



## COVID-19 – BUDGET EXECUTION, DEBT AND GUARANTEES - UNTIL SEPTEMBER 30

REPORT Nº 1/2021 - AEO

2<sup>ND</sup> SECTION PROCESS:

N.º1/2020 FEBRUARY 2021

The Court of Auditors considers that a comprehensive report on the implementation of the initiatives taken in the context of the COVID-19 pandemic is essential. It highlights the improvements found since the exam to the previous report, and also, the recent release of instructions by the Ministry of Finance in order to adjust the information gathering processes.

The report “COVID-19 - Budget execution, Debt and Guarantees” until September 30, which follows up on the first report until May, shows that the report on the initiatives taken in the scope of the pandemic, published in the September Budget Outturn, has been improved in comparison to the report from May, although it is still not exhaustive and the information systems do not provide a sufficiently robust level of support.

Of the 2.8 billion euros reported until September 30, 68% fall within the scope of Social Security systems and 32% within the scope of Central Administration systems.

The improvements refer, namely, to:

- ◆ better specification of expenses, with the creation of 3 new dedicated budgetary lines for the Central Administration (compared to the 2 available in May) and, at the level of Social Security, with the autonomisation of the expenses of 16 initiatives (compared to the 5 available in May);
- ◆ provision of estimates on the loss of Social Security revenue due to total or partial exemption from contributions and inclusion of data on the amount to be collected, as a result of legal delay.

However, the report remains incomplete given that it does not include:

- ◆ subventions financed through European funds, due to their extra-budgetary nature, which is expected to achieve a very significant financial dimension (90 million euros by the end of September);
- ◆ the amounts resulting from revenue exemption, the deferral of payment terms for contracted and not yet paid expense,
- ◆ information regarding other costs, such as those resulting from the overuse of equipment;



- ◆ the amounts spent with the supplementary provision of family allowances for children and young people;
- ◆ the amount paid under a protocol signed with the Portuguese Red Cross.

There are also weaknesses that limit the monitorization process:

- ◆ the changes introduced by Parliament to the proposed supplementary budget law were not reflected in the budget statements of revenue and expenditure;
- ◆ the Budget Outturn estimate for the loss of revenue due to payment exemption of social contributions does not match the data presented by the services, making it difficult to verify;
- ◆ the five budgetary lines created to identify Central Government expenditure do not cover 39% of the expenditure regarding to acquisition procedures initiated before the pandemic (270 million euros); this information is compiled in complementary reports;
- ◆ the instructions issued did not prevent subventions of the same nature from being reported in different budgetary lines.

The Court draws attention to the existence of other impacts, realizing the debt ratio forecast of 134.8% of GDP in 2020, with a State debt of 262.9 billion euros reported until the end of September, more 4.7% than in the end of 2019.

On the other hand, debt interest decreased 329 million euros, compared to the same period of last year, confirming the effect on financing costs of the European Central Bank's action and the debt exchange programme conducted by the Portuguese Debt Management Agency's (IGCP).

To support the liquidity of companies until the end of September, 8 bank credit programmes with State guarantee have been created, up to a limit of 13 billion euros. Up to that date, contracted bank credit reached 7 billion euros and State guarantees increased 20% compared to the end of 2019, reaching 20.5 billion euros.

It should be noted that, recognizing weaknesses in reporting and information systems for budget execution, the Ministry of Finance issued new instructions, on February 17, 2021, to adjust the processes for gathering information on budget execution associated with the COVID-19 pandemic and the economic and social recovery initiatives. These instructions are applicable from March 2021 on and also to the final budget execution of 2020.

The Court concludes that all initiatives must be identified and the risks mitigated in a differentiated way, allowing for the respective monitoring, management and evaluation.

Therefore, the Court issues several recommendations, namely to the Minister of State and Finance and the Minister of Labour and Social Security, to make it possible to: i) quantify the disaggregated impact of all initiatives taken in the context of the pandemic; ii) that the impacts translated into financial flows are recorded in the appropriate dedicated budgetary lines; iii) issuing instructions to ensure consistency in the use of dedicated budgetary lines relating to COVID-19; iv) disclosure of complete information, including financial and physical



data and also outcome indicators; v) registration of subventions financed by European funds in extra-budgetary operations; vi) dissemination of aggregated information on the volume of funds obtained from the European Union and its application.

The Court also notes the involvement in the operationalization of these initiatives of all 18 Ministries and more than 100 public and private entities, including the National Health Service, and underlines the subventions paid by Social Security, that benefited more than 180 thousand entities and reached over 1.8 million individuals.