EUROPEAN
COMMISSION

Brussels, 26.2.2020
SWD(2020) 521 final

**COMMISSION STAFF WORKING DOCUMENT**

# Country Report Portugal 2020

***Accompanying the document***

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN CENTRAL BANK AND THE EUROGROUP**

**2020 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011**

{COM(2020) 150}

# CONTENTS



# LIST OF TABLES

## LIST OF GRAPHS

# LIST OF BOXES

# EXECUTIVE SUMMARY

**A positive economic performance and policy effort is helping Portugal to address some of its challenges ([1]).** Economic expansion has brought unemployment down significantly. Though Portugal has also made progress on reducing macroeconomic imbalances associated with public and private indebtedness, they remain high. Little progress has been made with other imbalances, particularly productivity and the net international investment position. To address these issues, Portugal is taking steps to improve education, skills, innovation, the business environment, and the efficiency of the justice system.

**Portugal's economic performance remains favourable.** The economy continues to grow faster than the EU average, estimated at 2% in 2019, though the growth rate has slowed somewhat. The employment rate stands above the Europe 2020 target, while unemployment has reached its lowest level for 17 years. Both long-term and youth unemployment continue to fall, but remain above the EU average. Weaker external demand weighs negatively on exports, but domestic demand continues to grow steadily, helped by private consumption and investment. Although businesses are facing weaker economic sentiment, particularly in the industrial sector, increased use of EU funds is expected to support growth and investment.

**Portugal is continuing to correct its macroeconomic imbalances.** While progress is steady with most imbalances, the reduction of external liabilities has slowed substantially since 2018. Debt ratios in both the private and public sectors are improving, and the outlook appears favourable. Significant progress has also been made with reducing the stock of non-performing loans, albeit from a high base. After two years of weak growth, labour productivity increased more substantially in 2019 but the gap towards more advanced Member States remains significant.

**Public finances have benefited from resilient domestic demand and favourable financing conditions.** Higher cyclical revenue, combined with the lower interest burden and subdued public investment, has improved overall and structural budget balances. At the same time, the structural primary public balance is projected to deteriorate slightly over the period covered by the Commission's forecast. It is projected that the ratio of public debt to GDP will continue falling steadily, although it is liable to remain very sensitive to any worsening of Portugal's economic and financing conditions.

**Portugal faces significant shortfalls in investment**. Making the economy carbon-neutral by 2050 require significant investment in energy and transport. Climate change is expected to make natural hazards more frequent and extreme. Investment in risk prevention and in adapting to and mitigating climate change is thus essential to achieve sustainable growth. Investment in transport infrastructure, particularly in railways and ports, would help make Portugal more competitive in comparison with other countries. Low investment in research and innovation hinder Portugal's productive specialisation. The share of R&D expenditure as a proportion of GDP remains below the EU average. This is holding back Portugal's prospects of increasing the share of value-added in the economy.

**Portugal has made limited progress on addressing the 2019 country-specific recommendations**

There has been some progress in the following areas:

- Taking measures to tackle labour market segmentation.
- Improving the skills level of the population, in particular their digital literacy, including by making adult learning more relevant to the needs of the labour market.
- Increasing the number of higher education graduates, particularly in science and information technology.
- Focusing investment-related economic policy on the low-carbon and energy transition, and

([1]) This report assesses Portugal's economy in light of the European Commission's Annual Sustainable Growth Strategy published on 17 December 2019. In this document, Commission sets out a new strategy on how to address not only the short-term economic challenges but also the economy's longer-term challenges. This new economic agenda of competitive sustainability rests on four dimensions: environmental sustainability, productivity gains, fairness and macroeconomic stability extending energy interconnections, taking account of regional disparities.

- Allowing for a swifter recovery of the collateral tied to non-performing loans by increasing the efficiency of insolvency and recovery proceedings.

- Increasing the efficiency of administrative and tax courts, in particular by decreasing the length of proceedings.

There has been limited progress in the following areas:

- Improving the quality of public finances by prioritising spending to promote economic growth, while tightening up overall expenditure control, cost efficiency and appropriate budgeting, with a focus on durably reducing arrears in hospitals.

- Improving the financial sustainability of state-owned enterprises, while ensuring more timely, transparent and comprehensive monitoring.

- Improving the effectiveness and adequacy of the social safety net.

- Focusing investment-related economic policy on research and innovation, and on railway and port infrastructure.

- Reducing the administrative and regulatory burden on businesses, mainly by reducing sector-specific barriers to licensing.

There has been no progress in the following area:

- Developing a roadmap to reduce restrictions in highly regulated professions.

**Portugal is performing well on most aspects of the European Pillar of Social Rights**. The performance in gender employment gap, income inequalities, employment, unemployment and long-term unemployment is better than average. However, the proportion of students leaving education or training early is a major issue, as is the low level of digital skills. Changes to the social protection system have not improved the contribution of social transfers to poverty reduction.

**As regards progress towards the national target under the Europe 2020 strategy, Portugal is close to meeting its renewables target and is on track to achieve its energy efficiency targets.** However, some challenges remain in these areas. The country is expected to meet its emission reduction objectives in what are known as 'effort sharing' sectors (transport, buildings, agriculture and waste) by a margin of 25 percentage points. The employment rate remains slightly above the target of 75%. Poverty reduction shows a positive trend, exceeding the initial target of 200,000 people by 175%. Further progress was made in 2018 in reducing the school drop-out rate (early school leaving), but it is still above the target of 10%. Meeting the targets for research and development investment and higher educational attainment remains challenging.

**Progress towards the Sustainable Development Goals (SDG) differs from one area to another ([2])**. Good progress has been made towards SDG 8, 'Decent Work and Economic Growth', thanks to improvements in real GDP per capita, employment increases and a reduction in the number of people in work who are nonetheless at risk of poverty. In contrast, SDG 13, 'Climate Action', is to be monitored. Although the Government has set an ambitious climate and energy agenda, including a commitment to net zero emissions by 2050, the associated indicators have deteriorated in recent years. This applies in particular to total greenhouse gas emissions and energy consumption. Full implementation of the Government's policy plans would ensure progress on SDG 13.

The main findings of the in-depth review contained in this report and the related policy challenges are as follows:

- **External imbalances are now adjusting more slowly, and a further slowdown is**

(2) Within the scope of its legal basis, the European Semester can help drive national economic and employment policies towards the achievement of the United Nations Sustainable Development Goals by monitoring progress and ensuring closer coordination of national efforts. The present report contains reinforced analysis and monitoring on the SDGs. A new annex (ANNEX E) presents a statistical assessment of trends in relation to SDGs in Portugal during the past five years, based on Eurostat's EU SDG indicator set.

**predicted**. This seems to be driven largely by higher imports of capital goods related to investment. If this trend continues, domestic savings will need to increase accordingly in order to enable further unwinding of external imbalances at a satisfactory pace. The importance of exports is growing steadily, with their share in GDP increasing from 27.3% in 2009 to 43.5% in 2018. Furthermore, non-debt liabilities are increasing its share within external imbalances.

- **Portugal's public debt continues to fall steadily from a high level.** After having dropped to 122.2% of GDP in 2018, the ratio of public debt to GDP is forecast to have declined to 119.2% of GDP in 2019, while the overall budget balance gradually approached a balanced position. The ratio of public debt to GDP is projected to continue falling in 2020 and 2021, albeit at a slower pace. Portugal has deployed efforts to reduce interest expenditure, extend the average maturity of debt and smoothen annual peaks in its repayment profile. A more growth-friendly consolidation strategy and progress with reforms could have helped improving Portugal's fiscal sustainability even further. There is scope to improve overall expenditure control, cost-efficiency and budgeting. Such measures could help slow the accumulation of hospital arrears and make state-owned enterprises and the pension system more sustainable. This could create room to improve the quality of public finances.

- **Private debt is falling at a fast enough pace.** The debt ratio, down from 210% to 155% of GDP, is now much closer to the indicative headline threshold of 133%. Yet the deviation is still large if judged by country-specific indicators. The corporate sector is reducing its debt slightly faster than households, although the difference has narrowed since the beginning of 2019.

- **Portuguese banks have continued to improve their asset quality following further sales of non-performing loans.** However, their non-performing loan ratio remains high compared to their European peers, making them vulnerable to adverse shocks. Efforts are being made to remove remaining impediments to the resolution of non-performing loans in the legal and judicial frameworks. Furthermore, while their capital ratios and profitability have improved slightly over the past few years, banks continue to face challenges in an environment of muted loan growth and low interest rates.

- **Low productivity weighs negatively on Portugal's income convergence.** Although the economy is growing faster than the EU average, there has been little improvement in labour productivity. This is hampering the country's growth potential and keeping incomes low by comparison with the EU average.

Other key structural issues analysed in this report, which point to particular challenges for Portugal's economy, are the following:

- **Reforms are under way to address labour market segmentation and foster collective bargaining.** To tackle the persistently high proportion of workers on temporary contracts, a tripartite agreement has led to a series of amendments to the labour code and the social security system's code of contributory regimes. The reform is also designed to improve collective bargaining by reducing the individualisation of labour relations and introducing stricter criteria for terminating or modifying collective agreements. It also significantly improves the capacity of the labour authority to tackle false self-employment.

- **Poverty and inequality continue to decrease, despite weak social protection and rising house prices.** The proportion of people at risk of poverty and social exclusion fell in 2018 to 21.6%, and income inequality is now around the EU average. However, social transfers have limited impact on poverty, and rising housing prices are increasing financial pressures on the most vulnerable. In 2018, social transfers excluding pensions reduced the proportion of people at risk of poverty by 23.8%, significantly below the EU average of 34%.

Portugal is taking action to address housing affordability, which is fast becoming a new social challenge.

- **Demographic trends in Portugal are putting pressure on employment, education and training, social welfare, and health and care systems.** The working-age population is expected to decline by nearly 40% and the total population by 24% by 2070. This will require considerable investment in education, training and healthcare. In view of Portugal's low fertility rate, family support measures should be improved to achieve a better work-life balance and boost the coverage of early childhood education and care. An older population will also require more long-term care, so the recently approved legal status for informal carers is welcome. Addressing regional specificities and needs will also be important to guarantee access to an increased demand of healthcare services.

- **The Portuguese education system is gradually improving, but challenges persist**. The rates of early leaving from education and training and from tertiary education have fallen markedly in the past decade. Skills levels overall have also improved. However, a large proportion of adults have not completed upper secondary studies, grade repetition remains high, digital skills are generally too weak, and school infrastructure requires upgrading. Graduates in information and communication technologies account for too low a proportion of the total. The teaching labour force is ageing and teachers lack job stability.

- **Portugal has adopted significant vocational education and training and adult learning measures, but more could be done in terms of monitoring and follow-up**. Quality assurance mechanisms in vocational education and training have been improved. However, indicators from the European Quality Assurance Reference Framework are not systematically used to monitor the system. The Ministry of Education is currently assessing a national adult literacy plan. Data retrieval and monitoring would be helpful to ensure that vocational education and adult learning are both relevant to the labour market and effective. Participation in the flagship programme *Qualifica*, designed to tackle the low skills level of the adult population, continues to grow. However, detailed training and employability results are still lacking, which makes it hard to assess its effectiveness.

- **Steps are being taken to lighten the administrative burden, and judicial efficiency is improving. However, challenges persist in product and services markets.** The *SIMPLEX+* programme has a strong focus on e-government initiatives. Sector-specific barriers associated with licensing persist, particularly in some professional business services and the transport sector, including railways and ports. Although the justice system is becoming more efficient, challenges persist, notably the backlog of cases and the length of time take to resolve individual cases, which remain considerable. The authorities continue to take measures to achieve further improvements. Competition in public procurement procedures has increased. However, shortcomings in the coordination, governance, planning and monitoring still hamper its efficiency and limit competition.

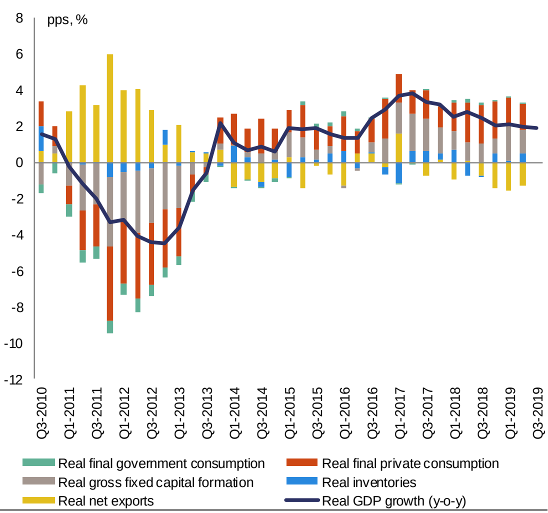
**Portugal has an ambitious agenda for adapting to and mitigating climate change, but faces implementation challenges**. Despite significant progress with increasing the share of renewables in the energy mix, Portugal's economy is still more greenhouse gas-intensive than the EU average. Moreover, the country faces difficulties with curbing the trend towards higher energy consumption. The Commission's proposal for a Just Transition Mechanism under the next multi-annual financial framework for 2021-2027 includes a Just Transition Fund, a just transition scheme under InvestEU, and a new public sector loan facility with the EIB. It is designed to ensure that the transition to EU climate neutrality is fair by helping the most affected regions in Portugal to address the social and economic impact. Key priorities for support by the Just Transition Fund are identified in Annex D, building on the analysis of the transition challenges outlined in this report.

# 1. ECONOMIC SITUATION AND OUTLOOK*

## GDP growth

**Portugal's economic performance remains favourable, although growth has been slowing somewhat.** The short-term projections were positively affected by significant data revisions, lifting GDP growth to 3.5% in 2017 and 2.4% in 2018 from the previously reported rates of 2.8% and 2.1%, respectively. Weaker external demand brought further moderation in 2019 as net exports fell while domestic demand remained resilient. Growth is now estimated at 2.0% in 2019 and continues to outperform the EU average projection. Taking into account the recent retail and production reports and expectations as regards external demand, economic growth is projected to moderate further to 1.7% in both 2020 and 2021.

Graph 1.1: **Contributions to real GDP growth**

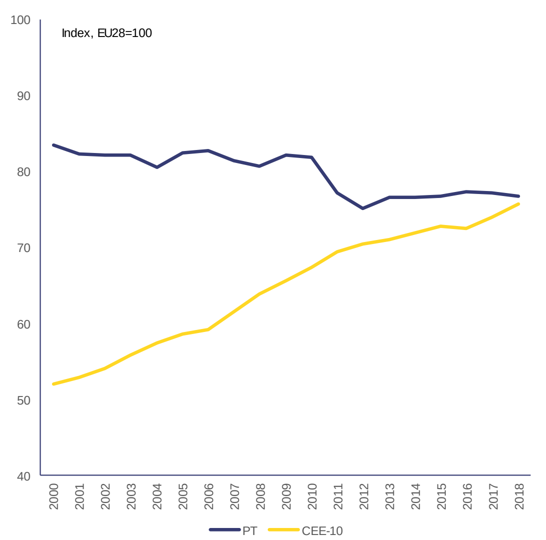



***Source:*** Eurostat

**As a result of a substantial rebound in investment, domestic demand retained a strong contribution to growth in 2019.** Both private consumption and investment are projected to remain major contributors to growth in 2020-21 albeit at a slower pace. The expected moderation in private consumption is linked to the recent slowdown in job creation. Meanwhile, investment is facing weaker economic sentiments, particularly in the industrial sector, but will be supported by the the EU funds over the forecast period. On the supply side, the strong performance in services and construction is projected to continue offsetting the weak industrial performance.

**Potential growth moves above the euro area average.** The country's strong economic performance in recent years has a positive impact on estimated potential growth. At 1.8% in 2019 and 1.9% in 2020, it is already above the EU average. This indicates a significant improvement from the trough of -1.2% in 2012. However, this has not translated into income convergence with more advanced Member States, as Portugal's per capita income in purchasing power standards (PPS) remains around 77% of the EU average. This development differs significantly from other catching-up economies. In fact, the average per capita income in PPS for the 10 countries that joined the EU in 2004 is already at the same level as Portugal, overcoming a gap of about 17 percentage points in 15 years (Graph 1.2).

Graph 1.2: **GDP per capita in PPS**




***Source:*** European Commission
*CEE-10 refers to the ten Member States from Central and Eastern Europe that joined the EU in 2004.

## Regional disparities

**While Portugal's internal cohesion increased, the main reason for this was slower GDP growth in the richer capital region.** Regional disparities in Portugal started to decrease around 2010 and have been on a continuous downward path since then. However, a substantial part of this decrease owes more to the higher contraction of the capital region than to growth in the less developed regions. In 2017, GDP per capita in the Metropolitan Area of Lisbon corresponded exactly to the EU average (100%, 16 pps less than in 2010), while – apart from the Algarve (83%) – it was below 75% in all other regions. At sub-regional level, differences in GDP per capita ranged in 2016 from Alentejo Litoral (109%) to Alto Tamega (51%).

**Competitiveness varies across Portugal, closely matching economic output, GDP per capita, productivity and innovation levels.** In a European perspective, Portuguese regions lack competitiveness. In the 2019 Regional Competitiveness Index (RCI), the Metropolitan Area of Lisbon is the most competitive Portuguese region –ranked at 141 out of 282 regions. All the other regions of Portugal are ranked between 212 and 267. When compared with other EU regions with similar characteristics, Lisbon, Centro, Norte and Alentejo show a similar performance on most dimensions of competitiveness, and some of their infrastructure is even rated as excellent. However, Madeira, Azores, and, in particularly the Algarve, underperform on many dimensions.

## Inflation

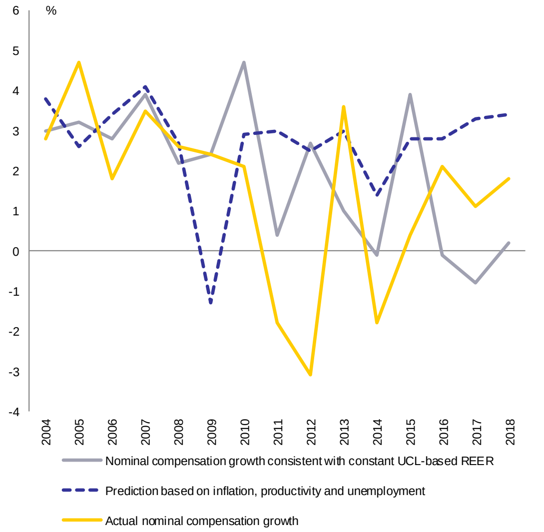
**Inflation fell from 1.2% in 2018 to 0.3% in 2019.** The downturn reflects a significant decline in energy prices, including various regulatory components of electricity and gas tariffs, plus lower prices for other administrative services such as public transport and telecommunications. In addition, core inflation has been contained by a continuous decline in the prices of industrial goods and a drop in accommodation prices relative to a year earlier. Inflation is forecast to increase somewhat in the next few years with core inflation remaining slightly above the headline rate. However, the growth rate of house prices remained high at 10.1% (y-o-y) in Q2-2019 (see Section 4.2).

## Labour market

**Unemployment continues to fall.** It was estimated at 6.3% in 2019, down from 7.0% in 2018 and is forecast to fall further to 5.9% in 2020 and 5.6% in 2021, according to the Commission's 2019 autumn forecast. The slack on the market is meanwhile set to decrease accordingly and wage growth to increase somewhat, also helped by the unfreezing of career progressions in the public sector. These expectations were further reinforced by wage reports in 2019, pointing to a growth rate of around 3% as compared to 2.5% in 2018. Portugal's labour productivity is expected to have improved somewhat in 2019 after two years of decline while unit labour costs are likely to continue rising at a moderate rate of about 2%.

**Wage growth is moderate but has been inching up in recent years as labour market reserves have receded.** Nominal compensation per employee growth turned positive in 2015, inching up to 2.3% in 2017 and 2.5% in 2018. Compensation growth is expected to be close to 3% in 2019 and the following two years (European Commission 2019 Autumn Forecast). Positive real wage growth was recorded one year after nominal wages started growing. Real compensation per employee grew at 1.2% in 2018 and it were expected to grow at 2.7% in 2019.

Graph 1.3: **Nominal compensation growth: actual and predicted based on economic fundamentals**




***Source:*** Eurostat, European Commission

**Recent migration flows support labour supply.** The working age population remained broadly stable in 2019. Against a background of demographic ageing and at slightly negative natural rate of change in population, labour supply was supported by a positive net migration flow accounting for about 0.2% of the total population. Migration flows have started to increase since 2017 but their positive impact has become more evident only recently. This is also confirmed by recent national data showing an increase in the number of registered foreign residents in Portugal. The figure reached 477,472 at the end of 2018, up by 14.6% from a year earlier, which is a significantly higher rate of growth than in previous years. A substantial proportion of art of the registrations are from Portuguese-speaking countries, so their integration into the labour market could be relatively smooth. However, the data currently available data do not provide a clear picture of the impact of migration on the structure of labour skills.

### Social developments

**Social conditions in Portugal have improved substantially in recent years, but some indicators still lag behind the EU average.** Income inequality continues to fall and is now around the EU average. The proportion of people at-risk of poverty or social exclusion also continued to fall,([3]) from 23.3% in 2017 to 21.6% in 2018. This brought it to slightly below the EU average of 21.9% for the first time. However, the risk of poverty faced by elderly people still give cause for concern. Inequality of opportunity in education also remains high. Social transfers have comparatively little impact on poverty in Portugal (see Section 4.3).

**Income inequality has been declining in recent years and is now close to EU average.** In 2018, the ratio of incomes earned by the top 20 % to the bottom 20 % of the income distribution decreased from 5.7 to 5.2, down from a peak of 6.2 in 2014, getting to the EU average of 5.2. At the same time, the Gini coefficient ([4]) decreased from 33.5 in 2017 to 32.1 in 2018, and is now below pre-crisis levels, yet remained above the EU average (30.9). The recent improvement was mostly driven by an increase in the share of income earned by the lowest part of the distribution, possibly related to improving labour market conditions, the impact of recent minimum wage increases on lower incomes and improved adequacy of some benefits.

([3]) Provisional data from the National Statistics Office (INE): the Survey on Income and Living Conditions held in 2019 on previous year incomes shows that 17.2% of the population was at-risk-of-poverty in 2018, one decimal point less than in 2017.

([4]) The Gini coefficient ranges between 0 and 100. Lower values indicate higher equality.

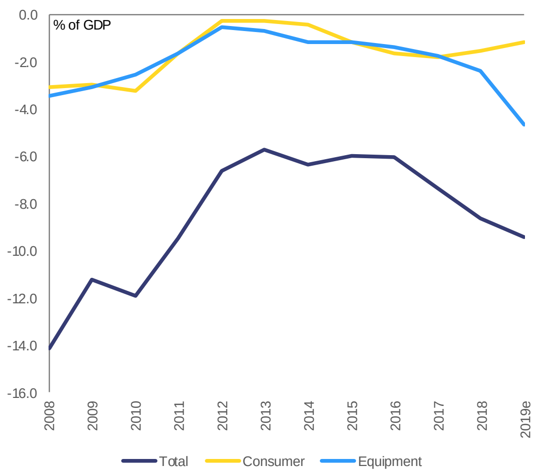
### External position and competitiveness

**The current account continued to deteriorate in 2019.** Following a decline in the surplus from 1.0% of GDP in 2017 to 0.1% in 2018 (national account terms), the current account is projected to post a deficit of 0.4% of GDP in 2019, which is close to the deficit explained by fundamentals. For the second year in a row, imports increased much faster than exports in 2019. The pattern is set to continue over the forecast period, triggering a significant deterioration in the country's external balance. This reflects a significant and widening gap in trade in goods. Net flows in primary and secondary income are expected to benefit from lower interest payments to foreign creditors and higher receipts from EU structural funds. Trade in services is projected to retain a stable surplus of around 8% of GDP throughout the whole forecast period benefiting from a continuous growth in tourism. Despite the expected increase in the current account deficit, exports are still projected to grow faster than GDP. However, the gains in market shares achieved in recent years are likely to diminish significantly.

**Investment outpaces savings**. The recent and projected declines in current account balances are related to the recovery of domestic investment, which slightly outpaced increases in domestic savings. Investment growth accelerated after 2016, driven mainly by higher construction. While the difference between savings and investment in 2018 narrowed down to only 0.2% of GDP, it is projected to worsen further in 2019-2021, reaching -1% of GDP at the end of the period. Thus, the current projections imply that the expected increase in savings would be insufficient to simultaneously enable a strong investment growth and a satisfactory dynamics of unwinding the high external stock of imbalances.

**The trade balance deterioration is closely linked with imports of investment goods**. The breakdown of trade by investment, consumer and intermediary goods, shows that the deterioration in 2018 and especially in 2019 was largely driven by increased imports of investment goods. This could improve the country's growth and export potential in the long term. At the same time, the trade in consumer goods improved from a deficit of 1.8% of GDP in 2017 to 1.5% in 2018 and 1.1% in 2019, according to balance of payments data and estimates for 2019. The deficit in trade in equipment increased from 1.7% of GDP to 4.7% for the same period, which exceeds the magnitude of the overall trade balance deterioration.

Graph 1.4: **Balance of trade with goods**

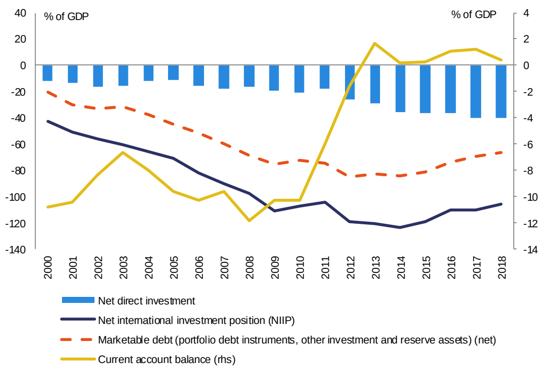



***Source:*** Eurostat

**Tourism continues to support the external balance**. Despite some slowdown in 2018 and 2019, net inflows from foreign tourism continue to make a significant contribution to Portugal's exports. Measured by travel receipts in the balance of payments, foreign tourism accounted for about 8% of GDP in 2018 and nearly 19% of the country's total exports of goods and services. Net travel revenues accounted for a surplus of 6% of GDP in 2018 and the share is estimated to have increased slightly in 2019. Both in 2018 and 2019, tourism grew faster than GDP, although the rate of growth was significantly lower than in previous years. By the end of 2017, growth in tourism was also helped by developments in some competing travel destinations. These factors however faded away in 2018 and 2019 highlighting the sector's exposure to external risks. Nontheless, it is expected that the growth achieved in 2018-2019 could be maintained in the medium term, supported by global trends in tourism and the projected expansion of the aviation sector.

**The pace of reducing external liabilities is slowing**. The stock of the net international investment position (NIIP) improved from revised -109.9% of GDP at the end of 2017 to -105.6% at the end of 2018 and further on to -101.5% until September 2019. However, it remains one of the most negative in the EU and significantly beyond the headline threshold of -35% in the macroeconomic imbalance procedure (MIP) scoreboard and the country's specific threshold of -48%. Moreover, the pace of adjustment is set to diminish, as the current account is projected to worsen further, reflecting the robust domestic demand and weaker prospects in global trade. The aforementioned estimates on the current account balance show that it will still be better than the estimated deficit of -4.1% of GDP required to stabilise the NIIP but significantly below the estimated surplus of 2.2% needed to reach the NIIP country-specific threshold in 10 years.

Graph 1.5: **Current Account and Net International Investment Position**




***Source:*** Eurostat

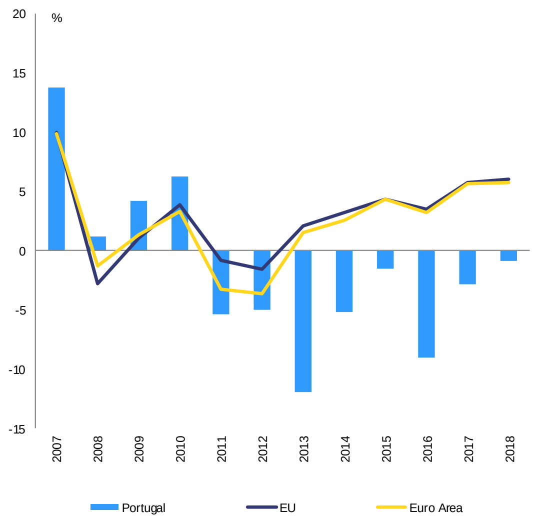
**The risk profile of NIIP is improving.** The structure of the NIIP shows that the risks associated with the type and duration of liabilities are diminishing, although a large part of the NIIP (about 60%) is composed of marketable debt. On the one hand, it reflects the reduced risk-premium on government debt, accounting for nearly 60% of the NIIP. The structure of the government debt benefitted from active management resulting in increased average maturity and smoothing of the redemption profile, as well as the continuous improvement in the country's credit rating and government bond spreads. On the other hand, the foreign direct investment (FDI) component of the NIIP increased from 36.8% of the NIIP at the end of 2017 to 38.1% at the end of 2018 and 39.2% at the end of June 2019. This implies that most of the external liabilities in the private sector are generated by non-defaultable instruments. Overall, the NIIP excluding non-defaultable instruments accounted for -57.1% of GDP at the end of 2018. While having improved from a trough of -82.1% at the end of 2012, it is still one of the lowest values across the EU countries.

**Unit labour costs continue to grow**. However, pressure on cost competitiveness remains modest as unit labour costs continue to move broadly in line with trading partners, owing to sustained modest wage developments. As regards non-cost indicators of competitiveness and total factor productivity, Portugal has continued to gain market share in recent years, although the trend is declining. The export market share in volume terms increased by 0.4% in 2018. Although growth slowed from 2.8% in the previous year, there had been a sustained improvement since 2010. In nominal terms, the share of exports in world trade grew by 2.3% in 2018, slowing from 3.2% in 2017. Over a five-year period, the accumulated growth in the market share is estimated at 9.4%. However, the share of high-technology products in total exports dropped to 4.0% in 2018 from 4.5% in 2017. While this ratio improved in the longer-term basis, it was the lowest in the EU in 2018, indicating a structural weakness of the economy associated with specialisation in low-value-added sectors (see chapter 4.4).

### Financial sector

**Portuguese banks have made significant further progress in reducing non-performing loans (NPLs), on the basis of sales, write-offs and cures.** All major banks now actively participate in the secondary market. Still, the NPL-ratio remained the third highest in the euro area. Despite previous reforms, the efficiency of the legal system remains a concern, as lenders' inability to manage collateral in an efficient manner is weighing on the prices investors are willing to pay for distressed debt. Banks continue to be profitable and capital ratios are above regulatory requirements, but stronger buffers would make banks more resilient to a weakening in macroeconomic conditions or an increase in risk premia. Recently introduced macro-prudential limits to loan-to-value and debt service-to-income ratios appear to have contributed to an improvement in credit standards (see Sections 3 and 4.2).

Graph 1.6: **Return on equity (%), domestic banks**




***Source:*** European Central Bank

### Private indebtedness

**Private indebtedness continued to decline.** Consolidated private debt dropped from 162.2% of GDP at the end of 2017 to 155.4% at the end of 2018. The latest data for 2019, available only in non-consolidated terms, show a similar pace of decline, reflecting a broadly stable debt stock in absolute terms while the debt ratio is pulled down by the growth in nominal GDP. In absolute terms, the debt level is expected to slightly increase over the medium term, driven mainly by lending to households where consumer loans retain a significant pace of growth. On the other hand, economic growth is projected ensure that private sector indebtedness increases at an overall adequate pace.

**The corporate sector is deleveraging slightly faster than households**, **although the difference has narrowed since the start of 2019**. The debt ratios remain on a downward trend across most of the business sectors. The breakdown of data by the size of corporate debtors reveals similar dynamics for small, medium and large firms. The stable stock of corporate debt shows that the large increase in investment up to September 2019 was financed largely by corporate profits and other non-debt sources, most likely linked with foreign direct investments. Yet, debt ratios remain above the estimated country specific prudential and fundamental thresholds. For households, the debt ratio dropped from 69.2% of GDP at the end of 2017 to 66.6% at the end of 2018 relative to prudential and fundamental levels estimated at 38% each. For corporates, the debt ratio dropped from 93.0% of GDP to 88.9% relative to prudential and fundamental benchmarks of 57% and 65% respectively.

### Public finances

**Public finances continue benefitting from resilient domestic demand and favourable financing conditions.** According to the Commission's latest forecast, the public headline deficit is projected to have decreased from 0.4% of GDP in 2018 to a small deficit of 0.1% of GDP in 2019, helped by cyclical revenue, decreasing interest expenditure and lower-than-budgeted public investment([5]). The headline balance net of one-offs ([6]) is set to have improved from a surplus of 0.2% of GDP in 2018 to a surplus of 0.4% of GDP in 2019. The structural balance is projected to have improved by about 0.1% of GDP in 2019, mainly reflecting the decline in interest expenditure, to a deficit of 0.5% of GDP, while the structural primary balance is expected to have remained broadly stable at a surplus of around 2.6% of GDP last year.

**According to the Commission's latest forecast, the structural balance is expected to gradually approach equilibrium in 2020 and 2021.** The forecast projects the public headline balance to improve to a small surplus of 0.1% of GDP in 2020. At the same time, the headline balance net of one-offs is set to improve slightly to a surplus of 0.5% of GDP in 2020. On the back of further savings in interest expenditure, the structural balance is projected to improve by 0.2% of GDP in 2020. Looking ahead into 2021, according to the Commission's latest forecast, the headline balance is set to turn into a surplus of 0.7% of GDP benefiting from a major positive one-off impact([7]), while the structural balance is projected to remain broadly unchanged. Risks to the fiscal outlook are tilted to the downside and are linked to uncertainties surrounding the macroeconomic outlook and the potential deficit-increasing impact of further bank support measures.

**The public debt-to-GDP ratio is projected to continue on its gradual downward path, albeit at a slower pace.** After falling by 3.8 pps to 122.2% in 2018, according to the Commission's latest forecast, the public debt-to-GDP ratio is projected to decline further to 119.2% in 2019, 116.7% in 2020 and 113.7% in 2021, mainly thanks to continuous primary surpluses and favourable growth-interest rate differentials. While the projected lower pace of decrease in the debt ratio below 3 pps in 2019 and 2020 is mostly due to higher stock-flow adjustments, the slight acceleration in 2021 mainly reflects the expected higher primary surplus thanks to one-off revenue.

**Portugal is making progress towards achieving the Sustainable Development Goals (SDGs).** Areas where progress is more evident refer to SDG 1 "No Poverty", with all its associated indicators showing an improving performance during the last five years. Relatively similar performances are found for SDG 16 "Peace, Justice and Strong Institutions" and SDG 9 "Industry, Innovation and Infrastructure". Notwithstanding this improving performance, current levels for some of these indicators are significantly lower than the EU average, particularly for basic needs related to dwellings (SDG 1), the perceived independence of the justice system (SDG 16) and R&D expenditure (SDG 9). Goals recording comparatively more modest progress include SDG 13 "Climate Action", with Portugal showing a recent deteriorating trend on SDG 13 indicators for greenhouse gas (GHG) emissions, primary and final energy consumption. These two indicators also explain the more subdued progress towards SDG 7 "Affordable and Clean Energy", which add to the recent increase in energy import dependency of the country.

([5]) To assess the updated Draft Budgetary Plan for 2020 that was submitted by Portugal on 17 December 2019, the Commission produced an ad-hoc forecast, in particular by updating its 2019 autumn forecast to take into account the information in the updated Plan. Unless stated otherwise, the budgetary projections in this report correspond to such a Commission ad-hoc forecast of December 2019 and, thus, do not reflect data only made available afterwards.

([6]) The one-off impact in both years results mainly from activations of the Novo Banco contingent capital mechanism.

([7]) In 2021, the headline balance is projected to benefit from a strong positive one-off impact of 0.4% of GDP from the recovery of the prepaid margin on the financial assistance loans by the European Financial Stability Facility, only partially offset by an impact 0.2% of GDP from the Novo Banco contingent capital mechanism.

Table 1.1: **Key economic and financial indicators**

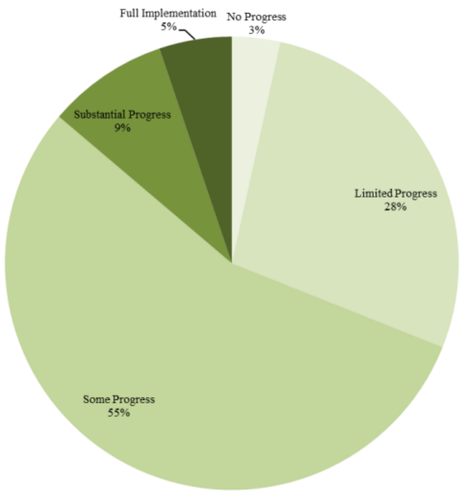
| | | | | | | | forecast | |
|---|---|---|---|---|---|---|---|---|
| | 2004-07 | 2008-12 | 2013-16 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Real GDP (y-o-y) | 1.7 | -1.4 | 0.9 | 3.5 | 2.4 | 2.0 | 1.7 | 1.7 |
| Potential growth (y-o-y) | 1.0 | -0.3 | 0.1 | 1.4 | 1.7 | 1.8 | 1.9 | 1.9 |
| Private consumption (y-o-y) | 2.0 | -1.6 | 1.5 | 2.1 | 3.1 | . | . | . |
| Public consumption (y-o-y) | 1.4 | -1.1 | -0.3 | 0.2 | 0.9 | . | . | . |
| Gross fixed capital formation (y-o-y) | 0.6 | -7.7 | 1.4 | 11.5 | 5.8 | . | . | . |
| Exports of goods and services (y-o-y) | 5.6 | 1.5 | 5.5 | 8.4 | 3.8 | . | . | . |
| Imports of goods and services (y-o-y) | 5.7 | -2.6 | 6.4 | 8.1 | 5.8 | . | . | . |
| Contribution to GDP growth: | | | | | | | | |
| Domestic demand (y-o-y) | 1.8 | -2.8 | 1.1 | 3.2 | 3.1 | . | . | . |
| Inventories (y-o-y) | 0.3 | -0.1 | 0.1 | 0.1 | 0.1 | . | . | . |
| Net exports (y-o-y) | -0.4 | 1.5 | -0.3 | 0.2 | -0.8 | . | . | . |
| Contribution to potential GDP growth: | | | | | | | | |
| Total Labour (hours) (y-o-y) | -0.3 | -1.0 | 0.0 | 0.9 | 1.0 | 0.8 | 0.7 | 0.6 |
| Capital accumulation (y-o-y) | 0.8 | 0.3 | -0.2 | -0.1 | 0.0 | 0.2 | 0.3 | 0.4 |
| Total factor productivity (y-o-y) | 0.5 | 0.5 | 0.3 | 0.6 | 0.7 | 0.8 | 0.9 | 0.9 |
| Output gap | -0.4 | -1.5 | -2.9 | 0.9 | 1.6 | 1.7 | 1.5 | 1.4 |
| Unemployment rate | 8.7 | 12.0 | 13.6 | 9.0 | 7.0 | 6.3 | 5.9 | 5.6 |
| GDP deflator (y-o-y) | 3.0 | 0.6 | 1.7 | 1.5 | 1.6 | 1.4 | 1.5 | 1.6 |
| Harmonised index of consumer prices (HICP, y-o-y) | 2.5 | 1.9 | 0.4 | 1.6 | 1.2 | 0.3 | 1.0 | 1.3 |
| Nominal compensation per employee (y-o-y) | 3.3 | 0.4 | 0.8 | 2.3 | 2.5 | 3.2 | 2.8 | 2.8 |
| Labour productivity (real, person employed, y-o-y) | 1.8 | 0.6 | 0.5 | 0.2 | 0.1 | . | . | . |
| Unit labour costs (ULC, whole economy, y-o-y) | 1.4 | -0.2 | 0.2 | 2.1 | 2.4 | 2.2 | 1.7 | 1.6 |
| Real unit labour costs (y-o-y) | -1.5 | -0.8 | -1.4 | 0.6 | 0.8 | 0.8 | 0.1 | -0.1 |
| Real effective exchange rate (ULC, y-o-y) | 0.0 | -2.0 | -0.5 | 2.1 | 1.7 | -0.9 | -0.6 | -0.2 |
| Real effective exchange rate (HICP, y-o-y) | 0.4 | -0.8 | -0.4 | 0.7 | 0.8 | -1.8 | -0.8 | -0.4 |
| Net savings rate of households (net saving as percentage of net disposable income) | 1.8 | 1.5 | -0.6 | -2.2 | -2.4 | . | . | . |
| Private credit flow, consolidated (% of GDP) | 13.8 | 4.4 | -3.1 | 2.2 | 0.8 | . | . | . |
| Private sector debt, consolidated (% of GDP) | 173.6 | 203.4 | 185.0 | 162.2 | 155.4 | . | . | . |
| of which household debt, consolidated (% of GDP) | 81.5 | 90.6 | 79.4 | 69.2 | 66.6 | . | . | . |
| of which non-financial corporate debt, consolidated (% of GDP) | 92.1 | 112.8 | 105.6 | 93.0 | 88.8 | . | . | . |
| Gross non-performing debt (% of total debt instruments and total loans and advances) (2) | 1.2 | 4.1 | 12.5 | 11.0 | 7.6 | . | . | . |
| Corporations, net lending (+) or net borrowing (-) (% of GDP) | -4.5 | -1.7 | 3.5 | 2.9 | -0.2 | -0.7 | -0.9 | -1.2 |
| Corporations, gross operating surplus (% of GDP) | 19.8 | 20.9 | 22.1 | 22.3 | 21.4 | 21.5 | 21.5 | 21.4 |
| Households, net lending (+) or net borrowing (-) (% of GDP) | 1.3 | 3.0 | 2.8 | 1.9 | 1.8 | 1.6 | 1.5 | 1.0 |
| Deflated house price index (y-o-y) | -1.6 | -2.9 | 2.9 | 7.6 | 8.8 | . | . | . |
| Residential investment (% of GDP) | 5.7 | 3.7 | 2.5 | 2.8 | 3.0 | . | . | . |
| Current account balance (% of GDP), balance of payments | -9.4 | -8.0 | 0.8 | 1.2 | 0.4 | -0.1 | -0.4 | -0.7 |
| Trade balance (% of GDP), balance of payments | . | . | . | 1.5 | 0.8 | . | . | . |
| Terms of trade of goods and services (y-o-y) | -0.1 | 0.0 | 1.9 | -0.8 | -0.3 | 0.1 | 0.0 | 0.0 |
| Capital account balance (% of GDP) | . | . | . | 0.9 | 1.0 | . | . | . |
| Net international investment position (% of GDP) | -77.1 | -107.8 | -118.3 | -109.9 | -105.6 | . | . | . |
| NENDI - NIIP excluding non-defaultable instruments (% of GDP) (1) | -44.3 | -71.3 | -73.2 | -59.5 | -57.1 | . | . | . |
| IIP liabilities excluding non-defaultable instruments (% of GDP) (1) | 175.7 | 213.4 | 200.4 | 180.3 | 175.7 | . | . | . |
| Export performance vs. advanced countries (% change over 5 years) | 6.6 | -3.1 | 0.6 | 11.1 | 7.2 | . | . | . |
| Export market share, goods and services (y-o-y) | -2.4 | -3.7 | 2.6 | 3.2 | 2.3 | 1.4 | -0.4 | -0.8 |
| Net FDI flows (% of GDP) | . | . | . | -3.5 | -2.5 | . | . | . |
| General government balance (% of GDP) | -4.8 | -7.8 | -4.7 | -3.0 | -0.4 | -0.1 | 0.1 | 0.7 |
| Structural budget balance (% of GDP) | . | . | -2.1 | -1.4 | -0.6 | -0.5 | -0.3 | -0.3 |
| General government gross debt (% of GDP) | 71.4 | 101.4 | 131.8 | 126.0 | 122.2 | 119.2 | 116.7 | 113.4 |
| Tax-to-GDP ratio (%) (3) | 34.4 | 34.3 | 36.9 | 36.5 | 37.2 | 37.3 | 37.4 | 37.5 |
| Tax rate for a single person earning the average wage (%) (4) | 22.4 | 22.3 | 27.7 | 27.5 | 26.6 | . | . | . |
| Tax rate for a single person earning 50% of the average wage (%) (4) | 13.9 | 11.5 | 11.0 | 11.0 | 11.0 | . | . | . |

(1) NIIP excluding direct investment and portfolio equity shares
(2) domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.
(3) The tax-to-GDP indicator includes imputed social contributions and hence differs from the tax-to-GDP indicator used in the section on taxation
(4) Defined as the income tax on gross wage earnings plus the employee's social security contributions less universal cash benefits, expressed as a percentage of gross wage earnings
***Source:*** Eurostat and ECB as of 4-2-2020, where available; European Commission for forecast figures (Winter forecast 2020 for real GDP and HICP, ad-hoc forecast 2019 for budgetary indicators, Autumn forecast 2019 otherwise)

# 2. PROGRESS WITH COUNTRY-SPECIFIC RECOMMENDATIONS

**Since the start of the European Semester in 2011, 69% of all country-specific recommendations addressed to Portugal have recorded at least 'some progress'.**([8]) 31% of these CSRs recorded 'limited' or 'no progress' (see Graph 2.1). Most progress was observed for CSRs associated with challenges in the labour market, education and social policies, the financial sector, and the justice system. Progress on challenges associated with fiscal-structural issues and certain aspects of the business environment have been more limited. Further effort is warranted to effectively tackle these challenges.

Graph 2.1: **Level of implementation of 2011-2019 CSRs**




(1) The overall assessment of the country-specific recommendations related to fiscal policy excludes compliance with the Stability and Growth Pact.
(2) 2011 annual assessment: Different CSR assessment categories.
(3) The multiannual CSR assessment looks at the implementation until 2020 Country Report since the CSRs were first adopted.

***Source:*** European Commission

**Portugal has made limited progress in addressing challenges associated with fiscal policy and fiscal governance**. There are delays in the implementation of the 2015 Budgetary Framework Law, in particular in the areas of medium-term and programme-based budgeting (linked to CSR1 sub-part on improving the quality of public finances by prioritising growth-enhancing spending) and accrual accounting (linked to the CSR1 sub-part on strengthening overall expenditure control, cost efficiency and adequate budgeting). The ongoing bottom-up review of public expenditure has generated overall modest efficiency savings. Despite efficiency-improving efforts in the health sector, hospital arrears remain a source of concern. Although efforts were made to improve the financial sustainability of state-owned enterprises, the objective of attaining an overall balanced financial position has been repeatedly moved forward and is unlikely to have been achieved in 2019. While past reforms had improved its long-term sustainability, recent direct increases in pension spending and demographic ageing are exerting growing pressure on the pension system. Progress has been made towards improving tax compliance and making tax collection more efficient, while there is still scope to make the tax system more business-friendly.

**There is some progress in tackling a persistent share of temporary employment.** Stemming from the 2018 tripartite agreement new measures are in force since October 2019 to tackle labour market segmentation. Furthermore, some progress has also been registered in improving the efficiency of active labour market policies targeting permanent employment, fostering collective bargaining and in stepping up the capacity of the labour authority, especially with regard to combating false self-employment.

**Improving the skills level of the population registered some progress.** Thanks to increased participation in *Qualifica* and a wide range of initiatives through INCoDe.2030, some progress is being made in tackling low skills levels. However, more detailed information and project upscaling are needed to amplify the impact of these measures. Also, the Portuguese government has announced that it will soon be presenting a national plan for adult literacy, designed to improve literacy levels in low-skilled sectors of the population.

**Some progress has been made in increasing the number of higher education graduates**. The government has put in place several measures to ease the access to higher education and increase enrolment (see Section 4.3.3). In 2017/2018, student enrolment in the first university courses

([8]) For the assessment of other reforms implemented in the past, see in particular Section 4.

was almost 8% higher than in 2016/2017 (National Education Council, 2019). The number of university students is also growing in science and information technology, although they are still a small proportion of the total. In 2018, university graduates in information and communication technologies accounted for 2.2% of the total number of graduates, while those graduating in natural sciences, mathematics and computing accounted for 6.8% of the total.

**Portugal has made limited progress towards improving the effectiveness and adequacy of the social safety net.** The poverty reduction capacity of social transfers (other than pensions) as well as its adequacy, remain comparatively low in Portugal ([9]). The new government announced several measures to be adopted in the coming years to address this recommendation.

**Limited progress has been made with focusing investment-related economic policy on research and innovation**. The implementation of the Portugal 2020 strategy is well underway and a reprogramming aimed at assigning additional funding to investments in innovation was conducted in 2019. Yet, further investments and policy efforts are necessary in particular to foster linkages between R&D actors and businesses and support a thriving innovation driven economy.

**Limited progress has been made with focusing investment-related economic policy on transport**. There has been limited progress regarding the Connecting Europe Facility projects under the 2020 Ferrovia programme. There is also limited progress regarding port infrastructure, with key investment projects in Sines (Terminal Vasco da Gama) and Barreiro still going through the early or preparatory stages of the public tendering process.

**Portugal has made some progress on investment policy associated with the low carbon and energy transition**. Measures are being taken to increase the use of renewables. In addition, a new regulatory framework addressing self-consumption and renewables communities should help decentralise the energy supply. Progress has been limited as regards primary energy consumption, which has been rising over the past three years. The government has announced its intention to adopt a number of measures, such as raising awareness of and revising energy efficiency regulations in industry, buildings and transport. As regards interconnections, Portugal has been actively involved in regional fora to improve the energy connectivity of the Iberian Peninsula, however the new electrical interconnection between Portugal (Minho) and Spain (Galicia) remains incomplete.

**The share of non-performing loans declines continuously due to strategies implemented over the past years by the authorities and the concerned banks.** Since July 2019, Portuguese lenders have the possibility to make use of a special regime allowing them to transfer loan portfolios in bulk to other financial institutions. This should enable a faster and less costly process of selling NPLs. Nevertheless, challenges related to lengthy proceedings remain. The legal and judicial frameworks are heavily affecting the recovery process and the prospects for efficient repossession of collateral by lenders. The longer the average duration of recovery proceedings and the uncertainty surrounding it, results in lower market valuations of non-performing assets.

**Although the overall administrative burden on businesses is being reduced, limited progress has been made with reducing the sector-specific burden on licensing.** In recent years, several measures introduced mainly under the SIMPLEX+ programme have led to improvements in the business environment. New initiatives addressing the business environment were launched in 2019 through the SIMPLEX+ and *Capitalizar* programmes. However, limited progress has been made with reducing the sector-specific burden on licensing. Reforms seldom replace ex ante checks by ex post checks. They may even rely on responsible declarations to replace the numerous authorisation schemes in place. Long procedural deadlines for decision and even the absence of tacit approval persist. Portugal is making efforts supported by the Structural Reform Support Programme to improve regulatory impact assessment, in particular with the ambition to introduce cost-benefit analysis and to put in place an effective consultation system.

**No progress has been made with reducing regulatory restrictions on highly regulated**

([9]) Joint Employment Report, 2020

**professions, which remain sheltered from competition.** No reforms to reduce regulatory restrictions on highly regulated professions have been implemented or even announced. This is despite the Commission's repeated recommendations and recommendations made by the OECD and the Portuguese competition authority.

**Portugal has made some progress towards improving the efficiency of the tax and administrative courts.** Proceedings before tax and administrative courts remain among the lengthiest in the EU. Measures designed to introduce further improvements continue to be implemented, including rapid reactions teams to deal with case backlogs, and the establishment of specialised chambers, both in administrative and tax matters.

**Portugal has made limited progress in addressing the 2019 country-specific recommendations.** Limited progress has been made with respect to the fiscal-structural part of CSR 1, with the government continuing to tackle expenditure control, cost efficiency and adequate budgeting. However, hospital arrears have again begun to rise at a steady rate. Progress with improving the financial sustainability of state-owned enterprises which struggle to achieve a balanced financial position has also been limited. There has been some progress in addressing CSR 2, with Portugal adopting measures to address labour segmentation. There has also been some progress on skills and education, thanks to new policy measures improving access to higher education, and the implementation of programmes such as *Qualifica* and INCoDe.2030. Yet, limited progress has been made towards improving the effectiveness and adequacy of the social safety net. As regards CSR 3, there has been some progress on investment-related policy in the area of energy transition, while limited progress for policies in the areas of research and innovation, and railway and port infrastructure. As regards the business environment (CSR 4), there has been some progress on increasing the efficiency of insolvency and recovery proceedings, as well as on reducing administrative burden. However, limited progress has been made on reducing sector-specific barriers to licensing. There has been no progress with removing regulatory restrictions in professional services, which remain largely sheltered from competition.

**Upon a request from a Member State, the Commission can provide tailor-made expertise via the Structural Reform Support Programme to help design and implement growth-enhancing reforms**. Since 2017, 20 projects in Portugal have benefited from such support. Several projects were implemented in 2019. For instance, the Commission supported the Portuguese authorities in implementing the Budget Framework Law and improving the performance of the strategic water supply and sanitation sector plan — PENSAAR 2020. Support with designing the national adult literacy plan continued in 2019. Work also started on developing capacity to assess the impact of structural reforms and forecast investment in the circular economy in order to promote the efficient use of resources.

Table 2.1: **Assessment of 2019 CSR implementation (*)**

| Commitments | Summary assessment |
|---|---|
| | **Limited progress in addressing CSR 1** |
| **CSR 1:** Achieve the medium-term budgetary objective in 2020, taking into account the allowance linked to unusual events for which a temporary deviation is granted. Use windfall gains to accelerate the reduction of the general government debt ratio. Improve the quality of public finances by prioritising growth-enhancing spending while strengthening overall expenditure control, cost efficiency and adequate budgeting, with a focus in particular on a durable reduction of arrears in hospitals. Improve the financial sustainability of state-owned enterprises, while ensuring more timely, transparent and comprehensive monitoring. | • **Limited progress** has been achieved in improving the quality of public finances with a focus on a durable reduction in hospital arrears.<br>• **Limited progress** in improving the financial sustainability of state-owned enterprises. |
| | **Some progress in addressing CSR 2** |
| **CSR 2:** Adopt measures to address labour market segmentation. Improve the skills level of the population, in particular their digital literacy, including by making adult learning more relevant to the needs of the labour market. Increase the number of higher education graduates, particularly in science and information technology. Improve the effectiveness and adequacy of the social safety net. | • **Some progress** adopting measures to address labour market segmentation.<br>• **Some progress** improving the skills level of the population, in particular their digital literacy.<br>• **Some progress** increasing the number of higher education graduates, particularly in science and information technology**.**<br>• **Limited progress** improving the effectiveness and adequacy of the social safety net. |
| | **Limited progress in addressing CSR 3** |
| **CSR 3:** Focus investment-related economic policy on research and innovation, railway transport and port infrastructure, low carbon and energy transition and extending energy interconnections, taking into account regional disparities. | • **Limited progress** on investment-related policies on research and innovation.<br>• **Limited progress** on policies for railway and port infrastructure.<br>• **Some progress** on policies for low carbon and energy transition and extending energy interconnections. |

*(Continued on the next page)*

*Table (continued)*

| | Limited progress in addressing CSR 4 |
|---|---|
| **CSR 4:** Allow for a swifter recovery of the collateral tied to non-performing loans by increasing the efficiency of insolvency and recovery proceedings. Reduce the administrative and regulatory burden on businesses, mainly by reducing sector-specific barriers to licensing. Develop a roadmap to reduce restrictions in highly regulated professions. Increase the efficiency of administrative and tax courts, in particular by decreasing the length of proceedings. | • **Some progress** allowing for a swifter recovery of the collateral tied to non-performing loans by increasing the efficiency of insolvency and recovery proceedings.<br>• **Limited progress** reducing the administrative and regulatory burden on businesses, mainly by reducing sector-specific barriers to licensing.<br>• **No progress** developing a roadmap to reduce restrictions in highly regulated professions.<br>• **Some progress** increasing the efficiency of administrative and tax courts, in particular by decreasing the length of proceedings. |

***Source:*** European Commission

(*) The assessment of CSR 3 does not take into account the contribution of the EU 2021-2027 cohesion policy funds. The regulatory framework underpinning the programming of the 2021-2027 EU cohesion policy funds has not yet been adopted by the co-legislators, pending inter alia an agreement on the multiannual financial framework.

*Box 2.1:* **EU funds and programmes to address structural challenges and to foster growth and competitiveness in Portugal**

**Portugal is one of the countries benefiting most from EU support.** Its financial allocation from the EU cohesion policy funds ([1]) under the current Multiannual Financial Framework amounts to €27.6 billion, equivalent to around 2.0% of the country's annual GDP. By the end of 2019, Portugal had allocated some €28.6 billion (more than the total amount planned) to specific projects and spent € 13.0 billion ([2]), showing a level of implementation well above average.

**While bringing a more harmonious development through reducing economic, social and territorial disparities, EU Cohesion Policy funding significantly supports structural.** In Portugal, the Cohesion Policy programmes allocated €6.7 billion for smart growth, €4.9 billion for sustainable growth and transport, and €9 billion for inclusive growth. In 2019, following a performance review ([3]),€1.4 billion was made available for Portugal within performing priorities.

**EU Cohesion Policy is contributing to transform the Portuguese economy by promoting growth and employment.** By 2019, investment driven by the European Regional Development Fund had already provided support for around 14,500 companies. This in turn directly created over 16,900 jobs. The Fund also supported investment to reduce energy consumption in public buildings by 335 million KWh/year and expand additional waste management capacity to cope with a further 333,000 tonnes/year. Similarly, Cohesion Policy supported projects contributing to the reduction of greenhouse gas emissions by more than 97,000 tonnes/year of $CO_2$-equivalent. Funds also financed modernisation of schools, benefiting over 34,000 pupils and provided improved health services for 3.6 million people. Additionally, the European Social Fund (ESF) supported 28,000 employees and 6,000 SMEs through in-work training programmes, helped 550,000 unemployed and 400,000 employed people into short-term training modules, supported the integration of 84,000 young people into the labour market and contributed to the reduction of early school leaving providing support to over 36,000 young students and 55,000 teachers and other education professionals and helped in hiring over 200 psychologists to improve the quality of education. 174,000 students attended ESF supported vocational education and training courses, thus strengthening their skills set and employability.

**Agricultural and fisheries funds and other EU programmes also contribute to addressing investment needs**. Including the national co-financing, the European Agricultural Fund for Rural Development makes €5 billion available and the European Maritime and Fisheries Fund makes €502 million available. Portugal also benefits from other EU programmes, such as the Connecting Europe Facility, which allocated €715 million in EU funding to specific projects on strategic transport networks, and Horizon 2020, which allocated €771 million.

**EU funding helps mobilise significant amounts of private investment**. By the end of 2018, the European Structural and Investment Funds ([4]) alone mobilised additional capital by 3.4% committing about €992 million in the form of loans, guarantees and equity ([5]).

**EU funds already invest substantial amounts in actions in line with the Sustainable Development Goals.** In Portugal, the European Structural and Investment Funds support 13 of the 17 SDGs and up to 94% of expenditure contributes to achieving these goals.

([1]) European Regional Development Fund, Cohesion Fund, European Social Fund, Youth Employment Initiative, including national co-financing.
([2]) https://cohesiondata.ec.europa.eu/countries/PT
([3]) The performance review is regulated by Art 22 of Regulation (EU) No 1303/2013, whereby 5 – 7 % of overall resources allocated are made available for the performing priority axes of the operational programmes. The amount includes national co-financing.
([4]) European Regional Development Fund, Cohesion Fund, European Social Fund, European Agricultural Fund for Rural Development Fund and European Maritime and Fisheries Fund
([5]) Member States' reporting on financial instruments based on Article 46 Regulation 1303/2013, cut-off date 31/12/2018.

# 3. SUMMARY OF THE MAIN FINDINGS FROM THE MIP IN-DEPTH REVIEW

## 3.1. INTRODUCTION

**The 2020 Alert Mechanism Report concluded that a new in-depth review should be undertaken for Portugal to assess the persistence or unwinding of the imbalances (European Commission, 2019a).** In Spring 2019, Portugal was identified as having macroeconomic imbalances (European Commission, 2019a). The imbalances identified related in particular to the large stocks of net external liabilities, private and public debt, and a high share of non-performing loans in a context of low productivity growth. This chapter summarises the findings of the analyses in the context of the MIP in-depth review that is contained in various sections in this report([10]) ([11]).

## 3.2. IMBALANCES AND THEIR GRAVITY

**Portugal´s net international investment position remains one of the most negative in the EU.** As of the end of 2018, the NIIP stands at -105.6% of GDP and is significantly beyond the estimated prudential and fundamentally-explained thresholds of -48% and -25%, respectively. That said, the NIIP structure shows an improving risk profile with non-defaultable instruments accounting for 54.1% of the NIIP. Nearly 60% of the NIIP stems from government debt, whose structure, outlook and market performance has improved over the past years. The remaining private liabilities are mostly composed of foreign direct investment.

**Private debt is still facing challenges despite large adjustments.** Consolidated private debt is estimated at 155.4% of GDP as of the end of 2018. Compared to the peak in 2012, the ratio is now much closer to the indicative headline threshold of 133%. Yet, the deviation is still large judged by country specific indicators. The ratios of corporate and household debt stand at 88.9% and 66.6% respectively. Both are significantly beyond the estimated country-specific prudential and fundamentals-based benchmarks([12]). For corporates, these benchmarks are estimated at 57% and 65%, respectively, and for households at 38% each. The legacy of non-performing loans remains a key weakness in the debt structure, particularly in the corporate sector. As regards households, the high level of indebtedness is also accompanied by a relatively low saving rate.

**Public debt is well above the relevant benchmark but risks have subsided.** The public debt-to-GDP ratio is projected to have been roughly twice as high as the benchmark of 60% in 2019 and therefore risks still persist. However, various factors have moved the public debt to a more sustainable position. This includes a more favourable fiscal performance and outlook, as well as a series of rating upgrades resulting in more favourable financing conditions. In addition, active debt management has contributed to a longer average debt maturity and a smoother debt redemption profile, while the overall interest rate burden has declined. Recent market developments also show that the Portuguese sovereign yields have been less volatile to external shocks and spreads have continued to decline.

**Productivity weighs on Portugal’s income convergence.** Although Portugal’s economy grew faster than the EU average in 2017 and 2018, the gap in the country’s labour productivity vis-à-vis the EU average remained broadly stable. This keeps the country’s income gap vis-à-vis the EU average also stable at about 23%, measured in purchasing power standards per capita. The gap stems from a low, albeit improving, stock of labour skills and capital accumulation. Productivity appears also restrained by the specialisation in low value added sectors and the large share of small

([10]) Analyses relevant for the in-depth review can be found in the following sections: Economic situation and outlook (Section 1); Public finances and taxation (Section 4.1); Financial sector (Section 4.2); Labour market, education and social policies (Section 4.3); and Competitiveness reforms and investment (Section 4.4).

([11]) An asterisk indicates that the analysis in the section contributes to the in-depth review under the MIP.

([12]) Fundamentals-based benchmarks are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. Prudential thresholds represent the debt threshold beyond which the probability of a banking crisis is relatively high, minimising the probability of missed crisis and that of false alerts. Methodologies are described in European Commission (2017) and updates to the methodology have been subsequently proposed in European Commission (2018).

firms. Portugal's share of high technology products in exports was the lowest in the EU in 2018, indicting the aforementioned structural restraints to productivity.

**House prices exceed the long-term average but risks are contained**. House prices retained a strong growth pace in 2018 and the first half of 2019. The calculations for 2018 show that prices were already above the long-term average and the valuation gap widened to 13.9%. However, the price to income gap was only slightly positive at 1.9%. Additional risks stem from housing affordability problems in some regions though they are partly mitigated by the country's large share of property ownership. The risks from overvaluation are also offset by the non-debt nature of financing, as the stock of mortgage loans relative to GDP is still on a downward trend. In addition, authorities have introduced borrower-based macro-prudential measures aimed at improving credit standards. Overall, the increase in house prices is seen as a correction from previously low levels of valuation. It is currently not considered an imbalance but warrants close monitoring.

## 3.3. EVOLUTION, PROSPECTS AND POLICY RESPONSES

**The external adjustment is expected to slow down substantially**. Although the NIIP improved from its lowest value of -123.8% of GDP at the end of 2014 to -105.6% by the end of 2018 and -101.5% by September 2019, the current projections on the external flows point to a substantial slowdown in the pace of adjustment. The current account moved from a surplus of 1.0% of GDP in 2017 to 0.1% in 2018 (in national account terms). The flows worsened further in 2019 and the current account is projected at a deficit of 0.4% for the whole year which is to widen further to 1.0% of GDP by 2021. This is well below the current account value required to reach the prudential NIIP target over a 10-year period although it is still significantly better than the value required to stabilise the NIIP. Overall, the current projections on the combined impact of the current and capital accounts suggests that the NIIP would remain broadly stable in absolute terms until 2021 but the ratio to GDP would be still benefiting from the expected economic growth, declining by around three percentage points per year. Consequently, it is expected that the NIIP would only reach the estimated prudential threshold of -48% over a period of about 15 years (see Table 3.1). On the positive side, the structure breakdown of the current account shows that the ongoing deterioration is mostly driven by investment goods However, domestic savings are growing at a slower pace, which would not enable further unwinding of external imbalances at a satisfactory pace.

**Various policy efforts address the imbalances.** These include a programme to strengthen the sustainability of the health system, measures to facilitate a reduction in non-performing loans and a swifter resolution of insolvency and restructuring proceedings, and improvements in the business environment. The latter include measures to reduce the administrative burden and to improve the efficiency of the justice system. Several weaknesses in the business environment persist, in particular related to regulatory restrictions in professional services, and sector-specific restrictions related to licensing activities.

Table 3.1: **Sensitivity analysis: current account balance and net international investment position**

| | Low nominal GDP growth (2% avg 2019-28) | Baseline scenario (3% avg 2019-28) | High nominal GDP growth (4% avg 2019-28) |
|---|---|---|---|
| NIIP stabilisation | -3.3 | -4.3 | -5.3 |
| NIIP at -70% of GDP | 0.6 | -0.3 | -1.1 |
| NIIP at -48% of GDP | 3.0 | 2.2 | 1.5 |
| NIIP at -35% of GDP | 4.4 | 3.7 | 3.0 |

The table above shows the annual average current account balance required to reach a certain NIIP by 2028, based on different assumptions for GDP growth, assuming no NIIP valuation effects and a stable capital account set at its median forecast over 2019-21 (1.2% of GDP). See also European Commission, 2015, 'Refining the methodology for NIIP-based current account benchmarks', LIME Working Group 17 June 2015.
***Source:*** European Commission calculations

**Private debt is steadily decreasing.** After reaching a peak of 210.6% of GDP at the end of 2012, the ratio of consolidated private debt to GDP dropped to 162.2% at the end of 2017 and 155.4% at the end of 2018. This indicates that close to three quarters of the deviation from the indicative threshold of 133% have been corrected. The outlook is also favourable, as data for 2019 confirm that the process of deleveraging continues, driven mainly by positive denominator impact of economic growth. Overall, the pace of adjustment appears adequate although the gap relative to the country-specific thresholds is still significant. The corporate sector is deleveraging slightly faster than households, although the difference has narrowed since the start of 2019.

**Banks' asset quality has improved following further sales and restructurings of non-performing loan portfolios**. The NPL ratio dropped from a peak of 17.9% in the first half of 2016 to 9.4% at the end of 2018, and further to 7.7% at the end of September 2019. All six banks with the highest NPL ratios are actively participating in the secondary market. The NPL reduction has been achieved on the basis of sales, write-offs and loan restructurings.

**Public debt is decreasing from a high level.** After having dropped to 122.2% of GDP by the end of 2018, the public debt-to-GDP ratio is set to decline to 119.2% of GDP by the end of 2019 ([13]). Looking ahead, the ratio is projected to continue decreasing by close to 3 pps per year to 113.7% of GDP by the end of 2021, on the back of steady primary surpluses and favourable growth-interest rate differentials. Portugal has deployed continuous efforts to reduce interest expenditure, extend the average debt maturity and reduce annual peaks in the debt redemption profile. Moreover, the financial assistance loans to the International Monetary Fund have been fully repaid by the end of 2018. Portugal also carried out in October 2019 an early first repayment of €2 billion in financial assistance loans to the European Financial Stability Facility, which were only due in 2025. At the same time, a more growth-friendly fiscal consolidation strategy could have helped strengthening Portugal's fiscal sustainability even further. To that end, fiscal-structural reforms could have been implemented to improve the quality and composition of public finances, while containing the growing pressures on the expenditure side of the government budget.

**Labour productivity improved marginally in 2018.** Portugal's labour productivity improved only marginally in 2018, extending the period of sluggish increase since 2013. A more significant improvement is projected in 2019-2021 along with the rebound already recorded in the first half of 2019. Yet, recent productivity dynamics have been insufficient to push up the country's income convergence towards the EU average and the projected productivity gains are insufficient to reverse the expected deterioration in the country's external balance. Therefore, policy efforts for boosting productivity, particularly labour skills, are helpful to improve Portugal's competitiveness and potential growth and to accelerate the pace of external rebalancing.

## 3.4. OVERALL ASSESSMENT

**Portugal continues to correct imbalances but the external adjustment is slowing.** The process of correcting macroeconomic imbalances is advancing at a steady pace apart from some slowdown in the external sector. The debt ratios in both the private and public sector have retained a downward trend and the outlook appears favourable. A significant progress is also achieved in reducing the stock of NPLs albeit from a high base. On the other hand, the pace of reducing external liabilities has weakened substantially since 2018 due mainly to the deterioration in trade with goods. On the positive side, this setback is fully driven by demand for investment goods, which could have a positive impact on the country's productivity and potential growth in the future. Indeed, the current projections point to some rebound in labour productivity in 2019-2021, following a five-year period of weak performance.

**Policy progress differs across areas**. While there are measures to address hospital arrears, debt sustainability requires further budgetary consolidation and growth-enhancing structural measures. Administrative simplification and efficiency of the justice system progress on the back of various initiatives, while reform action lags behind in addressing barriers to competition in professional services.

([13]) See footnote 5.

Table 3.2: **MIP assessment matrix**

| | Gravity of the challenge | Evolution and prospects | Policy response |
|---|---|---|---|
| | **Imbalances (unsustainable trends, vulnerabilities and associated risks)** | | |
| **External balance** | The net international investment position (NIIP) remained very negative at -105.6% of GDP at the end of 2018, standing well beyond the prudential threshold of -48%. However, risks are partly offset by the increased share of non-defaultable instruments, accounting for 54.1% of NIIP, and the lower risk-premium assigned to Portugal's debtors.<br><br>The current account remained only marginally positive in 2018 but is well beyond the estimated surplus of [2.4]% of GDP per year that is required to reach the country specific prudential NIIP benchmark over a 10-year period. This points out to further adjustment needs in order to reduce risks to the economy | Portugal has made progress in adjusting its external imbalances, notably by improving competitiveness and current account flows. Accordingly, the NIIP improved from its lowest level of -123.8% of GDP at the end of 2014 to -105.6% at the end of 2018 and -101.5% until September 2019.<br><br>The current account balance deteriorated from 1.0% of GDP in 2017 to 0.1% in 2018 in national account terms. The balance turned negative in 2019 and is projected to deteriorate further to a deficit of around 1.0% by 2021. This suggests that the pace of adjustment is slowing.<br><br>Unit labour costs are increasing at a rate similar to Portugal's main trading partners. While the market shares of exports have recently increased, their medium-term growth is predicted to deteriorate. | Progress has been made over the past years with tackling rigidities in product and labour markets. However, further measures to boost productivity and improve competitiveness remain essential to achieve a more significant improvement in the external balance.<br><br>There is a risk that the positive economic cycle could further push up unit labour costs, slowing the export-led recovery. It is essential to find the right balance of policy measures to ensure income growth on the one hand and competitiveness on the other. |
| **Private debt** | High private-sector debt is still weighing negatively on investment and growth.<br><br>Private debt was around 155% of GDP at the end of 2018, which is still significantly above the estimated country specific fundamentals and prudential benchmarks.<br><br>The high stock of non-performing loans remains a challenge. While it has been declining, the non-performing loans ratio remains high. | Consolidated private debt fell from a peak of 210.6 % of GDP at end-2012 to 155.4 % at end-2018. The outlook also remains favourable. The process of deleveraging continues, mainly reflecting nominal growth in GDP amid a broadly stable stock of credit. Both the corporate and household sectors contributed to the deleveraging process.<br><br>While declining, the high level of non-performing loans still poses a risk to financial stability and impedes the effective allocation of credit. | A three-pillar strategy designed to reduce non-performing loans is being implemented. The strategy includes specific reduction targets which the banks with the largest non-performing loans ratios are to meet. |

*(Continued on the next page)*

*Table (continued)*

| | | | |
|---|---|---|---|
| **Public debt** | The public debt-to-GDP ratio remains at a very high level of around 120% of GDP. This makes the country vulnerable to changes in economic and financing conditions, which translate into high debt sustainability risks in the medium term. | After hovering at around 130% between 2014 and 2016, the public debt-to-GDP ratio decreased to 126% in 2017 and further to 122.2% in 2018. Assuming steady primary surpluses and continued favourable nominal growth-interest rate differentials, the public debt-to-GDP ratio is projected to continue decreasing, albeit more gradually, from 119.2% in 2019 to 113.7% by 2021. Without additional growth-friendly fiscal consolidation compared with the Commission's no-policy-change baseline scenario, the public debt-to-GDP ratio would still remain significantly above the Treaty reference value of 60%, at approximately 90% by 2030. | A more growth-friendly fiscal consolidation strategy could have helped strengthening Portugal's fiscal sustainability even further. Some measures were taken in past years in the areas of tax reforms, tax compliance, expenditure control, pensions, healthcare, state-owned enterprises and public administration. However, implementation gaps persist especially in what concerns tackling underlying causes for the recurrent generation of arrears in hospitals, improving the financial sustainability of state-owned enterprises and the pension system, and deploying a comprehensive strategy for medium-term public administration reform. |
| **Productivity** | Low productivity growth hinders competitiveness and potential growth. This limits the prospects for further deleveraging, a more sustainable and inclusive growth, and progress in income convergence. | Labour productivity is improving marginally, following the revisions for GDP growth in 2017 and 2018. Productivity is expected to have improved at a stronger pace or around 1% in 2019, due to the decline in labour market slack and a projected slowdown in employment growth.<br><br>Productivity remains impaired by low investment levels, skill gaps, rigidities in product and labour markets, and weaknesses in the business environment and the judiciary. | There are a number of measures designed to help raise productivity and competitiveness, including policies in the areas of research and innovation, competition in services, and transport infrastructure. Other measures that could help to boost productivity and external competitiveness have to do with the business environment, and the efficiency of the justice system. |

**Conclusions from IDR analysis**

- Despite the progress achieved in the past years, the Portuguese economy continues to be marked by a large stock of external, public and private debt, as well as by a high share of non-performing loans. In addition, productivity growth is low, hampering the deleveraging process. While the current account balance helped improve the net international investment position (NIIP) up to 2018, it turned negative in 2019 and is expected to deteriorate further.
- Private debt is declining in both the corporate and household sectors, mostly as a result of nominal GDP growth. Despite the projected downward path, the public debt-to-GDP ratio is set to remain at a very high level and weighs on the stock of external liabilities. Portugal's NIIP remains a significant source of vulnerability, as the recent reversal of the current account risks bringing adjustment to a standstill. On the other hand, the structure of external liabilities improved in recent years due to a shift from debt to foreign direct investment and a lower risk profile of domestic debtors. The high stock of non-performing loans also remains a key weakness but the adjustment is advancing in accordance with the strategy implemented by banks and national authorities.
- Policy progress differs substantially across areas. The programme to strengthen the sustainability of the health system and address hospital arrears is a step in the right direction, especially if implemented in a timely manner. Measures to ensure enhanced monitoring of state-owned enterprises are advancing only gradually. Various measures have been taken to reduce the administrative burden and improve the judicial system, and progress is being made. Reforms addressing barriers to competition are progressing more modestly, particularly as regards licensing requirements and procedures.

***Source:*** European Commission

# 4. REFORM PRIORITIES

## 4.1. PUBLIC FINANCES AND TAXATION*

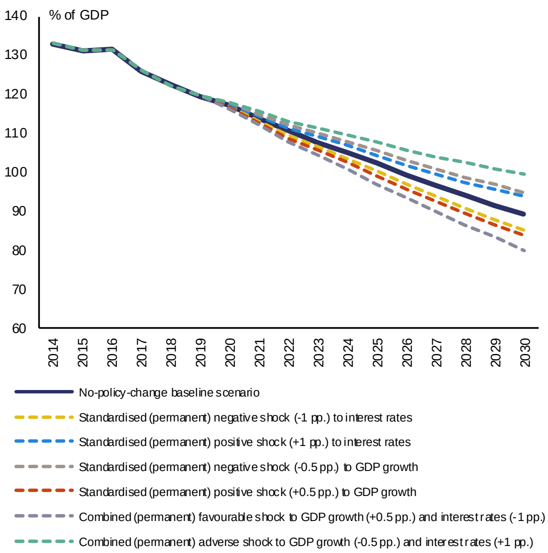
### 4.1.1. DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS*

**The public debt-to-GDP ratio is projected to continue falling steadily from a high level.** After hovering at above 130% between 2013 and 2016, Portugal's public debt-to-GDP ratio posted a first substantial decline by 5.4 percentage points to 126.0% in 2017, followed by an additional decrease by 3.8 pps to 122.2% in 2018. According to the Commission's latest forecast ([14]), Portugal's public debt-to-GDP ratio is projected to continue decreasing, albeit at a more gradual pace by close to 3 pps per year, from 119.2% in 2019 to 113.4% by 2021. The continuously downward path projected for Portugal's public debt-to-GDP ratio reflects debt-reducing impacts stemming from solid primary surpluses and favourable nominal growth-interest rate differentials, whereby the combined effects of continued real GDP growth and inflation offset the sizeable, yet gradually diminishing, interest burden on the high debt overhang.

**Despite its high public debt-to-GDP ratio, Portugal is not projected to face significant fiscal sustainability risks in the short term.** The S0 indicator (which evaluates fiscal sustainability risks in the short term, stemming from the fiscal, macro-financial or competitiveness sides of the economy) is below its critical threshold (European Commission, 2020a). In particular, both the fiscal and the financial competitiveness sub-indices have values below their critical thresholds. This is confirmed by the lower spreads of credit default swaps and gradually improving credit ratings during 2019, which allows Portuguese sovereign debt holdings to be included in wide institutional investor portfolios based on the investment grade credit assessment by all four relevant rating agencies.

**However, Portugal is projected to face high fiscal sustainability risks in the medium term.** The assessment of medium-term fiscal sustainability risks reflects an overall conclusion based on the S1 indicator and Portugal's debt sustainability analysis. First, the S1 indicator (which evaluates fiscal sustainability risks in the medium term) is only slightly below its upper critical threshold, thereby indicating medium, but close to high, fiscal sustainability risks in the medium term. In particular, it suggests that a cumulated additional improvement in the structural primary balance by 2.1% of GDP over 5 years, compared with the Commission's no-policy-change baseline scenario (based on the ad-hoc forecast of December 2019), would be required to bring the public debt-to-GDP ratio down to the Treaty reference value of 60% by 2034. This relatively high score for the S1 indicator is mainly due to the distance of the public debt-to-GDP ratio from the Treaty reference value of 60%. Second, although the Commission's no-policy-change baseline scenario entails medium fiscal sustainability risks in the medium term, the Commission's debt sustainability analysis (still based on the 2019 autumn forecast) points to overall high risks based on plausible alternative scenarios that project public debt-to-GDP ratios above 90% by 2030.

Graph 4.1.1: **Public debt projections under the baseline and alternative scenarios for nominal GDP growth and interest rates**




***Source:*** European Commission

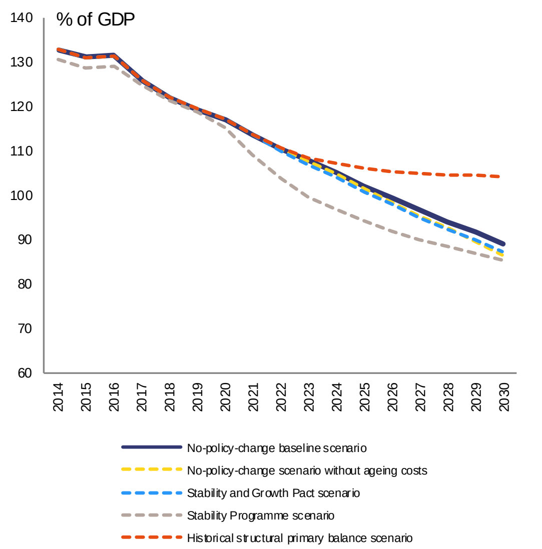
**The Commission's debt sustainability analysis confirms that public debt would be very sensitive to any worsening of Portugal's**

([14]) See footnote 5.

**economic and financing conditions.** In a debt sustainability analysis still incorporating the Commission's 2019 autumn forecast and other technical assumptions (see Annex B) ([15]) for the medium term, the public debt-to-GDP ratio is expected to continue falling at a moderating pace by close to 3 pps per year and to reach approximately 90% by 2030, thereby still remaining significantly above the Treaty reference value of 60%. In particular, in the Commission's no-policy-change baseline scenario, the public debt-to-GDP ratio would cross the threshold of 100% only in 2026. The projected gradual decrease in Portugal's public debt-to-GDP ratio crucially hinges on continuous primary surpluses and favourable nominal growth-interest rate differentials in the projection's outer years. While in plausible alternative scenarios incorporating potential shortfalls in nominal GDP growth or interest rate hikes, the public debt-to-GDP ratio would still be forecast to be on a steady downward path, the pace of debt reduction would be significantly impaired and it would thus take longer for the public debt-to-GDP ratio to pass under the threshold of 100% (see Graph 4.1.1). Overall, the current high public debt-to-GDP ratio constitutes a long-lasting legacy that reduces the scope of fiscal policy to cope with any worsening of Portugal's economic and financing conditions and to smooth inherent business cycle fluctuations.

**A growth-friendly fiscal consolidation strategy remains instrumental to safeguard Portugal's fiscal sustainability.** If Portugal's structural adjustment were consistently in full compliance with the Stability and Growth Pact, notably through fully adhering to its current medium-term budgetary objective of a balanced budgetary position in structural terms, the public debt-to-GDP ratio would be below both the threshold of 90% and the Commission's no-policy-change baseline scenario by 2030 (see Graph 4.1.2). Conversely, were Portugal's structural primary balance to revert back to its historical trend (that is, to gradually converge to its last 15-year historical average of a structural primary deficit of around 0.5% of GDP), the public debt-to-GDP ratio would stabilise at around 105%, as much as 15 pps above the Commission's no-policy-change baseline scenario. In addition, debt-increasing costs stemming from demographic ageing are projected to deter the speed of debt reduction by close to 3 pps by 2030. Portugal's currently favourable economic and financing conditions offer a window of opportunity to deploy a growth-friendly fiscal consolidation strategy and implement fiscal-structural reforms that could help accelerating the reduction of its public debt-to-GDP ratio and strengthening its resilience to any potentially worsening economic, financing and demographic trends.

Graph 4.1.2: **Public debt projections under the baseline and alternative scenarios for fiscal consolidation**




***Source:*** European Commission

### 4.1.2. FISCAL-STRUCTURAL ISSUES, INCLUDING PENSIONS AND HEALTHCARE*

**Recent measures have entailed direct increases in pension spending.** First, since 2017 lower pensions have been increased repeatedly above the reference for regular pension indexation linked to inflation and real GDP growth, leading to higher expenditure by close to 0.1% of GDP each year. Second, since 2017 pathways for early retirement have been consecutively broadened. In particular, a new flexible early retirement scheme has fully

([15]) These assumptions comprise: (i) a structural primary balance, before ageing costs, of 2.4% of GDP as of 2021; (ii) inflation converging to 2.0% by 2024; (iii) the nominal short- and long-term interest rates on new and rolled over debt converging linearly from current values to market-based forward nominal rates by 2029 (as for all Member States); (iv) real GDP growth rates on average slightly below 1%; and, (v) ageing costs in line with European Commission (2018). More details on the assumptions can be found in European Commission (2020a).

kicked in by October 2019 ([16]), exempting from the applicable sustainability factor citizens who at age 60 had paid social contributions for at least 40 years, while preserving a penalty proportional to the missing months up to the legal retirement age. That is estimated to have increased expenditure even further, by close to 0.1% of GDP in 2019.

**There is a risk that the improvement of the balance in the pension system has been cyclical.** On the one hand, spending on pensions has continued to increase in 2019 (by around 0.5% of GDP year-on-year on a cash basis), mostly reflecting the underlying upward trend driven by demographic ageing and the impact of the above-mentioned measures. On the other hand, the currently favourable labour market conditions have continued to translate into significantly higher revenue from social contributions and lower expenditure on unemployment benefits. The social security balance in 2019 has also benefited from other positive impacts from measures to prevent fraud and error, changes to the contributory scheme of self-employed workers and transfers from the state, partly related to earmarked revenue from the value-added tax (VAT), the corporate income tax (CIT) ([17]) and the surcharge on the local property tax. In view of the balance-deteriorating effects of the recent measures and the growing pressure from demographic ageing, coupled with the lack of compensatory balance-improving measures, there is a risk that the improvement in the social security balance has been mostly cyclical and, thus, that the overall sustainability of the pension system has not been strengthened in the long term.

**The financial sustainability of the health system remains a source of concern.** The health system posted continued deficits throughout 2019 (of around 0.3% of GDP on a cash basis by the end of the year), reflecting increases in the wage bill (including extra-hours compensation) and spending on medicines and other healthcare goods and services (including complementary means of diagnosis and therapeutic use, and material for clinical consumption). This was despite some improvements in cost-effectiveness and the gradual implementation of a new programme to improve the sustainability of the health system (see below). Looking forward, the balance of the health system is expected to be negatively impacted by the planned removal of user charges for primary care. At the same time, the authorities expect that this measure will provide incentives for the use of primary care and discourage the use of emergency care, where user charges will remain if there is no referral. If this materialises, the balance-deteriorating impact of the measure may be offset to some extent by an improvement in the overall cost-effectiveness of the health system (see Section 4.3.2 for the likely impact on the accessibility of healthcare). Moreover, the investment gap in the health system remains substantial in view of the planned construction of new hospitals, reinforcements in primary health care and medical equipment updates (European Observatory on Health Systems and Policies, 2018). Exploring the available scope to optimising efficiency savings could be instrumental to ensuring the long-term sustainability of the health system and financing sustained improvements in access to healthcare.

**Cost-effectiveness has continued to be promoted in the health system.** Portugal's health system appears to be relatively 'good value for money', producing good outcomes for the comparatively modest, albeit increasing, expenditure channelled into the system. The system performs particularly well in certain areas, with relatively fewer hospital beds (3.4 per 1,000 population in Portugal, compared with the average of 5.1 for the EU) and more day case surgeries (European Commission, 2019b). However, the average length of stay in hospital care is above the EU average ([18]). There is nevertheless scope to continue improving cost-effectiveness further, notably through even greater reliance on centralised purchasing and uptake of biosimilars and generics. Initiatives have been undertaken to improve the use of biosimilars and generics where appropriate, producing significant savings that may still be increased. A joint task force of the Ministries of Finance and Health created in 2018 is working on a series of measures to improve overall cost-effectiveness, notably through reducing hospital arrears (see the

([16]) Between January and September 2019, the new flexible early retirement scheme covered citizens aged at least 63.

([17]) The revenue associated with 1 pp of the CIT statutory rate, increasing by 0.5 pps to 2 pps by 2021.

([18]) This may be related to the high levels of day cases in hospitals, since length-of-stay statistics exclude day cases and may therefore reflect an appropriate use of non-day-case hospital care for more severe cases.

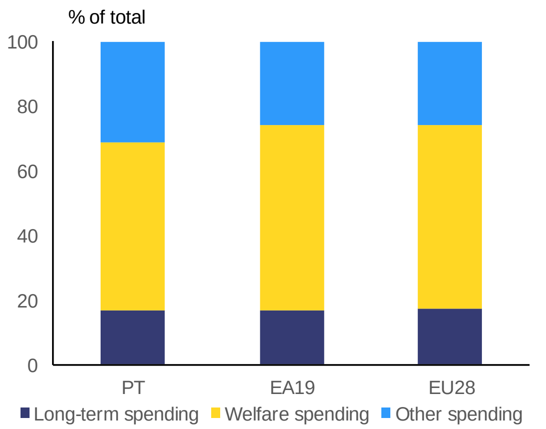
paragraph below) evaluating and reforming central procurement, revising pharmacy margins and assessing the primary care model. The impact of these proposals will depend on the degree to which they are actually implemented.

**Prompt implementation of the new programme could improve the financial sustainability of the health system.** As a rule, a high stock of hospital arrears has an adverse impact on supply chain relationships and may end up limiting the scope for cost-savings. Portugal has a well-established track record of in-year accumulation of hospital arrears only partly contained through sizeable *ad-hoc* clearance measures, with particular incidence in the last months of each year. Notwithstanding such *ad hoc* clearance measures, leading to a visible decrease in hospital arrears by December 2018, hospital arrears were back on a steadily increasing path between July and November 2019 (reaching a level close to 0.4% of GDP), before another one-shot sharp correction in December (falling to 0.1% of GDP). The implementation of a new fully-fledged programme to improve the overall sustainability of the health system and tackle the root causes of persistently high hospital arrears got under way in 2019, led by the above-mentioned joint task force. The programme is expected to introduce a new governance model for public hospitals, with substantial increases in hiring autonomy and annual budgets being combined with enhanced joint monitoring by the two Ministries. A formal structure to evaluate the management of public hospitals in line with the programme's goals was created in June 2019. While a few hospitals will start operating on the basis of new business activity plans, thereby being granted some more autonomy, most of the hospitals' business activity plans are yet to be agreed upon. While the new programme appears to be gradually progressing in the right direction, swift and effective implementation would be required to soften pressures causing the accumulation of arrears in hospital faster and more permanently.

### 4.1.3. FISCAL FRAMEWORK AND STATE-OWNED ENTERPRISES*

**There is scope to optimise the quality of public finances through prioritising growth- and environment friendly spending.** In Portugal, less than 20% of total public expenditure is channelled into categories with direct positive effects in long-term economic growth (European Commission, 2019a). Expenditure for long-term economic growth, including education, transport, environment protection and R&D expenditure) accounted in Portugal for only 7.7% of GDP in 2017 (broadly in line with the EU). Importantly, the country's expenditure on environment protection that could help meet environmental and climate goals was somewhat below the EU benchmark (0.6% of GDP in 2017, compared with 0.8% for the EU). On the one hand, Portugal appears to have deployed significantly more resources on other spending items, including on general public services, compared with the EU benchmark (14.3% of GDP in 2017, compared with 11.9% in the EU as a whole). On the other hand, Portugal's welfare spending, including expenditure on social protection and health, was below the EU benchmark (23.7% of GDP in 2017, compared with 26.1% for the EU as a whole).

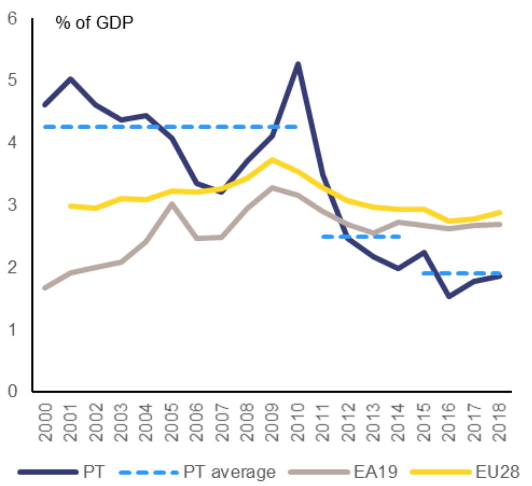
Graph 4.1.3: **Public expenditure by function in 2017**




***Source:*** European Commission

**Public investment has been subdued for a prolonged period.** After sustaining very high levels during the first decade of the 2000s, Portugal's public investment was visibly reduced during the crisis and dropped below the euro area's average (Graph 4.1.4). Throughout the post-programme period, public investment remained at an average of 1.9% of GDP over the period 2015-2018, below the government plans and the EU average of 2.8% (Graph 4.1.4). Looking ahead, while public investment is projected to continue on the gradually increasing path initiated in 2017, after its lowest level in 2016, sizeable investment gaps are expected to persist during the period covered by the Commission's forecast compared with the EU benchmark and the pre-crisis levels. On the one hand, the correction of public investment from the very high pre-crisis levels could reflect a greater focus on high-quality projects, thereby excluding those with low or negative rates of return. On the other hand, a protracted period of continuously subdued public investment levels could jeopardise the public capital stock. Importantly, public investment in Portugal has been lower than the consumption of public fixed capital since 2012, translating into continuously negative net public investment and the potential erosion of the public capital stock. Clear focus on high-quality investment could support the effectiveness of public services and maximise the growth-friendliness of public finances (see Section 4.4.1.).

Graph 4.1.4: **Public investment in 2001-2018**




***Source:*** European Commission

**The ongoing review of public expenditure could help making it more growth-friendly.** Portugal has been undertaking a bottom-up review of public expenditure for a number of years, aiming at improving the efficiency of public spending in a broad range of areas (see European Commission, 2019a). In 2019, it is estimated to have yielded efficiency savings of €236 million (around 0.1% of GDP) across a series of public sectors. For 2020, according to Portugal's updated Draft Budgetary Plan, the expenditure review is planned to lose some momentum, being expected to generate more modest efficiency savings of €190 million in 2020. The exercise is not yet undergoing a regular and independent evaluation, in particular regarding the quantification of the savings effectively achieved. Strengthening the growth-friendliness of public finances could have been best achieved through a two-pronged strategy, whereby the resulting bottom-up savings could have been complemented with a top-down focus on the overall composition of public expenditure. The ongoing spending review could thus have been used not only as a source of efficiency savings, but also as tool for more growth-friendly public expenditure.

**The wage bill is exerting growing pressure on public expenditure.** The number of civil servants has been increasing at a steadily accelerating pace since mid-2015, having expanded by 2.8% year-on-year in September 2019. This occurred despite the initial plan not to replace every civil servant retiring until 2020 according to 2017 Stability Programme. Staff increases have been particularly pronounced in local administration and in the health and education systems. In addition, a wide-ranging programme in the public sector to convert temporary contracts into permanent ones has been gradually implemented since 2017, reducing labour market segmentation but also increasing the headcount in public services. Moreover, the 35-hour working week was extended in mid-2018 to health sector employees on private sector contracts, who had previously worked 40 hours a week. In addition, since 2018 public wages have benefited from the gradual unfreezing of career progression with full implementation by December 2019 ([19]) and leading to higher expenditure by around 0.2% of GDP in both years. In combination with the increase in the minimum wage applicable to civil servants in 2019, higher variable allowances and extra-hours compensation, the wage bill increased above government plans (by 4.6% year-on-year in 2019, compared with the implicit annual target of 2.1%, both on a cash basis). The unfreezing of career progression also allowed for performance awards in 2019 (by 50% of their amount and up to the available funding). The expanding wage bill limits the room for manoeuvre for the government to adjust

([19]) The additional payments were gradually phased in: 25% by January 2018, 50% by September 2018, 75% by May 2019 and 100% by December 2019.

expenditure in line with potentially less favourable economic conditions and new policy objectives.

**State-owned enterprises (SOEs) continue to struggle to achieve a balanced financial position.** While the net incomes of financial SOEs improved in the first three quarters of 2019, the net incomes of non-financial SOEs gradually worsened compared with 2018. As a result, it is expected that by the end of 2019 SOEs overall ended up being farther from balance compared with government plans. At the same time, the debt of public non-financial SOEs continued to decrease, though at a decelerating pace, from 18.4% of GDP in at the end of 2018, to 17.3% of GDP by the third quarter of 2019 (Banco de Portugal, 2020). Some measures to improve the sustainability of SOEs are only being implemented gradually; they include the analysis of quarterly data designed to identify and correct deviations from the approved budgets in good time. There are also plans to eventually introduce new incentives for employees and managers to improve reporting standards. Moreover, the capital structure of a series of SOEs has been strengthened through sizeable capital injections, while the liquidation of unprofitable or redundant SOEs has been continued. Transparency regarding the financial position of SOEs has been improved somewhat through the publication of aggregate quarterly financial data within a shorter timeframe. Having said that, planned rationalisation efforts and increased monitoring have yet to translate into a sustained improvement in net incomes.

**Recent changes to the legal and institutional framework for public-private partnerships (PPPs) will require close monitoring with a view to containing fiscal risks.** During Portugal's economic adjustment programme, the institutional and legal framework for PPPs was significantly strengthened. The aim was to end malpractice and uncertainties in the arrangements surrounding PPPs which had led to a substantial financial burden on public finances ([20]). In particular, the revamped framework imposed stricter conditions on new PPPs. These included a cost-benefit test, affordability and compliance with stringent tendering requirements. The overall framework for PPPs was recently revised through Decree-Law No 170/2019 of 4 December, which included important changes. First, the Council of Ministers – instead of the sectorial Minister and the Minister of Finance – will decide on the launching of a new PPP. Second, while in the past the conditions for launching a new PPP were clearly laid down in law, they are now to be defined on a case-by-case basis for each new PPP, which allows more scope for discretion. Third, among others operations, partnership contracts designed to develop projects under the terms of the recent Housing Basic Law were excluded from the legal arrangements governing PPPs. It is currently unclear whether the narrower scope and the greater degree of discretion introduced by the recent changes will strengthen the legal and institutional framework for PPPs. It will be important to monitor the implementation of these changes closely to safeguard appropriate control mechanisms and ensure that any new PPPs have an unquestionable positive cost-benefit ratio.

**Strong framework conditions for fiscal policy contribute to achieving a growth-friendly path for fiscal consolidation.** The full and effective implementation of the 2015 Budgetary Framework Law (BFL) is paramount. The 2015 BFL is designed to make budget units more accountable and strengthen the medium- to long-term focus of public finances. It allowed for a three-year transitional period for applying most new features. However, due to repeated delays, the entry into force of the main provisions of the 2015 BFL was postponed to 1 April 2020. A working group to evaluate the BFL has been appointed in February 2020 and tasked to present a report in May 2020. In terms of regulatory preparation, a series of decree-laws will require adjustment and consolidation, and a decree-law establishing the new budgetary programmes still needs to be drafted ([21]). The lack of significant progress on enforcing the 2015 BFL and uncertainties as regards the way forward with operationalising the necessary changes mean that the new framework cannot be fully applied to the 2021 state budget as previously planned (Portuguese Court of Auditors, 2019). Moreover, the full and effective application of the new accrual-based public accounting framework is delayed, following implementation lags in particular for local authorities and social security. As with the 2015 BFL, its

([20]) Through Decree-Law No 111/2012 of 23 May.

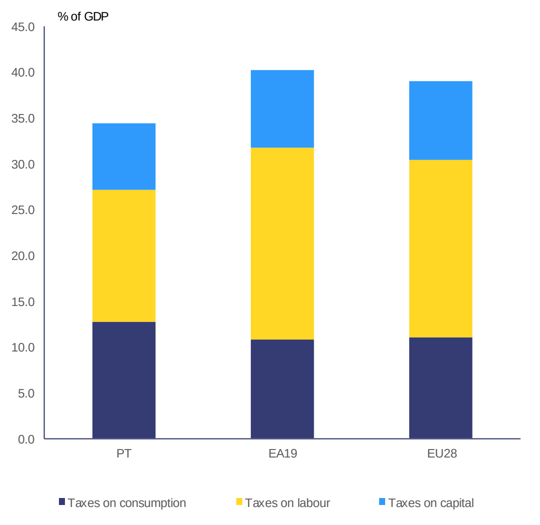
([21]) The amendment to the BFL had set a new deadline (June 2019) for the approval of a decree-law on budgetary programmes. This deadline was not met.

implementation may not be sufficiently advanced across all government sectors to ensure that the 2021 state budget is drawn up under the new framework.

### 4.1.4. TAXATION ISSUES, INCLUDING TAX ADMINISTRATION*

**The tax burden increased in 2018, mostly on the back of the economic conditions that were generally favourable.** The overall tax revenue-to-GDP ratio, meaning the sum of revenue from taxes and net social contributions as a percentage of nominal GDP, stood at 34.9% in 2018, slightly higher than in 2017 (34.1%). This increase in 2018 echoed year-on-year increments in the tax-revenue-to-GDP ratios of taxes on consumption (by 0.2 pps, reflecting solid consumption growth), taxes on capital (by 0.3 pps, reflecting the expansion of the real estate market) and of taxes on labour (by 0.3 pps). Overall, Portugal relies relatively heavily on consumption taxes (12.9% of GDP in 2018, compared with 10.9% for the euro area and 11.2% for the EU as a whole) (European Commission, 2020b). At the same time, the revenue from recurrent property taxes was relatively low in Portugal in 2018, accounting for 0.8% of GDP (or 2.3% of total tax revenue), compared with the EU average of 1.5% of GDP (or 43.9% of total tax revenue).

Graph 4.1.5: **Tax revenue by function in 2018**




***Source:*** European Commission

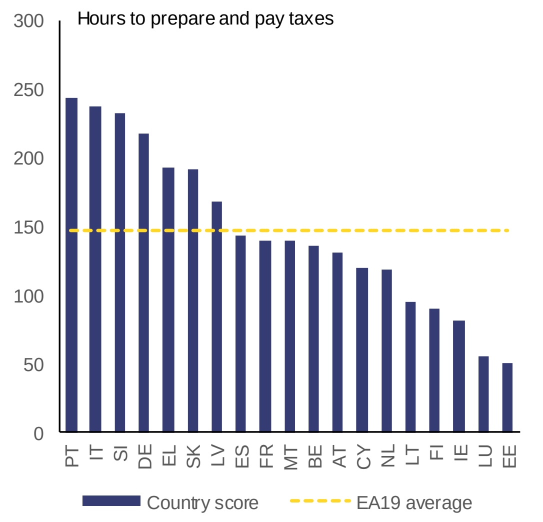
**The tax system has remained broadly stable in substance, despite the proliferation of marginal parametric changes.** In 2019, various small changes were introduced in direct and indirect taxes (see European Commission, 2019a). For 2020, the final state budget reports some tax hikes to incentivise decarbonisation, combined with limited cuts in some other taxes (including selective reductions of personal income tax (PIT) for young workers and couples with children aged 3 or below, as well as of autonomous taxations and taxation on small and medium-sized companies under the CIT). Focusing on recent changes in CIT, the continued proliferation of size- and location-dependent preferential tax rules may put a drag on productivity and investment growth; in particular, by focusing on smaller firms and/or those operating in specific, possibly less productive areas, such policies may detract businesses from scaling up and/or benefiting from agglomeration spill-over effects that could help achieving greater economies of scale and efficiency gains.

**The efficiency of VAT collection continues to improve.** The VAT gap (which provides an estimate of revenue loss due to tax fraud, evasion and avoidance, among other factors) has been steadily declining since 2011, falling by more than 5 pps between 2016 and 2017, from 13% to 10% of total VAT tax liability (Centre for Social and Economic Research, 2019). Portugal's VAT gap thus remained somewhat below the EU average of 11%. Having said that, Portugal's VAT policy gap (which provides an estimate of revenue loss due to the use of reduced VAT rates and exemptions) remained well above the EU average, at 51.2% in 2017, compared with 44.5% for the EU in general. In particular, the divergence of the actionable VAT policy gap (which excludes tax liability from imputed rents, public services and financial services) from the EU increased in 2017, with the gap amounting to 18.4%, above the 13.0% for the EU. The high actionable VAT policy gap is composed of the rate gap and the actionable exemption gap. The comparatively high actionable VAT policy gap in Portugal mostly reflects the use of reduced VAT rates. However, as far as inequality matters are concerned, reduced VAT rates are generally a rather poorly targeted tool to support low-income households. Direct mechanisms, such as income-tested cash transfers, are preferable.

**Environmental tax revenues remain stable and comparatively high.** The revenue from environmental taxes was 2.6% of GDP in 2018, compared with 2.4% for the EU average (European Commission, 2020b). Revenue from these taxes relied mainly on transport-related taxes, which accounted for 0.7% of GDP in 2018, compared with 0.5% in the EU. At the same time, taxes on pollution and resources accounted for only 0.02% of GDP in 2018, compared with 0.08% for the EU and the euro area. Excise duties on diesel remain lower than those on petrol, even though the former has a higher carbon and energy content. Despite progress on this issue over the past four years, Portugal still has a significantly low ratio of duty on diesel to duty on petrol (0.76 in the country compared with 0.81 in the EU in January 2019).

**There is a scope to improve the transparency and economic rationale for tax expenditure in Portugal.** Including the revenue foregone owing to extensive use of VAT preferential rates, tax expenditure in Portugal is estimated by the authorities to have reached 6.2% of GDP in 2019 (see Ministry of Finance, 2019). Excluding VAT, tax expenditure was still considerable at 1.9% of GDP in 2019. The Working Group on Tax Benefits concluded in June 2019 that the tax benefit system was complex and not sufficiently transparent (see *Grupo de Trabalho para o Estudo dos Benefícios Fiscais*, 2019). Importantly, more than 500 tax benefits have been identified, spread over more than 60 legal texts. On that basis, a methodology for assessing tax benefits has been proposed, defining guidelines for the creation of new tax benefits, their yearly monitoring and *ex-post* evaluation. At the same time, focusing on the current tax benefit system for R&D (*Sistema de Incentivos Fiscais à Inovação e Desenvolvimento*, SIFIDE), the findings were positive insofar as every euro of tax revenue foregone was estimated to have turned into more than one euro of R&D expenditure by the beneficiary firms. Overall, the conclusions of the Working Group are expected to further guide tax policy in the future.

Graph 4.1.6: **Time to prepare and pay taxes in the euro area (2018)**




***Source:*** World Bank

**Greater simplification could make Portugal's tax system more business-friendly.** It remains burdensome to comply with taxes in Portugal. Although e-filing has become the norm in Portugal over the past few years and the pre-filing of PIT returns ensures that most of the information is already collected and computed by the tax administration, Portugal is one of the countries where it still takes too long to pay taxes. Indeed, according to the Paying Taxes 2020 Report (World Bank, 2019a), the time needed to prepare and pay taxes in Portugal was 243 hours in 2018, the longest in the euro area and the 4th longest in the EU (see Graph 4.1.6). This is significantly above the unweighted euro area average of 146.5 hours and the EU average of around 171.5. At the same time, the number of payments (8 per year, below average) and the post-filing index (one of the best observed) decreased. Furthermore, around two thirds of firms surveyed in 2017 perceived the Portuguese tax system as 'complex and ineffective', an increase of around 10 pps from two years earlier. The tax system could be made less complex by reducing the level of special provisions and simplifying the language used in legal drafting, thereby limiting the scope for divergent interpretations. Importantly, the efficiency of the justice system when dealing with taxation-related issues can be further improved, as the disposition time and the case backlogs remain high (see Section 4.4.4).

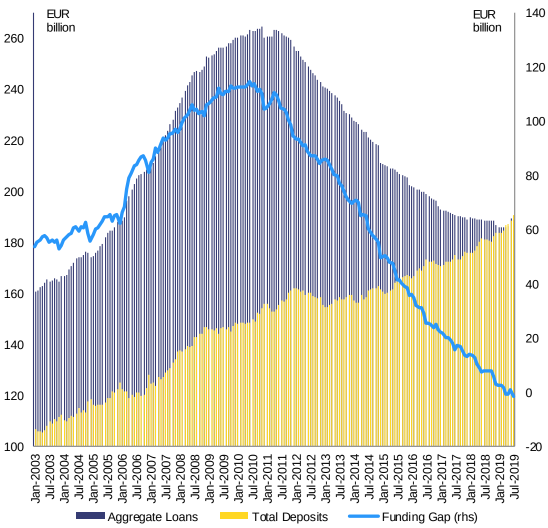
## 4.2. FINANCIAL SECTOR*

**Portuguese banks have continued to improve their resilience despite a challenging environment.** Most banks have markedly improved their performance, increased capital ratios somewhat and continued to eliminate legacy assets from their balance sheets. Nevertheless, similarly to their European peers, Portuguese lenders still face both pressures on profitability and efficiency challenges in an environment of muted loan growth. The protracted period of low interest rates and the relatively large, albeit declining stock of non-performing loans ([22]) and foreclosed real estate assets further weigh on their general performance. Solvency ratios, measured by the Common Equity Tier 1 (CET1) ratio increased from 13.2% at the end of 2018 to 13.9% in Q2-2019 reflecting largely the incorporation of profits for 2018. The banks' loan-to-deposit ratio remained stable at 76.7% whereas central bank funding was equivalent to 4.9% of total assets, the lowest share since the onset of the financial crisis in Portugal.

**Most Portuguese banks have been profitable for a third consecutive year.** In annual terms, Q2-2019 was marked by a somewhat decreasing return on assets (ROA) - at 0.5% against 0.6% in Q2-2018 and return on equity (ROE), which was around 5.3% (6.3% in Q2-2018). The reduction of both ratios reflected the decline in profits from financial operations and the slight increase in provisions and impairments. As in previous years, there is considerable heterogeneity between institutions as lenders continue their adjustment in relation to restructuring plans and efforts to reduce non-performing assets. However, the aggregate balance sheet of the sector remains substantially less leveraged than in the years before the financial crisis. For banking groups with significant international activity, their business outside Portugal continues to make a positive contribution to the groups' consolidated results.

**As interest rates continue to fall, mortgage rates test the 1% threshold.** In September, the weighted average interest rate on new mortgages was 1.00%, a new historical low, whereas non-financial corporations were charged on average an interest rate of 2.18%. The average housing loan rates in Portugal were 47 basis points below the euro area average and 87 basis points below the Spanish average. The average interest rates on loans for consumption and other purposes were 6.97% and 3.24%, respectively. The average deposit rate stood at 0.12% in September 2019. Total bank deposits increased by 4.1% on a year-on-year basis with corporate deposits growing faster at 5.5%. As Portuguese law prohibits banks from charging negative interest rates, this has resulted in deposit inflows for arbitrage purposes by foreign large corporates that face negative rates in their home jurisdictions.

Graph 4.2.1: **The funding gap closed**




***Source:*** Banco de Portugal

**Banks' capital ratios have been broadly stable in recent years, above regulatory minima but below the euro area average**. The system-wide Common Equity Tier 1 (CET1) ratio stood at 13.9% in Q2-2019, which is broadly unchanged on the figure for twelve months earlier, but up from 11.4% in December 2016. This compares with a CET1 ratio of 14.8% for the euro area in Q2-2019. To some extent, this reflects the high average risk-weighted assets held by Portuguese banks, although the latter have been on a declining trend in recent years, falling to 54.4% in December 2018 from 60.9% in December 2014. The phasing-in of the minimum requirement for own funds and eligible liabilities (MREL) is bound to last over the next three years. The MREL challenge is significant insofar as it is compelling banks to go to the market early in order to test their ability to raise funds at a sustainable cost. Nevertheless, with

([22]) The NPL ratio dropped to 8.3% in Q2-2019, less than of its peak level of 17.7% in September 2016.

Table 4.2.1: **Financial stability indicators**

| | 2014q4 | 2015q4 | 2016q3 | 2016q4 | 2017q1 | 2017q2 | 2017q3 | 2017q4 | 2018q1 | 2019q1 | 2019q2 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non-performing loans** | 16.6 | 17.5 | 17.7 | 17.2 | 16.4 | 15.5 | 14.6 | 13.3 | 12.7 | 8.9 | 8.3 |
| **o/w foreign entities** | 11.9 | 11.1 | 11.6 | 10.7 | 9.6 | 9.1 | 8.3 | 7.6 | 6.9 | 4.6 | 4.2 |
| **o/w NFC & HH sectors** | 17.8 | 17.9 | 18.3 | 17.5 | 17.1 | 16.2 | 15.6 | 14.6 | 13.8 | 9.9 | 9.2 |
| **o/w NFC sector** | 27.9 | 28.3 | 30.1 | 29.4 | 29.0 | 27.5 | 26.6 | 25.2 | 23.8 | 17.6 | 16.6 |
| **o/w HH sector** | 9.7 | 9.4 | 9.1 | 8.7 | 8.4 | 8.1 | 7.8 | 7.1 | 6.7 | 4.8 | 4.4 |
| **Coverage ratio** | 37.9 | 40.6 | 43.6 | 45.4 | 45.6 | 45.9 | 46.9 | 49.9 | 52.7 | 52.7 | 52.7 |
| **Return on equity**[(1)] | -3.5 | 0.9 | 0.3 | -5.5 | -0.3 | 0.5 | 1.5 | -0.8 | 8.5 | 6.1 | 5.3 |
| **Return on assets**[(1)] | -0.2 | 0.1 | 0.1 | -0.3 | 0.0 | 0.1 | 0.2 | 0.0 | 0.8 | 0.6 | 0.5 |
| **Total capital ratio** | 12.3 | 13.3 | 13.2 | 12.3 | 13.9 | 14.4 | 14.7 | 15.2 | 15.0 | 16.0 | 16.1 |
| **CET 1 ratio** | 11.3 | 12.4 | 12.3 | 11.4 | 12.6 | 13.2 | 13.5 | 13.9 | 13.6 | 13.8 | 13.9 |
| **Tier 1 ratio** | 11.4 | 12.6 | 12.6 | 11.7 | 13.2 | 13.8 | 14.0 | 14.5 | 14.2 | 14.8 | 14.8 |
| **Loan to deposit ratio** | 84.9 | 81.5 | 80.8 | 80.8 | 79.6 | 79.4 | 79.5 | 78.9 | 78.0 | 76.2 | 76.7 |

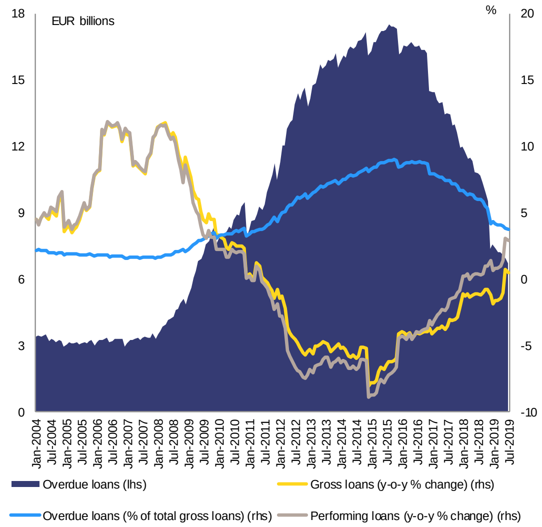
(1) Annualized data.

***Source:*** CB - CBD2 - Consolidated Banking data; European Commission

stable capital levels and on the back of improved profitability, four of the five largest banks have resumed dividend payouts, despite the still challenging environment in which they operate.

**Banks' asset quality has improved with the share of non-performing loans decreasing by more than half since 2016.** At 8.3% in Q2-2019, the NPL ratio was still among the highest in the EU, albeit half of its level in Q2-2016. This reduction is the result of banks' NPL reduction strategies, involving a combination of sales, write-offs and cures. The recovery in real estate prices has led to the development of an active secondary market for distressed debt, with transactions totalling €6 billion in 2018. Still, at 16.6%, the corporate NPL ratio remains high, with roughly one-fifth of companies having troubles servicing their debt. Household NPLs amounted to 4.4% of total loans in Q2-2019 and 10% of households were late on payments. The NPL coverage ratio was 52.7%, somewhat above the EU average.

Graph 4.2.2: **Performing loans grow but the gross loan stock still falls**

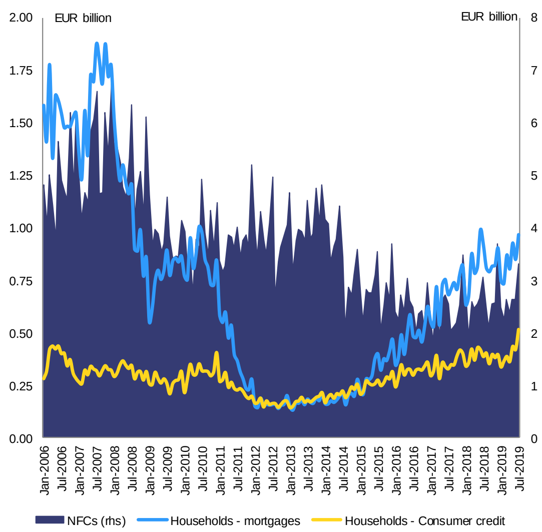



***Source:*** Banco de Portugal

**The introduction of borrower-based limits has led to more prudent mortgage attribution, yet house price growth needs continued monitoring.** The mortgage volume quadrupled between 2015 and 2018 in a context of low interest rates and an observed easing of credit standards. In response, in July 2018 the Banco de Portugal (BdP), in its capacity as macro-prudential authority, introduced limits on loan-to-value (LTV) and debt-service-to-income (DSTI) ratios as well as limits on loan maturities. The BdP further introduced a loan amortisation requirement. The aim of the measures is to preserve borrowers' solvency and ensure sound credit standards by reducing the share of risk loans. While the introduction of these measures is still recent, they nonetheless appear to have contributed to slowing mortgage credit growth (Graph 4.2.3) and reducing the share of mortgages with high LTV- and DSTI-ratios. Meanwhile house price growth has remained quite strong (Graph 4.2.4). Given the lower number of potential applicants for house loans and their better risk profile, competition via the interest rate has intensified.

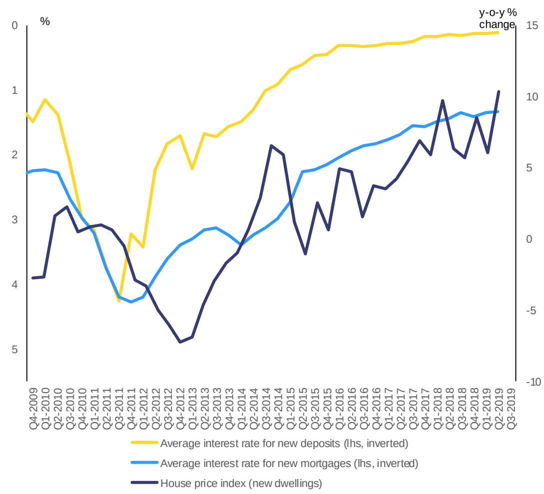
**Improving financial literacy could help Portuguese firms` access capital markets.** International studies, such as the OECD's financial literacy surveys, point to deficits in financial literacy in all surveyed countries, including Portugal. The groups identified with a higher financial literacy deficit are the young and the elderly, students, the unemployed, and those with lower schooling and income levels. These are the priority groups to be targeted within the financial education strategy. Similarly, households, entrepreneurs also need to raise their levels of financial literacy in order to reap benefits from improved and better-integrated capital markets. The ongoing project 'Mobilising Portuguese Capital Markets for Investment and Growth' financed by the Structural Reform Support Programme aims to improve access and diversify financing for business and will also offer more options for diversification of investments.

Graph 4.2.3: **New mortgages quadrupled, fresh consumer loans doubled, new corporate loans keep falling**




***Source:*** Banco de Portugal

Graph 4.2.4: **House prices (new dwellings) rise ever faster as the savings go quasi-unremunerated**

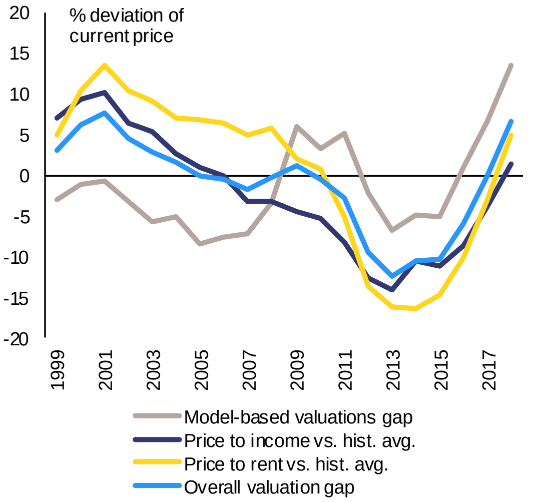



***Source:*** Banco de Portugal and Eurostat

**House prices growth remains strong.** The growth in house prices declined only slightly from an annual average of 10.3% (y-o-y) in 2018 to 9.2% in Q1-2019 and 10.1% in Q2-2019. In deflated terms, the growth rate also remains high at 7.7% in Q1-2019 and 9.0% in Q2-2019, relative to an annual average of 8.8% in 2018. House price growth thus exceeds the indicative threshold of 6% for a fourth year in a row but this follows a long period of undervaluation. This has led to housing affordability problems in some regions, even though they are partly mitigated by the large share of property ownership in Portugal. The BdP has introduced a set of macro-prudential measures for loans granted to consumers (see above).

**Property valuations are rising above long-term rates**. The estimated price-to-income and price-to-rent ratios moved to a positive territory in 2018 at 1.9% and 5.2% respectively (see Graph 4.2.5). The valuation gap linked to the deviation from equilibrium prices based on supply and demand fundamentals, suggests an overvaluation of 13.9% in 2018, up from 7.5% in 2017. The overall house price gap is estimated at 7.0% in 2018. However, a significant part of the price dynamics reflects structural changes on the market, as the strong growth in tourism, including structural shifts towards commercial use of housing properties, has increased demand for residential real estate. External investment demand, in combination with low interest rates, is also playing a role as less than half is financed through domestic mortgages. The stock of domestic mortgage loans is still on a downward trend relative to GDP.

Graph 4.2.5: **Valuation gap on price/income, price/rent and fundamental model valuation**




***Source:*** European Commission

**Challenges to the efficiency of the justice system, in particular related to insolvency, affect the NPL resolution process.** The legal and judicial frameworks are affecting the recovery process and the prospects for efficient repossession of collateral. The longer the average duration of recovery proceedings, the higher the level of uncertainty that accompanies these proceedings and therefore the lower the price applied by the market to non-performing assets. Over the past few years, a significant number of reforms to the legal and institutional framework for insolvency and debt enforcement were implemented. Recently, the authorities set up an early warning mechanism to monitor key corporate soundness indicators. Also, since July 2019 Portuguese lenders have the possibility to make use of a special regime allowing them to transfer loan portfolios in bulk from one financial institution to another. This enables a faster and less costly process of selling NPLs. Nevertheless, challenges related to lengthy proceedings and a large backlog of cases remain (see Section 4.4.4).

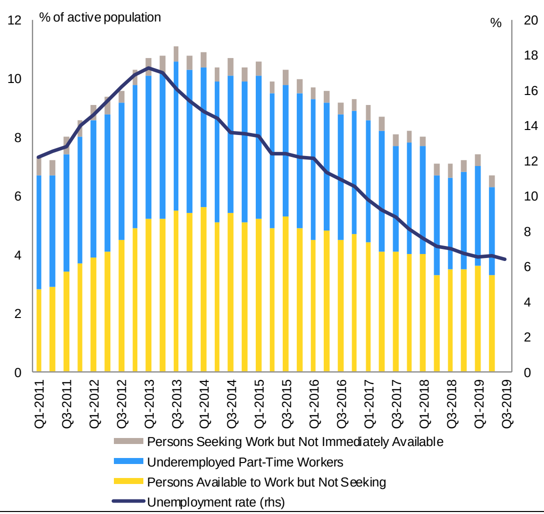
# 4.3. LABOUR MARKET, EDUCATION AND SOCIAL POLICIES*

### 4.3.1. LABOUR MARKET*

**Positive labour market developments continue, though more moderately than in recent years.** Employment reached 76.5% in Q3-2019, while unemployment stood at 6.4%, 0.2 pps lower than the previous quarter and slightly above the EU average. Long-term unemployment fell from 2.9% in Q3-2018 to 2.8% in Q3-2019, but remains slightly above the EU average (2.5%) and still accounts for around 44.9% of total unemployment.

**While unemployment has been falling, Portugal has unused labour market reserves.** The share of the people available to work but not seeking a job remains higher than the EU average (3.2% of the active population, vs. 2.9% in the EU in Q3-2019), while the share of underemployed part-time workers is below the EU average (2.9% vs. 3.2% in Q3-2019). Figures appear to have stabilised since the second quarter of 2018, after four years of gradual decreases. These two groups jointly represent a labour reserve that is as high as the unemployment rate and are critical for coping with demographic challenges in Portugal.

Graph 4.3.1: **Unemployment rate and potential additional labour force**

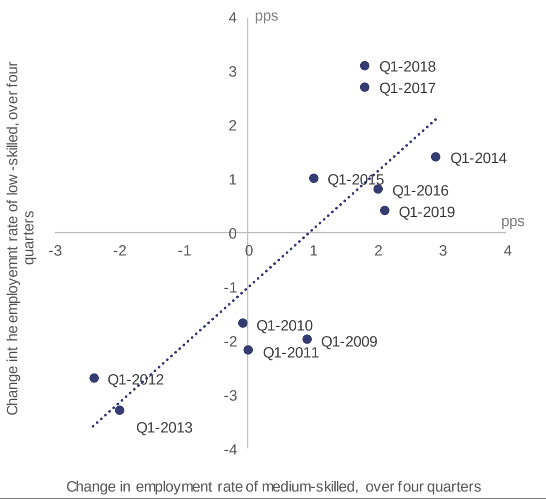



***Source:*** Eurostat

**Youth unemployment remains relatively high, though measures have been taken to tackle the challenge.** Youth unemployment (15-24) stood at 18.2% in Q3-2019, above the EU average of 14.4%. The proportion of young people neither in employment nor in education or training (NEETs) decreased from 9.3% in 2017 to 8.4% in 2018 (below the EU average of 10.4%). However, the NEET rate differs greatly between regions in Portugal, from 17.8% in the Azores to 7.2% in the Centro region. The share of NEETs covered by the Youth Guarantee (55.4%) remains well above the EU average (40.9%) and more than two fifths of those leaving the Youth Guarantee registry in 2018 (44.0%) accepted an offer within four months of registration (an increase of almost 4pps from 2017). Outreach to the most disengaged to ensure a wider Youth Guarantee coverage and more effective results are remaining challenges but overall Portugal has established a significant set of measures in terms of personalised guidance and activation to improve labour market access and further reduce long-term unemployment of young people.

**After strong improvements in the past, the positive trend in the labour market integration of low-skilled people stopped recently.** The employment rates of high-skilled, medium-skilled, and low-skilled workers differ less in Portugal than in most other Member States. There were particularly strong gains in the employment rates of low-skilled people between 2016 and 2018. These were greater than gains for medium-skilled workers (Graph 4.3.2). However, this pattern changed in Q1-2019. While the employment rate of medium-skilled workers continued to rise by more than 2%, that of low-skilled workers remained broadly stable.

Graph 4.3.2: **Annual change in the employment rate of low and medium-skilled workers (age 20-64) since Q1-2009**




***Source:*** Eurostat

**Women's labour market participation is increasing, while the gender pay gap remains above the EU average.** Women's employment rate continued to improve, reaching 72.1% in 2018 (compared to an EU average of 67.4%). The gender employment gap was 7.5 pps, below the EU average of 11.5% (see further Box 4.3.1). However, the unadjusted gender pay gap remains above the EU average. It narrowed from 17.8% in 2015 to 17.5% in 2016 and 16.3% in 2017, still above the EU average of 16% in 2017.

**Portugal has introduced legislation to address the gender pay gap.** Measures include the obligation for companies that are notified by the Working Conditions Authority to produce a report about differences in remuneration between women and men (for companies with 250+ employees in the first two years, then extended to include companies with 50+ employees), the right for any worker to request the Commission for Equality in Labour and Employment to issue a binding Opinion on the existence of sex-based pay discrimination, and the publication of official statistics: a sector-level barometer (which was implemented in 2018 and includes the adjusted gender pay gap) and a company-level assessment, by profession and level of qualifications. Another recent law establishes a minimum gender representation threshold for public company boards from 2018 (33.3%) and listed companies (20%, increasing to 33.3% from 2020). Another law was recently approved to promote gender balance in public administration bodies, setting a 40% minimum threshold for each gender's representation.

**Active labour market policies have recently focused on boosting permanent employment and job-specific training.** About 24,300 employment contracts have taken effect since the hiring support measure *Contrato-Emprego* was introduced in January 2017. Among these, 87% are open-ended contracts. Under the professional traineeship measure *Estágios Profissionais*, around 64% of the received applications were approved, corresponding to a total 64,574 approved traineeships since 2017. At the same time, 7,500 traineeship contracts have been converted into open-ended contracts through the *Prémio-Emprego*, a financial support measure. Recently, some changes were made to the legal framework to make these measures more efficient and effective. After a considerable delay, implementation of the *Contrato-Geração* measure, designed to promote permanent employment for both first-time jobseekers and the long-term unemployed (over 45 years old), began in April 2019. A temporary incentive (*Converte+*) was introduced to support the conversion of fixed-term contracts to open-ended ones (up to the end of 2019), in line with the tripartite agreement (see below).

**The emphasis of active labour market policies has increasingly moved towards providing targeted training.** The proportion of registered jobseekers participating in training rose from 11% in the beginning of 2016 to about 18% in December 2019. In total, 64.5% of active labour market policies coverage is training related. In 2018, 47% of the workers' educational attainment was below the levels required by their jobs (compared with an EU average of 26%). Still, in 2018 Portugal was one of the best performers in the EU for having a low rate of dispersion of employment by educational level ([23]). However, the incentives for unemployment and social benefits recipients to accept job opportunities in the first months of unemployment are low: the unemployment trap in Portugal amounts to 82%, as compared to an EU average of 69% in 2018 (European Commission Tax and Benefits Database).

([23]) European Commission calculations based on Eurostat

**Cooperation between public employment services (PES) and other services is improving, but the proportion of unemployed people using PES remains low.** Following a downward trend since 2008, the proportion of unemployed people using PES to find a job fell from 36.7% in 2017 to 34.7% in 2018, well below the EU average of 44.3%. In Q3-2019 about 68% of job offers were filled, mainly in the tertiary sector (GEP 2019). The activation capacity of the PES is low partly because of the negative perceptions of both jobseekers and employers, but also owing to competition from other market providers. The current mechanisms for information sharing between the PES and the social security administration ensures overall coordination. The Portuguese PES have been working on improving individualised services to the people least likely to find a job such as the long-term unemployed and low-skilled people, focusing on up-skilling and re-skilling measures. The PES authorities are also working on establishing protocols with other public administration services.

**Changes to the labour code to tackle precariousness and address labour market segmentation entered into force in October 2019**. In a context of persistent temporary employment (20.4% of workers on temporary contracts in Q2-2019, well above the EU average of 12.6%), the changes introduced by Law n.º 93/2019 are designed to reflect the tripartite agreement signed in 2018. The most significant changes relate to disincentives to temporary employment and promotion of open-ended hiring. The maximum duration of fixed-term contracts has been reduced from three to two years and, to avoid an abusive use of temporary employment, firms are also obliged to justify their use of temporary contracts. The maximum duration of very short-term contracts has been increased from 15 to 35 days, with an unchanged annual limit of 70 days, and these contracts can now be used by all sectors of activity if proper justification is provided. The probationary period of open-ended contracts for long-term unemployed people and first-time jobseekers has been increased from 90 to 180 days and the number of training hours per year has been increased from 35 to 40 for all workers. Firms using more fixed-term contracts than is allowed in their sector will have to pay a progressive turnover tax as of 2021. All these measures should lead to progress on SDG 8.

**The labour code reform is designed to encourage collective bargaining**. The individual hour bank (an arrangement to compensate workers for overtime by providing additional leave) has ceased to exist and can now be implemented only through collective bargaining or joint agreements, subject to internal referendum. Current individual hour bank agreements will expire in October 2020. All collective agreements, collective contracts and firm agreements can only be changed if they propose more favourable criteria for the worker than the current Labour Code. Additionally, the requirement to terminate a collective agreement must be attached with a global negotiation proposal and a justification on the economic, structural or maladjustment reasons to terminate the current agreement.

**Policy measures to improve labour relations are being implemented.** Portugal is boosting the capacity of its labour authority by recruiting labour inspectors. This means that the number of inspectors should be closer to the International Labour Organisation reference ratio by the end of 2019. In parallel, the labour authority is developing its information system to improve the sharing of information. It is also improving its planning capacity and dispensing its staff from certain administrative tasks. A recent assessment of the effectiveness of the Law n.º 63/2013 to restrain false self-employment shows that voluntarily regularised cases (as a proportion of irregular situations detected) increased from 34% in 2014 to 49% in 2017 and 58% in 2018.

**Minimum wages keep increasing.** The monthly minimum wage increased to €600 in 2019 and the government approved a new increase to €635 for 2020. This places the Portuguese minimum wage among the highest in the EU when compared to the median wage in the same country, with a ratio of 61% (latest OECD data for 2018). Consequently, a comparatively large proportion of workers (almost 20%) earn the minimum wage. While increases in the minimum wage improve jobseekers' incentives to accept a job, they may also increase risks to the employment of young and low-skilled workers. The government also announced its intention of gradually raising the minimum wage to €750 in 2023, taking into account the views of social partners, employment dynamics and economic growth.

### *Box 4.3.1:* Monitoring performance in light of the European Pillar of Social Rights

The European Pillar of Social Rights is a compass for a renewed process of upward convergence towards better working and living conditions in the European Union. It sets out twenty essential principles and rights in the areas of equal opportunities and access to the labour market; fair working conditions; and social protection and inclusion.

**Social Scoreboard for PORTUGAL**

| SOCIAL SCOREBOARD | | SDGs |
|---|---|---|
| Equal opportunities and access to the labour market | Early leavers from education and training (% of population aged 18-24) | 4 QUALITY EDUCATION |
| | Youth NEET (% of population aged 15-24) | |
| | Gender employment gap | 5 GENDER EQUALITY |
| | Income quintile ratio (S80/S20) | 10 REDUCED INEQUALITIES |
| | At risk of poverty or social exclusion (in %) | |
| Dynamic labour markets and fair working conditions | Employment rate (% of population aged 20-64) | 8 DECENT WORK AND ECONOMIC GROWTH |
| | Unemployment rate (% active population aged 15-74) | |
| | Long-term unemployment rate (% active population aged 15-74) | |
| | GDHI per capita growth | |
| | Net earnings of a full-time single worker earning AW | |
| Social protection and inclusion | Impact of social transfers (other than pensions) on poverty reduction | 1 NO POVERTY |
| | Children aged less than 3 years in formal childcare | |
| | Self-reported unmet need for medical care | 3 GOOD HEALTH AND WELL-BEING |
| | Individuals' level of digital skills | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Critical situation | To watch | Weak but improving | Good but to monitor | On average | Better than average | Best performers |

Members States are classified on the Social Scoreboard according to a statistical methodology agreed with the EMCO and SPC Committees. It looks jointly at levels and changes of the indicators in comparison with the respective EU averages and classifies Member States in seven categories. For methodological details, please consult the proposal for a Joint Employment Report 2020, COM(2019) 653 final; NEET: neither in employment nor in education and training; GDHI: gross disposable household income. Update of January 2020.

**The Social Scoreboard supporting the European Pillar of Social Rights shows that Portugal has achieved improvements in several areas, although challenges remain.** The labour market performance is good, with high employment, low unemployment (and low long-term unemployment) and a reduced gender employment gap. Portugal also performs better than average in providing access to childcare services. Income inequality has decreased and is now close to the EU average for the first time in decades, while the rate of risk of poverty or social exclusion continues to fall.

**Vulnerable groups are nonetheless still at risk of being left behind.** The overall skill level of the adult population is low, particularly as regards digital literacy. In 2017, half of the Portuguese population lacked basic digital skills, with 27% having none at all. Upskilling measures are in progress, and both student performance and the rate of early leavers from education have improved. Technological change will require a more skilled workforce, raising barriers to entry into the labour market for low-skilled workers. There is a risk that their economic situation may be further aggravated by the low adequacy of the social protection system. Despite recent improvements, the poverty reduction capacity of social transfers (other than pensions) is comparatively low in Portugal (23.8% against 34% in the EU as a whole).

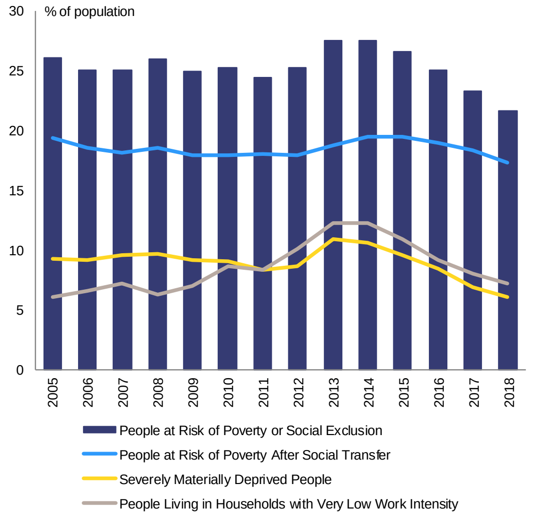
**Measures are in progress to address labour market segmentation and encourage collective bargaining, while promoting a better work-life balance**. A tripartite agreement has led to changes in the labour code and in the code of contributory regimes of the social security the aim being to reduce the large proportion of workers on temporary contracts. Additionally, legislative measures and a national strategy to promote work-life balance have been adopted (also involving tripartite consultations and collective bargaining), designed to promote equal rights, including reducing the gender pay gap, or improving working time flexibility.

**Recent years have seen a sustained recovery in collective bargaining.** The number of new or renewed collective agreements has increased since 2015, with a significant impact on their coverage. In 2019, new collective agreements accounted for 19.2% of the total (surpassing the 2018 level of 18.6%) while their share of coverage stood at 9.9% (7.6% in 2018). The total coverage from collective agreements (new or renewed) stands close to 883,800 workers (over 994,000 in 2018). Wage setting also increased in collective bargaining, with the most significant increases reflected in sectors such as administrative and support service activities, construction, health and social support activities and tourism. Altogether, wage setting at collective bargaining covers about 730,880 workers (about 15% of the employed population).

### 4.3.2. SOCIAL POLICIES*

**Poverty and income inequality continued to decrease in 2018.** The number of people at-risk of poverty or social exclusion continued to fall from 23.3% in 2017 to 21.6% in 2018.For the first time, the figure fell slightly below the EU average of 21.9% ([24]). This reflects improvements in all three components of this indicator (see Graph 4.3.3). However, the risk that unemployed or elderly people may fall victim to poverty continues to give cause for concerns. The proportion of people at-risk-of-poverty fell, from 18.3% in 2017 to 17.3% in 2018 ([25]), and is now below pre-crisis levels but still above the EU average (17.1%). Severe material deprivation continued to decrease from 6.9% in 2017 to 6.0% in 2018. Finally, the rate of low work intensity fell from 8.0% in 2017 to 7.2% in 2018, still above pre-crisis levels, but below the EU average (9.0%). Income inequality, as measured by the ratio of the income received by the richest 20% of the population to that of the poorest 20%, declined significantly, and is now at the EU average of 5.2. The income share of the poorest 40% of the population is also improving but remains below the EU average (20.5% v. 21.5%).

Graph 4.3.3: **At-risk-of-poverty or social exclusion rate and its components**




***Source:*** Eurostat

**Poverty risks fell for employed people, while rising for unemployed, inactive and elderly people.** The risk of poverty for the employed was 9.7% in 2018, 1.1 pp lower than in 2017. Still, the risk of poverty is almost two times higher for temporary employees than for permanent employees. Although the number of unemployed people continues to fall, increased overall income levels and a weak social protection system (see Section 4.3.2) resulted in an increase in poverty risks for the unemployed, from 44.9% in 2016 to 45.7% in 2017. The risk of poverty for the elderly population also increased to 17.7% in 2017, 0.7 pp more than in 2016.

**Poverty risks remain particularly high in rural areas.** The proportion of people at risk of poverty is significantly larger in rural areas than in cities and islands (*regiões autónomas*) when compared to the proportion of people at-risk of poverty in mainland Portugal. In 2017, only the metropolitan area of Lisbon (12.3%) had a significantly lower rate of poverty than the national average (17.3%) (see Section 4.4.3).

**The poverty-reducing impact of social transfers is comparatively low in Portugal and minimum income adequacy remains low.** In 2018, social transfers (excluding pensions) reduced the number

([24]) Flash estimates indicate that the AROP rate continued to decrease Experimental flash estimates produced by Eurostat for income year 2018. https://bit.ly/34HOcIG

([25]) Provisional data from National Statistics Office (INE): the Survey on Income and Living Conditions held in 2019 on previous year incomes shows that 17.2% of the population was at-risk-of-poverty in 2018, one decimal point (pp) less than in 2017.

of people at- risk -of- poverty by 23.8% in Portugal. This is, significantly below the EU average of 34%, and is classified as a ‘to watch situation’ in the social scoreboard (see Box 4.3.1). The poverty-reducing impact of social transfers has actually decreased since 2014, although this is also due to the reduced impact of unemployment benefits as a result of falling unemployment. In August 2019, the monthly mean values for the minimum income were €117.37 per person and €260.20 per household, which does not allow to escape poverty. The adequacy of the minimum income support is well below the EU average ([26]).

**Rising housing prices increase the financial pressure on households and create issues of affordability, especially for the most vulnerable ([27]).** Housing prices increased by 10% in 2018 and by 9% in 2017, although in 2019 (Q1 data) there was a deceleration of the price increases on a year-on-year basis (see Section 4.2). Portugal is among the countries where the burden of housing costs fell for the population as a whole between 2007 and 2018 but increased for poor households (+25.4%). In 2018, the rate of poor households overburdened by housing costs stood at 22.3%, nearly ten times higher than other households (2.3%). Between 2007 and 2018, the average mortgage/rent arrears rate fell from 3.1% to 2.8%. However, among poor households the rate in 2018 (6.8%) was still higher than in 2007 (6.6%).

**The state’s investment in social housing has traditionally been weak.** The major metropolitan rehousing programmes focusing on the eradication of shanty-town enabled the construction of over 30,000 social dwellings between 1994 and 2005 and reduced the need of the metropolitan areas for social housing to 39% of the 1990s level (IHRU, 2018). The public housing supply in Portugal now accounts for 2% of the total housing supply, against 5% in the EU as a whole. The government’s target is to reach the EU average. According to the national statistics office, severe housing deprivation affects 26,000 families, with a high concentration of families in the Lisbon and Porto metropolitan areas.

([26]) Benchmarking exercise in Social Protection Committee (see proposal for the Joint Employment Report 2020)
([27]) ESPN, 2019

**Portugal is taking action to address housing affordability.** The various policy measures include tax incentives for urban leases, increasing the public housing supply by financing municipalities and re-allocating public buildings to residential purposes, and financing and tax benefits for the corporate sector (real estate developers and construction companies offering affordable housing and regeneration services). In addition to the ‘new generation of housing policies’, launched by the Portuguese government in May 2018, a basic law on housing came into force in Portugal for the first time in October 2019. The law establishes the state as the guarantor of the right to housing and responsible for establishing a system of access that is compatible with household income. The law emphasises the ‘social function of housing’ rather than social housing as such.

**Despite recent efforts, work-life balance seems to have retroceded in recent years**. Work-life reconciliation evolved positively until 2011 ([28]), however, has since been decreasing. The average family expenditure per child (0-17) as a share of GDP per head was 6.7% against and EU average of 12.4% in 2017 (only slightly increased from the 2008 level of 6.4%) ([29]). The OECD ‘better life index on work life balance’ ([30]) highlighted that Portugal‘s low fertility rate, at 1.28 (the lowest in the OECD) is due to Portuguese families often not having more than one child mainly due to lack of support. Enrolment of children below 3 years of age in childcare has risen sharply over the last decade to 47.1% compared to an EU average of 35.1% in 2018. However, the situation is less positive as concerns childcare provision for between 4 and 6 year olds) performs worse, especially in metropolitan areas.

**Legislative changes were implemented to promote a better work-life balance, including a new legal status for informal carers.** In December 2018, Portugal introduced a new national strategy for promoting a better balance between professional, personal and family life. The aim is to achieve genuine equality between men

([28]) Portuguese Well Being Index (INE, National Statistics Office, 2017). The index measures people’s capacity to reconcile working hours with aspects of personal life, such as family, friends or leisure.
([29]) see ESDE 2019
([30]) http://www.oecdbetterlifeindex.org/topics/work-life-balance/

and women. The plan involves, among others, tripartite consultations and collective bargaining, working time flexibility and new rights in relation to working time accounts. Moreover, a new legal status for informal carers was approved in September 2019, granting them a set of rights and establishing the supporting measures. It also entitles informal carers to fiscal benefits and grants access to the voluntary social insurance scheme.

**Coverage of long-term care and specific care needs of elderly people was improved.** The coverage rate of the main services for the elderly people was 12.6% in mainland Portugal, reflecting a 9 pps growth rate from 2008 to 2018. While 66% of mainland municipalities had an above-average coverage rate, the majority of municipalities in the metropolitan areas of Porto and Lisbon, and in the Algarve region, have below average coverage rates. The number of workers in this sector remains well below the EU average (see Section 4.3.3).

### Healthcare

**The health status of Portuguese citizens is good, but certain areas show room for improvement and health inequalities remain.** Treatable mortality in Portugal is below the EU average (89 per 100,000 vs. 93 in the EU), and the country also has one of the lowest avoidable hospitalisation rates in the EU, with improvements in primary care reported as one of the contributing causes for the reduced admission rates. However, certain disease areas show relatively higher numbers with notably higher prevalence of diabetes, mortality of respiratory diseases and anti-microbial resistance. Furthermore, health inequalities by gender and socioeconomic status remain and Portugal will face relatively greater challenges in future as a result of population ageing (see Box 4.3.2).

**Accessibility of care and financial protection are areas of concern, but the planned removal of primary care user charges is likely to alleviate them.** Low-income groups report lower self-rated health status and there are still substantial differences as regards self-reported unmet needs by income group. A 2.1% share of the Portuguese population report unmet needs due to cost, distance or waiting time (2018), which, despite improvements, remains above the EU average. There is still a substantial gap in self-reported unmet needs between low-income and high-income groups (4.2% v 0.3%), above the EU average, although it has narrowed since 2017. Out-of-pocket payments are amongst the highest in the EU at 27.5%. The reported financial burden of medical care in 2017 is relatively high and about 8.1% of households are estimated to have suffered from catastrophic health spending in 2015 (up to 30% for the poorest income quintile ([31]) (WHO, 2019). The removal of user charges in primary care that was planned for in 2019 (see Section 4.1.3 for the fiscal implications) was expected to reduce the financial burden, out-of-pocket payments (although to a limited degree) and unmet need for care, incentivising patients to use their primary care providers rather than emergency care. The degree to which this is achieved will depend on the ability of the Portuguese primary care system to deal with the increase in activity and their effectiveness as gatekeepers.

**There are major health differences between the wider metropolitan areas of Lisbon and Porto and the other regions.** The difference in self-reported unmet needs for medical care between groups living in rural and in urban areas is higher than in many other Member States. Healthcare resources are unevenly distributed between and within regions and transport costs are often not reimbursed, but self-reported unmet needs due to distance remain low. There are high-level investments in infrastructure as well as incentive programmes for the healthcare workforce in order to address underserved areas. Recent reforms have also facilitated the provision of care to patients in other regions than their region of affiliation. Even though the number of nurses is below the EU average, the health workforce continues to increase and the number of registrations with a general practitioner stood at 93% in 2018. Challenges remain to ensure adequate health care provision between regions, including the distribution of health professionals (recruitment, education and retention), as well as investment needs in infrastructure and medical equipment (see Section 4.1.2).

([31]) Before the wide set of co-payment exemptions introduced in 2016.

### *Box 4.3.2:* Demographic ageing

**Demographic ageing has become an EU-wide challenge with long-term socio-economic implications.** Europeans are living longer than ever before, and the inversion of the age pyramid calls for major rethink in terms of policymaking. While the proportion of working-age people in the EU is shrinking, the number of older people (65+) in the EU is projected to rise, peaking at 149.2 million in 2050, 28.5 % of the total population([1]).

**Portugal's demographic projections show a sustained decline in total population over the decades ahead, sharper than EU average.** In 2018, 21.8% of the Portuguese population were aged 65+, up from 16% in 2000 and 11% in 1980. Portuguese 65-year-old could expect to live for a further 20 years (the EU average), but would probably have some disability for 13 of these years (above the EU average). Portugal is among the five EU countries where people aged 55+ are projected to account for almost half (47.1 %) of total population by 2050. The 2018 Ageing Report ([2]) forecasts to a decline in population from 10.3 million in 2018 to 9.1 million in 2050.

**Managing the challenges associated with increased longevity and declining fertility rates to ease the pressures of demographic ageing.** Notwithstanding the slightly improving trend, Portugal still has the second lowest fertility rate in the EU (1.4 births per woman, compared with 1.6 in the EU as a whole). Portugal is estimated to remain one of the EU countries with the longest average life expectancy. At the same time, projections for net migration suggest that more young migrants will move into Portugal than out, decelerating the pace of population ageing in Portugal. In contrast to recent negative net migration flows (2011-2016), annual net migration as a percentage of population over the 2016-2060 period is expected to rise by 0.2% ([3]). This can be attributed to the economic recovery, with significant employment growth.

**Population ageing puts pressure on the labour market and public finances and requires coordinated and integrated policy responses.** Portugal is projected to lose more than one third of its total labour force by 2070. A more specialised and skilled workforce will be required to maintain a competitive economy. Yet early school leaving rates in Portugal are a source of concern (11.8% versus an EU average of 10.6%) with men significantly above (14.7%). Due to low birth rates, the school-age population is expected to decline, with the pace of reduction increasing after 2030. By 2040, the drop could exceed 20% (compared to 2020 levels) ([4]). Investing and reinforcing education and training policies seems adequate and EU funds could amplify their impact.

**As for public finances, population ageing will demand balanced policy and investment choices.** On the one hand, it will push up public expenditure on social welfare (especially on the pension system and social security in general) and on healthcare. On the other hand, the falling school-age population may raise efficiency concerns as regards education spending. Here, an appropriate balance should be struck between reconsidering the school network and ensuring adequate infrastructure and quality.

**The sustainability of Portugal's pension system will be tested by population ageing, and a rethink is required.** The old-age dependency ratio (i.e. people aged 65+ as a proportion of those between 16 and 64) already stood at 33.9% in 2018, above the euro-area average of 31% ([5]). The ratio is projected to increase significantly by 35.1 pps to 67.2% by 2070. Thus, Portugal would go from having 3.1 working-age people for every person aged 65+ to only 1.5. Steps have already been taken to make the pension system more

([1]) EUROSTAT (2019), Ageing Europe-Looking at the lives of older people in the EU, Population and social conditions Collection: Statistical books, Publications Office of the European Union, Luxembourg
([2]) European Commission (2017), the 2018 Ageing Report-Underlying Assumptions and Projection Methodologies, Publications Office of the European Union, Luxembourg
([3]) European Commission (2018), 2018 Ageing Report
([4]) Education and Training Monitor 2019
([5]) 2018 Ageing Report

*(Continued on the next page)*

*Box (continued)*

sustainable. However, recent extensions in special pension and early retirement reforms have entaile additional pension spending on top of the underlying upward trend driven by ageing.

**Healthcare expenditure in Portugal is below the EU average and will be substantially increased to cope with an ageing society.** Public expenditure on healthcare is projected to increase from 5.9% of GDP i 2016 (below the EU average of 6.8%) to 8.3% of GDP by 2070 (above the EU average of 7.7%) ([6]). In the case of long-term care, the relatively low current coverage means that ageing would further increase unm demand. These projections illustrate a no-policy-change scenario, which could be mitigated by measures tc improve the cost-efficiency of the health system (see Sections 4.1.2. and 4.3.2.).

**Rural areas seem to be particularly affected by population ageing.** Despite the support of EU funds to counter depopulation and improve the competitiveness and inclusiveness of rural areas, these are still lagging behind urban areas, facing problems including depopulation, limited access to basic services an lower per-capita income. The lack of generational renewal in rural areas contributes to the abandonment these territories and it increases the challenges posed by technology and innovation gaps between rural and urban areas.

**The Portuguese government has identified demographic challenges as one of the main priorities for t current legislature.** Portugal is developing policy measures to improve the overall sustainability of the health system, to enable it to cope better with increased demand due to ageing. The State budget for 2020 fores responses to the growing ageing of the Portuguese population in terms of healthcare, namely by strengthen the national network of long-term and palliative care and by consolidating and extending the hon hospitalisation program. In addition, a new law establishing the status of "informal caregivers" was adop recently. The government also acknowledges the role that migration can play to tackle demographi challenges approving the National Implementation Plan for the Global Compact for Migration. It has a identified a roadmap encouraging of the development of low-density territories aiming at the settlement of th population, job creation, reduction of regional asymmetries, cohesion and territorial competitivene resulting from the Interior Enhancement Program (former National Program for Territorial Cohesion)

**Targeted investment of EU Funds in the next Multiannual Financial Framework will play a key role in helping Portugal cope with the pressures of demographic ageing.** EU Funds can support business and infrastructure development, investment in human capital and social inclusion to help alleviate the pressures arising from population ageing while providing suitable goods and services for this cohort. They can also help turning the demographic challenge into a opportunity, developing new products and services aimed at a growing and changing consume market.

([6]) 2018 Ageing Report

### 4.3.3. EDUCATION AND SKILLS*

**The Portuguese education system has experienced progress in the last decade, but there are still important challenges to address.** Between 2009 and 2018, the rate of early leavers from education and training decreased by two thirds (from 30.9% to 11.8%) and tertiary education attainment grew from 21.3% to 33.5%. Basic skills proficiency, as measured by the OECD Programme for International Student Assessment (PISA) increased considerably, and is now around the EU average for all three tested subjects (reading, mathematics and science) (OECD, 2019a). However, the high level of grade repetition and high dropout rates persist, and a high percentage of adults have not completed their upper secondary studies. Addressing these challenges would lead to progress on SDG 4.

**Equality challenges in education persist.** Students from deprived socio-economic backgrounds or who were born outside Portugal are more likely to repeat grades, to leave school prematurely and to have a lower performance. PISA 2018 (OECD, 2019a) shows that the scores difference between advantaged and disadvantaged students are 95 points in reading, which corresponds to around three years of schooling. Disadvantaged pupils are significantly less likely to complete tertiary education. PISA 2018 also reports that the mean score in reading of students with a migrant background are on average 26 points below those with a native background. This gap is particularly large for foreign-born (59 points) while it is much more limited for native-born with a migrant background (23 points).

**Public investment on education is growing, but it is still far from the levels seen before the economic crisis.** After a fall in its ratio to GDP in 2014-2016 (reflecting a fall in expenditure, combined with GDP growth), public investment on education reached 5.0% of GDP in 2017, above the EU average (4.6%) but still far from the 2013 level (5.9%). In the last decade, annual expenditure per student at primary and secondary levels remained almost constant and below the EU and OECD averages (OECD, 2019b). The budget cut in higher education (between 2010 and 2016 ([32]), estimated at 20%, was buffered by a 15% reduction in student enrolment numbers. Large investments will be required in the near future to upgrade and renovate the existing school infrastructure (European Commission, 2019a, 2019g).

**Participation in early childhood education and care is close to the EU average.** In 2018, 50.2% of children under the age of three were enrolled in formal childcare. Participation for children aged between four and the age at which primary school attendance is compulsory (six) was 94.2% in 2017, almost reaching the EU average of 95.4%. According to the '*Carta Social*' (GEP, 2017) in 2018, in 39% of the mainland municipalities the coverage rate ([33]) of kindergartens was below the national average (49.1%). In three densely populated areas ([34]), the availability of kindergarten places was below 50%. In 2019, pre-primary education institutions made 1,400 more places available for children aged between three and five.

**The main challenges facing the teaching profession in Portugal are high job instability, an ageing teaching workforce and a lack of certain skills.** In 2017-2018, the proportion of non-permanent teachers (on temporary contracts) was 16.9% in primary education and 21.4% in secondary education (DGEEC, 2019). New permanent positions have been created, enabling 3 260 teachers on temporary contracts to become permanent members of staff in 2017-2018, and 3 319 in 2018-2019. In 2017, fewer than 1% of teachers in ISCED 1-3 ([35]) were aged below 30 (9.4% at EU level). According to the Ministry of Finance, 10 761 teachers are due to retire by 2023 - around 11% of the current work force. In some subjects, where the majority of teachers are over 50, the shortage is already evident. According to the 2018 OECD Teaching and Learning International Survey (OECD, 2019c), 22% of teachers report a strong training need for teaching in a multicultural or multilingual setting, and 12% for the use of information and communication technologies (ICT) in teaching.

**Tertiary attainment is increasing, although many students leave tertiary studies without graduating.** Higher education enrolment increased in 2018-2019, particularly in short term technical and professional training (DGES, 2019). However, only 30% of students who enter a bachelor programme graduate within three years (the expected duration of the programme for most fields). The government has taken a range of measures designed to ease the access to higher education and broaden enrolment: reducing fees, increasing the scholarship budget, improving access conditions for students with special education needs and exempting them from tuition fees, providing more housing facilities, and increasing the number of university places available in less densely populated areas.

**Educational performance differs between the autonomous regions of Madeira and the Azores and mainland Portugal.** Historically, both archipelagos have lagged behind the mainland

([32]) OECD 2019 Education at Glance

([33]) The coverage rate means the proportion of pre-primary school places in relation to the population of children aged below three

([34]) Namely, the metropolitan areas of Lisbon and Porto and the district of Setúbal are the territories with the least coverage compared to the resident population.

([35]) ISCED 1-3 corresponds to primary and secondary general education

Portugal in several education indicators. Access to early childhood education is much lower in Azores than on the mainland. The percentage of students with some delay in their educational path and the rates of early leavers from education and training are higher in the islands than on the mainland. The same pattern holds for results in the national exams in basic education. Madeira's secondary school enrolment and national exam results are fairly similar to those of mainland Portugal, but those of the Azores are worse.

**Portugal continues to improve its mechanisms for quality assurance in vocational education and training (VET) and its analysis of skills needs.** VET providers have been aligning their quality assurance approaches to the European quality assurance in vocational education and training (EQAVET) framework and are awarded a quality label based on EQAVET quality criteria and indicative descriptors. However, EQAVET indicators are not systematically used to monitor progress in the VET system. Further development at regional level of the system for assessing skills needs (*Sistema de Antecipação de Necessidades de Qualificações*, or SANQ), is important to bring VET and employers closer together. By adopting three pedagogical training standards, Portugal intends to improve the quality of continuing professional development for VET teachers and trainers. The Portuguese authorities have engaged in discussions with social partners with a view to tackling several problems: the structural lack of qualifications (digital skills included), the need to improve qualifications for specific sectors of the economy and the further adjustment of available skills and labour market demand. Nevertheless, a comprehensive monitoring framework for VET and adult learning is still lacking.

**The Portuguese population has a high share of individuals with low educational attainment.** Despite a decrease from 2017 to 2018 (52% to 50%), half of the population (aged 25-64) has no more than lower secondary education, far above the EU average (22%). The adult participation rate in education and training rose from 9.8% to 10.3% in 2018 but still lags behind the EU average (11.1%). This share decreases dramatically when looking at the participation of people with a low level of educational qualification (4.7%) although it is slightly higher than the EU average (4.3%). Portugal's projected demographic changes ([36]) are expected to influence the size of the country's labour force and will probably also affect its distribution by level of education (European Commission, 2019h; Box 4.3.2).

**Developing a coherent strategy for adult learning remains a major challenge.** In 2019, the National Education Council issued a recommendation for a public policy on adult education and training as a complement to the *Programa Qualifica*. However, 'adult educator' still needs to become a recognised, attractive and long-term career option, supported by specialised courses and specific academic degrees. A national adult literacy plan was developed in 2019, following the recommendations of the national skills strategy, backed by the Commission's Structural Reform Support Programme and the European Association for the Education of Adults (EAEA). The plan defines a set of measures to promote literacy, numeracy and digital skills. Its implementation timeline has not yet been finalised. Adopting measures to reinforce adult education would contribute to advancing towards SDG 4.

**The *Qualifica* programme numbers continue to increase, but follow-up data remain limited.** Over 444.000 adults were involved up to December 2019 (far from the 2020 target of 600.000). The referral rate is now close to 84% and among these over 60% went to VET offers. Around 51,600 people have so far improved the level of their educational attainment through *Qualifica*. However, there are no detailed follow-up data on the type of training offered or on subsequent developments in employment. This type of information is crucial to assess how effective the programme is in tackling skills mismatches. Some improvements to the *Qualifica* programme were made in 2019 including increasing the network's response capability, a new *Qualifica* programme for public administration, and a *Qualifica* for small and medium firms, designed to raise the level of qualification of business owners with more autonomy given to training providers to adapt VET programmes to local needs.

([36]) The 2019 Ageing Europe report projects that almost half of the Portuguese population (47.1%) will be aged 55 years or more in 2050.

**The digital skills deficit remains a major obstacle for Portugal.** In 2019, 48% of the Portuguese population lacked basic digital skills, including about 26% with no digital skills at all. This is mainly because many people have never used internet, more than twice the EU average (22% and 9.5% respectively). Access to internet varies greatly depending on regions in Portugal. While in the Lisbon metropolitan area 88% of households have access to the internet, in other parts of Portugal such as in Alentejo (71%) and in Algarve (77%) it is much lower. The share of information and communication technology graduates in the total graduate pool remains significantly lower than the EU average (1.9% and 3.6%, respectively).

**Several initiatives for improving digital skills and competences have continued over the past year.** Most of these were implemented through the country's national digital competences initiative *INCoDe.2030*. The joint initiative with .PT and MUDA (Movement for Universal Digital Activity), *#EUSOUDIGITAL* promoted digital awareness and inclusion through national roadshows. In 2019, Portugal launched the digital competence reference framework, a new instrument to allow the Portuguese population to assess their digital competences and their development needs. To improve digital qualification, Portugal successfully implemented information and communication technology training programmes for unemployed graduates.

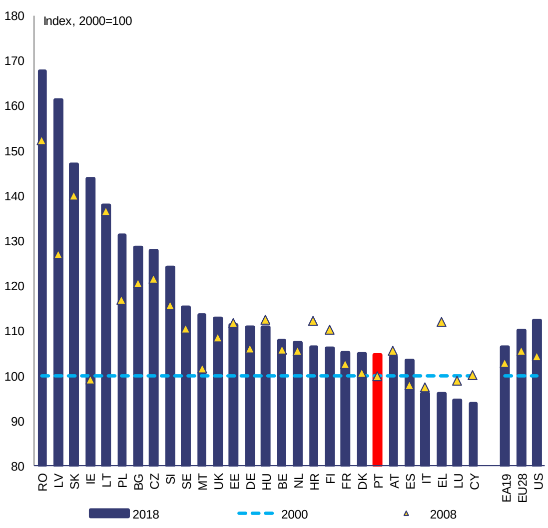
# 4.4. COMPETITIVENESS, REFORMS AND INVESTMENT*

## 4.4.1. PRODUCTIVITY GROWTH AND INVESTMENT*

### Productivity and Investment

**Productivity growth remains sluggish, limiting the economy's potential growth and the process of convergence with the euro area**. In 2018, labour productivity growth decreased in manufacturing, while increasing by 1.1% in services, in this way interrupting a continuous productivity drop since the crisis. In contrast, total factor productivity (TFP) has been growing faster than the euro area average since 2012. TFP growth has slowed down compared with previous years; hence, the overall feeble productivity evolution is the result of both a significant drop in the capital per worker ratio and an insufficient TFP performance. Capital intensity has dropped under the joint impact of a cyclical upturn in employment and a slow recovery in investment.

Graph 4.4.1: **Total factor productivity**



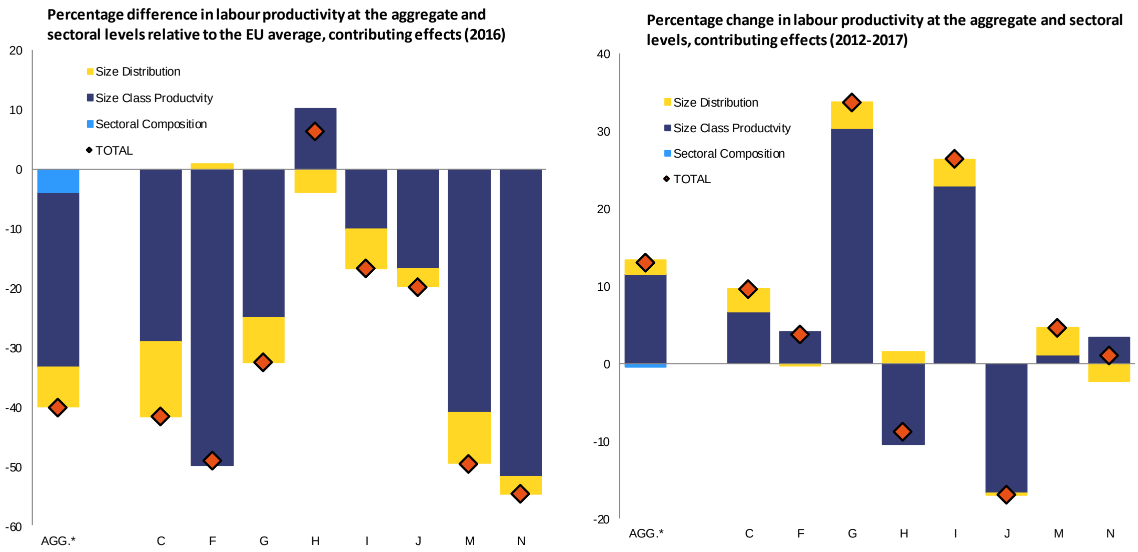

***Source:*** European Commission

**Productivity performance differs across types of firms and sectors of the economy.** Between 2012 and 2015, growth in both labour productivity and TFP was concentrated in the most productive firms. Hence, the gap between the most productive and the least productive firms widened. At the sectoral level, the highest negative impact of firm size distribution on productivity is observed in manufacturing, wholesale and retail trade, accommodation and food services, and professional activities (Bauer et al., 2020). According to the National Statistical Institute, between 2015 and 2017 the value added generated by high growth enterprises increased by 24.9%, more than double the rate for other firms, which reflects the entrance (and dynamism) of new firms and the increase of the export based share.

**Investment is increasing from a low base, with net private investment turning positive, but with public investment remaining subdued**. The ratio of investment ([37]) over GDP was 17.6% in 2018 (16.8% in 2017), the highest since 2012. Despite this increase, the ratio remains one of the lowest in the EU. In 2018 net private investment turned positive, while the share of public investment in total investment reached 11%, one of the lowest in the historical series. In this way, public investment remains well below EU standards and government plans (see Section 4.1.3.). In addition, net public investment remained negative, contributing to the gradual erosion of the public capital stock. Targeted public investment could fuel productivity growth through improved human capital and technological innovation and generate a crowding-in effect by providing relevant infrastructure for additional private investment.

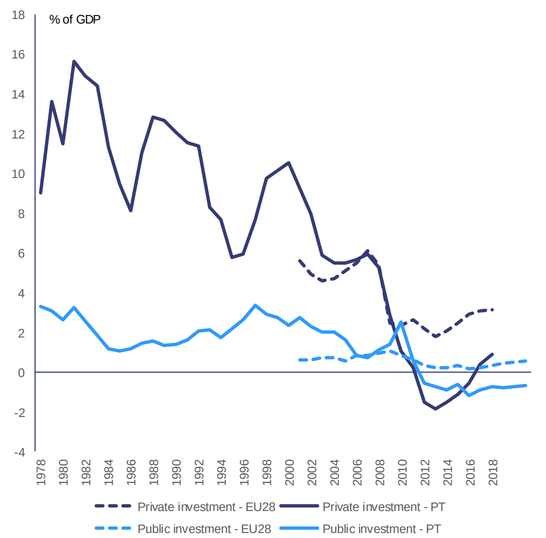
([37]) Eurostat data. Investment defined as gross fixed capital formation (total fixed assets) as % of GDP.

Graph 4.4.3: **Labour productivity at the aggregate and sectoral levels**




(1) AGG: representative aggregate of the market economy; it includes NACE sections C, F, G, H, I, J, M and N.
***Source:*** Bauer et al., forthcoming.

Graph 4.4.2: **Historical evolution of net investment**




***Source:*** European Commission

**Several barriers are holding back productivity growth and firms' investment.** In its first report, the Portuguese Productivity Board *(Conselho para a Produtividade*, 2018) identifies as main factors hindering productivity growth the low level of qualification of the workforce (particularly for older workers and managers), poor innovation in the private sector and poor interaction between firms and public administration. According to the latest Survey on Framework Regulation Costs performed by the Portuguese Statistical Institute based on 2017 data, the long duration of trials in the justice system and licensing are the major barriers to investment. Additional barriers refer to the low levels of capital accumulation, the higher share of micro-enterprises (95.4%) compared to EU average of 93%, and the existence of regulatory hurdles in key professional services. In addition, according to the 2019 EIBIS Survey (European Investment Bank, 2019) the main barriers to investment are uncertainty, business regulations, energy costs, labour market regulations and shortages of skilled staff.

**Exports are increasing but there is potential to foster the internationalisation of small and medium enterprises (SMEs).** Export performance has been instrumental in rebalancing the economy, together with the increasing stock of foreign direct investment. Exports as share of GDP increased from 31.2% in 2007 to 43.5% in 2018 (euro area average 48%). Exports have been underpinned by both diversification and quality upgrading in manufacturing. Despite ongoing policy initiatives, the internationalisation of SMEs remains below its potential (European Commission, 2019e).

**Access to finance has deteriorated slightly, and alternative sources of finance, while improving, remain of moderate relevance.** Access to finance has deteriorated slightly compared to the previous year (SBA Factsheet 2019), mainly on account of the deterioration in the strength of the legal right index, the total duration in days to get paid, the rate of rejected loan applications, and the willingness of banks to provide loans. The share of SMEs reporting difficulty in accessing loans remains relatively large (10%) (SAFE survey, 2019). On the other hand, the number of venture capital transactions was 4.4 times higher in 2018 than in 2017, but venture capital only represents about 1% of investment in Portuguese firms. In addition, the overall amount of venture capital funnelled to start-ups remains one of the lowest in the EU (Flachenecker et. al, 2020). Direct stock listings of SMEs are rare as well as providers utilising financial technology ('FinTech') (OECD Economic surveys, 2019). This is despite measures taken by Portugal in 2018 and the first quarter of 2019, such as the creation of a legal regime for the conversion of credits into equity.

### Research and innovation

**R&D intensity remains below the EU average, with Portugal being a moderate innovator.** R&D intensity increased to 1.35% in 2018, still below the pre-crisis level of 1.58% of GDP. Business R&D intensity, at 0.69% of GDP is higher than public R&D intensity (0.64% of GDP) in 2018 but remains low. The government announced (Portuguese Government Programme 2019-2023) an objective of R&D investment of 3% of GDP by 2030, but specific performance indicators in R&D are yet to be announced.

**Subdued investment in intellectual property, intangible assets, including R&D and economic and digital competences weigh on productivity.** Investment in intellectual property is well below the euro area average and close to pre-crisis levels. In addition, the contribution from intangible investment to productivity growth is below average (0.13% vs. 0.19%) (Bauer et al., 2020). The same applies to investment in training and organisational capital as a share of GDP (European Commission, 2018b). Moreover, the share of investments to ICT in GDP has declined since 2000. These developments undermine the productivity of firms and their capacity to reap the benefits from digitalisation. The *Qualifica* scheme for upskilling of the population, the INCoDe.2030 national strategy to enhance digital competences, and "Industry 4.0" are the main initiatives in place to address these challenges, which would lead to progress on SDG 9.

**Portugal's economic structure remains anchored in traditional low- and medium-low-tech sectors, pointing to slow structural change**. There has been limited progress with upgrading the country's economic structure to achieve higher shares of value-added in high-tech manufacturing and services. Although exports of medium- and high-tech products remain low, they have continued to improve relative to the EU average, going from 48% in 2010 to 58% in 2018 (Godinho, M., Corado Simões, V. and Sanchez-Martinez, M., 2020). In addition, investment in machinery and equipment is now rising again.

**Portugal has the potential to address the needs of the labour market and improve research careers.** According to the 2019 European Innovation Scoreboard, Portugal has made progress in increasing the number of science and engineering graduates. Levels are now above the EU average and the share of researchers in total employment has increased. Yet, the country ranks low in the EU in terms of computing graduates. To improve research careers, the scientific employment programme includes the SIFIDE fiscal incentive and the INTERFACE scheme.

**There are new measures designed to tackle shortcomings in science-business links.** Despite the increasing internalisation of its R&D sector, Portugal ranks low relative to the EU in public-private scientific co-publications (European Commission, 2019g). To improve the framework conditions for collaboration, the INTERFACE scheme is designed to strengthen the country's cluster policy for innovation. Moreover, 'Portugal 2020' launches calls for co-promotion projects. Within *Capitalizar*, a more flexible regime for tax credits is being implemented, and SMEs now have an extended carry-forward period of twelve years.

**Portugal strives to integrate the smart specialisation and environmental sustainability agendas.** Portugal is supporting internationalisation and science-business cooperation in the circular economy and improving the implementation of its national and regional smart specialisation strategies. However, as concerns the latter, cooperation between the national and regional levels, along with a lack of smart specialisation skills among public and private actors, lead to governance bottlenecks. In addition, their monitoring is limited and does not measure innovation outcomes. To circumvent some of these challenges, Portugal has started to review its approach, with an emphasis on priorities for research and innovation investment and better coordination of national and regional strategies.

### Digitalisation of Industry

**The digitalisation of the Portuguese industry is a challenge, but measures to help companies integrate digital technologies are being implemented.** Portugal is above EU average on the integration of digital technology into business, but SMEs are lagging behind larger firms (24% of SMEs - excluding microenterprises - have high levels of digital intensity vis-à-vis 60% of larger firms). In 2019, the share of companies selling online decreased to 16.5% (EU average 18%) and the share of e-commerce in corporate turnover increased to 15% (EU average 11%). The first phase of *Industria 4.0* was completed with 95% of measures completed or under implementation. In 2019, the second phase started with a funding of €600 million and three main objectives: reskill, upskill and train over 200,000 workers, promote digital transition in over 20,000 firms and scale up over 350 projects.

**Portugal is committed to the development of innovative digital technologies**. With the strategy on *Artificial Intelligence Portugal 2030*, the country is aiming to be at the forefront of education on artificial intelligence. In addition, the strategy on *Advanced Computing Portugal 2030* aims at promoting and expanding advanced cyberinfrastructure until 2030. In 2019, Portugal inaugurated its first supercomputer (start of the participation in the European High-Performance Computing initiative) and a second is expected by the end of 2020.

## *Box 4.4.1:* **Investment challenges and reforms in Portugal**

### Section 1. Macroeconomic perspective

Portugal's gross fixed capital formation accelerated substantially at the beginning of 2019 driven mainly by infrastructure construction projects. On a full-year basis, gross fixed capital formation is projected to increase by 6.5% in real terms, picking up from 5.8% in 2018. Investment growth is forecast to slow down somewhat in 2020-2021 but to remain strong, supported by the cycle of EU funds. The share of investment in GDP has increased from a historical low of 14.8% in 2013 to 17.6% of GDP in 2018 and is set to rise further to 19.6% by 2021. Portugal's public investment has nonetheless been subdued for a prolonged period, after sustaining very high levels during the first decade of the 2000s. While it is set to continue on the gradually increasing path initiated in 2017, after its lowest level in 2016, the projected share of public investment in GDP, at 2.3% of GDP by 2021, would remain significantly below the average of around 3% for the euro area and the EU as a whole.

### Section 2. Assessment of barriers to investment and ongoing reforms

| | | |
|---|---|---|
| Public administration/ Business environment | Regulatory/ administrative burden | CSR |
| | Public administration | |
| | Public procurement /PPPs | |
| | Judicial system | CSR |
| | Insolvency framework | |
| | Competition and regulatory framework | |
| Labour market/ Education | EPL & framework for labour contracts | CSR |
| | Wages & wage setting | |
| | Education, skills, lifelong learning | CSR |
| Financial Sector / Taxation | Taxation | |
| | Access to finance | |
| R&D&I | Cooperation btw academia, research and business | |
| | Financing of R&D&I | CSR |
| Sector specific regulation | Business services / Regulated professions | CSR |
| | Retail | |
| | Construction | |
| | Digital Economy / Telecom | |
| | Energy | CSR |
| | Transport | CSR |

| | |
|---|---|
| | No barrier to investment identified |
| CSR | Investment barriers that are also subject to a CSR |
| | No progress |
| | Limited progress |
| | Some progress |
| | Substantial progress |
| | Fully addressed |

Various factors hinder investment in Portugal. The low level of qualification of the workforce, especially in digital skills, makes it more difficult to boost investment in knowledge-intensive activities (Section 4.3). Investment gaps in infrastructure, particularly as regards transport and energy, make Portuguese firms less competitive (see Section 4.4). Other challenges to competitiveness include regulatory barriers in business services (see Section 4.4.2), and aspects of the business environment, in particular sector-specific barriers in licensing and inefficiencies in the justice system (see Section 4.4.4).

The EU supports investment in Portugal also via the European Fund for Strategic Investments (EFSI). By December 2019 total financing under the EFSI amounted to €2.7 billion, intended to trigger €10 billion in additional investments.

The current experience with the EU financial instruments and the EFSI budgetary guarantee demonstrated a need for simplification, streamlining and better coordination of the EU's investment support instruments during the next 2021-27 programming period. By the end of 2020, EFSI and other EU financial instruments will come under the roof of the new InvestEU programme that promotes a more coherent approach to financing EU policy objectives and increases the choice of policy implementation options and implementing partners to tackle country specific market failures and investment gaps. In addition, under InvestEU, Member States can set-up a national compartment by allocating up to 5% of their structural funds to underpin additional guarantee instruments supporting the financing of investments with a higher level of local specificities. InvestEU will be policy-driven and focus on four main areas: Sustainable Infrastructure, Research, Innovation, and Digitisation, Small Businesses, and Social Investment and Skills.

*(Continued on the next page)*

**Main barriers to investment and priority actions underway**

The low level of qualification of the workforce inhibits the prospects of improving productivity. Portugal is implementing several policies to improve skills, notably through the *Qualifica* programme. The country has also recently developed a new national adult literacy plan. In the area of digital skills, policy initiatives include *INCoDE 2030*, the digital competence reference framework, and *Capacitar i4.0*.

Improving the efficiency of the justice system, particularly as regards insolvency proceedings, has the potential to improve the efficiency of credit allocation and facilitate a better reallocation of productive resources. Portugal is implementing reforms to the legal and institutional framework for insolvency and debt enforcement, such as an extrajudicial regime for business recovery, and a legal regime for debt-to-equity swaps. Other measures designed to improve judicial efficiency include a new law under which legal chambers specialising in administrative and tax matters can be set up, and various e-justice initiatives, notably the *Justiça + Próxima* programme and the amendment of the Code of Civil Procedure to enable the 'digital by default' approach in civil proceedings.

### 4.4.2. MARKETS' INTEGRATION*

#### Single market of goods

**The low level of notifications under the Single Market Transparency Directive could have a negative impact on the overall functioning of the single market.** The Single Market Transparency Directive (Directive (EU) 2015/1535) aims to prevent barriers to the free movement of goods and information society services via a notification mechanism of national draft technical regulations. Compared to most Member States, Portugal sent very few notifications under this Directive (two in 2018 and four in 2019). Adoption of technical regulations without notification could harm Portugal's integration in the single market and its related economic benefits. Some steps were taken to improve administrative cooperation among national authorities but so far without concrete follow up.

**The limited resources of the national standardisation system are negatively affecting the functioning of the single market, and the competitiveness of SMEs in manufacturing.** Portugal's, the national standardisation body, the *Instituto Português da Qualidade (IPQ)*, is limited in its work by serious resource constraints and thus is not able to fully comply with its role of providing information on and facilitation of access to standards for SMEs. In addition, it is difficult for IPQ to promote and facilitate the involvement of Portuguese firms in the development of European harmonised standards and to make them available in Portuguese language. These limitations in the IPQ's work create obstacles to the accessibility and use of European harmonised standards by companies, generating additional costs (e.g. for translation, for consultancy services and for external conformity assessment services) and making it more difficult for companies to anticipate and prepare for future changes that have an impact on their production systems.

#### Services sector

**Regulatory barriers continue to restrict competition for professional and business services.** The framework law of 2013, which formed part of the financial assistance programme, intended to simplify rules and regulations applicable to highly regulated professions. This law was not fully implemented, and various regulatory barriers to legal services remain. Restrictions to multidisciplinary practices (lawyers and *solicitadores*), legal form (*solicitadores*), shareholding (51% for lawyers and 100% for *solicitadores*), management (*solicitadores*) and advertising (lawyers and *solicitadores*) could be detrimental to the legal services market. They may limit firms' access to capital, reduce economies of scale and scope, and restrict competition. Redesigning these requirements with a view to ensuring the required quality of the service, while stimulating innovation and competition, would therefore be economically beneficial. Extensive reserves of activities for other highly regulated professions, notably architects and engineers also remain unreformed, keeping out competitors wishing to provide ancillary services. A ban on groups of companies in the field of regulated professions ([38]) prevents such companies from growing and foreign groups of such companies operating in Portugal.

**As underpinned by several indicators, the restrictiveness of regulation is higher than EU average for several professions.** This is the case for accountants and civil engineers and it remains high for others, such as lawyers, according to the Commission's Reform Recommendations of 2016 (COM(2016) 820 final) and the 2018 OECD Product Market Regulation indicators. The Portuguese authorities have so far not followed up on the 2018 OECD and Portuguese Competition Authority study (OECD 2018) on highly regulated professions, which suggested reforms in the scope of reserved activities, and in restrictions on legal form, shareholding, management, advertising, and multidisciplinary restrictions and incompatibility rules ([39]). The Government Programme 2019-2023 states that these recommendations will be followed but the exact scope of the action to be taken and its timeframe are yet to be defined.

**Barriers to competition in construction services remain, leaving scope for reducing regulatory burden**. Market access for construction services in general was significantly simplified in 2015. However, administrative charges and fees imposed for licensing, registrations and regulatory supervision remain high. Construction services in specific segments of the market (notably water/sewage, alarm installations, electrical, gas and telecom installations) remain burdened by complex authorisation schemes (Ecorys, 2018). Building permits could be simplified through a more homogeneous application across the country of broad planning and urban law criteria, as well as through an even more ambitious recourse to 'responsible declarations' for installation services, as was done recently for electrical and gas installations. A general adoption of 'performance-based' building standards has been planned for years but has yet to be implemented, thus restricting cross-border movement of construction goods and services.

**The retail sector is performing well overall, but burdensome administrative and taxation elements remain.** Increasing consumer spending brought along by economic growth has been fuelling retail sales, and retailers continue to invest in this growing market, especially in smaller format convenience stores and in online retail services. Regulatory constraints on retail business have decreased in Portugal in recent years, owing to reforms such as the liberalisation of shop opening hours or the relaxation of end-of-season sales rules. Nevertheless, some aspects of the regulatory and taxation frameworks could still be burdensome for companies. In particular, as reflected in the Retail Restrictiveness Indicator ([40]), retail-specific taxes and para-fiscal fees, based on the outlet size, for the establishment or operation ([41]) of a shop are applied in Portugal. As regards the establishment of retail outlets, there seems to be scope for simplification of authorisation procedures, i.e. reduction of the number of permits required and the number of entities involved in the establishment process.

### Transport services

**Railway interoperability is still a major bottleneck for Portugal**. Railways are still widely underused in the connections to Spain (both East-West and North-South corridors). Nevertheless, actions regarding railways modernization in cross border regions are starting to be articulated between the two countries, which have adopted a common strategy to address the gauge issue. However, a comprehensive and coordinated medium and long-term strategic investment and modernization plan for the Iberian Peninsula and further connection to the French rail network is still missing. Such a plan could boost the international rail performance thereby tackling Portugal's peripheral situation and exploiting the potential of Portuguese ports, so far harmed by a 'road-only' model.

([38]) Article 8(4) of Law 53/2015 (Framework Law for highly regulated professions) prohibited a professional firm (parent company) from owning shares (as a professional) in more than one professional firm (subsidiary), thus restricting severely secondary establishment by banning corporate groups with no apparent justification

([39]) The study covered 13 self-regulated professions: lawyers, solicitors, bailiffs, notaries, engineers, technical engineers, architects, auditors, certified accountants, customs brokers, economists, pharmacists and nutritionists.

([40]) See the Commission's Communication "A European retail sector fit for the 21st century" COM(2018) 219 final, and its Annex and accompanying Staff Working Document

([41]) "Taxa de Segurança Alimentar Mais (TSAM)".established through Decree-Law No. 119/2012, on 15 June 2012

**Railway investments face delays.** The main projects under the 2020 Ferrovia programme that are co-funded by the Connecting Europe Facility face delays with origin, in most cases, in the design and construction industries lack of response in the post crisis period, which in some cases cannot be entirely made up for. The investment situation has improved when compared to the 2007-2013 period, when most grant agreements had to be cancelled, but it is still sub-optimal. Railway investments are key for Portugal to attain its decarbonisation targets and ensure neutrality of its emissions by the end of 2050 (2050 Carbon Neutrality Roadmap).

**Regulatory barriers and long-lasting concessions hold back competition in the management of ports and in the provision of ports' services.** According to a study conducted by the OECD and the Portuguese competition authority in 2018 (OECD, 2018a), the maritime transport sector in Portugal suffers from excessive regulations with barriers to entry, administrative burdens and legal uncertainty stemming from obsolete legislation. The port and maritime sector are particularly important for the Portuguese economy, hence relaxing such barriers could stimulate investment and reduce the price of services as result of increased competition. Key recommendations of the OECD and the Portuguese competition authority stress the need to broaden the participation of private services providers in the port sector, for services such as towing, pilotage and ancillary port services, along with redesigning the concessions for cargo handling operations, in particular by making the duration of the concessions proportional to the level of investment incurred by the concession-holder.

**The renegotiation of port concessions is progressing slowly and there are investment gaps in some key Portuguese ports**. The Leixões port concession has been renegotiated and the renegotiation of the Alcântara and Sines concessions is ongoing. However, most port concessions in Portugal will come to an end by 2025 and have not yet been renegotiated or re-tendered. The re-tendering of these concessions by means of public tenders could help make Portuguese ports more productive. Ports are also facing investment gaps, and development of new container terminals could increase their economic potential.

**The development of the new container terminals in Sines and Barreiro remains a priority**. Investments in the new container terminal in Sines (Terminal Vasco da Gama) and the expansion of the existing terminal XXI will increase the economic potential of Sines. The timely public tendering of the new container terminal in Barreiro will improve the competitiveness of the Lisbon port system.

### Digital connectivity and broadband infrastructure

**Portugal performs well in the deployment of fast and ultrafast broadband connectivity**. An additional effort is still required to ensure that fast broadband (by 2020) and ultrafast broadband (by 2025) reaches all households ([42]), including those in rural areas. Mobile broadband prices remain a challenge ([43]). The context is a market dominated by convergent bundles, including mobile services and pay TV services and characterised by increasing internet access speeds (supported by the deployment of the Fiber to the Premises (FTTP) networks) where price increases in the flagship-bundled products of the main operators are generally linked to different improvements. The rollout of 5G will depend on the implementation of the 5G strategy and on the prompt completion of the 700 MHz award procedures. While Portugal plans to auction them and the 3.6 GHz in April 2020 and Portuguese independent regulatory authority for communications (ANACOM) already approved the migration plan of the digital terrestrial television (DTT) for the 700 MHz band ([44]), an operator holds rights for use for about 100 MHz in the 3.4 – 3.6 GH band until 2025. This may pose some difficulties in the reorganisation and availability of the band within the deadline of December 2020.

**The submarine cables connecting mainland Portugal, the Azores and Madeira are expected to reach the end of their life in 2024 and 2025**. At the end of 2019, ANACOM delivered to the Portuguese Government an analysis of the most suitable technical and financial configuration for the project. The replacement of these submarine

([42]) Fast broadband: of at least 30 Mbps; ultrafast broadband: of at least 100 Mbps
([43]) See the Commission's study on fixed broadband prices in Europe (2018)
([44]) ANACOM decision of 23 December and 4 October 2019

interconnection cables represents a critical investment to ensure the economic development of these outermost regions and to guarantee that their citizens can benefit from adequate communications and access to public and private digital services.

### 4.4.3. REGIONAL DISPARITIES

**Portugal continues to be marked by significant territorial disparities.** Territorial differences are mainly driven by geography and the historical distribution of the population, and are particularly reflected in the coastal/inland dichotomy. Approximately 60% of the population is concentrated in the coastal areas of the country (0-25km, rising to almost 70% if we consider the 0-50 km range). 44% of the population lives in the metropolitan areas of Lisbon and Porto, where more than half of country's added value is produced ([45]). The inland regions of mainland Portugal are overall characterised by a higher proportion of the primary sector in the economy (e.g. in regions Douro and Terra de Tras-os Montes employment in agriculture accounts for 45% of total employment, vs. 9% at national level). Furthermore, fewer and smaller urban areas and lower population density (very low ([46]) in the mountainous border regions of Norte and Alentejo) characterise these territories.

**The risk of poverty remains higher in rural areas and particularly in the outermost regions.** The proportion of people at risk of poverty or social exclusion in Portugal is significantly larger in rural areas than in cities with a larger gap than the EU average and thus in the inland areas, where up to 50% of the population lives in predominantly rural areas.Recent data (INE, May 2019, *Inquérito às condições de Vida e Rendimento)* show that residents of the autonomous regions were more exposed to the risk of poverty (31.6% in the Azores and 27.5% in Madeira, using a national poverty threshold as the benchmark) ([47]). In absolute terms, most people at risk of poverty in 2017 lived in the region of Norte (664,000),or Centro (415,000) or in the capital region (348,000). Considering national poverty lines, only the capital region, with a rate of 12.3% had a significantly lower rate than the national value (17.3%). Nevertheless, if regional poverty lines are considered, the risk of poverty of the capital region increases to 18.9%, the data confirming that pockets of poverty and social exclusion persist in particular in the metropolitan areas.

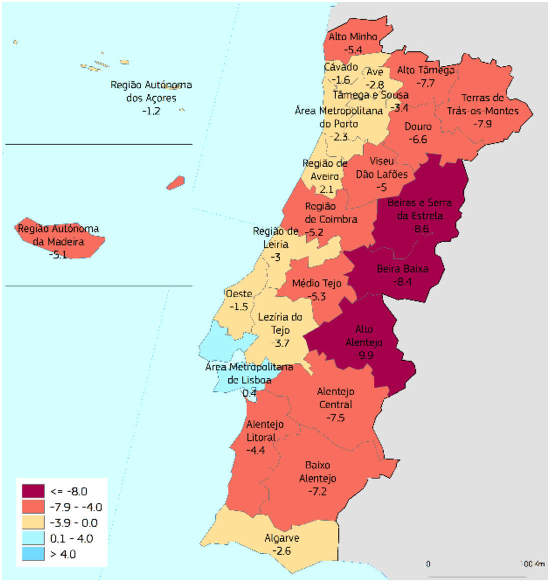
**Long-term demographic changes are aggravating territorial asymmetries.** Between 2011 and 2018 the overall population decreased in all the regions with the exception of the metropolitan area of Lisbon. (Graph 4.4.4). This goes hand in hand with the rural-urban shift occurring across Portugal, resulting in rising urban populations in coastal areas and expanding conurbations. The number of inhabitants is decreasing, especially in rural and smaller urban areas of the Norte, Centro and Alentejo regions, making them less attractive for business and increasing the cost of maintaining the level of public services. In the inland territories, the old age dependency ratio reached the highest values (INE, 2018), and this asymmetry is particularly evident in Alto Tamega, Terras de Trás-os-Montes (Norte) and the Beira Baixa and Beiras e Serra da Estrela (Centro) subregions. In contrast, the outermost regions have values below the national average

([45])https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_indicadores&contecto=pi&indOcorrCod=0008485&selTab=tab0&xlang=pt

([46]) Pop. Density lower than 8 inhab./km²

([47]) Approximately €3.5 billion addressed to low density areas, (fact finding mission).

Graph 4.4.4: **Total population change in NUTS3 regions, 2011-2018 (% change)**




***Source:*** Eurostat

**Against this demographic background, access to quality public services is even more important to guarantee citizens' fundamental needs and maintain a high- quality of life.** Providing small and medium-sized urban centres with collective facilities and services, and a quality transport network that will guarantee rural populations access to these services will reinforce the strategic dimension of these centres, in particular in rural areas.

**EU cohesion policy plays a fundamental role in supporting public investment and strengthening economic, territorial and social cohesion in the Portuguese regions and this is even of greater relevance in the inland areas of the country.** To this extent, a list of 165 municipalities and specific areas of 21 additional municipalities has been set on the basis of a multi-criteria approach, taking into consideration demographic trends, accessibility criteria and social and territorial characteristics (CIC, 2015). To address their specific needs, specific calls for projects, positive discrimination in the projects' selection criteria and augmented EU financial support have been agreed to focus EU support in these areas of the country.

## 4.4.4. INSTITUTIONAL QUALITY*

### Administrative simplification and business environment

**Administrative simplification is ongoing, mainly through new measures of *SIMPLEX+* programme**. The *SIMPLEX+* programme is Portugal's main policy tool to reduce administrative burden; it has helped to implement multiple e-government initiatives across areas of the administration, including justice and home affairs. The once-only principle is also being significantly extended in scope and practical impact and the harmonisation of inspection procedures has produced relevant administrative simplification. The external evaluation of 40 measures of the 2017/8 *SIMPLEX+* reported savings of about €174 million  in dealing with information obligations The 119 measures of *SIMPLEX 2019* are under way and due to be completed in 2020. A new financing portal has been implemented, bringing together all the possibilities of public financial support to firms in an easy and tailored way. Other measures include a number of platforms merging data collection processes to ensure that data is provided only once (for example, for data on work contracts and remunerations), innovative means of payment for public services, a cybersecurity self-assessment tool, and measures to simplify certification and e-certification of SMEs. Yet, the time to deal with taxes remains higher than in most European countries. Portugal is also introducing a new early warning system for companies in financial difficulty to prevent avoidable bankruptcies, expected to be operational in early 2020.

**However, neither *SIMPLEX+* measures, nor other programmes, have advanced substantially in addressing licensing and excessive sector-specific burden.** Multiple administrative burdens arise from excessive recourse to authorisation schemes, often with long decision deadlines and sometimes no tacit approval, beyond few exceptions of reduced impact (such as the recently reformed certification scheme of pressure equipment). Document-producing requirements are becoming easier to comply with as the once-only principle develops. However, significant gains in administrative simplification could be achieved at a sector-specific level if the prior control paradigm were replaced by a 'responsible declaration' approach, followed by efficiently-run inspections and supervision.

**Regulatory impact assessment (RIA) still has further potential to reduce administrative burden and to optimise policy design**. RIA has been carried out in Portugal in the framework of the *Custa Quanto?* Programme**.** RIA covers impacts on businesses, including the SME test, and since 2018, on citizens. RIA processes are coordinated by Technical Unit for Legislative Impact Assessment (UTAIL), and ministries carry out RIAs for legal acts or proposals in their respective fields, currently mainly ex-ante analyses, with further developments ongoing regarding ex-post RIA, and also including EU legislation. UTAIL's activity report for 2018 confirmed an increased level of RIA activity across the different policy departments. Coordination and other RIA processes have been strengthened, but the focus is still largely on costs. Identification of policy options, cost-benefit analysis, and more extensive monitoring how RIA process affected policy design, are lacking. Additionally, RIA could be made more effective by ensuring more stakeholders' involvement, in particular by consulting SME stakeholders at both the initial and later stages of drafting new legislation, and analysing how the RIA process has contributed to make legislation more business-friendly. Currently, UTAIL is carrying out a project with the OECD supported by the Structural Reform Support Programme to improve RIA, which includes work on a revised SME test which is due to be completed in 2020. An online portal (*ConsultaLEX Portal*) has been set up to engage stakeholders in the preparation of new legislation.

**Late payments, despite improvements, are a critical issue in Portugal.** Average payment delays to suppliers in the public sector are slowly, but steadily improving. For 2018, the overall figure was 59 days, while in the first quarter of 2019, this figure went down to 58 days. Nevertheless, there are still many areas where this indicator remains excessive, such as the health sector (SNS – Unidades de Saude EPE, where the average delay in the first quarter 2019 was 228 days) or some administrations of the central state (for example *Gestão Administrativa e Fianceira da Cultura* - 545 days) and the Azores region (122 days). According to the latest SAFE Survey, 40% of Portuguese SMEs experienced late payments in commercial transactions in 2019. In terms of impacts, 21% SMEs delayed payments to their own suppliers, 15% cut on new hiring and investments, 11% reduced production and operation, and 10% delayed loan repayments and needed additional financing.

## Digital public services/e-government

**Portugal is adopting relevant measures to continue to modernise public services with the help of digital technologies and is one of the leaders in the EU in this area.** *Estratégia TIC 2020*, the strategy for digital transformation of the Public Administration, is promoting effectively the use of information and communication technologies for administrative simplification and public service improvement. The share of e-government users, individuals aged 16-74 having sent filled forms to public authorities over the internet during the last 12 months, has increased significantly over the last years to 70% in 2019. The latest initiatives in this area include the signature of the Digital 9 (D9) charter,; the launch of the ePortugal portal as the central repository for all public services dedicated to citizens and companies; and the launch of the mobile medical electronic prescription, allowing the creation of medical prescriptions using a smartphone ([48]). Despite this progress, the successful uptake of digital public services is limited by the use of internet services. In 2019, the share of people who have never used the internet was 22%, more than twice the EU average of 9.5% (see section 4.3).

## Public procurement

**Competition in public procurement procedures has increased**. Since the entry into force of the new public procurement code in January 2018 there has been a reduction of direct awards. From January 2019 to September 2019, the number of direct award procedures fell by around 12% in comparison with the same period in 2018 while the same holds true for the value of the contracts which fell by around 20% (data from the dedicated online procurement platform BASE). The participation of SMEs in the public procurement procedures increased by nearly 3.5% compared to

([48]) See the report 'Digital Government Factsheets 2019' by the National Interoperability Framework Observatory.

2017 which, in turn, led to an increase of nearly 4% in the number of public contracts obtained by SMEs (data from national eTendering platforms).

**However, shortcomings in the coordination, governance and planning stage still hamper efficiency and competition in public procurement**. The lack of appropriate, structured and quantified plans that would enable contracting authorities to reinforce ex-ante control mechanisms and the absence of adequate training and professionalisation that would allow the use of more sophisticated tender procedures hinder competition. Since contract manager figure has been set up, aiming to provide support in technically and financially complex contracts, there have been some improvement in the supervision of contracts. However, shortcomings persist in the performance phase. With its recommendation of 2 October 2019, the Council for the Prevention of Corruption suggests, among other measures, the adoption of specific planning instruments for public procurement, the professionalisation of public buyers and the training of contract managers to improve their capability to monitor contracts.

**The transparency and reliability of public procurement data as well as sustainable public procurement are improving**. The Institute of Public Procurement, Real Estate and Construction (IMPIC) is in the process of releasing a new business intelligence platform with automated procedures for data extraction and report generation. In addition, the authorities are currently developing a National Portal for State Suppliers (centralised register) for potential state suppliers, to improve transparency and speed up procurement procedures. Regarding green public procurement, Portugal is currently implementing a national strategy for green public procurement (*Estratégia nacional para as compras públicas ecológicas 2020*, ENCPE 2020) which provides for the inclusion of environmental criteria in public procurement.

**The procedure concerning the modifications to the system of review and remedy procedures in public procurement is ongoing**. The amendment to the Statute on Administrative and Tax Courts was approved by Parliament. In this regard, the authorities are continuing efforts to set up two public procurement chambers with wide territorial jurisdiction.

### Justice system

**The efficiency of the Portuguese justice system continues to improve, but challenges remain, mainly in administrative and tax courts.** The clearance rate for administrative cases increased in 2018 to 111% from 105% in 2017, while disposition time decreased from 988 days in 2017 to 927 days in 2018. Despite this improvement, Portugal remains among the Member States with the lengthiest administrative proceedings (2020 EU Justice Scoreboard, forthcoming). Portuguese companies perceive the judicial system as the area with the highest obstacles to their activity – 49% of companies considering the duration of judicial proceedings as a high or very high obstacle (INE, 2017).

**Portugal continues to implement measures to reduce case-backlogs in administrative and tax courts.** The rapid reaction teams set up in 2018 to deal with a backlog of 71,446 cases brought before administrative and tax courts prior to 2013 are already operational. Law No. 114/2019 of 12 September 2019 amending the statute of the administrative and tax courts, provides for the establishment of specialised chambers, both in administrative and tax matters, whenever justified by the volume or the complexity of the service. The Portuguese authorities expect to set up two public procurement chambers, 10 administrative social chambers, and 11 tax enforcement and infraction review chambers, but the timeline for their implementation has not yet been defined. Portuguese law already makes provision for the creation of advisory cabinets to aid judges, but this has not yet been implemented. This measure is also seen very positively by judges and other legal practitioners.

**Measures designed to reduce the average duration of insolvency proceedings and reduce existing backlogs continue to be implemented.** The measures announced in 2018, such as establishing the extrajudicial restructuring of firms and introducing the legal framework for debt to equity swaps, have been fully implemented. Decree-Law No. 38/2019 introduced changes to the judicial map and created new specialised jurisdiction courts, including new commercial courts. According to data collected through the Council of Europe's Commission for the efficiency of justice, the disposition time in insolvency and recovery proceedings in 2018 fell to 53 days (from 58 days in 2017). The number of incoming cases has also been falling consistently, allowing for a positive rate of resolving. However, a backlog of older cases remains, as 61% of the insolvency cases closed in the first quarter of 2019 had been pending for over 5 years. Similarly, civil enforcement actions taking more than five years to complete still accounted for 34.5% of the total at the end of 2018.

**Portugal continued to promote e-justice.** Implementation continued of the 'Justiça + Próxima' programme, focusing on improving the efficiency and modernising the justice sector. This programme includes the "Tribunal +" pilot project, which introduced changes in the functioning of courts (front and back office), as well as new IT equipment and solutions. There are plans to extend thisto other courts. Moreover, Decree-Law No. 97/2019 amended the Code of Civil Procedure by implementing in full the "digital by default" approach in civil proceedings. The core court IT systems are also being modernised, and 90% of electronic business support equipment has been renewed.

### Fight against corruption

**There is a deterioration in perceptions of corruption in the business world in Portugal.** While the World Bank control of corruption indicator remained relatively unchanged in the past two years, more recent survey data shows that companies' perceptions of corruption being widespread are on the rise in Portugal (92%), and among the worst in the EU. Corruption is seen as a problem in particular in public procurement, where 79% of companies think that it is widespread. Patronage and nepotism continue to be a major concern for (49%) of businesses. The percentage of those who believe that corruption is a problem for their company when doing business has somewhat decreased since 2017, but is still at over 50% (European Commission, 2019e). The Corruption Perception Index 2019 for Portugal also registers a 2 point deterioration (Transparency International, 2020).

**Preventing corruption remains an area of concern, but the government announced a national anti-corruption strategy which may help start addressing the issue**. As last year's country report showed, preventing corruption presents some shortcomings in Portugal not least due to the lack of a coordinated strategy and fragmented responsibilities (European Commission, 2019a). The parliamentary Ad-hoc Committee for Enhancing Transparency in the Exercise of Public Functions created to streamline anti-corruption legislation finalised its three-year work in 2019. Nevertheless, there was no clear strategy steering this important legislative process which resulted in some piecemeal legislative revisions. For example, while new Transparency Authority within the Constitutional Court to supervise asset and interests declarations, this has not been complemented by a reform leading to a more effective disclosure of asset and interest declarations (also raised by the Council of Europe's Group of States Against Corruption). In the absence of such a reform, the Transparency Authority may face serious challenges in working effectively to verify declarations and impose sanctions ([49]). A further law was adopted in September 2019 ([50]) setting out new rules for political appointments, following media reporting of some cases of family ties at top government and cabinet level. Efforts to promote a bill regulating lobbying activities failed after the President returned for re-examination a bill approved by parliament in June. A national anti-corruption strategy has been announced in December, including actions such as a National Anti-Corruption Report. A clear strategy is necessary with a view to creating a coherent and watertight anti-corruption legislative and policy framework.

**The prosecution track record is continuing at good pace and some measures were taken to improve specialisation and training of anti-corruption prosecutors.** The specialised anti-corruption prosecution service *Departamento Central de Investigação e Acção Penal* (DCIAP) continued building a positive track record of investigations, securing indictments in complex and high-level cases. A new statute for prosecutors

([49]) Asset and interest declarations are currently submitted and held in non-digital format at the premises of the Constitutional Court. Public access, although permitted legally, is in practice very cumbersome.

([50]) Law 78/2009 of 2 September.

will enter into force in January 2020 and specialised training programs are ongoing. Nevertheless, a large proportion of the corruption-related investigations are concluded without indictments and, according to data of the Ministry of Justice, only 14% of those convicted for corruption in 2017 are serving a sentence in prison (Direção-Geral da Política de Justiça, 2019). This is reflected also in the perceptions, with 45% of businesses thinking that those guilty for corruption would face charges and go to court but only 31% agreeing that they would be heavily fined or imprisoned for their deeds (European Commission, 2019f). The Public Prosecutors Union cited a persistent lack of resources in the specialised unit of the judicial police to track illicit financial flows, as well as a lack of sufficient specialisation among public prosecutors in investigating economic and financial crime (Publico, 2019). In order to address this and empower the regional departments for penal actions and investigations, some organisational and further capacity-building measures are envisaged.

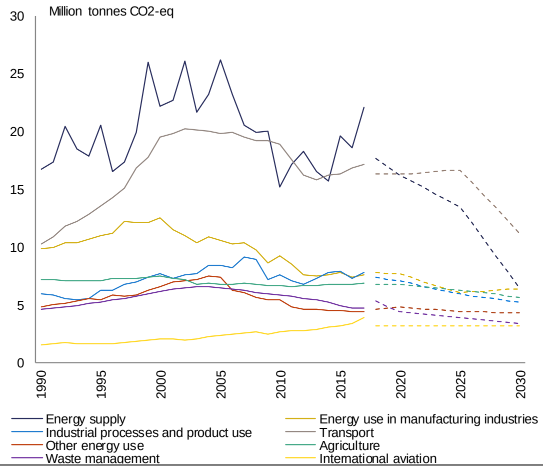
## 4.5. ENVIRONMENTAL SUSTAINABILITY

**With climate change set to have increasing impact on the Portuguese economy and society, the government has set an ambitious climate and energy agenda.** Due to climate change, natural hazards such as floods, coastal erosion, droughts and forest fires are expected to become more frequent and extreme. Portugal has recently experienced dramatic forest fires and the worst drought recorded in the history of the country. Flooding is a recurrent problem in some regions. Therefore, measures and investments in risk prevention and climate-change adaptation and mitigation are necessary to achieve sustainable growth. Portugal was one of the first EU countries to commit to net zero emissions by 2050 and published in June 2019 its long-term strategy for carbon neutrality of the Portuguese economy. This strategy is also a key input to the Portuguese integrated National Energy and Climate Plan[51], which is the main instrument for the decade 2021-2030, setting new national targets for the reduction GHG emissions, renewable energy and energy efficiency. The implementation of such plans will be fundamental to progress in SDG 7 and SDG 13 goals. Within SDG 13 on Climate action, indicators show some progress, however vigilance is required to achieve the 2050 objectives on GHG emissions and to become more resilient to the climate impacts.

**The energy and transport sectors are the main GHG emitters and thus remain key sectors to decarbonise.** The energy sector emissions are at a 10-year peak and this sector is responsible for 28% of the country's national emissions. In 2017, Portugal experienced a significant dry year which led to a sharp reduction of the hydro share in total power generation from 28% to 12% and its replacement with mostly gas and coal power. In this regard the Portuguese government has committed to decommissioning the two remaining coal-fired power plants by September 2023.The Transport sector accounts for 23% of total GHG emissions and 37% of final energy consumption (vs. EU average of 30%). Transport is also dependent on oil for 95% of its energy needs. Road is by far the most important subsector and road emissions have been increasing since 2013, in hand with the recovery of the Portuguese economy. Portugal is directing its policies towards modal shifting and the electrification of the sector, which depends on investments in infrastructure, such as charging infrastructure and electricity network. Furthermore, Portugal is also promoting and exploring the use of new fuels such as hydrogen.

**Portugal's GHG emissions per capita are below the EU average and the country is on track to achieve its Effort Sharing targets.** Further emissions reductions in sectors such as transport, buildings, agriculture and waste can contribute to the cost effective achievement of EU overall emissions target. In addition, the country can benefit economically from overachieving its target as it may potentially trade those emissions reductions with Member States, which are falling below their targets. Regarding the GHG intensity of the economy, despite an overall decreasing trend it remains 35% above EU average. This is linked to the high share of fossil fuels in the energy mix (43.5% against 34.3% EU average) and to the poor efficiency in fuel combustion (the GHG of fuel combustion is 6% above the EU average).

Graph 4.5.1: **Greenhouse gas emissions in Portugal by sectors**




***Source:*** European Commission

**Portugal is close to meet the 2020 renewables target but challenges remain.** With a renewable share in final energy consumption of 30.3% in 2018 ([52]), Portugal is close to achieve its 2020 renewables target of 31%. However, its renewable energy share has slightly decreased in the last two

[51] The Commission will assess, in the course of 2020, the final National Energy and Climate Plan submitted by Portugal on 31 December 2019.

([52]) Based on provisional Eurostata data for 2018.

years mainly due to the increase in final energy consumption and to the stagnation of renewable power production ([53]). Limited grid and administrative capacity to cope with the high demand for new projects are delaying the implementation of projects. Timely deployment of projects that are in the pipeline, as well as sufficient energy efficiency measures to keep energy consumption under control, remain crucial.

**A significant investment effort is required to meet the carbon neutrality goal.** Portugal faces important implementation challenges to achieve the ambitious objectives set in its long-term strategy for carbon neutrality of the Portuguese economy. Two key elements stand out and will require significant investments: the almost full replacement of fossil fuels with renewables sources in electricity production and the increased electrification of sectors, in particular of the transport sector. The strategy projects additional annual investments of around €2 billion (1.2% of GDP) to achieve carbon neutrality, mostly concentrated in transport, buildings and electricity sectors, with the majority to be conducted by the private sector, including households. Portugal is also relying on European funding to support the required investments. As Portugal still has an outstanding energy tariff debt of €2.7 billion, which needs to be repaid, it has more limited funding options and opportunities. In addition, the draft National Investment Programme (PNI 2030) includes the energy sector as a target for medium and long-term strategic investments, notably in the areas of power generation, networks and energy efficiency.

**An ambitious goal for the share of renewables by 2030 implies a massive deployment of new renewables generation capacity**. The government committed in its integrated national energy and climate plan to reach 47% of renewables in final energy consumption by 2030. This contribution would imply an 80% share of renewables in the electricity sector (up from 66% in 2020) and a 20% renewable share in the transport sector (up from 10% in 2020). These commitments foresee significant efforts in the deployment of solar capacity, which should increase from today's 0.7 GW to 9 GW by 2030. Other technologies to be deployed include wind and pumped hydro. An enhanced administrative, regulatory and financing framework would be necessary to deliver on such ambitious objectives. The plan also underlines the importance of renewable energy decentralisation to meet decarbonisation objectives and contribute to a social and fair energy transition. It highlights the need to foster the acquisition and use of decentralized production systems, accelerating participation of small renewable production in market mechanisms and the creation of an enabling environment to attract the participation of new players in the market, including energy communities. The recently published legal regime on self-consumption and energy communities is a first step towards giving a new impetus to decentralised energy.

**Better connectivity of the Iberian Peninsula would support Portugal's ambition in the deployment of renewable energy.** Due to delays in the implementation of an additional electricity interconnection with Spain (Fontefría - Ponte de Lima), Portugal's electricity interconnection level can be expected to remain below the 10% target in 2020. If the project is implemented as currently expected, the target can be achieved by 2021. In addition, Portugal will benefit from further integration of the Iberian Peninsula into the internal market by new infrastructure developments in Spain and France. Thus, regional cooperation on key infrastructure projects between Portugal, Spain and France under the high-level group for the southwest Europe is key to achieve progress. In addition, Portugal is planning a 250-km subsea electricity cable with Morocco. While all international interconnections can bring flexibility to the country's grid and support renewables integration, the risk of importing electricity produced from fossil fuels is real, taking into account Morocco's plans to increase its coal-fired capacity and lower marginal costs in that country.

**With higher use of renewables, Portugal could decrease its high dependence on energy imports.** Portugal is highly depending on energy imports compared to the EU average (79.5% vs. 55%), covering with imports all demands for natural gas, oil and coal consumption. The recent

([53]) Eurostat data show that final energy consumption used as denominator for the renewables share is going up. As to the numerator the RES consumption in electricity shows a stagnant trend contrary to the sectors heating and cooling and transport which increase. See https://ec.europa.eu/eurostat/web/energy/data/shares.

Portuguese solar photovoltaic auction set the world price record for the solar energy and confirmed the increasing economic competitiveness of this technology and its potential to further expand Portugal's renewables generation capacity, which today is largely composed of hydro and onshore wind. The Portuguese government confirmed that the results of this auction would help lower energy bills for consumers and that further auctions to allocate additional renewable capacity would take place. Portugal has thus strong incentives to maintain its strategy of developing further its high renewables potential across all sectors, driving down the import bill, increasing security of supply and at the same time contributing to the competitiveness of its economy.

**Energy consumption is rising and progress is slow in energy efficiency ([54]).** Portugal has only achieved 36% of the estimated cumulative energy savings for 2014-2017. The latest data also show that Portugal's overall energy consumption has risen, mainly due to industry and transport increasing consumption (3.4% and 1.8% respectively from 2016 to 2017). Portugal is still below its linear trajectory for achieving its 2020 primary and final energy consumption targets. Looking forward to 2030, Portugal has committed to a modest contribution to the EU energy efficiency 2030 targets. No new policies or measures going beyond those announced in the 2017 National Energy Efficiency Action Plan have been presented in the draft NECP. Embedding the "energy efficiency first" principle in the strategy would allow harnessing energy savings in other areas and policies, in particular with respect to private and public investments.

**The building sector has a central role to play in the fulfilment of the energy and climate targets and alleviating energy poverty.** The building sector accounts for 17% of energy consumption and Portugal still has a wide scope to improve energy efficiency in buildings, and unlock economic and social benefits on top of environmental ones. Measures in this area, and in particular in the residential segment, can help alleviate energy poverty, which remains an important concern in Portugal. Despite a significant decrease in recent years, the percentage of households unable to keep homes adequately warm still stood at 20% in 2017. Implementation of instruments in line with the EU Smart Finance for Smart Buildings Initiative and with other similar mechanisms that are already in place, at European, national or regional level could unlock investments and attract private financing for energy efficiency.

[54] See Eurostat indicators for tracking Energy Efficiency progress (Primary and Final Energy consumption (Europe 2020-2030)).

**A successful transition to a carbon-neutral Europe by 2050 will not be possible without the use of digital technologies and applications**. Digitalisation will enable the transition to a circular economy, foster innovation, and create growth and new business opportunities and markets. Digital technologies and applications can save 7 to 10 times more emissions than they produce and enable a reduction of 15% to 20% of global CO2 emissions by 2030. At the same time, the information and communication technology sector itself has a significant environmental footprint, accounting for 5% to 8% of the total electricity demand. Without proper action, this could increase to 20% by 2030, as the demand for data centres, cloud computing and other energy-intensive technologies such as artificial intelligence and blockchain increase. Portugal has launched an initiative for national sustainable advanced computing infrastructure that should contribute positively to a greener information and communication technology, by replacing less efficient high performance computing machines by sustainable advance computing centres.

**Risk of employment and skill loss in carbon intensive sectors can hinder the transition to carbon neutrality.** To that end, the Portuguese government has established a series of programmes for new business models and opportunities for skill development, for instance the Interface Programme, linking scientific and business knowledge and Portugal 2020, focusing on investment strategies and job creation. As of 2019, there are already 10,000 direct jobs linked to the renewable energy cluster, included nearly 3,000 in the wind power cluster. Overall, the transition to a climate neutral economy is expected to raise the employment rate by 0.4% (European Commission, 2019g).

**The transition process towards a climate neutral economy by 2050 will have social and**

**economic impacts and some Portuguese territories risk to be affected more than others**. The closure of the two coal-fired power plants in Sines and Pego, which are the largest GHG emitters in Portugal considering all sectors, is expected to affect around 650 direct jobs and to modify the structure of the respective regional economies. Other territories with highly polluting industries, such as Sines and Matosinhos with their manufacturing of refined petroleum products and plastics, are also expected to experience significant negative economic and social impacts resulting from the transition. To tackle these challenges, the European Commission has proposed that the Just Transition Fund is used to enable these regions and their people to support new economic activities, mainly in the sectors identified in their smart specialisation strategies, and to make their economies more modern and competitive based on sustainable investments, while alleviating the social costs of the transition by ensuring the employability and adaptability of workers affected from the plant closures. A dedicated investment guidance for the Just Transition Fund is provided in Annex D.

### Circular economy: improving waste & water management, dealing with air quality and using biodiversity sustainably

**During the last decades, the implementation of the EU environmental law and policy has contributed to preserve and to improve the environment in Portugal, with significant assistance from EU funding.** Nevertheless, Portugal still faces considerable environmental challenges and investment needs in the areas of water and waste management, air quality and nature protection (second Environmental Implementation Review (EIR), European Commission 2019). Furthermore, sustainable development has not been adequately mainstreamed into other policy areas and the potential of the green economy for competitiveness and job creation is underused.

**Material resources could be used more efficiently to produce wealth.** With 1.11 €/kg, resource productivity ([55]) in Portugal was well below the EU average of 1.89 €/kg in 2018 ([56]). Moreover, the gross value added related to circular economy sectors was 0.79% of GDP, below the EU average of 1% of GDP in 2017 ([57]). At the same time, Portugal had a higher percentage of persons employed in circular economy sectors than the EU average in 2017 (1.84% compared to 1.69% in the EU) ([58]). To tackle this issue, Portugal is adopting measures to promote the transition towards a circular economy, as set in the National Action Plan for Circular Economy 2017-2020.

**Despite the progress achieved in recent years, challenges remain in water management.** This applies particularly to water governance, wastewater investments and water body rehabilitation. Regarding water supply, there is scope to reduce water leakages, where the majority of losses results from the distribution network of smaller pipes (retail network) rather than from the transmission network of larger pipes (bulk water systems). The Portuguese Water and Waste Services Regulation Authority has developed a programme and is testing a set of indicators on infrastructure value, infrastructure knowledge and infrastructure management, in order to better know the state of the assets for water services and thus supporting more accurate planning and decisions for operation, maintenance and renewal. However, at the municipal level, the sector remains highly fragmented and the reorganisation of the water and wastewater services has not yet shown its full potential. Regarding urban wastewater treatment, the investment needs to meet compliance have been estimated by the OECD for urban wastewater treatment at €4,762 million until 2030 ([59]). Taking actions to address these challenges would lead to progress on SDG 6.

**Waste management remains a persistent challenge in Portugal.** Indeed, according to the Commission's Early Warning Report (2018), Portugal is one of the countries at risk of missing the EU target of recycling 50% of municipal waste by 2020. According to 2018 data, the overall recycling rate is 29%. There are also big differences across regions. Moreover, some

([55]) Resource productivity is defined as the ratio between GDP and domestic material consumption (DMC).

([56]) Eurostat, Resource productivity.

([57]) ESTAT

([58]) Eurostat, Circular Economy Indicators.

([59]) OECD (*forthcoming*), Investment needs of and financing options for the EU water sector.

barriers to invest in this sector can be observed, notably regulatory fragmentation, too low waste tariffs and budgetary constraints ([60]). In particular, there is the danger that surplus mechanical and biological treatment plants become stranded assets. The capital investments needs to reach the EU recycling targets are estimated at €994 million for the period 2021-35 for Portugal as a whole ([61]). Taking actions on this field will contribute to sustained progress to achieve SDG 12.

**Flooding, droughts and forest fires remain recurring challenges in Portugal.** Forest fires are a serious risk to Portugal, as stressed in the country reports of 2018 and 2019, with potentially macro-economic consequences. Portugal has taken additional measures regarding forest management and the prevention of forest fires; the national forest strategy has been updated and improved.

**Air quality in Portugal continues to give cause for concern**, mainly related to nitrogen dioxide (NO2). In particular, personal transport exacerbates seasonal problems with air quality and traffic congestion in the major metropolitan areas, namely Lisbon, Porto and Braga, leading to health and economic costs ([62]). Total external costs of transport for road and rail in Portugal are estimated at €16.9 billion annually, which corresponded to 7.2% of Portugal's GDP in 2016 ([63]). A comprehensive approach is needed to tackle this matter, bringing together environmental as well as economic and social benefits.

**Portugal can use its nature resources to promote more sustainable tourism.** Tourism has been thriving economic sector in Portugal in the last years (see Section 1). The government adopted in 2017 the Strategy Tourism 2027, which is now under implementation, focusing inter alia on sustainability aspects. Around 20% of the Portuguese territory is covered by Natura 2000 sites, belonging to the EU Natura 2000 network. Further capitalising on this rich natural capital, in addition to achieving diversification and smoothing seasonal peaks would promote green growth and job creation.

([60]) EIB, EIB Report to the EC on Investment Barriers 2019, p.28
([61]) Eunomia & COWI (2019) Study on investment needs in the waste sector and on the financing of municipal waste management in Member States, p. 67
([62]) European Environment Agency, Air quality in Europe — 2019 report, pp.68-69
([63]) Handbook on the external costs of transport, 2019, p.128

# ANNEX A: OVERVIEW TABLE

| Commitments | Summary assessment [1] |
|---|---|
| **2019 country-specific recommendations (CSRs)** | |
| **CSR 1:** Achieve the medium-term budgetary objective in 2020, taking into account the allowance linked to unusual events for which a temporary deviation is granted. Use windfall gains to accelerate the reduction of the general government debt ratio. Improve the quality of public finances by prioritising growth-enhancing spending while strengthening overall expenditure control, cost efficiency and adequate budgeting, with a focus in particular on a durable reduction of arrears in hospitals. Improve the financial sustainability of state-owned enterprises, while ensuring more timely, transparent and comprehensive monitoring. | Portugal has made **Limited Progress** in addressing CSR 1 |
| Achieve the medium-term budgetary objective in 2020, taking into account the allowance linked to unusual events for which a temporary deviation is granted. Use windfall gains to accelerate the reduction of the general government debt ratio. | The compliance assessment with the Stability and Growth Pact will be included in Spring when final data for 2019 will be available. |
| Improve the quality of public finances by prioritising growth-enhancing spending while strengthening overall expenditure control, cost efficiency and adequate budgeting, with a focus in particular on a durable reduction of arrears in hospitals. | • **Limited Progress** Public investment is projected to fall short of initial plans of the government in 2019 and, despite the expected increase in 2020, to remain significantly below the averages for the EU and the euro area. Overall, expenditure control, cost efficiency and adequate budgeting continue to be tackled within the framework of the ongoing review of public expenditure, including in the health sector. In particular, a new fully-fledged programme to strengthen the overall sustainability of the health system started being implemented in 2019, and a formal structure to evaluate the managing of public hospitals was created in June 2019. Nevertheless, after having decreased visibly in December 2018, mainly as a result of sizeable ad-hoc clearance measures in that year, hospital arrears are back on a steadily increasing path since July 2019. |
| Improve the financial sustainability of state-owned enterprises, while ensuring more timely, transparent and comprehensive monitoring. | • **Limited Progress** Overall, state-owned enterprises continue to struggle to achieve a balanced financial position. At the same time, the debt of public non-financial state-owned enterprises included in general government has continued to decrease, though at a decelerating pace. Some measures to strengthen the sustainability of state-owned enterprises are only being gradually implemented, including the |

| | |
|---|---|
| | analysis of quarterly data aiming to identify and correct in a timely manner deviations from the approved budgets. The capital structure of a series of state-owned enterprises has been strengthened through sizeable capital injections, and the liquidation of unprofitable or redundant firms has continued. Transparency regarding their financial position has improved somewhat through the publication of aggregate quarterly financial data within a shorter timeframe. |
| **CSR 2:** Adopt measures to address labour market segmentation. Improve the skills level of the population, in particular their digital literacy, including by making adult learning more relevant to the needs of the labour market. Increase the number of higher education graduates, particularly in science and information technology. Improve the effectiveness and adequacy of the social safety net. | Portugal has made **Some Progress** in addressing CSR 2 |
| Adopt measures to address labour market segmentation. | • **Some Progress** Following the tripartite agreement signed in 2018, new changes were introduced from October 2019 in the labour code, the code of contributory schemes, the legal framework for protection of employees, the framework of active labour market policies and other complementary legislation. The Labour Inspection Authority was reinforced and a new programme towards the extraordinary regularization of precarious employment contracts in civil service is ongoing. A temporary support to firms to convert temporary contracts into permanent contracts was set up (Converte +). |
| Improve the skills level of the population, in particular their digital literacy, including by making adult learning more relevant to the needs of the labour market. | • **Some Progress** The Qualifica programme participation keeps growing and a significant number of persons increased their educational attainment through the programme. More detailed follow-up data is needed to assess the measure more comprehensively. INCoDe.2030 is implementing several initiatives to improve the digital skills deficit of the population but to achieve the expected result Portugal needs to scale up the projects addressing digital literacy and go beyond the pilot phase. |
| Increase the number of higher education graduates, particularly in science and information technology. | • **Some Progress** The government has put in place several measures to ease the access to higher education and increase enrolment. Number of students enrolled in higher education increased, as well as for graduates. However, those on science and information technology remain low |

| | |
|---|---|
| | in percentage. |
| Improve the effectiveness and adequacy of the social safety net. | • **Limited Progress** Despite the improvements made in some social benefits in recent years, and the new measures that were announced for the incoming years, no specific measures have yet been taken to address this recommendation. Furthermore, the poverty reduction capacity of social transfers (other than pensions) as well as its adequacy, remain comparatively low in Portugal. |
| **CSR 3:** Focus investment-related economic policy on research and innovation, railway transport and port infrastructure, low carbon and energy transition and extending energy interconnections, taking into account regional disparities. | Portugal has made **Limited Progress** in addressing CSR 3 |
| Focus investment-related economic policy on research and innovation, | • **Limited progress**. The implementation of the Portugal 2020 strategy (the EU support framework for 2013-2020) is well underway and a reprogramming aimed at assigning additional funding to investments in innovation was conducted in 2019. The INTERFACE scheme aims to strengthen the country's cluster policy focus mainly in the creation of CoLABs and the existing tax and financial R&D incentives. However, Initiatives towards counter the low existing cooperation among different key players mobilizing higher education institutions (universities and polytechnic institutes) and business firms were very limited. Progress on innovation performance was accomplished and the Portugal is now placed first in the "Moderate innovators" group by the European Innovation Scoreboard 2019 but business investments and co-publications public-private rates together with patenting remain well below EU average. The R&D intensity marginally increased in 2018 of 0.04 points to 1.37% of GDP as compared to 2017 confirming recent trends but values remains below EU average and distant of the country target of 3% for 2030. Thus, further investments and policy efforts are necessary in particular to foster linkages between R&D actors and businesses and support a thriving innovation driven economy. |
| railway transport and port infrastructure, | • **Limited Progress.** There has been limited progress with the main railway CEF co-funded projects of the Programme Ferrovia 2020 and the pace of execution has been slow. The tendering |

| | |
|---|---|
| | procedures for the 2020 investments are still to be launched. The investment situation has however improved when compared to the 2007-2013 period, when most grant agreements had to be cancelled. There is also limited progress in port investments. The public tender for the new investment project in the container terminal in Sines (Terminal Vasco da Gama) has been launched, but the concession has not yet been attributed and investments have not yet started. The public tendering for the new container terminal in Barreiro is yet to be launched. |
| low carbon and energy transition and extending energy interconnections, taking into account regional disparities. | • **Some Progress.** Measures are being taken to increase the deployment of renewable energy. The solar PX auction held in July was successful in attracting investment commitments for deploying new solar capacity (1.2 GW) at competitive prices. The adoption in October 2019 of the new regulatory framework addressing self-consumption and renewables communities should also provide incentives for decentralised energy investments. Still, challenges remain to streamline administrative procedures with respect to new renewables projects. Progress has been limited on the energy efficiency front, with primary energy consumption rising between 2014 and 2017. However, the government has announced additional measures such as raising awareness and revising the regulation in industry, buildings and transport, which would have a positive impact on energy efficiency investments. Portugal has been actively involved in regional fora to improve energy connectivity of the Iberian Peninsula. Further progress is needed to advance the new electrical interconnection between Portugal (Minho) and Spain (Galicia). Portugal is on track to achieve its effort sharing emission target where further emissions reductions in sectors such as transport, buildings, agriculture and waste can be a cost-efficient way for the EU to reach its overall target. |
| **CSR 4:** Allow for a swifter recovery of the collateral tied to non-performing loans by increasing the efficiency of insolvency and recovery proceedings. Reduce the administrative and regulatory burden on businesses, mainly by reducing sector-specific barriers to licensing. Develop a roadmap to reduce restrictions in highly regulated professions. Increase the efficiency of administrative and tax courts, in | Portugal has made **Limited Progress** in addressing CSR 4 |

| | |
|---|---|
| particular by decreasing the length of proceedings. | |
| Allow for a swifter recovery of the collateral tied to non-performing loans by increasing the efficiency of insolvency and recovery proceedings. | • **Some Progress.** The efficiency of insolvency and recovery proceedings has been increasing at a slow pace, notwithstanding some reforms and the introduction of technology in some instances. Overall time lags are still very high in European comparison. |
| Reduce the administrative and regulatory burden on businesses, mainly by reducing sector-specific barriers to licensing. | • **Limited Progress.** Over the last years several measures introduced mainly under the SIMPLEX+ programme favoured improvements in the business environment overall, especially when it comes to the introduction of the once-only principle and e-government policies. New initiatives were launched in 2019 through SIMPLEX+ and Capitalizar programmes addressing the business environment, due for implementation in the coming months, such as a funding portal for firms and the introduction of a modernised early warning mechanism. Howver limited progress was achieved in reducing sector-specific burden for licensing. Reforms seldom replace ex ante by ex post controls, or even rely on responsible declarations to replace the numerous authorisation schemes in place. Long procedural deadlines for decision and even absence of tacit approval persist. In 2019, progress in this respect was recorded only for pressure equipment. The roll out of the Point of Single Contact for service activities and regulated professions is progressing slowly. Portugal is making efforts, including with the cooperation with the Structural Reform Support Service, to improve regulatory impact assessment, in particular with the ambition to introduce cost-benefit analysis and to put in place an effective consultation system. |
| Develop a roadmap to reduce restrictions in highly regulated professions. | • **No Progress.** No progress has been made in reducing regulatory restrictions on highly regulated professions, which remain sheltered from competition. A roadmap to reduce restrictions in highly regulated professions has not been developed. This is despite repeated recommendations from the European Commission and the recommendations from the OECD and Portuguese Competition Authority (2018). |
| Increase the efficiency of administrative and tax courts, in particular by decreasing the length of | • **Some Progress.** The clearance rate in administrative and tax courts has increased and |

| | |
|---|---|
| proceedings. | there has been a reduction in case backlogs and disposition time. However, proceedings before tax and administrative courts remain among the lengthiest in the EU. Measures aiming at further improvements continue to be implemented. |
| **Europe 2020 (national targets and progress)** | |
| Employment rate target set in the NRP: 75%. | The positive trend of labour market developments continues although at a slower pace. The employment rate kept growing steadily up to 76 % in Q2-2019 (above the Europe 2020 target of 75 %). |
| R&D target set in the NRP: 2.7% of GDP | R&D intensity had been on decline since 2010, but the negative trend was reversed in 2016. However, at 1.4 % of GDP in 2018, R&D intensity remains well below both the national and the EU R&D intensity targets.<br><br>In 2018, the R&D intensity of Portugal was composed of 52% (0.69% of GDP) private investment and 48% (0.64% of GDP) public investment. |
| National greenhouse gas (GHG) emissions target:<br>- 1% in 2020 compared with 2005 (in sectors not included in the EU emissions trading scheme) | Portugal non-ETS emission decreased by 16% between 2005 and 2018, and has achieved its 2018 target (an emissions decrease of 1%) by a 15 pps gap. According to the latest national projections based on existing measures, non-ETS emissions will decrease by 24 % between 2005 and 2020. The 2020 target is consequently expected to be met by 25 percentage points. |

| | |
|---|---|
| 2020 renewable energy target: 31% | Provisional Eurostat data for 2018 show that Portugal achieved an overall renewables share in final energy consumption of 30.3 %, which puts it 0.7 p.p. away of achieving its renewables target of 31% by 2020. Although Portugal is close to achieving its target, since 2016 the overall renewables shares has been slightly decreasing, mostly due to the increase in final energy consumption and to the stagnation of renewable electricity production. Regarding transport, with a renewable energy share of 9.04% in 2018 Portugal is getting closer to achieving the renewables 2020 transport target of 10%.<br><br>To be noted that in 2019 Portugal has updated its renewable energy data as from 2014 to include statistics for heat pumps. This has led to an increase in the overall renewable energy share in final energy consumption of circa 2.5 p.p. between 2014 and 2017 and to a rise of circa 6.5 p.p in the share of renewables in the heating and cooling sector, which stood at 41.21% in 2018. |
| Energy efficiency target:<br><br>Portugal has set an indicative national energy efficiency target of 25% reduction of final energy consumption in 2020, which implies reaching a 2020 level of 22.5 Mtoe primary consumption and 17.4 Mtoe final energy consumption. | Whereas 2017 figures showed an increase in primary and final energy consumption for Portugal, the recent data for 2018 show different developments for primary and final energy consumption. Based on provisional Eurostat data for 2018, the primary energy consumption (22.6 Mtoe) stood at a slightly higher level than the 2020 target level (22.5 Mtoe). The 2018 primary energy consumption is also lower than that of 2017 (22.8 Mtoe), breaking a three year period of consecutive annual increases. Regarding the final energy consumption, Portugal seems to be 3.9 % below the target for 2020 (16.9 Mtoe while the target (2020) is 17.4 Mtoe). However, final energy consumption has increased for the fourth consecutive year (15.8 Mtoe in 2014 - 16.9 Mtoe in 2018). Therefore, Portugal still need efforts to keep energy consumption in check in the coming years and ensure that the levels of primary and final energy consumption remain below the indicative national 2020 targets. |
| Early school/training leaving target: 10%. | Considerable progress was made in the last decade in reducing the early school leaving rate (from 30.9 % in 2009 to 11.8 % in 2018); rates are, however, much higher in the autonomous regions of Madeira and Azores (28.3% in Azores compared vs. 11.2% in the continental area, in 2018). Large gender disparities also exist (14.7% for men against 8.7% for women in 2018). |

| | |
|---|---|
| Tertiary education target: 40% of population aged 30-34. | Portugal's tertiary educational attainment level among the 30-34 years old cohort (33.5 % in 2018) is still below the EU average (39.9 %), but increased significantly in the last decade (21.3% in 2009). The tertiary education attainment rate of people with disabilities is below the EU average (25.5 % vs. 30.3 % in the EU). Foreign-born students have higher attainment rate than native (36.8% vs. 33.1%). |
| Risk of poverty or social exclusion target: the target envisages reducing the number of person in or at risk of poverty and social exclusion by 200,000 persons in 2020 (base year 2008). | The number of people at risk of poverty or social exclusion in 2018 was 535,000 less than in 2008, meaning that Portugal has already surpassed the target of 200,000. |

-------------------------

(1) The following categories are used to assess progress in implementing the country-specific recommendations (CSRs):

**No progress:** The Member State has not credibly announced nor adopted any measures to address the CSR. This category covers a number of typical situations to be interpreted on a case by case basis taking into account country-specific conditions. They include the following:

- no legal, administrative, or budgetary measures have been announced
– in the national reform programme,
– in any other official communication to the national Parliament/relevant parliamentary committees or the European Commission,
– publicly (e.g. in a press statement or on the government's website);
- no non-legislative acts have been presented by the governing or legislative body;
- the Member State has taken initial steps in addressing the CSR, such as commissioning a study or setting up a study group to analyse possible measures to be taken (unless the CSR explicitly asks for orientations or exploratory actions). However, it has not proposed any clearly-specified measure(s) to address the CSR.

**Limited progress:** The Member State has:

- announced certain measures but these address the CSR only to a limited extent; and/or
- presented legislative acts in the governing or legislative body but these have not been adopted yet and substantial further, non-legislative work is needed before the CSR is implemented;
- presented non-legislative acts, but has not followed these up with the implementation needed to address the CSR.

**Some progress:** The Member State has adopted measures

- that partly address the CSR; and/or
- that address the CSR, but a fair amount of work is still needed to fully address the CSR fully as only a few of the measures have been implemented. For instance, a measure or measures have been adopted by the national Parliament or by ministerial decision but no implementing decisions are in place.

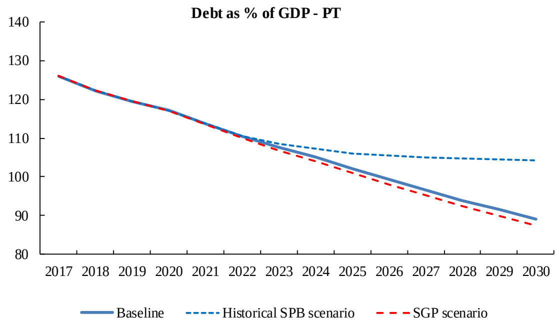
**Substantial progress:** The Member State has adopted measures that go a long way towards addressing the CSR and most of them have been implemented.

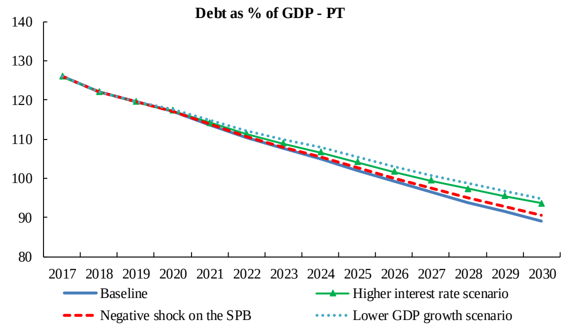
**Full implementation:** The Member State has implemented all measures needed to address the CSR appropriately.

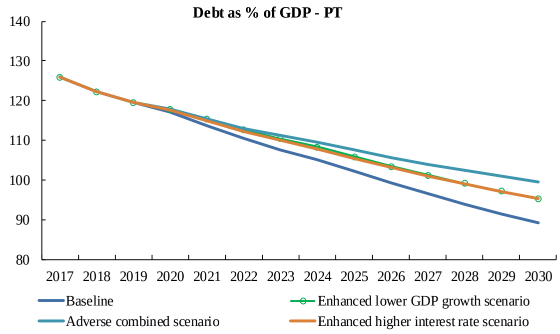
# ANNEX B: COMMISSION DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

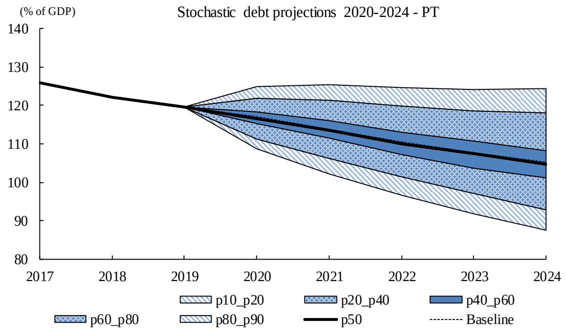
**General government debt projections under baseline, alternative scenarios and sensitivity tests**

| PT - Debt projections baseline scenario | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross debt ratio** | **122.2** | **119.5** | **117.1** | **113.7** | **110.5** | **107.7** | **105.1** | **102.1** | **99.3** | **96.5** | **93.9** | **91.5** | **89.2** |
| *Changes in the ratio (-1+2+3)* | *-3.8* | *-2.7* | *-2.5* | *-3.4* | *-3.2* | *-2.8* | *-2.6* | *-2.9* | *-2.9* | *-2.7* | *-2.6* | *-2.4* | *-2.4* |
| *of which* | | | | | | | | | | | | | |
| **(1) Primary balance** (1.1+1.2+1.3) | **2.9** | **3.0** | **2.9** | **3.4** | **2.8** | **2.5** | **2.2** | **2.2** | **2.1** | **2.0** | **1.9** | **1.8** | **1.7** |
| ***(1.1) Structural primary balance*** *(1.1.1-1.1.2+1.1.3)* | ***2.8*** | ***2.7*** | ***2.5*** | ***2.4*** | ***2.3*** | ***2.3*** | ***2.2*** | ***2.2*** | ***2.1*** | ***2.0*** | ***1.9*** | ***1.8*** | ***1.7*** |
| *(1.1.1) Structural primary balance (bef. CoA)* | *2.8* | *2.7* | *2.5* | *2.4* | *2.4* | *2.4* | *2.4* | *2.4* | *2.4* | *2.4* | *2.4* | *2.4* | *2.4* |
| *(1.1.2) Cost of ageing* | | | | | *0.0* | *0.1* | *0.2* | *0.2* | *0.3* | *0.4* | *0.5* | *0.6* | *0.7* |
| *(1.1.3) Others (taxes and property incomes)* | | | | | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* |
| ***(1.2) Cyclical component*** | ***0.9*** | ***0.9*** | ***0.8*** | ***0.7*** | ***0.5*** | ***0.2*** | ***0.0*** | ***0.0*** | ***0.0*** | ***0.0*** | ***0.0*** | ***0.0*** | ***0.0*** |
| ***(1.3) One-off and other temporary measures*** | ***-0.7*** | ***-0.6*** | ***-0.4*** | ***0.3*** | ***0.0*** | ***0.0*** | ***0.0*** | ***0.0*** | ***0.0*** | ***0.0*** | ***0.0*** | ***0.0*** | ***0.0*** |
| **(2) Snowball effect** (2.1+2.2+2.3) | **-1.5** | **-0.9** | **-0.8** | **-1.1** | **-0.4** | **-0.3** | **-0.4** | **-0.8** | **-0.8** | **-0.8** | **-0.7** | **-0.7** | **-0.7** |
| *(2.1) Interest expenditure* | *3.4* | *3.1* | *2.9* | *2.8* | *2.6* | *2.5* | *2.4* | *2.3* | *2.1* | *2.0* | *1.9* | *1.9* | *1.8* |
| *(2.2) Growth effect* | *-3.0* | *-2.3* | *-2.0* | *-2.0* | *-1.1* | *-0.7* | *-0.7* | *-1.0* | *-0.9* | *-0.8* | *-0.7* | *-0.7* | *-0.7* |
| *(2.3) Inflation effect* | *-2.0* | *-1.7* | *-1.8* | *-1.9* | *-2.0* | *-2.0* | *-2.1* | *-2.1* | *-2.0* | *-1.9* | *-1.9* | *-1.8* | *-1.8* |
| **(3) Stock-flow adjustments** | **0.6** | **1.2** | **1.3** | **1.1** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |




| Short term | Medium term | S1 | Debt sustainability analysis (detail) | Baseline | Historical SPB | Lower GDP growth | Higher interest rate | Negative shock on SPB | Stochastic projections | DSA | S2 | Long term |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LOW (S0 = 0.3) | HIGH | MEDIUM (S1 = 2.3) | Risk category | MEDIUM | HIGH | HIGH | HIGH | HIGH | MEDIUM | HIGH | LOW (S2 = -0.3) | MEDIUM |
| | | | Debt level (2030) | 89.2 | 104.4 | 94.8 | 93.7 | 90.5 | | | | |
| | | | Debt peak year | 2019 | 2019 | 2019 | 2019 | 2019 | | | | |
| | | | Percentile rank | 21.0% | 47.0% | | | | | | | |
| | | | Probability debt higher | | | | | | 17.6% | | | |
| | | | Dif. between percentiles | | | | | | 36.7 | | | |

**Note:** For further information, see the European Commission Debt Sustainability Monitor (DSM) 2019.

[1] The first table presents the baseline no-fiscal policy change scenario projections. It shows the projected government debt dynamics and its decomposition between the primary balance, snowball effects and stock-flow adjustments. Snowball effects measure the net impact of the counteracting effects of interest rates, inflation, real GDP growth (and exchange rates in some countries). Stock-flow adjustments include differences in cash and accrual accounting, net accumulation of assets, as well as valuation and other residual effects.

[2] The charts present a series of sensitivity tests around the baseline scenario, as well as alternative policy scenarios, in particular: the historical structural primary balance (SPB) scenario (where the SPB is set at its historical average), the Stability and Growth Pact (SGP) scenario (where fiscal policy is assumed to evolve in line with the main provisions of the SGP), a higher interest rate scenario (+1 pp. compared to the baseline), a lower GDP growth scenario (-0.5 pp. compared to the baseline) and a negative shock on the SPB (calibrated on the basis of the forecasted change). An adverse combined scenario and enhanced sensitivity tests (on the interest rate and growth) are also included, as well as stochastic projections. Detailed information on the design of these projections can be found in the FSR 2018 and the DSM 2019.

[3] The second table presents the overall fiscal risk classification over the short, medium and long term.

a. For the short-term, the risk category (low/high) is based on the S0 indicator. S0 is an early-detection indicator of fiscal stress in the upcoming year, based on 25 fiscal and financial-competitiveness variables that have proven in the past to be leading indicators of fiscal stress. The critical threshold beyond which fiscal distress is signalled is 0.46.

b. For the medium term, the risk category (low/medium/high) is based on the joint use of the S1 indicator and of the DSA results. The S1 indicator measures the fiscal adjustment required (cumulated over the 5 years following the forecast horizon and sustained after that) to bring the debt-to-GDP ratio to 60 % by 2034. The critical values used are 0 and 2.5 pps of GDP. The DSA classification is based on the results of five deterministic scenarios (baseline, historical SPB, higher interest rate, lower GDP growth and negative shock on the SPB scenarios) and the stochastic projections. Different criteria are used such as the projected debt level, the debt path, the realism of fiscal assumptions, the probability of debt stabilisation, and the size of uncertainties.

c. For the long term, the risk category (low/medium/high) is based on the joint use of the S2 indicator and the DSA results. The S2 indicator measures the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical values used are 2 and 6 pps of GDP. The DSA results are used to further qualify the long term risk classification, in particular in cases when debt vulnerabilities are identified (a medium / high DSA risk category).

# ANNEX C: STANDARD TABLES

Table C.1: **Financial market indicators**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Total assets of the banking sector (% of GDP)(1) | 271.4 | 233.6 | 213.5 | 200.8 | 192.0 | 187.9 |
| Share of assets of the five largest banks (% of total assets) | 69.2 | 72.3 | 71.2 | 73.1 | 72.9 | - |
| Foreign ownership of banking system (% of total assets)(2) | 20.5 | 23.3 | 22.5 | 30.3 | 31.7 | 31.3 |
| Financial soundness indicators:(2) | | | | | | |
| - non-performing loans (% of total loans) | 16.6 | 17.5 | 17.2 | 13.3 | 9.4 | 8.3 |
| - capital adequacy ratio (%) | 12.3 | 13.3 | 12.3 | 15.2 | 15.2 | 16.1 |
| - return on equity (%)(3) | -3.5 | 0.9 | -5.5 | -0.8 | 2.7 | 5.3 |
| Bank loans to the private sector (year-on-year % change)(1) | -5.2 | -2.6 | -2.1 | -0.7 | 0.9 | 1.5 |
| Lending for house purchase (year-on-year % change)(1) | -3.8 | -3.7 | -2.3 | -1.2 | 0.4 | 0.8 |
| Loan to deposit ratio(2) | 84.9 | 81.5 | 80.8 | 78.9 | 76.2 | 76.7 |
| Central Bank liquidity as % of liabilities(1) | 8.8 | 7.7 | 6.9 | 6.9 | 5.8 | 5.5 |
| Private debt (% of GDP) | 190.1 | 179.3 | 169.1 | 162.2 | 155.4 | - |
| Gross external debt (% of GDP)(2) - public | 98.5 | 92.0 | 78.3 | 72.0 | 67.4 | 68.7 |
| - private | 46.6 | 45.6 | 49.9 | 50.9 | 50.2 | 48.0 |
| Long-term interest rate spread versus Bund (basis points)* | 259.0 | 192.8 | 308.3 | 273.4 | 144.3 | 103.7 |
| Credit default swap spreads for sovereign securities (5-year)* | 173.0 | 137.4 | 216.7 | 136.1 | 54.3 | 32.3 |

(1) Latest data Q3 2019. Includes not only banks but all monetary financial institutions excluding central banks.
(2) Latest data Q2 2019.
(3) Quarterly values are annualized.
* Measured in basis points.
***Source:*** European Commission (long-term interest rates); World Bank (gross external debt); Eurostat (private debt); ECB (all other indicators).

Table C.2: **Headline Social Scoreboard indicators**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 5 |
|---|---|---|---|---|---|---|
| **Equal opportunities and access to the labour market** | | | | | | |
| Early leavers from education and training (% of population aged 18-24) | 17.4 | 13.7 | 14.0 | 12.6 | 11.8 | : |
| Gender employment gap (pps) | 7.1 | 6.7 | 6.8 | 7.5 | 6.8 | 7.2 |
| Income inequality, measured as quintile share ratio (S80/S20) | 6.2 | 6.0 | 5.9 | 5.7 | 5.2 | : |
| At-risk-of-poverty or social exclusion rate(1) (AROPE) | 27.5 | 26.6 | 25.1 | 23.3 | 21.6 | : |
| Young people neither in employment nor in education and training (% of population aged 15-24) | 12.3 | 11.3 | 10.6 | 9.3 | 8.4 | : |
| **Dynamic labour markets and fair working conditions** | | | | | | |
| Employment rate (20-64 years) | 67.6 | 69.1 | 70.6 | 73.4 | 75.4 | 76.1 |
| Unemployment rate(2) (15-74 years) | 14.1 | 12.6 | 11.2 | 9.0 | 7.0 | 6.5 |
| Long-term unemployment rate (as % of active population) | 8.4 | 7.2 | 6.2 | 4.5 | 3.1 | 2.8 |
| Gross disposable income of households in real terms per capita(3) (Index 2008=100) | 93.4 | 96.2 | 99.1 | 101.2 | 104.5 | : |
| Annual net earnings of a full-time single worker without children earning an average wage (levels in PPS, three-year average) | 16207 | 16043 | 15984 | : | : | : |
| Annual net earnings of a full-time single worker without children earning an average wage (percentage change, real terms, three-year average) | -0.46 | -2.21 | -0.61 | : | : | : |
| **Public support / Social protection and inclusion** | | | | | | |
| Impact of social transfers (excluding pensions) on poverty reduction(4) | 27.0 | 26.1 | 24.0 | 22.5 | 23.8 | : |
| Children aged less than 3 years in formal childcare | 45.0 | 47.2 | 49.9 | 47.5 | 50.2 | : |
| Self-reported unmet need for medical care | 3.5 | 3.0 | 2.4 | 2.3 | 2.1 | : |
| Individuals who have basic or above basic overall digital skills (% of population aged 16-74) | : | 48.0 | 48.0 | 50.0 | : | 52.0 |

(1) People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).
(2) Unemployed persons are all those who were not employed but had actively sought work and were ready to begin working immediately or within two weeks.
(3) Gross disposable household income is defined in unadjusted terms, according to the draft Joint Employment Report 2019.
(4) Reduction in percentage of the risk of poverty rate, due to social transfers (calculated comparing at-risk-of poverty rates before social transfers with those after transfers; pensions are not considered as social transfers in the calculation).
(5) Average of first three quarters of 2019 for the employment rate, unemployment rate and gender employment gap.

***Source:*** Eurostat

Table C.3: **Labour market and education indicators**

| Labour market indicators | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 [5] |
|---|---|---|---|---|---|---|
| Activity rate (15-64) | 73.2 | 73.4 | 73.7 | 74.7 | 75.1 | 75.4 |
| Employment in current job by duration | | | | | | |
| *From 0 to 11 months* | 13.2 | 14.2 | 14.4 | 14.7 | 15.1 | : |
| *From 12 to 23 months* | 6.2 | 6.9 | 7.6 | 7.8 | 8.0 | : |
| *From 24 to 59 months* | 13.1 | 11.9 | 12.9 | 13.9 | 14.7 | : |
| *60 months or over* | 67.5 | 66.9 | 65.1 | 63.5 | 62.1 | : |
| Employment growth* (% change from previous year) | 1.4 | 1.4 | 1.6 | 3.3 | 2.3 | 1.0 |
| Employment rate of women (% of female population aged 20-64) | 64.2 | 65.9 | 67.4 | 69.8 | 72.1 | 72.6 |
| Employment rate of men (% of male population aged 20-64) | 71.3 | 72.6 | 74.2 | 77.3 | 78.9 | 79.9 |
| Employment rate of older workers* (% of population aged 55-64) | 47.8 | 49.9 | 52.1 | 56.2 | 59.2 | 60.3 |
| Part-time employment* (% of total employment, aged 15-64) | 10.1 | 9.8 | 9.5 | 8.9 | 8.1 | 8.3 |
| Fixed-term employment* (% of employees with a fixed term contract, aged 15-64) | 21.4 | 22.0 | 22.3 | 22.0 | 22.0 | 21.0 |
| Transition rate from temporary to permanent employment (3-year average) | 25.8 | 26.2 | 28.2 | 30.3 | : | : |
| Youth unemployment rate (% active population aged 15-24) | 34.7 | 32.0 | 28.2 | 23.8 | 20.3 | 18.2 |
| Gender gap in part-time employment | 4.9 | 5.4 | 5.3 | 5.6 | 4.8 | 5.8 |
| Gender pay gap(2) (in undadjusted form) | 14.9 | 17.8 | 17.5 | 16.3 | : | : |
| **Education and training indicators** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** |
| Adult participation in learning (% of people aged 25-64 participating in education and training) | 9.6 | 9.7 | 9.6 | 9.8 | 10.3 | : |
| Underachievement in education(3) | : | 23.8 | : | : | : | : |
| Tertiary educational attainment (% of population aged 30-34 having successfully completed tertiary education) | 31.3 | 31.9 | 34.6 | 33.5 | 33.5 | : |
| Variation in performance explained by students' socio-economic status(4) | : | 14.9 | : | : | : | : |

* Non-scoreboard indicator
(1) Long-term unemployed are people who have been unemployed for at least 12 months.
(2) Difference between the average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees. It is defined as "unadjusted", as it does not correct for the distribution of individual characteristics (and thus gives an overall picture of gender inequalities in terms of pay). All employees working in firms with ten or more employees, without restrictions for age and hours worked, are included.
(3) PISA (OECD) results for low achievement in mathematics for 15 year-olds.
(4) Impact of socio-economic and cultural status on PISA (OECD) scores.
(5) Average of first three quarters of 2019. Data for youth unemployment rate is seasonally adjusted.
***Source:*** Eurostat, OECD

Table C.4: **Social inclusion and health indicators**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Expenditure on social protection benefits* (% of GDP) | | | | | | |
| *Sickness/healthcare* | 6.2 | 6.1 | 6.0 | 6.0 | 6.0 | : |
| *Disability* | 2.0 | 1.9 | 1.8 | 1.7 | 1.7 | : |
| *Old age and survivors* | 14.6 | 14.7 | 14.4 | 13.9 | 13.7 | : |
| *Family/children* | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | : |
| *Unemployment* | 1.8 | 1.5 | 1.1 | 0.9 | 0.8 | : |
| *Housing* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | : |
| *Social exclusion n.e.c.* | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | : |
| ***Total*** | 26.0 | 25.5 | 24.7 | 24.0 | 23.6 | : |
| *of which: means-tested benefits* | 2.2 | 2.1 | 2.0 | 1.9 | 1.9 | : |
| General government expenditure by function (% of GDP) | | | | | | |
| *Social protection* | 19.2 | 18.8 | 18.4 | 18.0 | 17.4 | : |
| *Health* | 6.4 | 6.2 | 6.1 | 6.0 | 6.0 | : |
| *Education* | 5.9 | 5.7 | 5.1 | 4.8 | 5.0 | : |
| Out-of-pocket expenditure on healthcare | 27.0 | 27.7 | 27.7 | 27.8 | 27.5 | : |
| Children at risk of poverty or social exclusion (% of people aged 0-17)* | 31.7 | 31.4 | 29.6 | 27.0 | 24.2 | 21.9 |
| At-risk-of-poverty rate(1) (% of total population) | 18.7 | 19.5 | 19.5 | 19.0 | 18.3 | 17.3 |
| In-work at-risk-of-poverty rate (% of persons employed) | 10.5 | 10.7 | 10.9 | 10.9 | 10.8 | 9.7 |
| Severe material deprivation rate(2) (% of total population) | 10.9 | 10.6 | 9.6 | 8.4 | 6.9 | 6.0 |
| Severe housing deprivation rate(3), by tenure status | | | | | | |
| *Owner, with mortgage or loan* | 3.5 | 4.0 | 3.2 | 3.4 | 3.1 | 2.7 |
| *Tenant, rent at market price* | 10.5 | 10.1 | 8.0 | 9.0 | 6.5 | 7.8 |
| Proportion of people living in low work intensity households(4) (% of people aged 0-59) | 12.2 | 12.2 | 10.9 | 9.1 | 8.0 | 7.2 |
| Poverty thresholds, expressed in national currency at constant prices* | 4364 | 4372 | 4489 | 4650 | 4773 | 4842 |
| Healthy life years | | | | | | |
| *Females* | 9.3 | 5.6 | 5.4 | 6.4 | 6.7 | : |
| *Males* | 9.6 | 6.9 | 7.0 | 7.7 | 7.9 | : |
| Aggregate replacement ratio for pensions(5) | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 |
| Connectivity dimension of the Digital Economy and Society Index (DESI)(6) | : | 54.4 | 57.3 | 63.0 | 67.4 | : |
| GINI coefficient before taxes and transfers* | 54.8 | 56.3 | 55.5 | 54.7 | 54.0 | : |
| GINI coefficient after taxes and transfers* | 34.2 | 34.5 | 34.0 | 33.9 | 33.5 | : |

* Non-scoreboard indicator
(1) At-risk-of-poverty rate (AROP): proportion of people with an equivalised disposable income below 60 % of the national equivalised median income.
(2) Proportion of people who experience at least four of the following forms of deprivation: not being able to afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.
(3) Percentage of total population living in overcrowded dwellings and exhibiting housing deprivation.
(4) People living in households with very low work intensity: proportion of people aged 0-59 living in households where the adults (excluding dependent children) worked less than 20 % of their total work-time potential in the previous 12 months.
(5) Ratio of the median individual gross pensions of people aged 65-74 relative to the median individual gross earnings of people aged 50-59.
(6) Fixed broadband take up (33%), mobile broadband take up (22%), speed (33%) and affordability (11%), from the Digital Scoreboard.
***Source:*** Eurostat, OECD

Table C.5: **Product market performance and policy indicators**

| Performance indicators | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Labour productivity per person[1] growth (t/t-1) in % | | | | | | |
| Labour productivity growth in industry | 0.89 | 0.36 | -0.47 | -0.60 | 0.33 | -0.63 |
| Labour productivity growth in construction | 4.04 | -3.70 | -1.26 | 0.65 | 0.69 | -0.26 |
| Labour productivity growth in market services | 2.64 | -3.66 | -2.17 | -1.03 | -1.60 | -0.76 |
| Unit Labour Cost (ULC) index[2] growth (t/t-1) in % | | | | | | |
| ULC growth in industry | 0.46 | 0.12 | 1.21 | 1.75 | 2.41 | 3.89 |
| ULC growth in construction | -2.36 | 2.61 | 2.45 | 1.05 | 0.57 | 3.96 |
| ULC growth in market services | -1.01 | 0.87 | 3.63 | 1.33 | 3.83 | 4.04 |
| **Business environment** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Time needed to enforce contracts[3] (days) | 870 | 870 | 755 | 755 | 755 | 755 |
| Time needed to start a business[3] (days) | 6.0 | 6.0 | 6.0 | 6.0 | 6.5 | 6.5 |
| Outcome of applications by SMEs for bank loans[4] | 0.71 | 0.68 | 0.55 | 0.60 | 0.54 | 0.53 |
| **Research and innovation** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| R&D intensity | 1.32 | 1.29 | 1.24 | 1.28 | 1.32 | 1.35 |
| General government expenditure on education as % of GDP | 5.90 | 5.70 | 5.10 | 4.80 | 5.00 | : |
| Employed people with tertiary education and/or people employed in S&T as % of total employment | 30 | 33 | 34 | 35 | 36 | 36 |
| Population having completed tertiary education[5] | 18 | 20 | 21 | 22 | 22 | 23 |
| Young people with upper secondary education[6] | 70 | 72 | 77 | 78 | 79 | 81 |
| Trade balance of high technology products as % of GDP | -1.56 | -1.61 | -1.56 | -1.76 | -1.86 | -2.18 |
| **Product and service markets and competition** | **2003** | **2008** | **2013** | | | **2018*** |
| OECD product market regulation (PMR)[7], overall | 2.12 | 1.69 | 1.29 | | | 1.34 |
| OECD PMR[7], retail | 3.29 | 3.97 | 1.83 | | | 2.55 |
| OECD PMR[7], professional services[8] | : | 3.08 | 2.92 | | | 2.24 |
| OECD PMR[7], network industries[9] | 3.09 | 2.55 | 2.18 | | | 1.22 |

Notes:
*While the indicator values from 2003 to 2013 are comparable, the methodology has considerably changed in 2018. As a result, past vintages cannot be compared with the 2018 PMR indicators.
(1) Value added in constant prices divided by the number of persons employed.
(2) Compensation of employees in current prices divided by value added in constant prices.
(3) The methodologies, including the assumptions, for this indicator are shown in detail here: http://www.doingbusiness.org/methodology.
(4) Average of the answer to question Q7B_a. "[Bank loan]: If you applied and tried to negotiate for this type of financing over the past six months, what was the outcome?". Answers were codified as follows: zero if received everything, one if received 75% and above, two if received below 75%, three if refused or rejected and treated as missing values if the application is still pending or don't know.
(5) Percentage population aged 15-64 having completed tertiary education.
(6) Percentage population aged 20-24 having attained at least upper secondary education.
(7) Index: 0 = not regulated; 6 = most regulated. The methodologies of the OECD product market regulation indicators are shown in detail here: http://www.oecd.org/competition/reform/indicatorsofproductmarketregulationhomepage.htm
(8) Simple average of the indicators of regulation for lawyers, accountants, architects and engineers.
(9) Aggregate OECD indicators of regulation in energy, transport and communications (ETCR).
***Sources:*** European Commission; World Bank — Doing Business (for enforcing contracts and time to start a business); OECD (for the product market regulation indicators); SAFE (for outcome of SMEs' applications for bank loans).

Table C.6: **Green growth**

| Green growth performance | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|
| ***Macroeconomic*** | | | | | | | |
| Energy intensity | kgoe / € | 0.13 | 0.13 | 0.13 | 0.13 | 0.13 | 0.13 |
| Carbon intensity | kg / € | 0.38 | 0.38 | 0.39 | 0.38 | 0.39 | - |
| Resource intensity (reciprocal of resource productivity) | kg / € | 0.87 | 0.91 | 0.91 | 0.88 | 0.90 | 0.89 |
| Waste intensity | kg / € | - | 0.08 | - | 0.08 | - | - |
| Energy balance of trade | % GDP | -3.7 | -3.6 | -2.3 | -1.6 | -2.2 | -2.5 |
| Weighting of energy in HICP | % | 8.59 | 7.86 | 8.25 | 8.11 | 8.27 | 7.95 |
| Difference between energy price change and inflation | p.p. | 2.6 | 1.7 | -1.9 | -2.1 | -1.9 | 1.5 |
| Real unit of energy cost | % of value added | 19.9 | 20.4 | 21.1 | 21.9 | - | - |
| Ratio of environmental taxes to labour taxes | ratio | 0.16 | 0.17 | 0.18 | 0.19 | 0.19 | - |
| Environmental taxes | % GDP | 2.2 | 2.3 | 2.4 | 2.6 | 2.6 | 2.6 |
| ***Sectoral*** | | | | | | | |
| Industry energy intensity | kgoe / € | 0.14 | 0.14 | 0.13 | 0.13 | 0.13 | 0.13 |
| Real unit energy cost for manufacturing industry excl. refining | % of value added | 15.4 | 15.8 | 16.3 | 16.9 | - | - |
| Share of energy-intensive industries in the economy | % GDP | 7.66 | 7.85 | 7.95 | 7.92 | 7.86 | - |
| Electricity prices for medium-sized industrial users | € / kWh | 0.11 | 0.12 | 0.11 | 0.11 | 0.11 | 0.11 |
| Gas prices for medium-sized industrial users | € / kWh | 0.04 | 0.04 | 0.04 | 0.03 | 0.03 | 0.03 |
| Public R&D for energy | % GDP | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Public R&D for environmental protection | % GDP | 0.01 | 0.01 | 0.02 | 0.02 | 0.02 | 0.02 |
| Municipal waste recycling rate | % | 25.8 | 30.4 | 29.8 | 30.9 | 28.4 | - |
| Share of GHG emissions covered by ETS* | % | 39.0 | 38.4 | 40.8 | 38.3 | 42.8 | 39.2 |
| Transport energy intensity | kgoe / € | 0.90 | 0.94 | 0.95 | 1.00 | 0.97 | 1.06 |
| Transport carbon intensity | kg / € | 0.75 | 0.84 | 0.81 | 0.86 | 0.82 | 0.83 |
| **Security of energy supply** | | | | | | | |
| Energy import dependency | % | 73.3 | 72.1 | 78.2 | 74.0 | 79.9 | - |
| Aggregated supplier concentration index | HHI | 28.0 | 28.2 | 31.9 | 30.2 | 26.4 | - |
| Diversification of energy mix | HHI | 30.9 | 31.1 | 29.7 | 31.2 | 29.9 | 30.2 |

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2010 prices)
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
Carbon intensity: greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
Resource intensity: domestic material consumption (in kg) divided by GDP (in EUR)
Waste intensity: waste (in kg) divided by GDP (in EUR)
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP.
Weighting of energy in HICP: the proportion of 'energy' items in the consumption basket used for the construction of the HICP.
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual % change).
Real unit energy cost: real energy costs as % of total value added for the economy.
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2010 EUR).
Real unit energy costs for manufacturing industry excluding refining: real costs as % of value added for manufacturing sectors.
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP.
Electricity and gas prices for medium-sized industrial users: consumption band 500–20 00MWh and 10 000 -100 000 GJ; figures excl. VAT.
Recycling rate of municipal waste: ratio of recycled and composted municipal waste to total municipal waste.
Public R&D for energy or for the environment: government spending on R&D for these categories as % of GDP.
Proportion of GHG emissions covered by EU emissions trading system (ETS) (excluding aviation): based on GHG emissions. (excl. land use, land use change and forestry) as reported by Member States to the European Environment Agency.
Transport energy intensity: final energy consumption of transport activity including international aviation (kgoe) divided by gross value added in transportation and storage sector (in 2010 EUR).
Transport carbon intensity: GHG emissions in transportation and storage sector divided by gross value added in transportation and storage sector (in 2010 EUR).
Energy import dependency: net energy imports divided by gross inland energy consumption incl. consumption of international bunker fuels.
Aggregated supplier concentration index: Herfindahl index covering oil, gas and coal. Smaller values indicate larger diversification and hence lower risk.
Diversification of the energy mix: Herfindahl index covering natural gas, total petrol products, nuclear heat, renewable energies and solid fuels. Smaller values indicate larger diversification.
* European Commission and European Environment Agency - 2018 provisional data.
***Source:*** European Commission and European Environment Agency (Share of GHG emissions covered by ETS); European Commission (Environmental taxes over labour taxes and GDP); Eurostat (all other indicators).

# ANNEX D: INVESTMENT GUIDANCE ON JUST TRANSITION FUND 2021-2027 FOR PORTUGAL

Building on the Commission proposal, this Annex presents the preliminary views of Commission services on priority investment areas and framework conditions for effective delivery for the 2021-2027 Just Transition Fund investments in Portugal ([64]).

These priority investment areas are derived from the broader analysis of territories facing serious socio-economic challenges deriving from the transition process towards a climate-neutral economy of the Union by 2050 in Portugal, assessed in the report. This Annex provides the basis for a dialogue between Portugal and the Commission services as well as the relevant guidance for the Member States in preparing their territorial just transition plans, which will form the basis for programming the Just Transition Fund. The Just Transition Fund investments complement those under Cohesion Policy funding for which guidance in the form of Annex D was given in the 2019 Country Report for Portugal ([65]).

In Portugal, there are two remaining coal-fired power plants: in the regions of Alentejo Litoral (municipality of Sines) and Médio Tejo (in Pego, municipality of Abrantes). These plants are the largest greenhouse gas emitters in Portugal, all sectors included. Highly polluting industries of manufacture of refined petroleum products and plastics are also located in Sines and Matosinhos. In line with the Portuguese Carbon Neutrality Roadmap 2050 targets reflected in Portugal's draft National Energy and Climate Plan, the Portuguese government has committed to decommissioning these two plants by September 2023.

Estimates suggest that the closure of the plants would affect around 650 jobs: 350 in Sines, 200 in Pego, and 100 in the port of Sines where coal is received. For the two municipalities (Sines and Abrantes), the jobs at stake correspond to almost 8% and 3% of the total number of people employed. Based on this preliminary assessment, it appears warranted that the Just Transition Fund concentrates its intervention on these regions.

In order to tackle these challenges, high priority investment needs have been identified to make the economies of these regions more modern and competitive based on sustainable investments and to help these regions to absorb the structural changes of the transition. Key actions of the Just Transition Fund could target in particular:

- investment in the deployment of technologies and infrastructures for affordable clean energy, energy efficiency and renewable energy;

- investment in the creation of new firms, including through business incubators and consulting services;

- investment in research and innovation activities and fostering the transfer of advanced technologies;

- investment in enhancing the circular economy, including through waste prevention, reduction, resource efficiency, reuse repair and recycling;

- productive investments in SMEs, including start-ups; and

- investment in the regeneration and decontamination of sites, land restoration and repurposing projects.

---

([64]) This Annex is to be considered in conjunction with the EC proposal for a Regulation of the European Parliament and of the Council on the Just Transition Fund 2021-2027 (COM (2020) 22) and the EC proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument (COM (2020) 23).

([65]) SWD(2019) 1021 final

The smart specialisation strategies of Centro and Alentejo ([66]) provide an important framework to set priorities for innovation in support of economic transformation. The economic diversification process that Centro and Alentejo could undergo to pave the way to their decarbonisation may take account of the sectors identified in their respective regional smart specialisation strategies referring, inter alia, to the development of the renewable energy sector (in particular, there is potential for wind, solar biomass and hydrogen) and energy efficiency as activities leading to new employment opportunities, from which the workers affected could benefit; they also refer to agribusiness, wood, biotechnology and sustainable tourism through the fostering of natural and cultural heritage, as sectors with high potential.

Given the dimension of the challenge, exceptionally, and where necessary for the implementation of the territorial just transition plan, it could be considered support to productive investments in large enterprises. Furthermore, large enterprises in these municipalities, performing activities listed in Annex I to Directive 2003/87/EC employ a substantial number of workers and their activity is at risk due to their high greenhouse gas emissions. Support to investments to reduce the emissions could be considered, provided that they achieve a substantial reduction of emissions (going substantially below the relevant benchmarks used for free allocation under Directive 2003/87/EC) and on the condition that the investments are compatible with the European Green Deal.

Moreover, priority investment needs have been identified to alleviate the social costs of the transition, thereby ensuring the employability and adaptability of workers affected from the plant closures. Active Labour Market Policies aimed at equipping those affected with skills and competences in demand by employers could be developed, as well as intensified job search support to ensure a rapid transition into new employment. Key actions of the Just Transition Fund could target in particular:

- upskilling and reskilling of workers;
- job-search assistance to jobseekers;
- active inclusion of jobseekers.

([66]) As defined in Article 2(3) of Regulation EU 1303/2013 (CPR)

# ANNEX E: PROGRESS TOWARDS THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)

### Assessment of Portugal's short-term progress towards the SDGs ([67])

Table E.1 shows the data for Portugal and the EU-28 for the indicators included in the EU SDG indicator set used by Eurostat for monitoring progress towards the SDGs in an EU context ([68]). As the short-term trend at EU-level is assessed over a 5-year period, both the value at the beginning of the period and the latest available value is presented. The indicators are regularly updated on the SDI dedicated section of the Eurostat website.

Table E.1: **Indicators measuring Portugal's progress towards the SDGs**

| SDG / Sub-theme | Indicator | Unit | Portugal | | | | EU-28 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Starting | | Latest | | Starting | | Latest | |
| | | | year | value | year | value | year | value | year | value |
| **SDG 1 – No poverty** | | | | | | | | | | |
| Multidimensional poverty | People at risk of poverty or social exclusion | % of population | 2013 | 27.5 | 2018 | 21.6 | 2013 | 24.6 | 2018 | 21.9 |
| | People at risk of income poverty after social transfers | % of population | 2013 | 18.7 | 2018 | 17.3 | 2013 | 16.7 | 2018 | 17.1 |
| | Severely materially deprived people | % of population | 2013 | 10.9 | 2018 | 6.0 | 2013 | 9.6 | 2018 | 5.8 |
| | People living in households with very low work intensity | % of population aged 0 to 59 | 2013 | 12.2 | 2018 | 7.2 | 2013 | 11.0 | 2018 | 8.8 |
| | In-work at-risk-of-poverty rate | % of population aged 18 or over | 2013 | 10.5 | 2018 | 9.7 | 2013 | 9.0 | 2018 | 9.5 |
| Basic needs | Population living in a dwelling with a leaking roof, damp walls, floors or foundation or rot in window frames or floor | % of population | 2013 | 31.9 | 2018 | 26.9 | 2013 | 15.6 | 2018 | 13.9 |
| | Self-reported unmet need for medical care | % of population aged 16 or over | 2013 | 3.0 | 2018 | 2.1 | 2013 | 3.7 | 2018 | 2.0 |
| | Population having neither a bath, nor a shower, nor indoor flushing toilet in their household | % of population | 2013 | 0.9 | 2018 | 0.6 | 2013 | 2.2 | 2018 | 1.7 |
| | Population unable to keep home adequately warm | % of population | 2013 | 27.9 | 2018 | 19.4 | 2013 | 10.7 | 2018 | 7.3 |
| | Overcrowding rate | % of population | 2013 | 11.4 | 2018 | 9.6 | 2013 | 17.0 | 2018 | 15.5 |
| **SDG 2 – Zero hunger** | | | | | | | | | | |
| Malnutrition | Obesity rate | % of population aged 18 or over | 2014 | 16.6 | 2017 | 15.7 | 2014 | 15.9 | 2017 | 15.2 |
| Sustainable agricultural production | Agricultural factor income per annual work unit (AWU) | EUR, chain linked volumes (2010) | 2012 | 7 578 | 2017 | 10 902 | 2012 | 14 865 | 2017 | 17 304 |
| | Government support to agricultural research and development | million EUR | 2013 | 17.1 | 2018 | 18.8 | 2013 | 3 048.6 | 2018 | 3 242.5 |
| | Area under organic farming | % of utilised agricultural area | 2013 | 5.3 | 2018 | 5.9 | 2013 | 5.7 | 2018 | 7.5 |
| | Gross nitrogen balance on agricultural land | kg per hectare | 2012 | 43 | 2017 | 46 | 2010 | 49 | 2015 | 51 |
| Environmental impacts of agricultural production | Ammonia emissions from agriculture | kg per ha of utilised agricultural area | 2012 | 12 | 2017 | 13.1 | 2011 | 19.7 | 2016 | 20.3 |
| | Nitrate in groundwater | mg $NO_3$ per litre | 2012 | 20.4 | 2017 | 18.4 | 2012 | 19.2 | 2017 | 19.1 |
| | Estimated soil erosion by water | $km^2$ | 2010 | 3 736.5 | 2016 | 3 417.6 | 2010 | 207 232.2 | 2016 | 205 294.5 |
| | Common farmland bird index | index 2000 = 100 | N/A | : | N/A | : | 2013 | 83.9 | 2018 | 80.7 |
| **SDG 3 – Good health and well-being** | | | | | | | | | | |
| Healthy lives | Life expectancy at birth | years | 2012 | 80.6 | 2017 | 81.6 | 2012 | 80.3 | 2017 | 80.9 |
| | Share of people with good or very good perceived health | % of population aged 16 or over | 2013 | 46.2 | 2018 | 49.3 | 2013 | 67.3 | 2018 | 69.2 |
| Health determinants | Smoking prevalence | % of population aged 15 or over | 2012 | 23 | 2017 | 26 | 2014 | 26 | 2017 | 26 |
| | Obesity rate | % of population aged 18 or over | 2014 | 16.6 | 2017 | 15.7 | 2014 | 15.9 | 2017 | 15.2 |
| | Population living in households considering that they suffer from noise | % of population | 2013 | 22.7 | 2018 | 23.0 | 2013 | 18.8 | 2018 | 18.3 |
| | Exposure to air pollution by particulate matter ($PM_{2.5}$) | $\mu g/m^3$ | 2012 | 9.2 | 2017 | 12.0 | 2012 | 16.8 | 2017 | 14.1 |
| Causes of death | Death rate due to chronic diseases | number per 100 000 persons aged less than 65 | 2011 | 119.2 | 2016 | 115.5 | 2011 | 132.5 | 2016 | 119.0 |
| | Death rate due to tuberculosis, HIV and hepatitis | number per 100 000 persons | 2011 | 8.2 | 2016 | 6.0 | 2011 | 3.4 | 2016 | 2.6 |
| | People killed in accidents at work | number per 100 000 employed persons | 2012 | 4.80 | 2017 | 2.94 | 2012 | 1.91 | 2017 | 1.65 |
| | People killed in road accidents | number of killed people | 2012 | 718 | 2017 | 602 | 2012 | 28 231 | 2017 | 25 257 |
| Access to health care | Self-reported unmet need for medical care | % of population aged 16 or over | 2013 | 3.0 | 2018 | 2.1 | 2013 | 3.7 | 2018 | 2.0 |

*(Continued on the next page)*

([67]) Data extracted on 9 February 2020 from the Eurostat database (official EU SDG indicator set; see https://ec.europa.eu/eurostat/web/sdi/main-tables).
([68]) The EU SDG indicator set is aligned as far as appropriate with the UN list of global indicators, noting that the UN indicators are selected for global level reporting and are therefore not always relevant in an EU context. The EU SDG indicators have strong links with EU policy initiatives.

*Table (continued)*

| SDG / Sub-theme | Indicator | Unit | Portugal | | | | EU-28 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Starting | | Latest | | Starting | | Latest | |
| | | | year | value | year | value | year | value | year | value |
| **SDG 4 – Quality education** | | | | | | | | | | |
| Basic education | Early leavers from education and training | % of the population aged 18 to 24 | 2013 | 18.9 | 2018 | 11.8 | 2013 | 11.9 | 2018 | 10.6 |
| | Participation in early childhood education | % of the age group between 4-years-old and the starting age of compulsory education | 2012 | 95.0 | 2017 | 94.2 | 2012 | 94.0 | 2017 | 95.4 |
| | Underachievement in reading | % of 15-year-old students | 2015 | 17.2 | 2018 | 20.2 | 2015 | 19.7 | 2018 | 21.7 |
| | Young people neither in employment nor in education and training | % of population aged 15 to 29 | 2013 | 16.4 | 2018 | 9.6 | 2013 | 15.9 | 2018 | 12.9 |
| Tertiary education | Tertiary educational attainment | % of the population aged 30 to 34 | 2013 | 30.0 | 2018 | 33.5 | 2013 | 37.1 | 2018 | 40.7 |
| | Employment rate of recent graduates | % of population aged 20 to 34 | 2013 | 67.8 | 2018 | 80.6 | 2013 | 75.4 | 2018 | 81.7 |
| Adult education | Adult participation in learning | % of population aged 25 to 64 | 2013 | 9.7 | 2018 | 10.3 | 2013 | 10.7 | 2018 | 11.1 |
| **SDG 5 – Gender equality** | | | | | | | | | | |
| Gender-based violence | Physical and sexual violence to women experienced within 12 months prior to the interview | % of women | N/A | : | 2012 | 6 | N/A | : | 2012 | 8 |
| Education | Gender gap for early leavers from education and training | percentage points, persons aged 18–24 | 2013 | 9.1 | 2018 | 6.0 | 2013 | 3.4 | 2018 | 3.3 |
| | Gender gap for tertiary educational attainment | percentage points, persons aged 30–34 | 2013 | 11.7 | 2018 | 18.4 | 2013 | 8.5 | 2018 | 10.1 |
| | Gender gap for employment rate of recent graduates | percentage points, persons aged 20–34 | 2013 | 2.6 | 2018 | 0.0 | 2013 | 4.4 | 2018 | 3.4 |
| Employment | Gender pay gap in unadjusted form | % of average gross hourly earnings of men | 2012 | 15.0 | 2017 | 16.3 | 2012 | 17.4 | 2017 | 16.0 |
| | Gender employment gap | percentage points, persons aged 20–64 | 2013 | 6.4 | 2018 | 6.8 | 2013 | 11.7 | 2018 | 11.6 |
| | Gender gap in inactive population due to caring responsibilities | percentage points, persons aged 20–64 | 2013 | 19.1 | 2018 | 19.3 | 2013 | 25.5 | 2018 | 27.1 |
| Leadership positions | Seats held by women in national parliaments and governments | % of seats | 2014 | 31.3 | 2019 | 36.1 | 2014 | 27.2 | 2019 | 31.5 |
| | Positions held by women in senior management | % of board members | 2014 | 9.5 | 2019 | 24.8 | 2014 | 20.2 | 2019 | 27.8 |
| **SDG 6 – Clean water and sanitation** | | | | | | | | | | |
| Sanitation | Population having neither a bath, nor a shower, nor indoor flushing toilet in their household | % of population | 2013 | 0.9 | 2018 | 0.6 | 2013 | 2.2 | 2018 | 1.7 |
| | Population connected to at least secondary wastewater treatment | % of population | 2009 | 55.8 | 2017 | 84.6 | N/A | : | N/A | : |
| Water quality | Biochemical oxygen demand in rivers | mg $O_2$ per litre | N/A | : | N/A | : | 2012 | 2.06 | 2017 | 2.00 |
| | Nitrate in groundwater | mg $NO_3$ per litre | 2012 | 20.4 | 2017 | 18.4 | 2012 | 19.2 | 2017 | 19.1 |
| | Phosphate in rivers | mg $PO_4$ per litre | N/A | : | N/A | : | 2012 | 0.096 | 2017 | 0.093 |
| | Inland water bathing sites with excellent water quality | % of bathing sites with excellent water quality | 2013 | 59.8 | 2018 | 78.9 | 2013 | 76.5 | 2018 | 80.8 |
| Water use efficiency | Water exploitation index | % of long term average available water (LTAA) | N/A | : | 2017 | 6.6 | N/A | : | N/A | : |
| **SDG 7 – Affordable and clean energy** | | | | | | | | | | |
| Energy consumption | Primary energy consumption | million tonnes of oil equivalent (Mtoe) | 2013 | 21.0 | 2018 | 22.6 | 2013 | 1 577.4 | 2018 | 1 551.9 |
| | Final energy consumption | million tonnes of oil equivalent (Mtoe) | 2013 | 15.9 | 2018 | 16.9 | 2013 | 1 115.5 | 2018 | 1 124.1 |
| | Final energy consumption in households per capita | kgoe | 2013 | 252 | 2018 | 284 | 2013 | 605 | 2018 | 552 |
| | Energy productivity | EUR per kgoe | 2013 | 7.3 | 2018 | 7.5 | 2013 | 7.6 | 2018 | 8.5 |
| | Greenhouse gas emissions intensity of energy consumption | index 2000 = 100 | 2012 | 87.0 | 2017 | 86.8 | 2012 | 91.5 | 2017 | 86.5 |
| Energy supply | Share of renewable energy in gross final energy consumption | % | 2013 | 25.7 | 2018 | 30.3 | 2013 | 15.4 | 2018 | 18.0 |
| | Energy import dependency | % of imports in gross available energy | 2013 | 73.3 | 2018 | 75.6 | 2013 | 53.2 | 2018 | 55.7 |
| Access to affordable energy | Population unable to keep home adequately warm | % of population | 2013 | 27.9 | 2018 | 19.4 | 2013 | 10.7 | 2018 | 7.3 |

*(Continued on the next page)*

*Table (continued)*

| SDG / Sub-theme | Indicator | Unit | Portugal Starting year | Portugal Starting value | Portugal Latest year | Portugal Latest value | EU-28 Starting year | EU-28 Starting value | EU-28 Latest year | EU-28 Latest value |
|---|---|---|---|---|---|---|---|---|---|---|
| **SDG 8 – Decent work and economic growth** | | | | | | | | | | |
| Sustainable economic growth | Real GDP per capita | EUR per capita, chain-linked volumes (2010) | 2013 | 16 050 | 2018 | 18 110 | 2013 | 25 750 | 2018 | 28 280 |
| | Investment share of GDP | % of GDP | 2013 | 14.8 | 2018 | 17.6 | 2013 | 19.5 | 2018 | 20.9 |
| | Resource productivity | EUR per kg, chain-linked volumes (2010) | 2013 | 1.15 | 2018 | 1.11 | 2013 | 1.98 | 2018 | 2.04 |
| Employment | Young people neither in employment nor in education and training | % of population aged 15 to 29 | 2013 | 16.4 | 2018 | 9.6 | 2013 | 15.9 | 2018 | 12.9 |
| | Employment rate | % of population aged 20 to 64 | 2013 | 65.4 | 2018 | 75.4 | 2013 | 68.4 | 2018 | 73.2 |
| | Long-term unemployment rate | % of active population | 2013 | 9.3 | 2018 | 3.1 | 2013 | 5.1 | 2018 | 2.9 |
| | Gender gap in inactive population due to caring responsibilities | percentage points, persons aged 20–64 | 2013 | 19.1 | 2018 | 19.3 | 2013 | 25.5 | 2018 | 27.1 |
| Decent work | People killed in accidents at work | number per 100 000 employed persons | 2012 | 4.80 | 2017 | 2.94 | 2012 | 1.91 | 2017 | 1.65 |
| | In-work at-risk-of-poverty rate | % of population | 2013 | 10.5 | 2018 | 9.7 | 2013 | 9 | 2018 | 9.5 |
| **SDG 9 – Industry, innovation and infrastructure** | | | | | | | | | | |
| R&D and innovation | Gross domestic expenditure on R&D | % of GDP | 2013 | 1.32 | 2018 | 1.35 | 2013 | 2.01 | 2018 | 2.12 |
| | Employment in high- and medium-high technology manufacturing and knowledge-intensive services | % of total employment | 2013 | 36.2 | 2018 | 40.2 | 2013 | 45.0 | 2018 | 46.1 |
| | R&D personnel | % of active population | 2013 | 0.93 | 2018 | 1.15 | 2013 | 1.15 | 2018 | 1.36 |
| | Patent applications to the European Patent Office (EPO) | number | 2012 | 112 | 2017 | 142 | 2012 | 56 772 | 2017 | 54 649 |
| Sustainable transport | Share of buses and trains in total passenger transport | % of total inland passenger-km | 2012 | 10.5 | 2017 | 11.5 | 2012 | 17.2 | 2017 | 16.7 |
| | Share of rail and inland waterways in total freight transport | % of total inland freight tonne-km | 2012 | 12.8 | 2017 | 14.1 | 2012 | 25.4 | 2017 | 23.3 |
| | Average CO2 emissions per km from new passenger cars | g $CO_2$ per km | 2013 | 112.2 | 2018 | 106.1 | 2014 | 123.4 | 2018 | 120.4 |
| **SDG 10 – Reduced inequalities** | | | | | | | | | | |
| Inequalities within countries | Relative median at-risk-of-poverty gap | % distance to poverty threshold | 2013 | 27.4 | 2018 | 24.5 | 2013 | 23.8 | 2018 | 24.6 |
| | Income distribution | income quintile share ratio | 2013 | 6.0 | 2018 | 5.2 | 2013 | 5.0 | 2018 | 5.2 |
| | Income share of the bottom 40 % of the population | % of income | 2013 | 19.4 | 2018 | 20.5 | 2013 | 21.1 | 2018 | 21.0 |
| | People at risk of income poverty after social transfers | % of population | 2013 | 18.7 | 2018 | 17.3 | 2013 | 16.7 | 2018 | 17.1 |
| Inequalities between countries | Purchasing power adjusted GDP per capita | Real expenditure per capita (in PPS) | 2013 | 20 500 | 2018 | 23 800 | 2013 | 26 800 | 2018 | 31 000 |
| | Adjusted gross disposable income of households per capita | Purchasing power standard (PPS) per inhabitant | 2013 | 16 493 | 2018 | 18 513 | 2013 | 20 392 | 2018 | 22 824 |
| | Financing to developing countries | million EUR, current prices | 2012 | 370 | 2017 | 1 903 | 2012 | 147 962 | 2017 | 155 224 |
| | Imports from developing countries | million EUR, current prices | 2013 | 11 785 | 2018 | 11 690 | 2013 | 817 475 | 2018 | 1 013 981 |
| Migration and social inclusion | Asylum applications | Positive first instance decisions, per million inhabitants | 2013 | 13 | 2018 | 61 | 2013 | 213 | 2018 | 424 |
| **SDG 11 – Sustainable cities and communities** | | | | | | | | | | |
| Quality of life in cities and communities | Overcrowding rate | % of population | 2013 | 11.4 | 2018 | 9.6 | 2013 | 17.0 | 2018 | 15.5 |
| | Population living in households considering that they suffer from noise | % of population | 2013 | 22.7 | 2018 | 23.0 | 2013 | 18.8 | 2018 | 18.3 |
| | Exposure to air pollution by particulate matter ($PM_{2.5}$) | µg/m³ | 2012 | 9.2 | 2017 | 12.0 | 2012 | 16.8 | 2017 | 14.1 |
| | Population living in a dwelling with a leaking roof, damp walls, floors or foundation or rot in window frames or floor | % of population | 2013 | 31.9 | 2018 | 26.9 | 2013 | 15.6 | 2018 | 13.9 |
| | Population reporting occurrence of crime, violence or vandalism in their area | % of population | 2013 | 13.3 | 2018 | 6.5 | 2013 | 14.5 | 2018 | 12.7 |
| Sustainable mobility | People killed in road accidents | number of killed people | 2012 | 718 | 2017 | 602 | 2012 | 28 231 | 2017 | 25 257 |
| | Share of buses and trains in total passenger transport | % of total inland passenger-km | 2012 | 10.5 | 2017 | 11.5 | 2012 | 17.2 | 2017 | 16.7 |
| Adverse environmental impacts | Settlement area per capita | m² | 2009 | 588.0 | 2015 | 621.2 | 2012 | 625.0 | 2015 | 653.7 |
| | Recycling rate of municipal waste | % of total waste generated | 2013 | 25.8 | 2018 | 28.9 | 2013 | 41.7 | 2018 | 47.0 |
| | Population connected to at least secondary wastewater treatment | % of population | 2009 | 55.8 | 2017 | 84.6 | N/A | : | N/A | : |

*(Continued on the next page)*

*Table (continued)*

| SDG / Sub-theme | Indicator | Unit | Portugal | | | | EU-28 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Starting | | Latest | | Starting | | Latest | |
| | | | year | value | year | value | year | value | year | value |
| **SDG 12 – Responsible consumption and production** | | | | | | | | | | |
| Decoupling environmental impacts from economic growth | Consumption of toxic chemicals | million tonnes | N/A | : | N/A | : | 2013 | 300.3 | 2018 | 313.9 |
| | Resource productivity | EUR per kg, chain-linked volumes (2010) | 2013 | 1.15 | 2018 | 1.11 | 2013 | 1.98 | 2018 | 2.04 |
| | Average CO2 emissions per km from new passenger cars | g $CO_2$ per km | 2013 | 112.2 | 2018 | 106.1 | 2014 | 123.4 | 2018 | 120.4 |
| | Energy productivity | EUR per kgoe | 2013 | 7.3 | 2018 | 7.5 | 2013 | 7.6 | 2018 | 8.5 |
| Energy consumption | Primary energy consumption | million tonnes of oil equivalent (Mtoe) | 2013 | 21.0 | 2018 | 22.6 | 2013 | 1 577.4 | 2018 | 1 551.9 |
| | Final energy consumption | million tonnes of oil equivalent (Mtoe) | 2013 | 15.9 | 2018 | 16.9 | 2013 | 1 115.5 | 2018 | 1 124.1 |
| | Share of renewable energy in gross final energy consumption | % | 2013 | 25.7 | 2018 | 30.3 | 2013 | 15.4 | 2018 | 18.0 |
| Waste generation and management | Circular material use rate | % of material input for domestic use | 2012 | 2.0 | 2017 | 1.8 | 2012 | 11.5 | 2017 | 11.7 |
| | Generation of waste excluding major mineral wastes | kg per capita | 2012 | 1 088 | 2016 | 1 148 | 2012 | 1 716 | 2016 | 1 772 |
| | Recycling rate of waste excluding major mineral wastes | % of total waste treated | 2012 | 49 | 2016 | 52 | 2012 | 55 | 2016 | 57 |
| **SDG 13 – Climate action** | | | | | | | | | | |
| Climate mitigation | Greenhouse gas emissions | index 1990 = 100 | 2012 | 112.8 | 2017 | 122.8 | 2012 | 82.1 | 2017 | 78.3 |
| | Greenhouse gas emissions intensity of energy consumption | index 2000 = 100 | 2012 | 87.0 | 2017 | 86.8 | 2012 | 91.5 | 2017 | 86.5 |
| | Primary energy consumption | million tonnes of oil equivalent (Mtoe) | 2013 | 21.0 | 2018 | 22.6 | 2013 | 1 577.4 | 2018 | 1 551.9 |
| | Final energy consumption | million tonnes of oil equivalent (Mtoe) | 2013 | 15.9 | 2018 | 16.9 | 2013 | 1 115.5 | 2018 | 1 124.1 |
| | Share of renewable energy in gross final energy consumption | % | 2013 | 25.7 | 2018 | 30.3 | 2013 | 15.4 | 2018 | 18.0 |
| | Average CO2 emissions per km from new passenger cars | g $CO_2$ per km | 2013 | 112.2 | 2018 | 106.1 | 2014 | 123.4 | 2018 | 120.4 |
| Climate impacts | European mean near surface temperature deviation | temperature deviation in °C, compared with the 1850–1899 average | N/A | : | N/A | : | 2013 | 1.4 | 2018 | 2.1 |
| | Climate-related economic losses | EUR billion, in 2017 values | N/A | : | N/A | : | 2012 | 2 719 | 2017 | 2 649 |
| | Mean ocean acidity | pH value | N/A | : | N/A | : | 2013 | 8.06 | 2018 | 8.06 |
| Support to climate action | Contribution to the international 100bn USD commitment on climate related expending | EUR million, current prices | N/A | : | 2017 | 2.2 | N/A | : | 2017 | 20 388.7 |
| **SDG 14 – Life below water** | | | | | | | | | | |
| Ocean health | Coastal water bathing sites with excellent water quality | % of bathing sites with excellent water quality | 2013 | 91.9 | 2018 | 94.4 | 2013 | 85.5 | 2018 | 87.1 |
| | Mean ocean acidity | pH value | N/A | : | N/A | : | 2013 | 8.06 | 2018 | 8.06 |
| Marine conservation | Surface of marine sites designated under NATURA 2000 | $km^2$ | 2013 | 2 619 | 2018 | 38 052 | 2013 | 251 566 | 2018 | 551 899 |
| Sustainable fisheries | Estimated trends in fish stock biomass | index 2003 = 100 | N/A | : | N/A | : | 2012 | 110.0 | 2017 | 136.0 |
| | Assessed fish stocks exceeding fishing mortality at maximum sustainable yield (Fmsy) | % of stocks exceeding fishing mortality at maximum sustainable yield ($F>F_{MSY}$) | N/A | : | N/A | : | 2012 | 52.9 | 2017 | 42.7 |
| **SDG 15 – Life on land** | | | | | | | | | | |
| Ecosystems status | Share of forest area | % of total land area | 2009 | 36.9 | 2015 | 46.6 | 2012 | 40.3 | 2015 | 41.6 |
| | Biochemical oxygen demand in rivers | mg $O_2$ per litre | N/A | : | N/A | : | 2012 | 2.06 | 2017 | 2.00 |
| | Nitrate in groundwater | mg $NO_3$ per litre | 2012 | 20.4 | 2017 | 18.4 | 2012 | 19.2 | 2017 | 19.1 |
| | Phosphate in rivers | mg $PO_4$ per litre | N/A | : | N/A | : | 2012 | 0.096 | 2017 | 0.093 |
| Land degradation | Soil sealing index | index 2006 = 100 | 2009 | 101.8 | 2015 | 104.3 | 2009 | 101.7 | 2015 | 104.2 |
| | Estimated soil erosion by water | $km^2$ | 2010 | 3 736.5 | 2016 | 3 417.6 | 2010 | 207 232.2 | 2016 | 205 294.5 |
| | Settlement area per capita | $m^2$ | 2009 | 588.0 | 2015 | 621.2 | 2012 | 625.0 | 2015 | 653.7 |
| Biodiversity | Surface of terrestrial sites designated under NATURA 2000 | $km^2$ | 2013 | 19 010 | 2018 | 19 010 | 2013 | 787 766 | 2018 | 784 252 |
| | Common bird index | index 2000 = 100 | N/A | : | N/A | : | 2013 | 94.7 | 2018 | 93.5 |
| | Grassland butterfly index | index 2000 = 100 | N/A | : | N/A | : | 2012 | 72.2 | 2017 | 74.1 |

*(Continued on the next page)*

*Table (continued)*

| SDG / Sub-theme | Indicator | Unit | Portugal | | | | EU-28 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Starting | | Latest | | Starting | | Latest | |
| | | | year | value | year | value | year | value | year | value |
| **SDG 16 – Peace, justice and strong institutions** | | | | | | | | | | |
| Peace and personal security | Death rate due to homicide | number per 100 000 persons | 2011 | 0.9 | 2016 | 0.8 | 2011 | 0.9 | 2016 | 0.6 |
| | Population reporting occurrence of crime, violence or vandalism in their area | % of population | 2013 | 13.3 | 2018 | 6.5 | 2013 | 14.5 | 2018 | 12.7 |
| | Physical and sexual violence to women experienced within 12 months prior to the interview | % of women | N/A | : | 2012 | 6 | N/A | : | 2012 | 8 |
| Access to justice | General government total expenditure on law courts | million EUR | 2012 | 542 | 2017 | 658 | 2012 | 48 381 | 2017 | 51 027 |
| | Perceived independence of the justice system | % of population | 2016 | 33 | 2019 | 42 | 2016 | 52 | 2019 | 56 |
| Trust in institutions | Corruption Perceptions Index | score scale of 0 (highly corrupt) to 100 (very clean) | 2013 | 62 | 2018 | 64 | N/A | : | N/A | : |
| | Population with confidence in the EU Parliament | % of population | 2013 | 33 | 2018 | 55 | 2013 | 39 | 2018 | 48 |
| **SDG 17 – Partnerships for the goals** | | | | | | | | | | |
| Global partnership | Official development assistance as share of gross national income | % of GNI | 2013 | 0.23 | 2018 | 0.15 | 2013 | 0.43 | 2018 | 0.48 |
| | EU financing to developing countries | million EUR, current prices | 2012 | 370 | 2017 | 1 903 | 2012 | 147 962 | 2017 | 155 224 |
| | EU imports from developing countries | million EUR, current prices | 2013 | 11 785 | 2018 | 11 690 | 2013 | 817 475 | 2018 | 1 013 981 |
| Financial governance within the EU | General government gross debt | % of GDP | 2013 | 131.4 | 2018 | 122.2 | 2013 | 86.3 | 2018 | 80.4 |
| | Shares of environmental and labour taxes in total tax revenues | % of total tax revenues | 2013 | 6.5 | 2018 | 7.4 | 2013 | 6.4 | 2018 | 6.1 |

***Source:*** Eurostat

# REFERENCES


Banco de Portugal (2020), "Statistical Bulletin", Issue 1, 22 January 2020.

Bauer, P., Fedotenkov, I., Genty, A., Hallak, I., Harasztosi, P., Martinez Turegano, D., Nguyen, D., Preziosi, N., Rincon-Aznar, A., Sanchez-Martinez, M. (2020). Productivity in Europe: Trends and Drivers in a Service-Based Economy. JRC Technical Report. Joint Research Centre. Brussels, Belgium.

Centre for Social and Economic Research (2019), "Study and reports on the VAT Gap in the EU-28 Member States: 2019 final report", TAXUD/2015/CC/131, 4 September 2019.

DGEEC (2019). Perfil do docente 2017-2018 (Teacher profile 2017-2018) Portugal: Directorate-General of Statistics for Education and Science (DGEEC). file:///U:/A2/Antonio/Background%20documents/PORTUGAL/DGEEC_2019_PerfilDocente1718.pdf .

DGES (2019). Concurso Nacional de Acesso (General Access Regime) Portugal: Directorate General for Higher Education (DGES). https://www.dges.gov.pt/pt/pagina/informacao-geral-publico.

Direção-Geral da Política de Justiça (2019), Estatísticas de Justiça: Corrupção. Ministério da Justiça. Retrived from https://estatisticas.justica.gov.pt/sites/siej/pt-pt/Paginas/Corrupcao.aspx (accessed on 10 October 2019).

European Commission (2016), "Report on Public Finances in EMU 2016", Institutional Paper 045, December 2016.

European Commission (2018), "The 2018 Ageing Report: Economic and Budgetary Projections for the EU Member States (2016-2070)", Institutional Papers, No 079, European Commission, 25 May 2018.

European Commission (2019a), "Country Report Portugal 2019", SWD(2019) 1021 final, 27 February 2019.

European Commission (2019b), "State of Health in the EU, Portugal, Country Health Profile 2019", 2019

European Commission (2019d), "Small Business Act Factsheet Portugal 2019".

European Commission (2019e), "Taxation Trends in the European Union –Data for the EU Member States, Iceland and Norway", 2019 Edition.

European Commission (2019f), Flash Eurobarometer 482 on "Bussinesses' attitudes towards corruption", https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/survey/getsurveydetail/instruments/flash/surveyky/2248.

European Commission (2019g), "Portugal", Education and Training Monitor 2018: Country Analysis, Publications Office of the European Union, Luxembourg https://ec.europa.eu/education/sites/education/files/document-library-docs/et-monitor-report-2019-portugal_en.pdf.

European Commission (2019h), "Demographic Scenarios for the EU – Migration, Population and Education".

European Commission (2020a), "Debt Sustainability Monitor 2019", European Commission, Institutional Paper, January 2020.

European Commission (2020b), "Taxation Trends in the European Union –Data for the EU Member States, Iceland and Norway", 2020 Edition (forthcoming).

European Investment Bank (2019) EIB Group survey on investment and investment finance 2019 Country overview – Portugal.

European Observatory on Health Systems and Policies (2018), "Health System Review –Portugal, Phase I Final Report", April 2018.

Flachenecker, F., Gavigan, J., P., Goenaga, X., Pasi, G., Preziosi, N., Stamenov, B., Testa, G. (2020). High Growth Enterprises: demographics, financing & policy measures. JRC Technical Report. Joint Research Centre. Brussels, Belgium.

GEP (2017), Carta Social, Rede de Serviços e Equipamentos 2017 (Social Card – Network of Services and Equipment 2017). Portugal: Ministério do Trabalho, Solidariedade e Segurança Social, Gabinete de Estratégia e Planeamento (Ministry of Employment, Solidarity and Social Security, Office of Strategy and Planning) http://www.cartasocial.pt/pdf/csocial2017.pdf.

GEP (2019), Boletim Estatístico Dezembro 2019, Ministério do Trabalho, Solidariedade e Segurança Social, Gabinete de Estratégia e Planeamento, www.gep.mtsss.gov.pt

Godinho, M., Corado Simões, V. and Sanchez-Martinez, M., (2020). RIO Country Report 2019: Portugal. Joint Research Centre. Brussels, Belgium, 2020. available at JRC Scientific Knowledge Portal.

Grupo de Trabalho para o Estudo dos Benefícios Fiscais, "Os benefícios fiscais em Portugal – conceitos, metodologia e prática", May 2019.

Instituto Nacional de Estatística (2017). Survey on Framework Regulation Costs, July 2017.

Lei n.º 55/2017, de 17 de julho.

Lei n.º 93/2019, de 4 de setembro.

Ministry of Finance (2019), "Relatório despesa fiscal 2019", October 2019.

OECD (2018), OECD Competition Assessment Reviews: Portugal: Volume I - Inland and Maritime Transports and Ports, OECD Publishing, Paris. https://doi.org/10.1787/9789264300026-en

OECD (2018b), OECD Competition Assessment Reviews: Portugal: Volume II - Self-Regulated Professions, OECD Publishing, Paris. https://doi.org/10.1787/9789264300606-en

OECD (2019a) PISA 2018 results, where all students can succeed. Volume II https://www.oecd-ilibrary.org/education/pisa-2018-results-volume-ii_b5fd1b8f-en

OECD (2019b), Education Policy Outlook http://www.oecd.org/education/policy-outlook/

OECD (2019c), TALIS 2018 Results (Volume I): Teachers and School Leaders as Lifelong Learners, TALIS www.oecd.org/education/talis/talis-2018-results-volume-i-1d0bc92a-en.htm

OECD/European Observatory on Health Systems and Policies (2019), Portugal. Country Health Profile 2019, State of Health in the EU, OECD Publishing, Paris/European Observatory on Health Systems and Policies, Brussels.

Público (2019), "Queixas de corrupção são arquivadas em 94% dos casos", Público, Lisboa, 6 July 2019. Retrieved from https://www.publico.pt/2019/07/06/sociedade/noticia/queixas-corrupcao-sao-arquivadas-94-casos-1878985 (accessed on 10 October 2019).

World Bank (2019), “Paying Taxes 2019”, November 2019.

WHO Regional Office for Europe (2019), Can people afford to pay for health care? New evidence on financial protection in Europe. WHO Regional Office for Europe, Copenhagen, https://apps.who.int/iris/bitstream/handle/10665/311654/9789289054058-eng. pdf?sequence=1&isAllowed=y.