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Determinants of Municipalities' Financial Performance: A KPIs Approach

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Abstract

Successive weak financial performances have put decentralization of powers and authority to municipalities up for debate. More than half of municipalities' revenue are transfers from State budget which raises questions about their financial sustainability. This study identifies the determinants of financial independence or indebtedness of the 308 Portuguese municipalities, using panel data spanning 2009 to 2018. The results showed that the amount of taxes is the most significant predictor of municipalities total debt and financial independence, while population density only impacts total debt. Our results hold in robustness checks and might interest policy makers and local authorities.