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# EUROPEAN SEMESTER 2020

# COUNTRY REPORT PORTUGAL 2020

# 2020 country report Portugal

Christian Weise,
DG ECFIN

Lisbon, 4th March 2020

# Achievements of the Portuguese economy

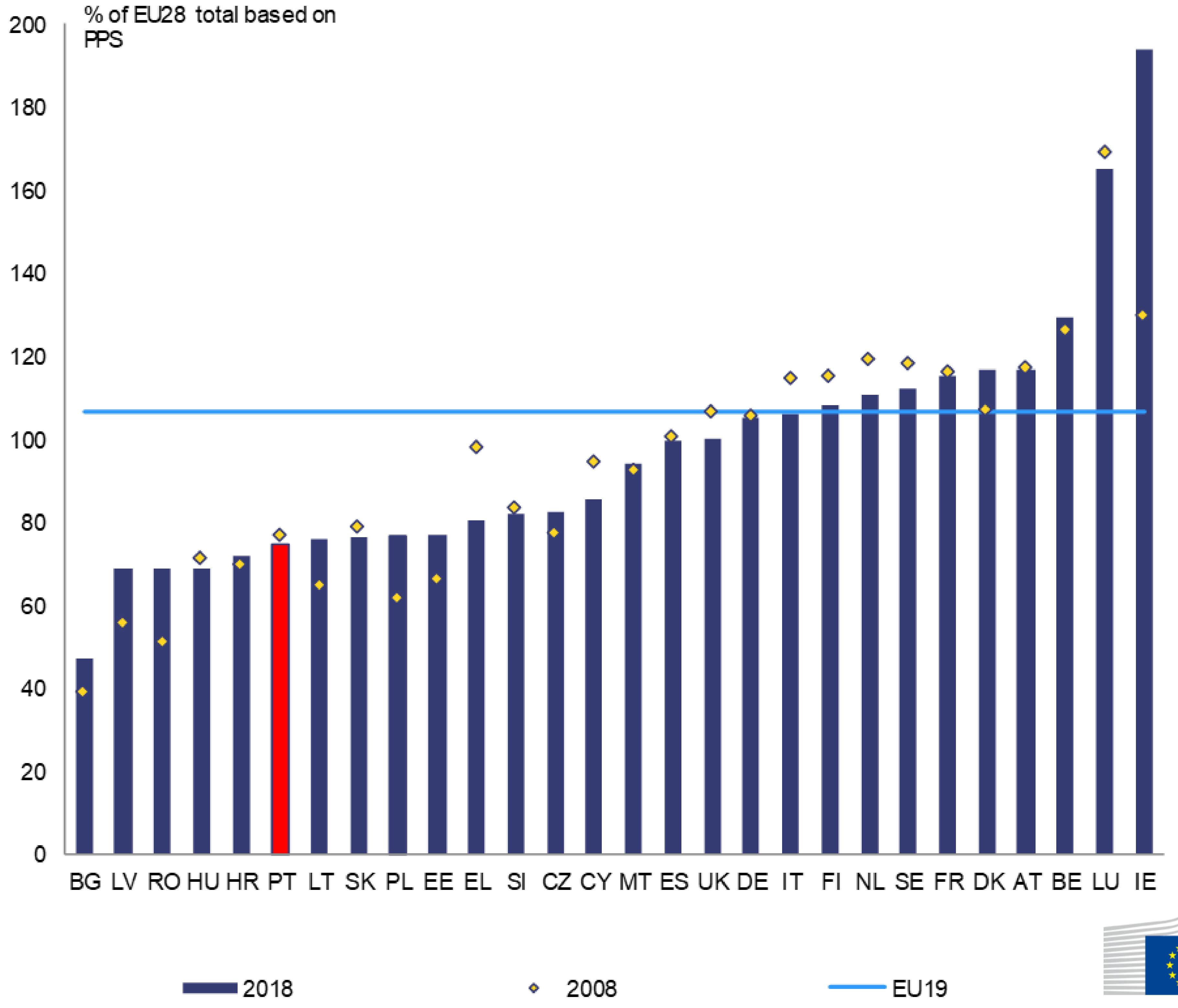
- Growth is stable around the median in the Euro area.
- Unemployment is the lowest in 17 years, with long-term and youth unemployment decreasing as well.
- The stock of debt (public and private) and non-performing loans continue decreasing.
- Labour productivity increased moderately during 2019.

→ **However, structural weaknesses persist.**

# Productivity

- While labour productivity increased in 2019, the gap towards more advanced Member States remained both sizeable and stable.
- This situation keeps the country's income gap vis-à-vis the EU average also stable, at about 23%.

Labour productivity




*Source:* Eurostat

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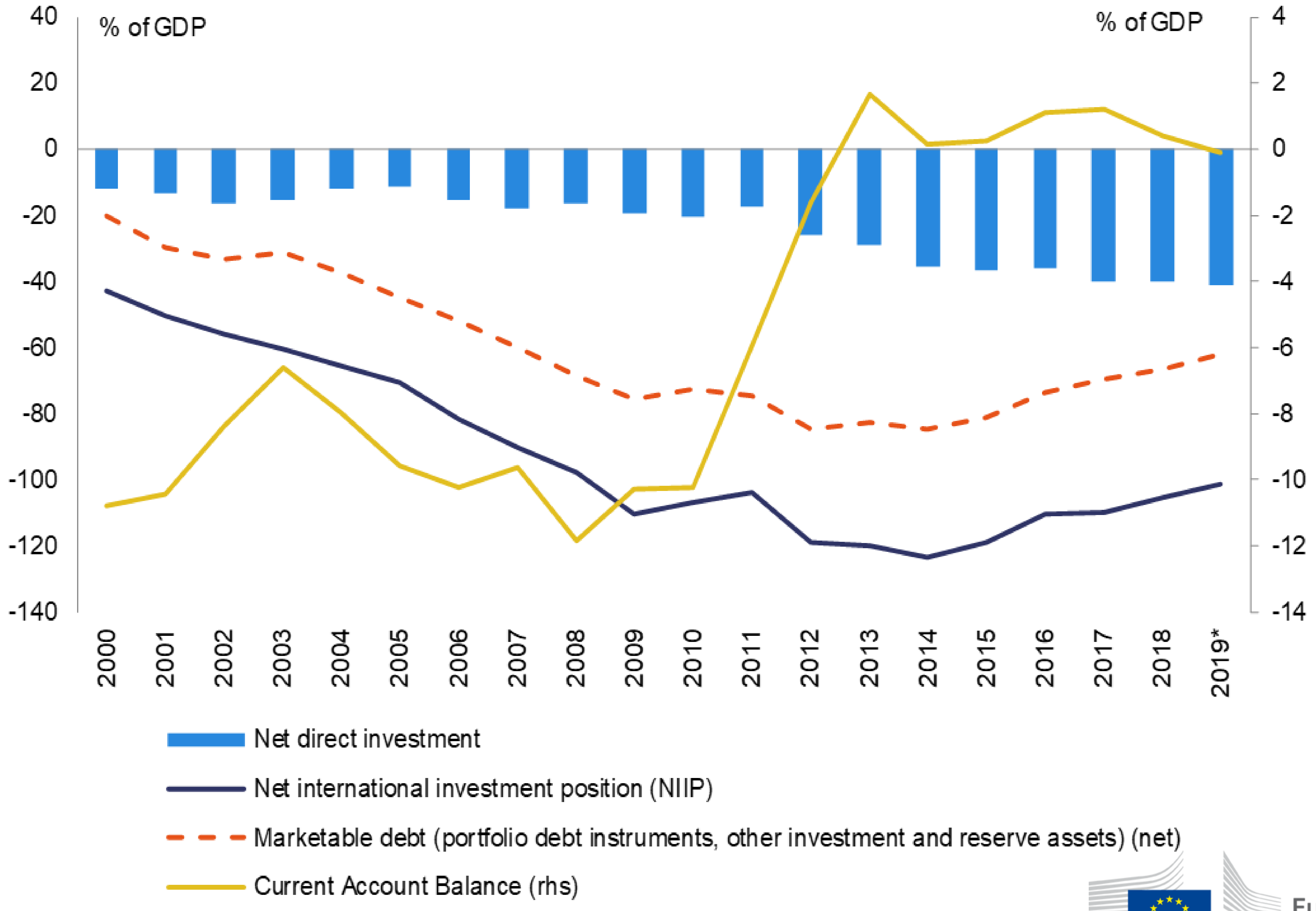
## External Debt

- Portugal’s NIIP remains one of the most negative in the EU, and beyond prudential or fundamentally-explained thresholds.
- On a positive note, the risk profile of the NIIP improves, as non-defaultable instruments (like FDIs) increase.
- The again negative current account is a concern. Imported investment goods need to be used for sustainable growth.

Current Account (CA) and Net International Investment Position (NIIP)

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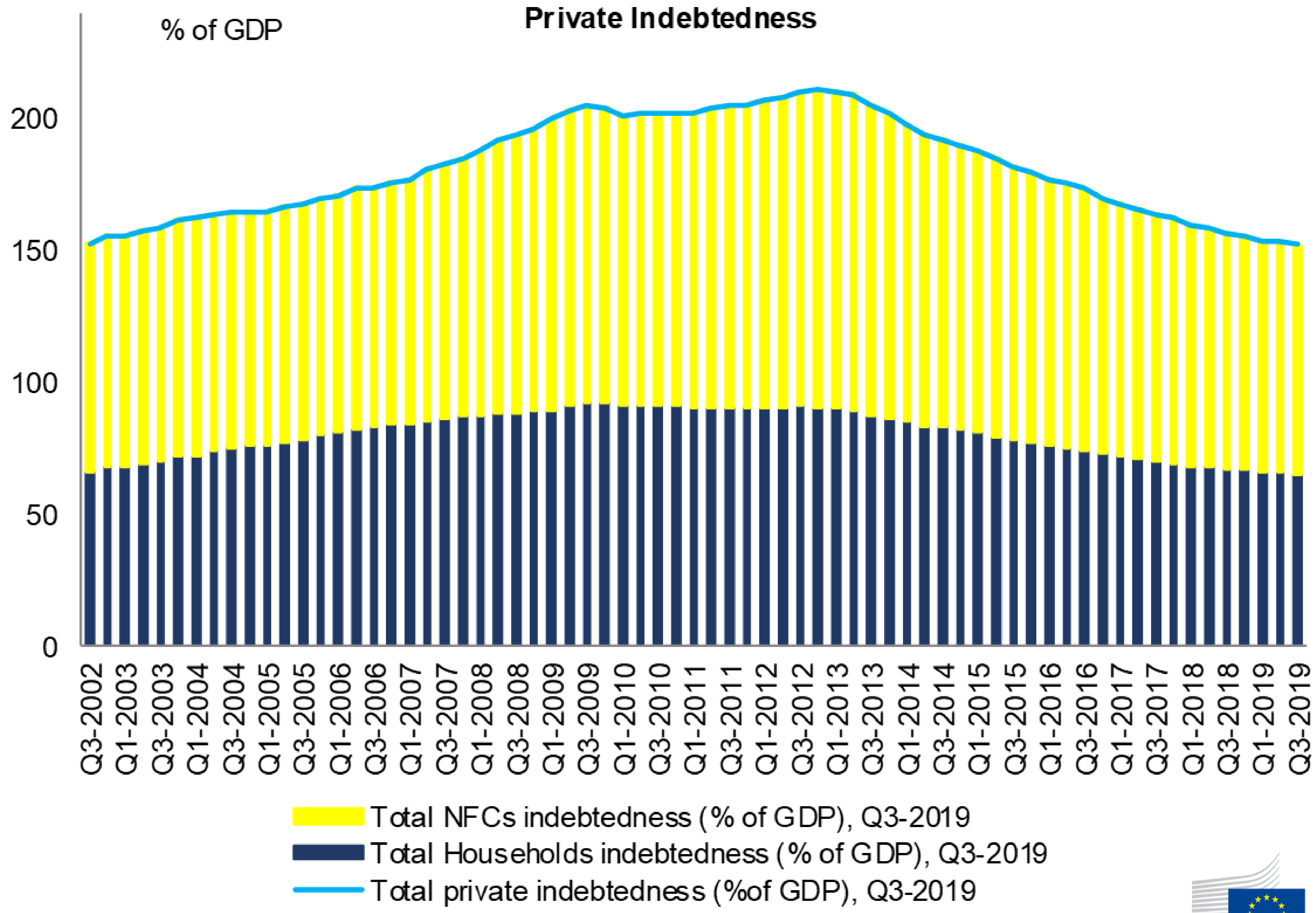
***Source:*** European Commission. * data estimate based on BdP data

# Private Debt

- Private debt is decreasing steadily at an adequate pace.

- However, the gap relative to the country-specific thresholds is still significant and the size of the debt still implies an important vulnerability.



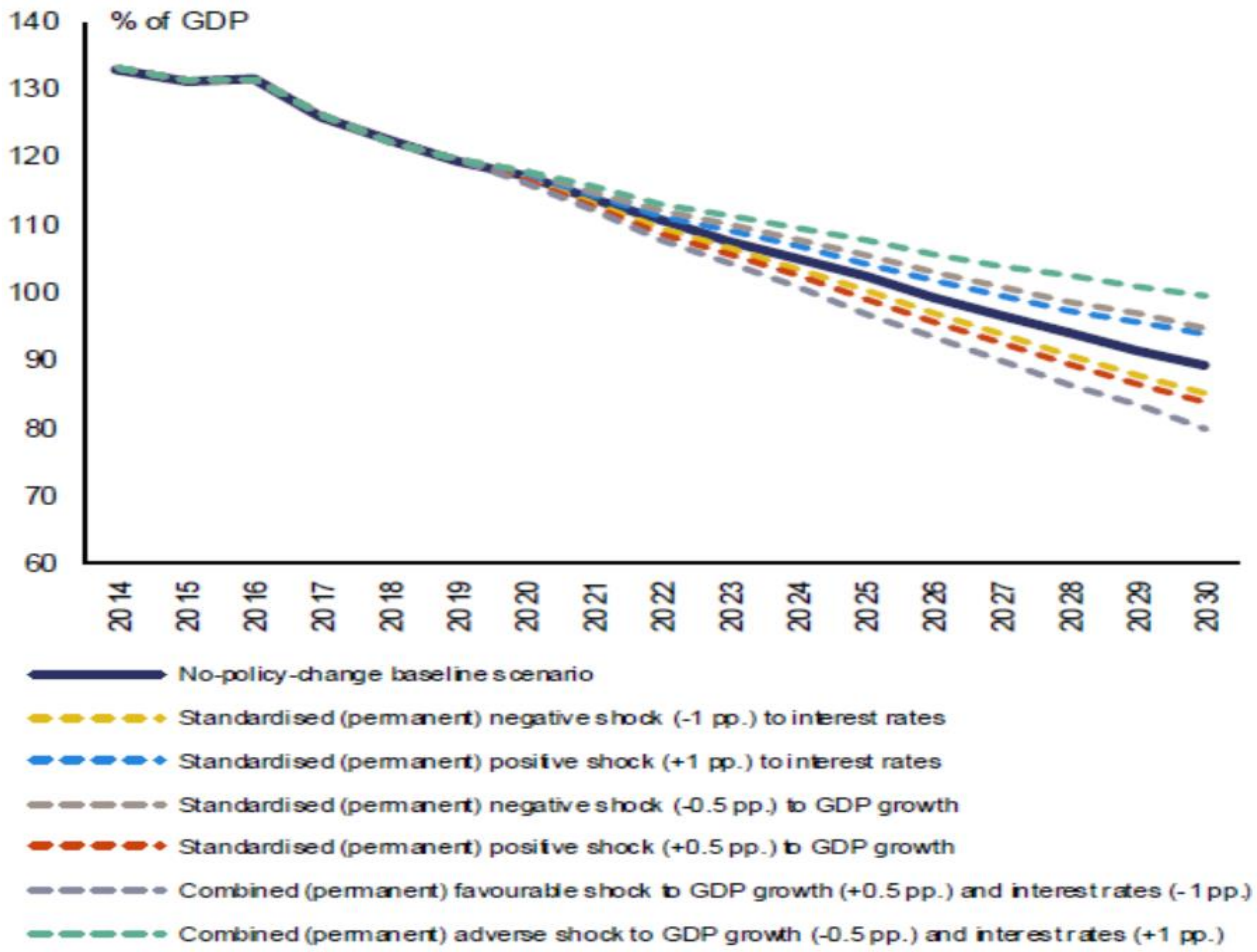

Source: Bank of Portugal

# Public Finances

- Public debt continues to decline, and it is expected to have reached 119.2% of GDP by the end of 2019.

- The ratio is well above the relevant benchmark (60%) but risks have subsided due to the low interest rate environment.

General government gross debt projections under baseline and alternative GDP growth and interest rate scenarios




*Source:* European Commission

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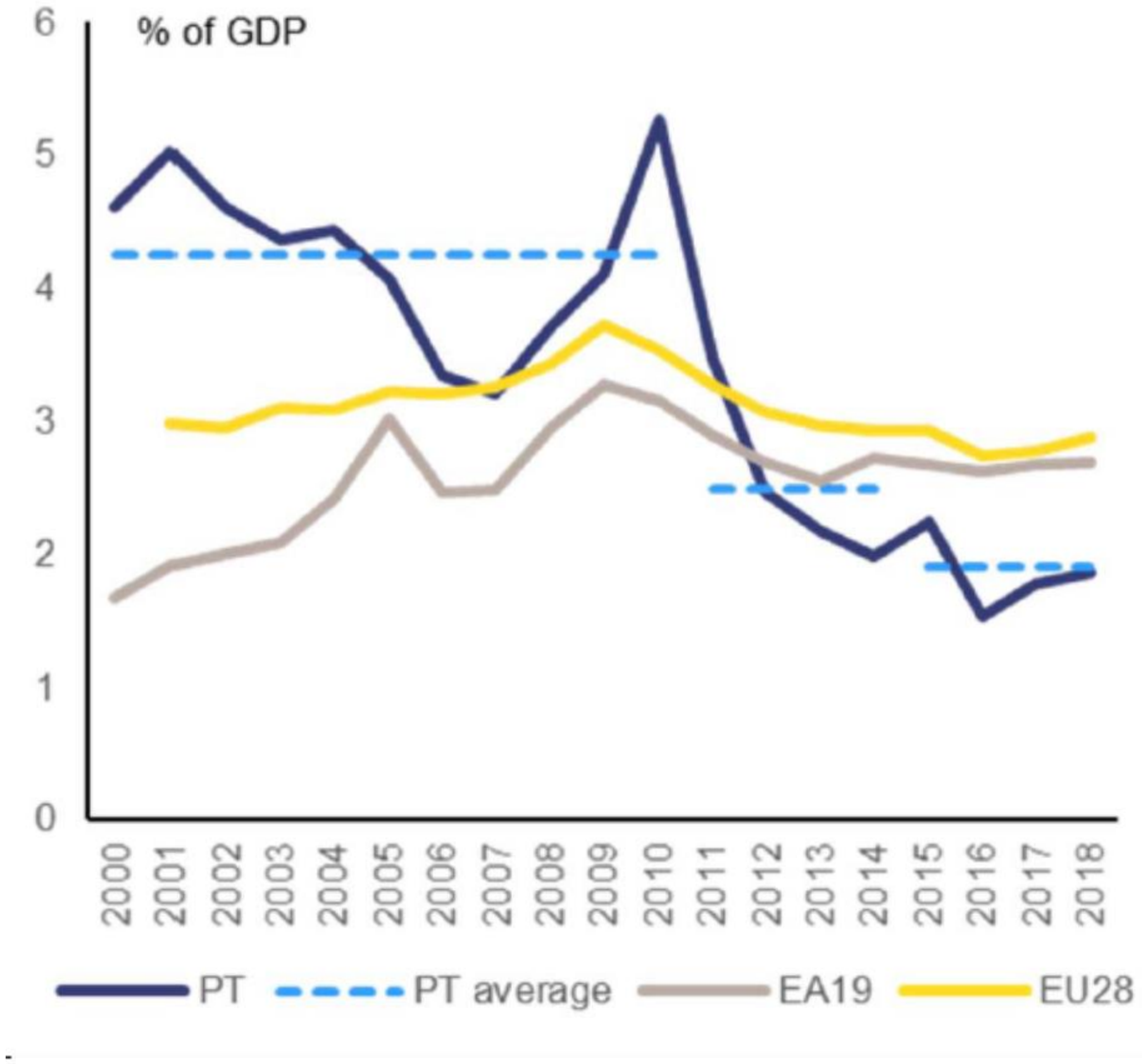
# Public investment

- Public investment is slowly recovering from a low base.
- A sizeable public investment gap is expected to remain, compared to both Portugal's pre-crisis and EU levels.

Public Investment (% of GDP)




***Source:*** European Commission

# Progress towards SDGs

- Progress towards the Sustainable Development Goals (SDG) differs across areas.

- During the last 5 years, SDG 8 “Decent work and economic growth” progressed thanks to economic growth, labour market improvements and poverty alleviation.

| SDG 8 – Decent work and economic growth | | |
|---|---|---|
| | Indicator | 5-year trend |
| **Sustainable economic growth** | Real GDP per capita | ↑ |
| | Investment share of GDP | ↑ |
| | Resource productivity (*) | ↘ |
| **Employment** | Young people neither in employment nor in education and training | ↑ |
| | Employment rate | ↑ |
| | Long-term unemployment rate | ↑ |
| | Inactive population due to caring responsibilities (*) | ↘ |
| **Decent work** | People killed in accidents at work | ↑ |
| | In work at-risk-of-poverty rate (*) | ↑ |

***Source:*** European Commission

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# Progress towards SDGs

- Goals that register more modest progress during the last 5 years are SDG 13 “Climate Action”, due to a recent deteriorating trend on greenhouse gas emissions, primary and final energy consumption.
- The Portuguese government has an ambitious climate and energy agenda, whose implementation will be key to ensure progress on this SDG.

| SDG 13 – Climate action | | | |
|---|---|---|---|
| **Climate mitigation** | Greenhouse gas emissions | | ↓ |
| | Greenhouse gas emissions intensity of energy consumption | | ↘ |
| | Energy consumption (*) | Primary energy consumption | ↓ |
| | | Final energy consumption | ↓ |
| | Share of renewable energy in gross final energy consumption (*) | | ↑ |
| | Average CO2 emissions per km from new passenger cars (*) | | ↑ |

***Source:*** European Commission

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## Key takeaways

- **Portugal continues reducing its macroeconomic imbalances**, due to positive trends in growth, employment and – albeit moderately - productivity.
- **Portugal's external position remains a significant source of vulnerability** with a negative current account again and one of the most negative NIIP in the EU. The imported investment goods need to be used well to achieve sustained growth.
- **Private and public debt continue declining**, but they still remain above prudential and fundamental benchmarks.
- **Public investment is low by international and historic comparison**. Improving the quality of public finance by better control of public expenditure could help making room for public investment which is much needed.
- **In general, Portugal is making good progress towards the SDGs**. Between 2013 and 2018, this progress is more evident on SDG 8 on "decent work and economic growth". In contrast, SDG 13 on "climate action" shows a recent and mild deterioration.

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## Competitiveness Reforms and Investment

Francesco Morandotti,
DG GROW

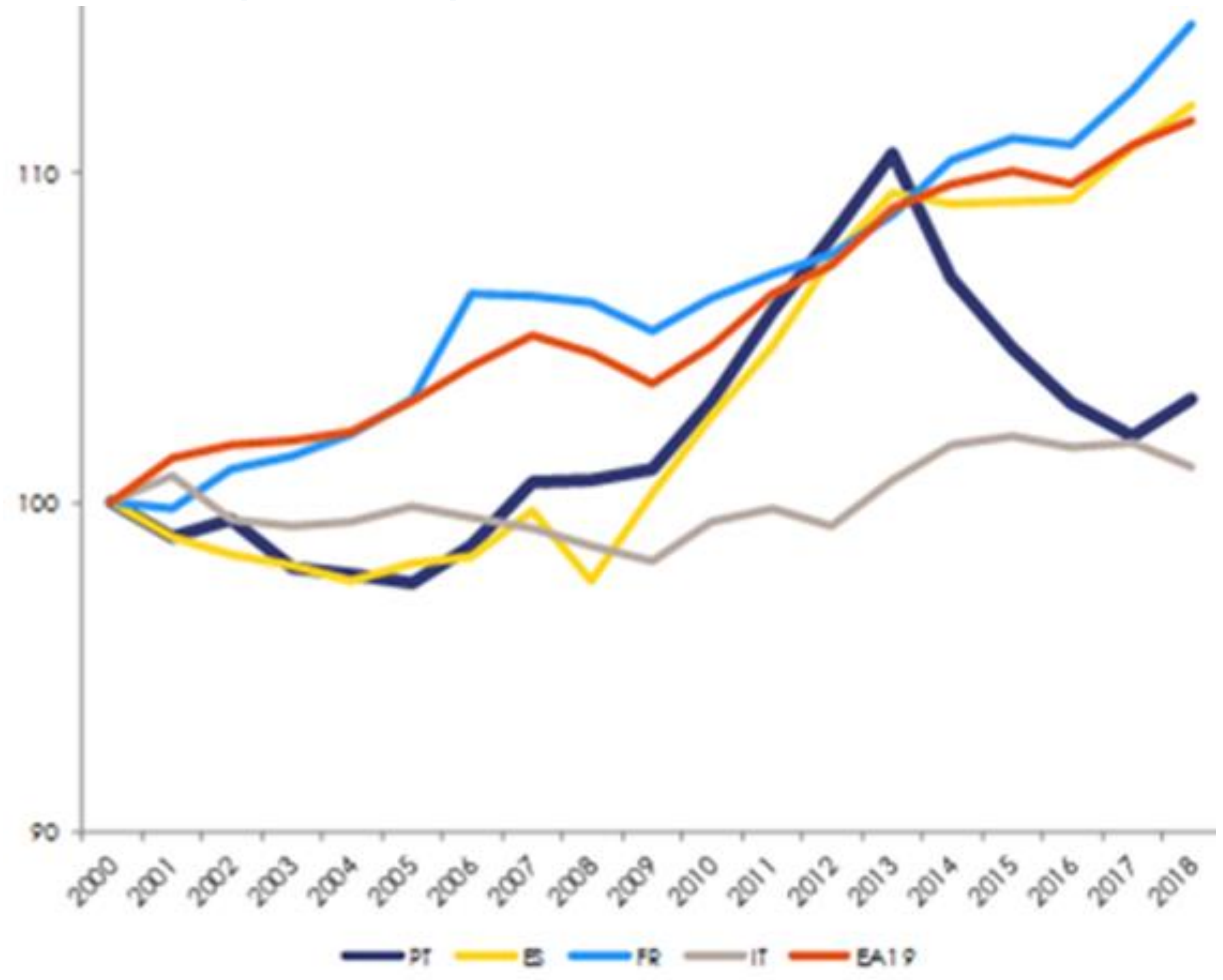
Lisbon, 4th March 2020

# Competitiveness and Investment – Highlights

- **Productivity growth slightly recovered and investment increased further**. However, overall productivity development remains feeble and investment is among the lowest in the EU.
- **Slow structural change towards higher value added sectors**. Exports are increasing and R&D is growing slowly. Skills and low levels of capital per worker are among the major bottlenecks to foster productive investment.
- **Product and services market challenges:**
  - Restrictions weighing on competition in services markets;
  - Justice system;
  - Licensing and other institutional matters;
  - Public Procurement.

# Productivity growth

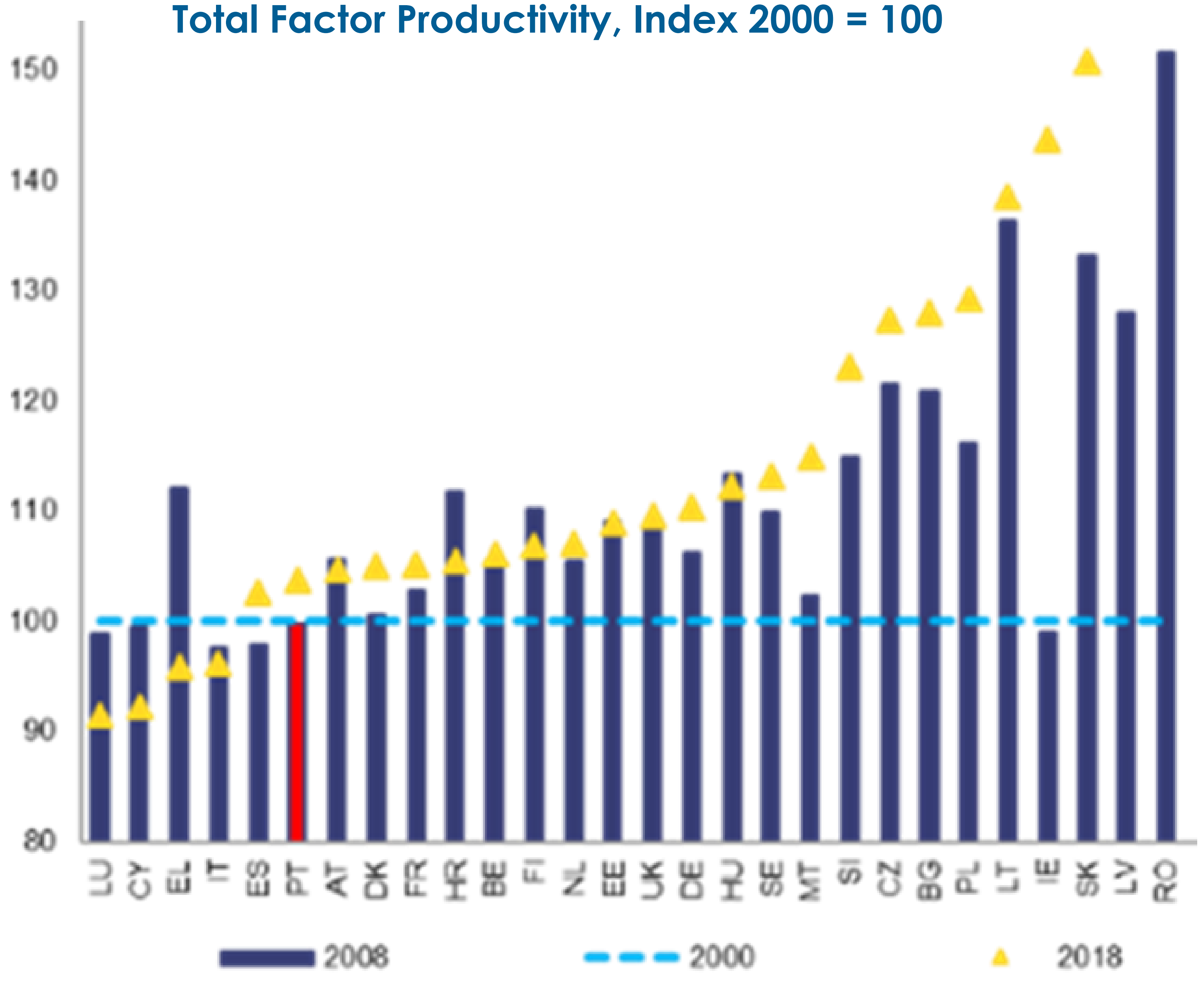
Labour productivity in Market Services, Index 2000 = 100




After several years of decline, **labour productivity** growth slightly increased (in market services).

*Source:* Eurostat

Total Factor Productivity, Index 2000 = 100




**Total factor productivity** is growing faster than euro area average, but at slower pace compared to previous years.

*Source:* Eurostat

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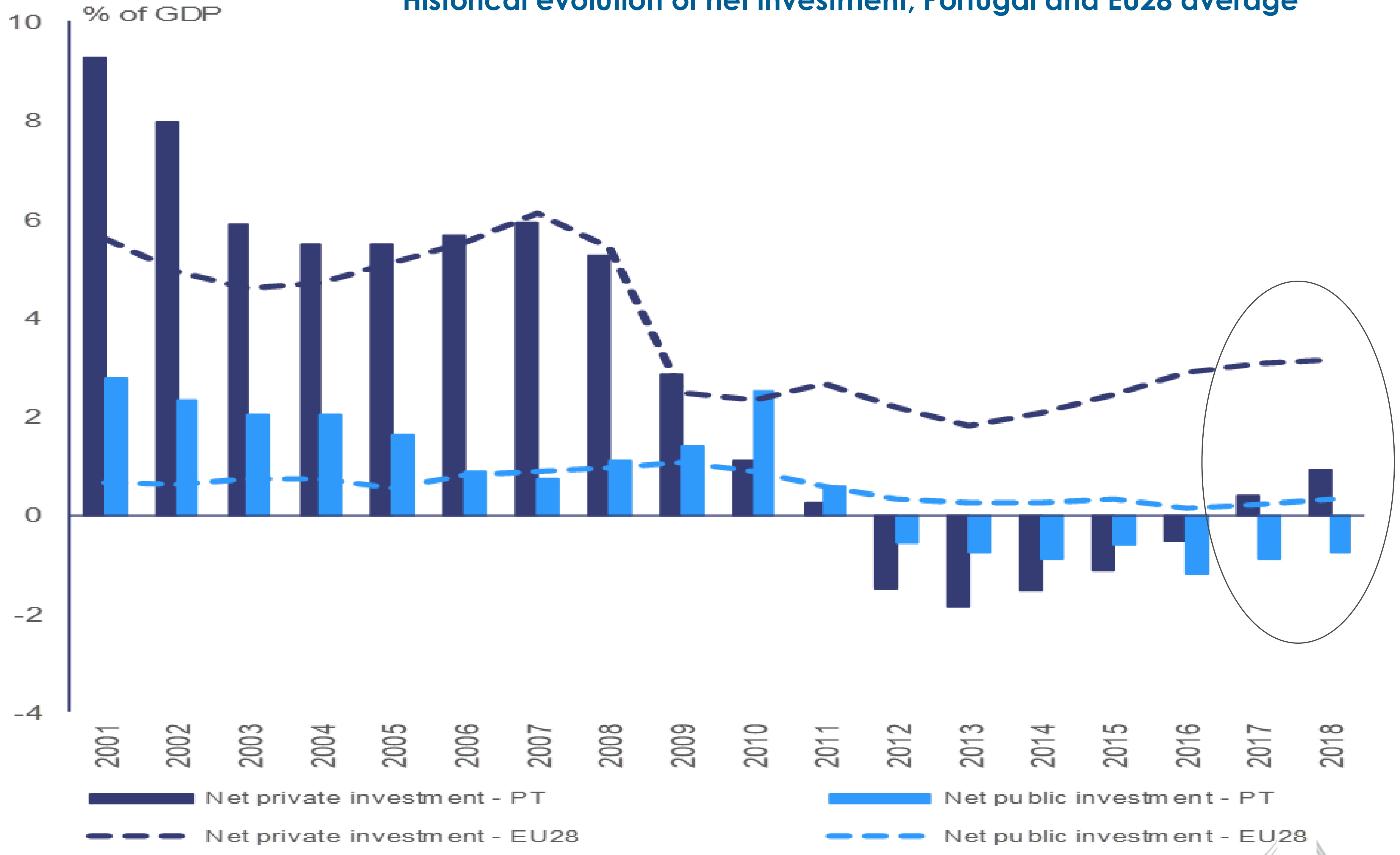
## Investment on the rise… from a low base

**Total Investment** as share of GDP was 17.6% in 2018 , the highest since 2012, but still among the lowest in the EU.

**Public investment** in total investment was 11%, one of the lowest level in the historical series.

**Net private investment** turned positive, while **net public investment** remains negative, contributing to the gradual erosion of public capital stock.

Historical evolution of net investment, Portugal and EU28 average

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***Source:*** Eurostat and AMECO

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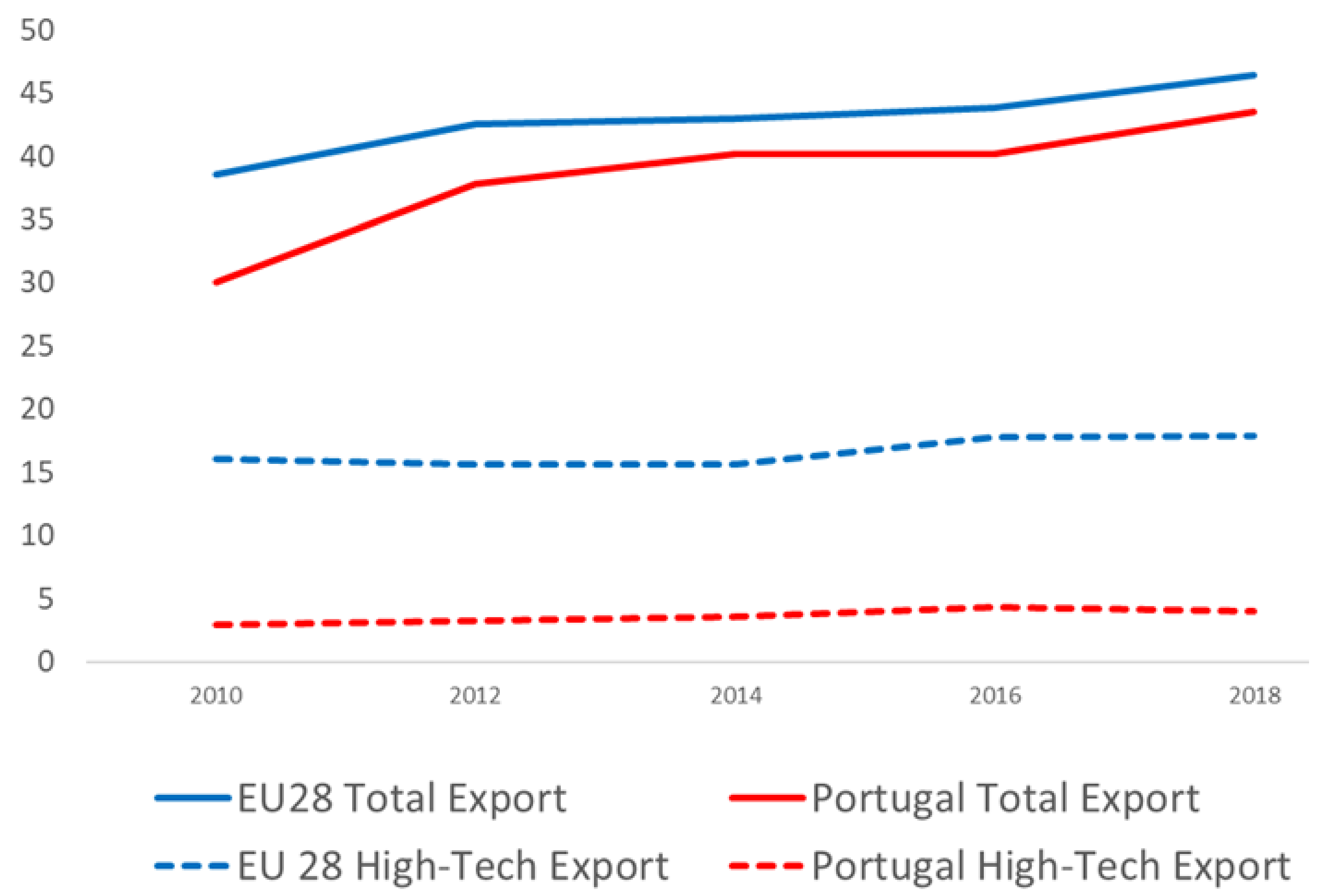
## Exports and R&D

The economic structure remains anchored in traditional low- and medium-low-tech sectors, pointing to slow transition toward high value added, knowledge intensive sectors.

Total Export and High-Tech exports as share of GDP




***Source:*** Eurostat

- The gap with EU average in **total exports** is narrowing (exports were 43.5% of GDP in 2018)
- Although improvements, the share **export of medium and high tech** manufacturing and services remains low
- **R&D intensity** increased to 1.35% of GDP in 2018 - still **below pre-crisis levels** and EU average.
- Investment in **intangibles and ICT** are well below EU average
- **Skills** and the **level of capital stock per worker** are among the major barriers to productive investment

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# Restrictions in services

- Barriers to accessing and providing **professional services** weigh on competition, consumer prices, choice and innovation:

    - **European Commission Restrictiveness Indicator (2017)** and **OECD Product Market Indicators (2018)**
    - OECD and Portuguese Competition Authority **«Competition Assessment reviews» (2018)** covering 13 key professions;

- Restrictions for private providers in port services and concessions for cargo handling operations not proportional to the level of investment incurred by the concession holder:

    - **OECD and Portuguese Competition Authority «Competition Assessment reviews» (2018)**

- **Construction** and **retail**: scope to reduce administrative regulatory burden

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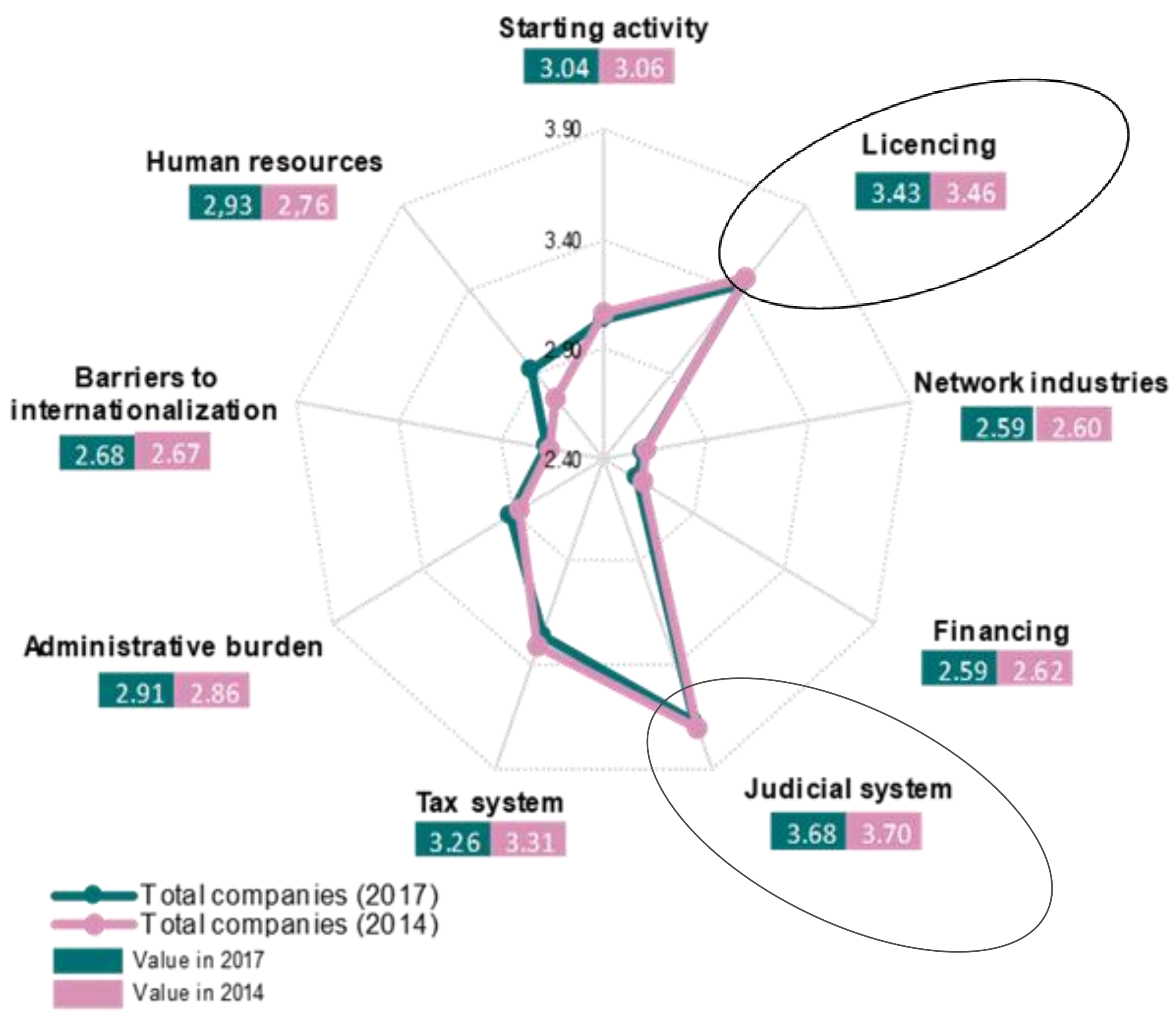
## Barriers to investment – institutional aspects

**SIMPLEX+ measures**: further policy progress to reducing administrative burden and helped Portugal to become a **leader in e-government**…

Global framework regulation costs indicator




*Source:* INE – Framework regulation costs survey

- Limited achievements recorded in reducing **sector-specific barriers to licensing** (good case of **“pressure equipment”**)
- The **justice system** remains a major barrier to investment. Measures are being taken but case-backlog congestion remains high and disposition times reduce slowly.

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# (…continue) Institutional aspects

- **Regulatory impact assesement** is being improved (consultation, ex-post assessment…);
- **Late payments** are improving, but remain critical – especially in the health sector;
- Institutional bottlenecks concerning single market (**notifications** and **standardization**);
- **Corruption** perception indicators shows deterioration, but an **anti-corruption strategy** has been announced.

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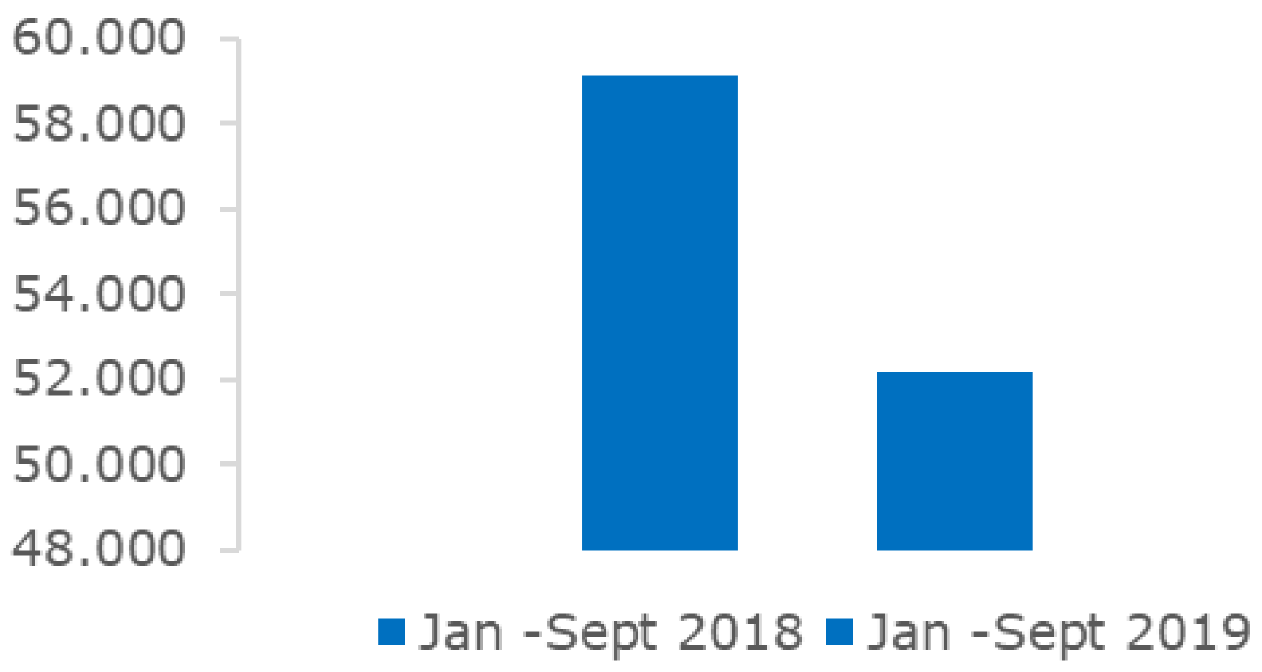
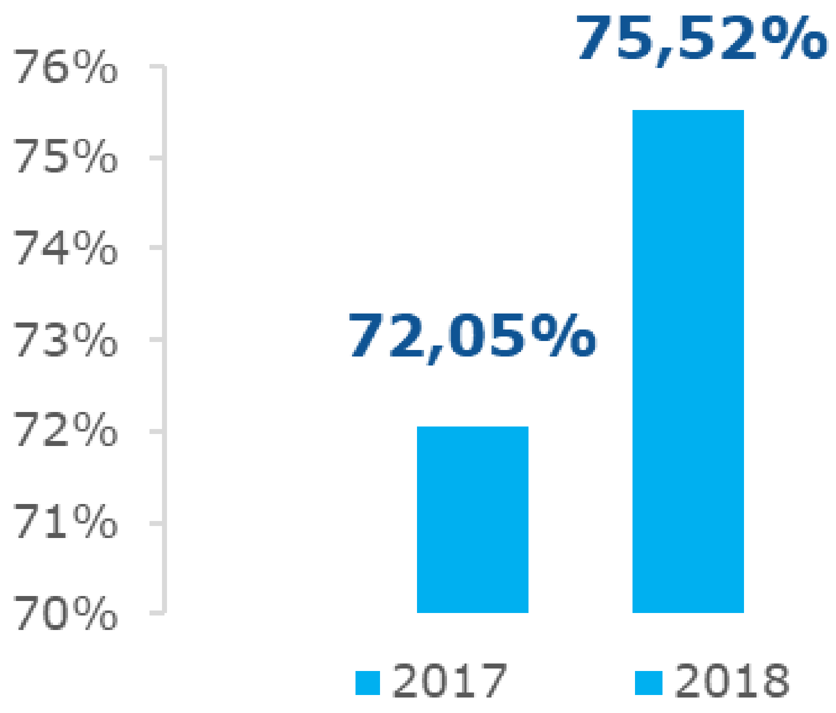
# Competition in public procurement

… The **number of direct award procedures** has further decreased since the entry into force of the new Procurement Code (2018) and **participation of SMEs** in procurement procedures increased.

Number of direct award procedures




Procurement procedures involving SMEs




**…However, shortcomings hamper efficiency & competition in public procurement…**

Such as in the coordination, governance, lack of appropriate, structured and quantified plans to reinforce ex-ante control mechanisms and in the execution phase of the contracts.

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***Source:*** own calculations from BASE

***Source:*** National e-tendering platform – IMPIC calculations

# 2020 country report
# Portugal

## LABOUR MARKET, EDUCATION AND SOCIAL POLICIES

Gregorio de Castro,
DG EMPL

Lisbon, 4th March 2020

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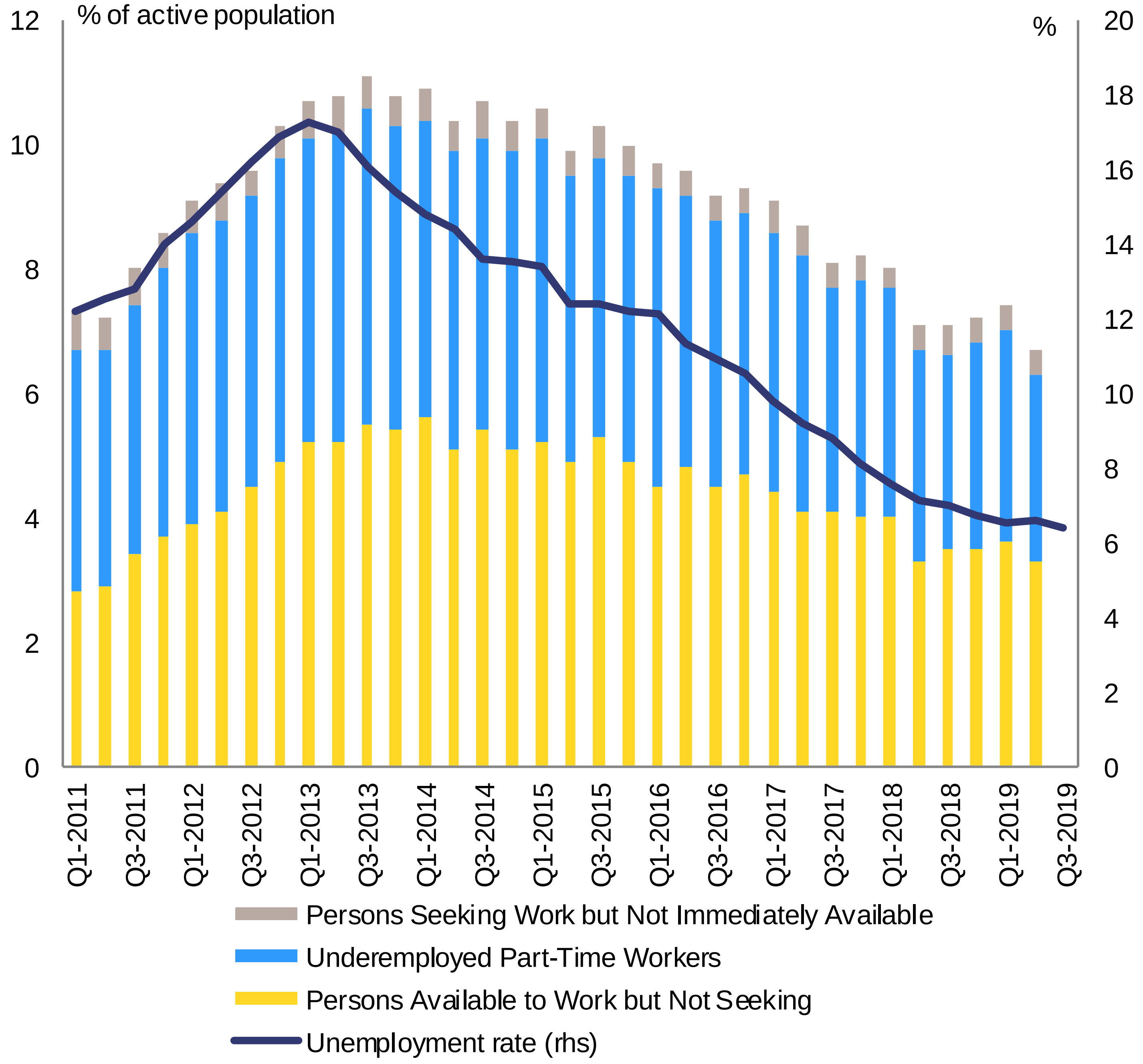
# Labour market recovery continues, but more moderately than recent years

- UR down from 7.0% in 2018 to 6.6% in 2019
- YUR (15-24) down to 18.3% in 2019, still above the EU average of 14.4%
- LTU (20-64) down to 2.8% in Q3-2019, slightly above the EU average of 2.5 %
- ER (20-64) at 76.5% in Q3-2019, above Europe 2020 target of 75%

**Unemployment rate and potential additional labour force**




***Source:*** Eurostat

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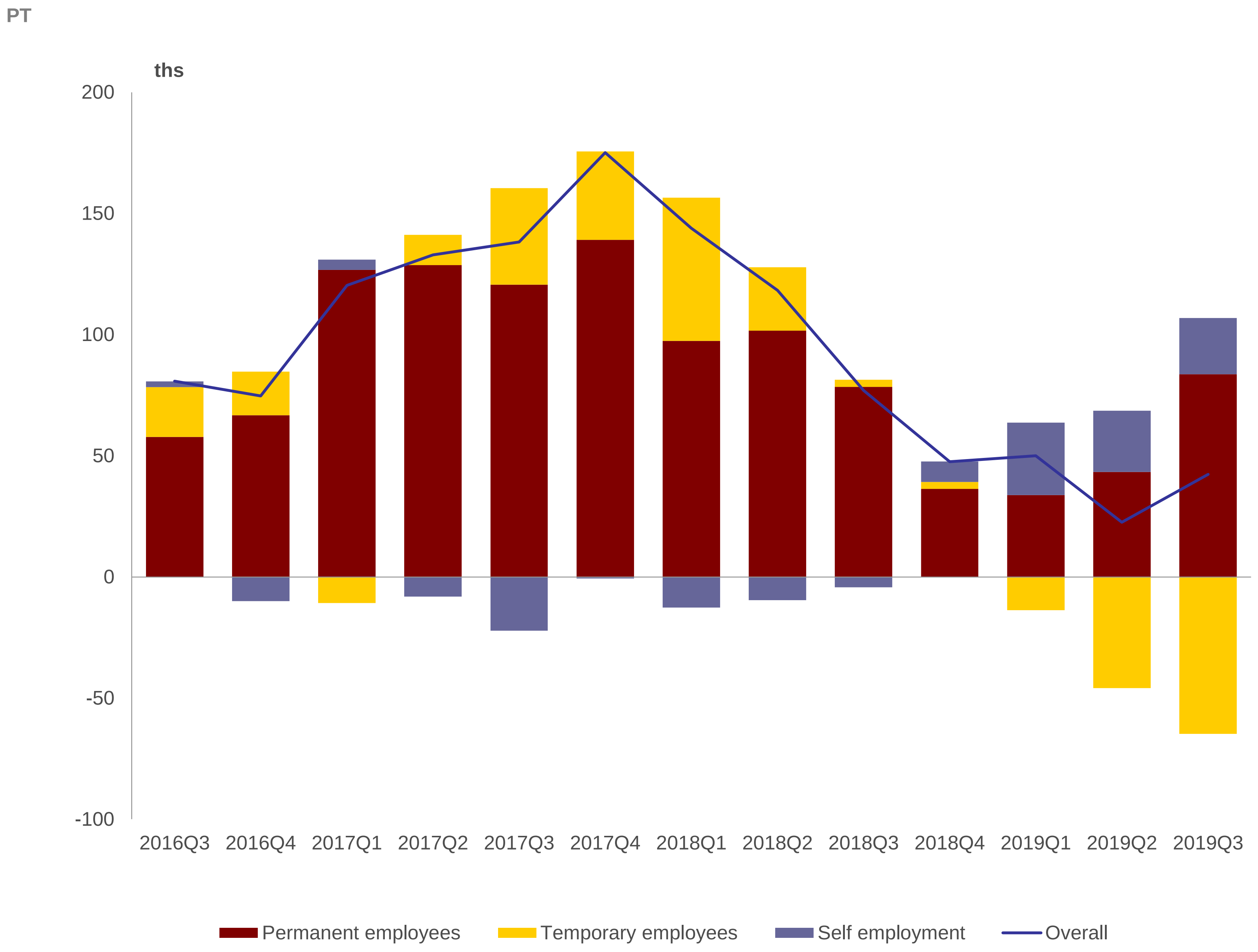
# Reforms are ongoing to address a high share of temporary contracts

- Downward trend on the share of temporary contracts (19.7% in Q3-2019)
- Changes in the Labour Code to promote permanent employment
- Measures to reinforce collective bargaining and labour authority
- ALMP measures to boost hiring on open-ended contracts

Employment by type, year-on-year changes




***Source:*** Eurostat

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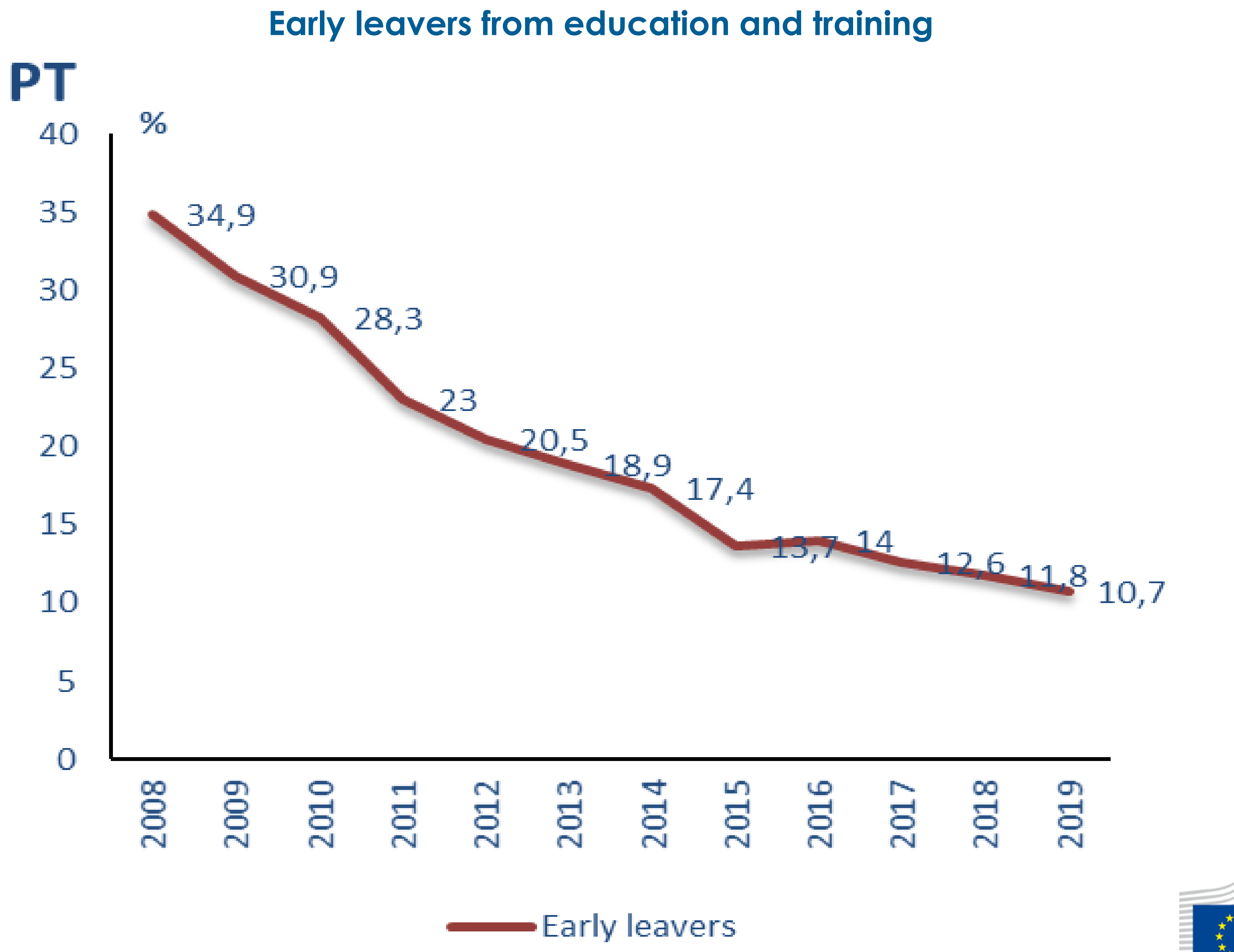
# Some progress in the education system in the last decade

- Significant decrease of ESL and now close to the EU2020 target
- Participation in early childhood education and care close to the EU average
- Measures to improve access to higher education
- Tertiary education attainment increased more than 10 p.p. since 2009




***Source:*** Eurostat

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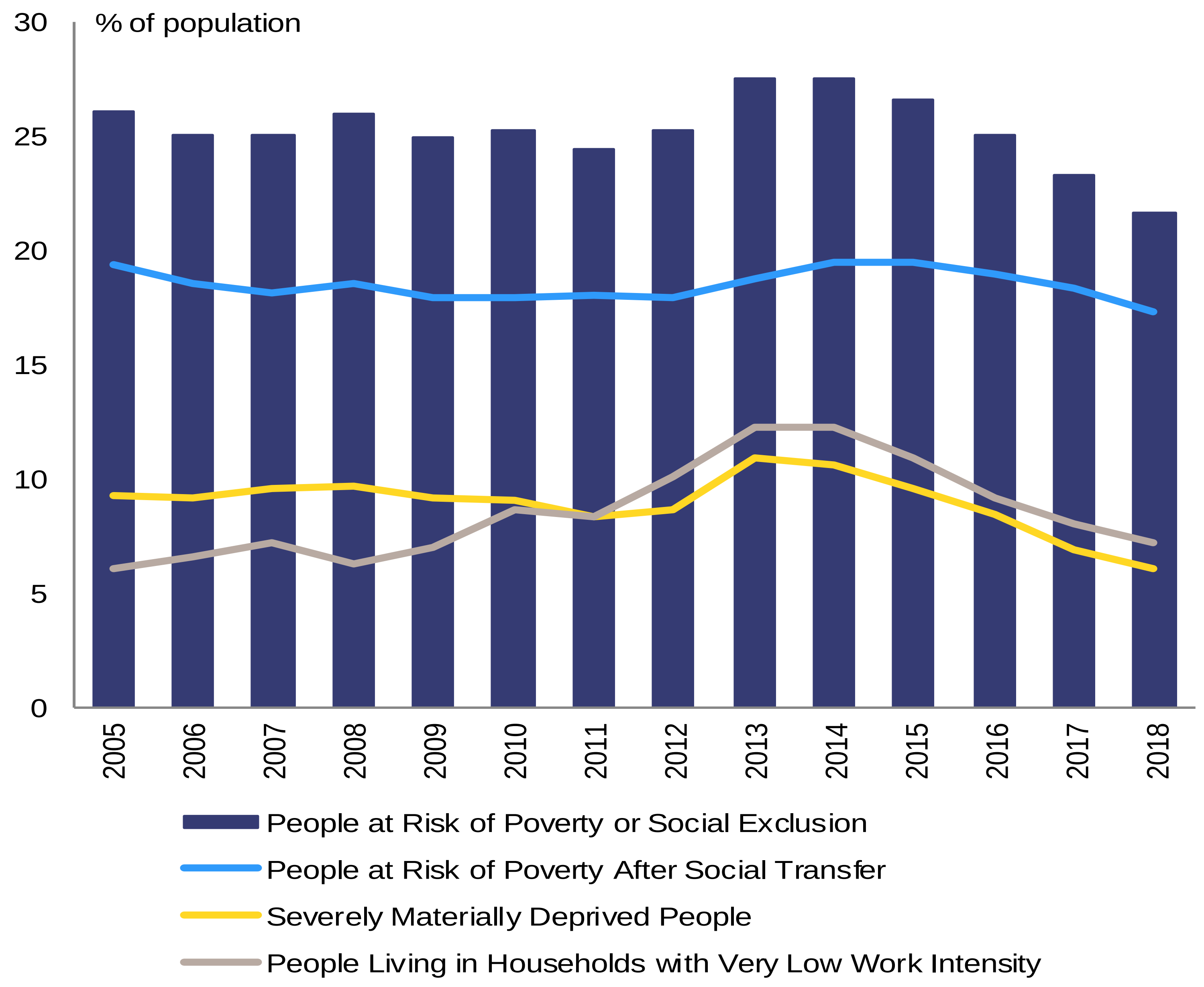
# Improvements in Vocational Education and Training (VET)

- Alignment with **European quality assurance** in VET
- Adoption of **pedagogical training standards** for VET teachers and trainers
- *QUALIFICA* participation numbers keep **increasing**
- Still, there is a need to further adjust **skills and labour market demand**
- And develop a **coherent strategy** for adult learning
- It is also important to **follow-up participants** after exiting the programmes

# Continuing improvements in poverty and social exclusion indicators

- AROPE down from 23.3% in 2017 to 21.6 % in 2018 (below EU average 21.9 %)
- 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
- Income inequality continues to fall and is now around the EU average

At-risk-of-poverty or social exclusion rate and its components




***Source:*** Eurostat

# …but challenges remain

- **Housing affordability - a new social challenge**

  Rising housing prices increase the financial pressure on households and create issues of affordability, especially for the most vulnerable

- **The poverty-reducing impact of social transfers remains limited**

  In 2018, social transfers (excluding pensions) reduced at-risk-of-poverty by 23.8% in Portugal, below the EU average of 34%

# Common challenges – Demographic Ageing

- **Portugal's demographic projections** show a sustained decline in total population over the decades ahead, sharper than EU average
- Demographic ageing puts pressure on the labor market and public finances and **on the efficiency and quality** of the public services with particular challenges in health and long-term care
- **Targeted investment of EU Funds** in the next Multiannual Financial Framework will play a key role in addressing demographic challenges