that had been suspended in previous years, and the integration of more workers into the system, resulted in a very significant increase of €2.4 bn (11.8 %) in the revenue from employer and employee contributions, amounting to €22.3 bn, and a decrease in expenditure, namely €281 m (-21.9 %) on unemployment benefits.

In turn, expenditure reduction in the context of the COVID-19 pandemic of €1.3 bn (-68.8 %) allowed to absorb the impact, of almost the same value, of the mitigation measures addressing increases in energy and food prices, stemming from the geopolitical shock (€1.3 bn). Thus, despite the increase in pension and supplements expenditure of €1.2 bn (6.6 %), which amounted to €20.1 bn, actual expenditure (€31.5 bn) grew only €221 m (0.7 %). **(See point C.3.2)**

31. **The Social Security Financial Stabilization Fund has devalued €188 m despite capital inflows amounting to €3.1 bn, due to a very negative portfolio management result (-€3.3 bn).** In fact, developments in the international environment, with a shift in perceptions regarding inflation risk and a change in monetary policy with successive interest rate increases, have impacted on the devaluation of public debt and equity markets, leading to lower and even negative returns for most of its assets. The capital inflows in 2022 increased by €2.5 bn compared to 2021 and resulted mainly from the transfer of the annual balance of the pension-distribution system of €2.6 bn (€581 m in 2021) and €479 m (€34 m in 2021) of allocated tax revenues (€297 m from a part of the Corporate Income Tax; €148 m of revenues from the property tax surcharge; and €34 m from the solidarity additional on the banking sector).

    The Fund is an important instrument for promoting the sustainability of social security, which aims to contribute to the future financial stability of the welfare system. This loss of value led to the Fund being worth €23.0 bn at the end of 2022, corresponding to 144.3 % of the annual pension expenditure borne by that system, sufficient to cover only 17.3 months of these charges, lower than the previous year and below the 24-month coverage target. **(See point C.3.4)**

32. **There has been progress in the Account Report, but the examination of the social security account continues hampered.** The limited information available in the General State Account, of only a summary annexed to the Account report, and the fact that the social security financial information system is not part of the accounting operations of the Institute for the Management of Social Security Capitalization Funds and the Social Security Financial Stabilization Fund, prevents the consolidation and automatic extraction of the Account documents, limiting its analysis.

    In addition, there is the absence of statutory certifications of accounts and opinions in the individual accounts of social security entities (Institute for Financial Management of Social Security and the Institute of Social Security of Madeira), as well as reservations and emphasis identified in those that have been issued, revealing weaknesses, in particular regarding fixed assets, third party debt, provisions for dubious recovery and accruals, which have been the subject of reservations by the Court in previous Opinions. **(See point C.3)**

33. **Legal acts and standards, which have an impact on social security, require revision for several years already and no progress has been made in 2022.** The social security account is also conditioned by legal and regulatory weaknesses arising from: the non-creation of the Wages Guarantee Fund's own assets and the absence of national regulations for part of its financing; the absence of legislation regulating the single social security treasury and the setting of limits on capital investments made by the Institute for Financial Management of Social Security; and the existence of discrepancies in the legal framework of funding, in particular of the capitalization component of the welfare system. In regard to the Financial Stabilization Fund for Social Security, the regulation of its investment policy, as well as the rule that determines the allocation of part of the income from corporate income tax, the formulation of which is unfeasible, also need to be reviewed. **(See point C.3)**

34. **Despite improvements made in 2022, the consolidated balance sheet does not reflect the true financial position of the Social Security.** For the first time, and in line with the Court's recommendation made several years ago, accrued interest on taxpayers' debts were accounted, amounting to €2.9 bn, with a provision of €2.4 bn of that amount, and with a consequent impact on net assets and own funds, reflecting €536 m in the results of the year and those carried forward. **However, significant omissions, errors and inconsistencies in the application of accounting principles and practices persist**: **(See point C.3.3.1)**

- **Undervaluation of liabilities,** because it does not reflect the liabilities for the awarding of the social benefits that are being paid, recording only liabilities arising from processed social benefits that were not received by beneficiaries. Given its materiality, this undermines obtaining a true and fair view of the financial position; and also negatively affects the transparency concerning the impact of decisions in this area, such as extraordinary pension increases.
- **Undervaluation of taxpayers' debt**, since, in breach of the accrual principle, for 43.3 % of debts, amounting to €6.0 bn, no accrued interest is calculated, and also due to credit balances (contra nature) in interests on late-payment accounts, amounting to €41 m.
- **Overvaluation of customer debts** due to failure to record its non-collectability, maintaining accounted in the financial statement debt without possibility of recovery.
- **Inconsistency of €101 m of social benefits debt to be** repaid, with a balance amount larger than that shown in the current accounts of the beneficiaries.
- **Weaknesses in the control and accounting of real estate**. There is a lack of accounting records of real estate assets and situations of such assets valued at zero, as well as non-accounting of improvement works in respective asset records; furthermore, the value of buildings is not segregated from the value of the underlying land. These factors are relevant for depreciation accounts. In addition, the existence of 425 vacant buildings runs counter to an efficient use of existing capital, a situation which needs to be assessed, since the properties owned by the social security should be used in pursuit of its activities or, alternatively, for obtaining income. The value of social security real estate – consisting of 3 124 assets – tends to be disconnected from market value so advantage should be taken of the possibility of accounting at fiscal value with the implementation of the New Accounting Standards for Public Entities, whenever a reliable and up-to-date information about the cost is absent. **(See. Box 6)**
- **Weaknesses in the control and accounting of movable assets** due to incorrect classification, lack of uniformity and errors in the accounting of useful life, with an impact on depreciation.

35. **The net result was €242 m, a decrease of €2.3 bn (-90.6 %) compared to 2021.** This sharp decrease resulted from changes in the three groups of results: a) operational (€ 2.7 bn) with a substantial increase of €1.7 bn (163.9 %), largely supported by changes in contributions; b) extraordinary (€ 801 m), with an increase of €57 m (7.6 %), based on the net effect of corrections for previous years and reductions in depreciation and provisions; c) financial (€-3.3 bn), with a sharp drop of €4.1 bn (-506.5 %) mainly due to the performance of the Social Security Financial Stabilization Fund. **(See point C.3.3.2)**

36. **Social security in 2022 raised only €19 thousand under the onerosity principle, with an amount due of €20 m.** The application of the onerosity principle (occupation or use of real estate by other public authorities, subject to the payment of a counterpart) to several buildings since 2019, has resulted in very low revenues and an accumulation of unpaid debts, since the control procedures and actions developed have not been sufficiently effective, with the coercive debt collection procedure continuing to not be used for the collection of this debt. **(See point C.3.3.3)**

CONSOLIDATED ACCOUNT

37. **Problems remain in the consolidation process that, although not affecting the budget balance, overvalue revenue and expenditure.** The consolidation process remains incomplete and, therefore, not all material flows between entities, within the scope of the Account, have been 'eliminated', overestimating revenue and expenditure by at least €347 m from the sale/purchase of goods and services and €511 m on interest on marketable direct government debt. **(See point C.1.2)**

38. **The deficit in the General State Account is undervalued by €36 m, due to an error in the accounting of part of the 5G auction revenues that had already been recorded in revenue in 2021 by ANACOM.** The Court emphasizes the risk of perpetuating the error, bearing in mind that €392 m of fees already charged by ANACOM may also be paid to the State, upon which about €113 m of fees yet to charge may be added. **(See point C.1.2)**

39. **There are inconsistencies in revenue and expenditure due to outdated economic classifiers.** The correction of revenue and expenditure is also affected by the inadequacy of the economic classifier, which has resulted in the use of residual items to record materially relevant figures, because there is no other appropriate heading. This situation is aggravated by the fact that, under each year's Decree-Law on Budget Implementation, a set of entities is allowed to use a simplified classifier, compromising transparency and the control of the Account's values. **(See point C.1.2)**

OTHER FINANCIAL FLOWS

40. **The financial flows between Portugal and the EU in 2022 presented a balance of €3.5 bn, 36.5% lower than the previous year, resulting from the decrease in transfers to Portugal,** given the lower volume of transfers under the Recovery and Resilience Facility and the approach of the final phase of the Portugal (PT) 2020. In the transfers from Portugal to the EU, cases of non-compliance with payment deadlines were identified, due to failures in the articulation between entities, which resulted in late payment interest. As regards the transfers received from the EU, there were differences between the figures reported in the Account and those recorded in validation procedures, resulting from incorrect reporting by the intermediary entities of the funds to the Budget Directorate-General and from inaccuracies in data aggregation. **(See point C.4.2)**

41. **Following the Court's observations in previous opinions, there is still a need to accelerate the pace of implementation of European funds** to avoid the loss of funds and to contribute effectively to the fight against the economic and financial crisis stemming from the COVID-19 pandemic and aggravated by the effects of the war in Ukraine. In this context, the still large investment to be implemented/validated in PT 2020 by the end of 2023 (€4.4 bn) coincides with the implementation of a high amount of EU funds (around €60.0 bn) linked to several financial instruments, namely the Recovery and Resilience Plan and the 2021-2027 multiannual financial framework (PT 2030). **(See point C.4.2)**

42. **Financial flows to the autonomous regions show a stable trend, whereas for local authorities the growth trajectory is influenced by the process of decentralization of competences.** In 2022, these flows amounted to €885 m and €5.5 bn, respectively, and cover the participation of these entities in main taxes (over personal income and corporate income and also VAT) and other allocations for specific purposes, including loans and European funds. In the autonomous regions, the figures are in line with recent years trend, only interrupted in 2021 by a higher volume of transfers of European funds, while flows to local authorities continue an increasing trajectory (+ 7.8% compared to 2021), linked to the decentralization of competences process. In the second half of 2022, these flows were paid out by the Decentralization Financing Fund (€469 m), reflecting the concentration of resources for municipalities to deal with specific competences that until then had been allocated to several Ministries. On the other hand, flows received by the central government comprise the repayment of loans granted and their interest (€166 m and €79 m) and, in the case of local authorities, they also cover transfers to schools (€85 m), the Central Administration of the Health System (€49 m) and transport companies (€27 m). **(See point C.1.4)**

43. **The Account Report does not provide structured and complete information on flows with the State business sector.** The Court found that the net financing for this sector amounted to €4.4 bn (€1.4 bn less

than in 2021), with 70.8% going to public transport and road and rail infrastructure companies. The limitations of the Report stem from information restricted to operations carried out by the Directorate-General for Treasury and Finance and, at the same time, going beyond the scope of the sector, by including flows with regional and local government companies and some funds with administrative and financial autonomy. **(See point C.4.3.1)**

44. **The Account Report should provide a more detailed approach to grants to non-government entities, given its materiality and non-refundable nature.** Grants to entities outside the general government sector amounted to €5.9 bn, with an increase of €1.6 bn compared to 2021, mainly explained by environmental measures to cushion the effect of energy price growth on households and businesses. The non-refundable nature of this support calls for rigorous scrutiny, which involves transparency of information, especially regarding the purposes they aim to achieve. Although it is mandatory to publicize the support granted to individuals, different approaches remain in the reporting, which has conditioned the quality of the information. It is necessary to clarify the concept of these grants and harmonize the information to be disclosed in the Account Report, since the data provided by the entities do not always match the amounts of the budget execution, and the information in the Account shows inconsistencies between maps. **(See point C.4.3.2)**

45. **In 2022, no further support was granted to the financial sector, although there was an expenditure of €7 m concerning costs of reprivatisation of BPN.** For the first time, since the beginning of the 2007/2008 international financial crisis, there has been a positive balance for the State (€165 m), although the cumulative value remains negative (€21.9 bn). Revenues amounted to €173 m, related to the payment of loans granted and the receipt of dividends. The nominal value of assets at the end of the year (€10.4 bn) corresponds to about half of the net charges incurred, justifying a low expectation that they will ever be recovered. In 2022 it is also noted that Novo Banco's capital increase through the conversion of the rights granted to the State under the Special Regime Applicable to Deferred Tax Assets, as agreed in the Sales and Subscription Agreement concluded with Lone Star, only diluted the public participation in the bank through the Resolution Fund, while the private shareholder maintained the 75% stake. **(See point C.4.3.3)**