

## PORTUGAL

GDP per capita relative to the upper half of OECD countries has declined over the past decade, with only a modest reversal during the recent crisis. This decline has been mainly accounted for by labour utilisation, but lower productivity alone explains the large gap in income levels. Some efforts have recently been made to accelerate pension reform implementation and to make public administration more efficient. Further reforms in the following areas are still needed to improve economic performance.

### Priorities supported by indicators

#### **Improve secondary and tertiary educational attainment**

Still low secondary and tertiary educational attainment weighs heavily on productivity and income levels.

**Actions taken:** The authorities raised the compulsory education age from 15 to 18 in 2009, revised teacher performance evaluation in 2010 and have continued to expand vocational educational and training (VET) and to implement tertiary education reforms.

**Recommendations:** Enhance career guidance and employers' involvement in VET. Reduce school-year repetition through more efficient interventions targeted to at-risk individuals. Implement training for teacher evaluation and link it to school evaluation. Continue to upgrade working adults' qualifications, at both secondary and tertiary levels. Ensure systematic monitoring and external assessment of all major reforms.

#### **Strengthen competition in non-manufacturing sectors**

Insufficient competition in network industries, retail and professional services hampers resource allocation and overall productivity levels.

**Actions taken:** The authorities increased the threshold surface limit for regulation of large outlets in 2009 and introduced legislation to make their opening hours more flexible in 2010. Sectoral regulators have lowered mobile phone termination charges and are introducing performance contracts in railways in 2010.

**Recommendations:** Foster competition in retail trade by further easing large outlet regulations and allowing updating of old rental contracts, which favour inefficient firms. Make licensing less restrictive in professional services. Promote competition in railways and ensure effective implementation of performance contracts. When financial conditions improve, downscale public ownership in transportation.

#### **Reduce labour market dualism**

Reformed but still-high job protection on regular contracts leads to labour market dualism, while the unemployment benefit system discourages job search by older workers and is inequitable.

**Actions taken:** The authorities imposed a cap on benefit replacement rates and made refusal of job offers more difficult in 2010.

**Recommendations:** Further reduce job protection on regular contracts. Reduce unemployment benefit generosity for older workers, by making benefit duration, replacement rates and their reduction throughout the unemployment spell age-independent. To better cover young and temporary workers, broaden benefit eligibility by reducing the required contributory period.

### Other key priorities

#### **Reduce administrative burdens on business at the local level**

High administrative burdens at the local level, especially in licensing, hamper entrepreneurship and productivity.

**Actions taken:** A small but growing number of municipalities have been joining Simplex Autárquico, a simplification programme. In 2010 the authorities have announced legislation to abolish licensing for some services.

**Recommendations:** Foster wide participation in Simplex Autárquico and broaden its scope, especially as regards collaboration between central and local authorities in licensing.

#### **Simplify the tax system and broaden tax bases**

Compliance costs are high, partly due to extensive tax expenditures. These also lower tax collection and are often distortive or inequitable.

**Actions taken:** The tax administration has substantially sped up the handling of tax disputes and private ruling requests, and continued to make progress in electronic tax filing and payment.

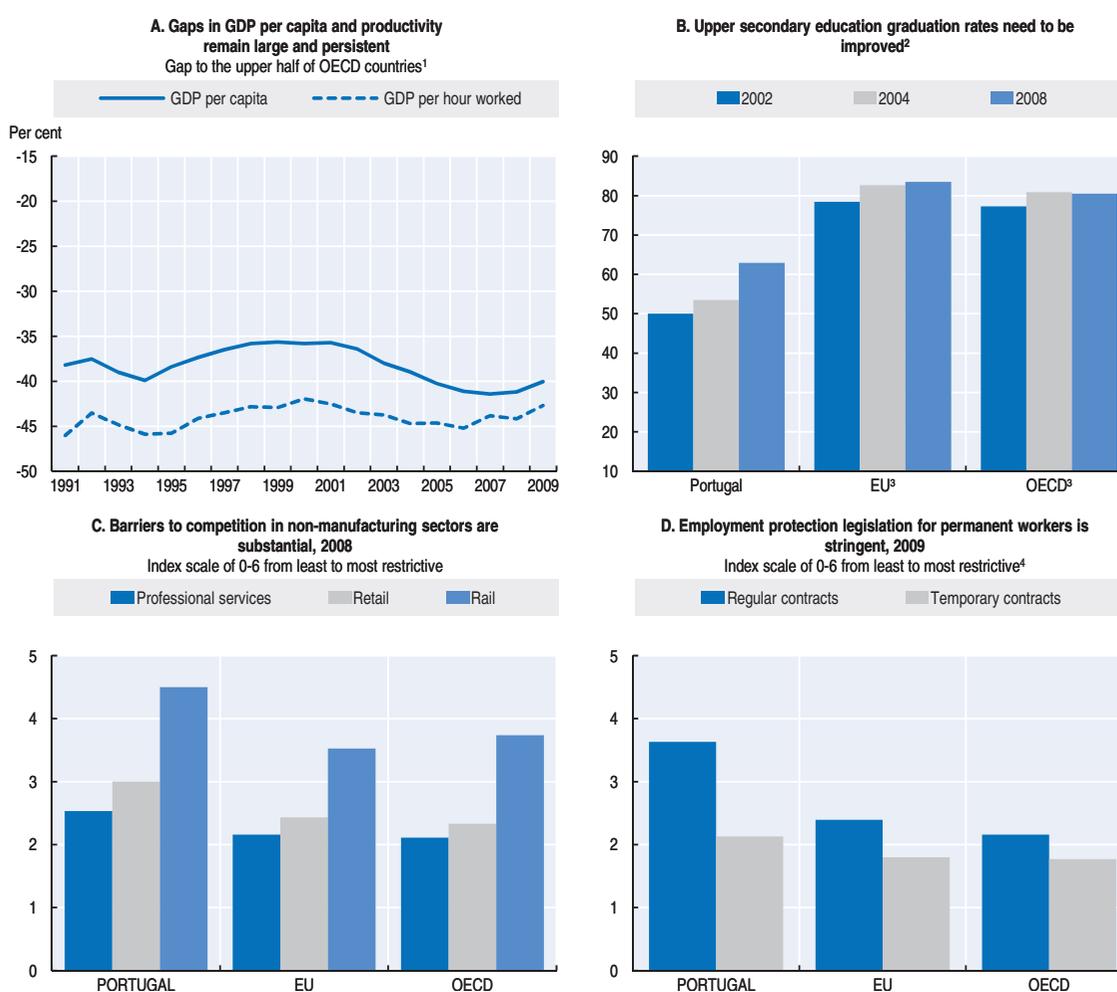
**Recommendations:** Increase coordination between tax and social security agencies, and reduce tax reporting requirements for small firms. Substantially curb tax expenditures for all types of taxes.

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## Structural indicators

Average annual trend growth rates, per cent

	1999-2009	1999-2004	2004-09
GDP per capita	1.0	1.5	0.6
Labour utilisation	-0.4	-0.2	-0.6
of which: Employment rate	0.0	0.3	-0.3
Average hours	-0.4	-0.5	-0.4
Labour productivity	1.4	1.6	1.2
of which: Capital intensity	..	..	..
Multifactor productivity	..	..	..

Source: Estimates based on OECD (2010), *OECD Economic Outlook No. 88: Statistics and Projections Database*.

1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. First-time graduation rates for single year of age at upper secondary level.
3. Average of European countries in the OECD. EU and OECD averages exclude Australia, Austria, Belgium, Estonia, France and the Netherlands.
4. 2009 for Portugal, 2008 for the EU and the OECD.

Source: Chart A: OECD, *National Accounts* and *OECD Economic Outlook No. 88 Databases*; Chart B: OECD (2010), *Education at a Glance*; Chart C: OECD, *Product Market Regulation Database*; Chart D: OECD, *Employment Database*.StatLink <http://dx.doi.org/10.1787/888932374179>