

3.22 Portugal

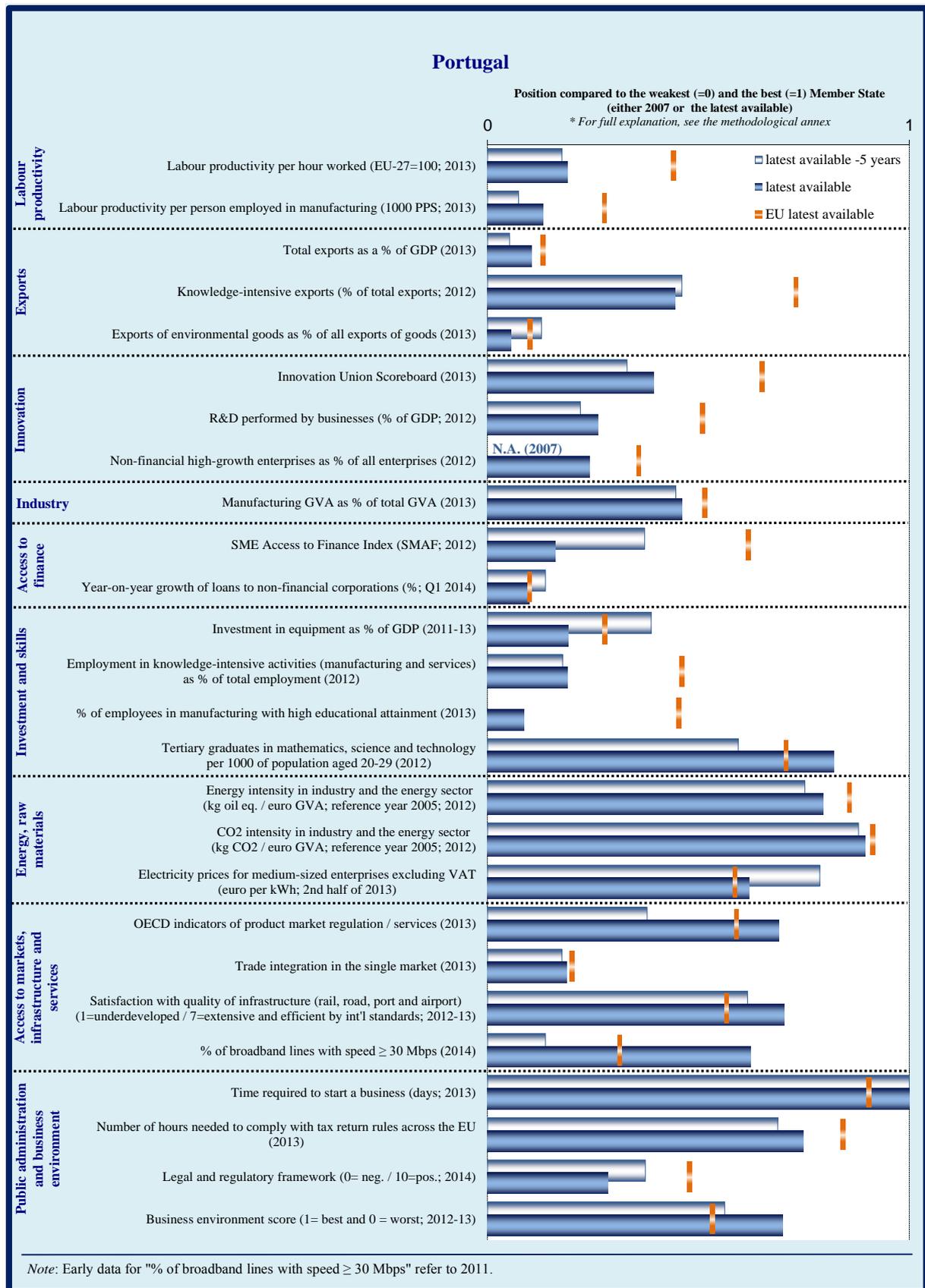
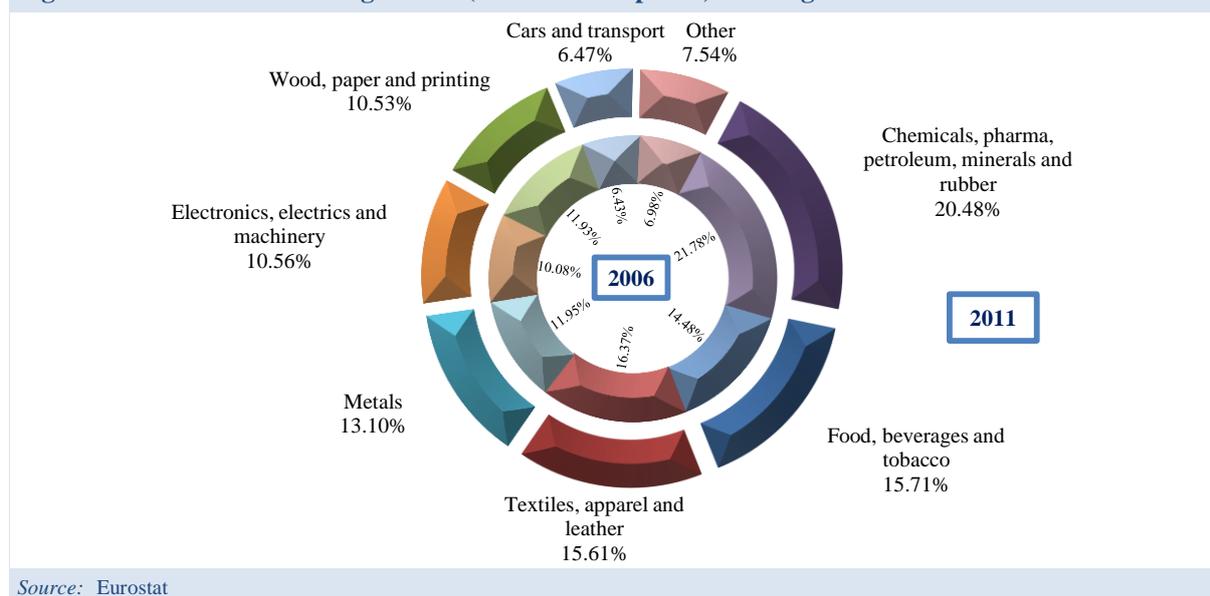


Figure 3.22.1: Manufacturing sectors (GVA at basic prices) - Portugal

Source: Eurostat

3.22.1 Introduction and performance

Portugal's biggest challenge is to increase the competitiveness of its economy after a decade of low productivity growth and growing indebtedness. ⁽¹⁾ Future economic growth should be based on the ability to boost the export of goods and services with high added value, together with the capacity to attract foreign investment. In this sense, net exports remain a key growth driver and are expected to continue to contribute positively to economic growth, although knowledge-intensive exports remain low.

Portugal successfully concluded its Economic Adjustment Programme ⁽²⁾ in May 2014. The programme has contributed to the implementation of a wide array of reforms to improve competitiveness. The reform process must continue, as recognised by the Commission in its assessment of the 2014 national reform programme and stability programme for Portugal, as well as in the proposed country-specific recommendations. The Portuguese growth strategy for 2014-2020 ⁽³⁾ also recognises the need to continue the implementation reforms. Moreover it

⁽¹⁾ Cf. The economic adjustment for Portugal, Occasional paper 79, Directorate-General for Economic and financial affairs, European Commission, June 2011.

⁽²⁾ In April 2011, the European Commission, the European Central Bank and the International Monetary Fund, negotiated with Portugal an economic adjustment programme. The programme covered the period 2011-14 and was agreed by the European Council on 30 May 2011.

⁽³⁾ Strategic plan for growth, employment and industrial promotion 2014-2020.

includes various measures aimed at reindustrialising Portugal that would contribute to mainstreaming industrial competitiveness aspects across various policy fields.

Productivity as measured by unit labour costs relative to the euro-area average has improved significantly over the last three years, though this is partly due to labour shedding. Though the share of employment in knowledge-intensive activities has increased, it is still relatively low. In terms of innovation, Portugal continues to underperform overall with respect to the EU average, despite improvements over the last decade. There is a significant gap between knowledge creation, knowledge transfer and its translation into economic value through innovation.

3.22.2 Access to finance and investment

Access to credit remains costly and difficult, in particular for SMEs. Freshly granted loans to SMEs fell by 4.8% in 2013 compared to 2012 and the stock of corporate loans decreased further in 2013. Interest rates have slightly eased but remain significantly higher than in other euro area Member States. As a result, businesses are increasing their financing through capital markets, although only this only applies to large businesses. The tight credit conditions are hampering the creation and development of start-ups and technology-based SMEs, both critical for spurring long term growth.

The government is trying to ease current credit constraints by strengthening existing instruments and fostering the use of alternative financing mechanisms. In 2013, Portugal allocated EUR 2 billion to a credit line to support the financing of SMEs (PME Crescimento 2013) and EUR 500 million to a line supporting exporting companies (PME exportações). Measures have been taken to enhance the effectiveness of government-guaranteed credit lines, develop a commercial paper market for SMEs, and improve information-sharing on credit quality through the credit registry. The state-owned bank CGD was also asked to release over EUR 1 billion in 2013 and more than EUR 2.5 billion in 2014 to finance the economy.

The Portuguese authorities are also setting up a specialised development financial institution to support the financing of the corporate sector, in particular SMEs. This new institution is expected to operate mainly through intermediated credit lines and risk-sharing instruments and guarantees.

Under the ‘Revitalizar Programme’, Portugal has also launched three ‘Revitalizar funds’, which are private equity instruments designed to capitalise SMEs with sustainable business models that pursue growth strategies and expansion. The three regional funds created in 2013 have an overall budget of EUR 220 million.

Improvements to the functioning of the corporate insolvency and restructuring framework have been adopted. A strategic plan on corporate restructuring to facilitate debt workouts has been prepared. This plan focuses particularly on viable SMEs, with a view to supporting the necessary capital reallocation towards productive sectors of the economy.

The liquidity problems of enterprises have been aggravated by long delays in payments, in particular by the public sector. ⁽⁴⁾ Although the public sector arrears have been significantly reduced, further efforts are needed as new arrears are still accumulating. The Late Payments Directive has not been properly transposed, as the relevant national law foresees exemptions in the public sector (e.g. healthcare) until 2016.

Portugal has introduced tax measures to encourage private investment and reducing the debt bias to

encourage the capitalisation of firms, including an extraordinary investment tax credit, and the introduction of limits to the tax deductibility of corporate interest costs. It has facilitated timely adjustments of state debt to SMEs among others by allowing faster depreciation of assets and reduced payment terms for tax returns.

3.22.3 Innovation and skills

Innovation

Portugal’s innovation performance has improved over the last decade, though it has been relatively steady since 2010. While this has been reflected in positive developments on several indicators, the country continues to underperform overall with respect to the EU average. Coordination between science and innovation and knowledge commercialisation remains very weak. There is still a significant gap between knowledge creation, knowledge transfer and its translation into economic value through innovation, partly due to the low share of knowledge-intensive sectors in the economy.

The Portuguese growth strategy for 2014-2020 ⁽⁵⁾ recognises the above-mentioned weaknesses and aims to foster the commercialisation of knowledge through: refocusing and strengthening existing measures to support R&D investment; enhancing coordination between the research and innovation system and businesses; and reinforcing international partnerships on applied research. The existing system of tax incentives (SIFIDE II) remains the main policy instrument to support business R&D investment. Three advisory councils have been created ⁽⁶⁾ to enhance stakeholders’ involvement in research and innovation policies and to improve coordination of the system. Furthermore, the government has put forward a national strategy for smart specialisation in the context of programming European structural and investment funds for the period 2014-2020).

Finally, following an evaluation of its clustering strategy, the country is redrafting its clustering policy instruments to maximise the strategy’s contribution to

⁽⁵⁾ Strategic plan for growth, employment and industrial promotion 2014-2020.

⁽⁶⁾ National Council for Science and Technology, National Council for Entrepreneurship and Innovation, and National Council for Industrialisation.

⁽⁴⁾ Source: European Payment Index 2014, Intrum Justitia,

generating value and skilled employment, and to internationalise the Portuguese economy.

Skills

There is a mismatch between the education/training systems and labour market demand for people with lower and higher levels of qualification. The educational level of young people remains relatively low compared to the EU average. Furthermore, the economy is not absorbing more qualified young people and the unemployment of university graduates has persistently increased in recent years.

The Portuguese growth strategy adopted in May 2014 identifies 'training and education' as one of the nine axes for government action. It foresees introducing training vouchers and continuing the reform of the vocational education and training system. Regarding training, some of the measures adopted so far include increasing the amount of 'on-the-job' training and creating short-cycle training courses in cooperation with local businesses. A decree revising and harmonising the rules governing professional schools of reference has been adopted. A decree harmonising the vocational education and training system has been also passed.

3.22.4 Energy, raw materials and sustainability

With a view to ensuring the efficiency and sustainability of the energy sector and lowering the energy cost for the economy, under the macroeconomic adjustment programme the Government has implemented two packages of measures, including a new levy on energy operators. A third package of measures aiming at reducing the increasing tariff debt and existing rents has been recently announced. The remuneration scheme for co-generation is being revised. Renewable electricity production reached over 50 % in 2013 and enabled Portugal to reduce its dependency on imported fossil fuels.

Portugal has also adopted legislation transposing the EU Directive on the energy performance of buildings, implementing its plan for promoting efficiency in energy consumption, and setting the legal framework for the use of liquefied petroleum gases and compressed and liquefied natural gas as fuel in vehicles. The measures planned for 2014 include the

transposition of the EU Directive on energy efficiency, implementation of national and municipal waste management plans, and the launch of an eco-innovation roadmap. In 2013, Portugal launched its National action plan for energy efficiency 2013-2016 and its National action plan for renewable energy 2013-2020.

To reduce the fragmentation of the Iberian electricity market, tariffs for the use of the gas interconnection were reduced and interconnectors built. Also, Portugal and Spain are conducting a study on the possibilities for Iberian gas market integration, due to be finalised in 2014.

3.22.5 Access to markets, infrastructure and services

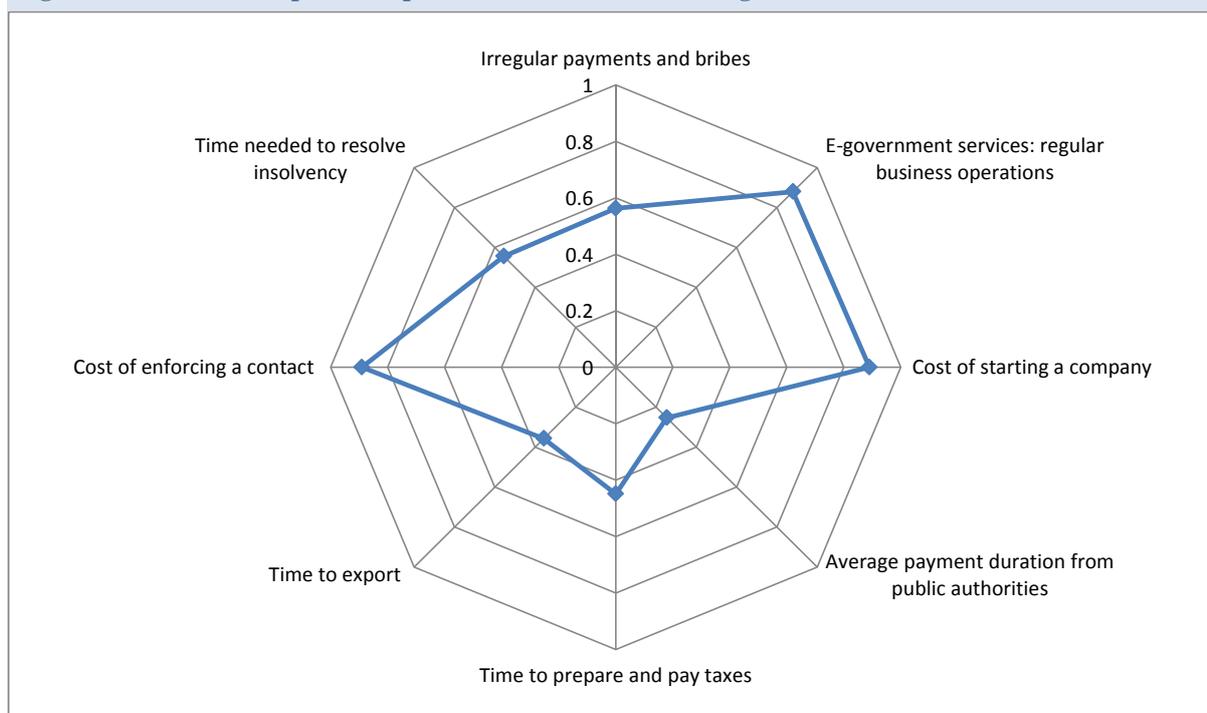
Export performance remains strong and continues the upward trend of previous years. The share of exports in GDP has progressed from 28.0 % in 2009 to 40.6 % in 2013, and they have become more diversified both in terms of products and of target markets. The number of firms and the percentage of exporting businesses have also increased. The tourism and machinery and tools sectors were the main Portuguese exporters in 2013.

Various measures to support the internationalisation of businesses have been put in place. Short-term lines of credit insurance have been set up to enable enterprises to cover the commercial credit risk of external transactions by means of a public guarantee. A new port labour law has been adopted, reducing port tariffs. A new exporter programme was launched in September 2013, providing 20 SMEs with training to develop products and to enter the US market. Other measures include projects aimed at promoting diplomatic and business visits with a view to facilitating business contacts. In addition, simplified procedures for obtaining proof of export certificates and accelerating VAT refunds for exporting firms were implemented. The streamlined online platform for exporters to request VAT exemptions has reduced the average time to complete an application for reimbursement from 42 days to eight.

Portugal also implemented an export training programme, ⁽⁷⁾ a training programme for companies

⁽⁷⁾ Formexport.

Figure 3.22.2: Overall profile of public administration - Portugal



Note: Values have been scaled so that the best observation (Member State) gets 1 and the worst gets 0.

Source: World Bank Doing business; Intrum Justitia; OECD; World Economic Forum; European Commission

wishing to start or to enhance their internationalisation or export activity.

3.22.6 Public administration and business environment

Public administration

Portugal has made significant progress in rationalising and modernising its public administration. A new general public administration labour law has been adopted which introduces a new requalification scheme and working time rules. Furthermore, the number of management positions and administrative units has been reduced and shared services have been set up in the areas of financial resources, human resources and ICT. A network of public spaces ('Espaços do Cidadão') is being expanded in which citizens will be assisted in the use of online public services.

In early October 2013, an anti-corruption legislative proposal was submitted to Parliament, including amendments to the criminal code, the law on the responsibility of political and senior public officials, and the law on bribery of foreign officials.

Business environment

The business environment has been enhanced through the implementation of a large number of structural reforms, including: facilitating licensing procedures, improving insolvency laws, liberalising regulated professions, reinforcing competition and regulatory authorities, facilitating the enforcement of contracts, and increasing the efficiency of the judicial system.

In the area of licensing, a comprehensive programme was launched in 2012 to tackle excessive procedures, regulations and other administrative burdens. The overall goal is to move to a new system of *ex-ante* declarations by firms with *ex-post* control by the authorities for most activities. Only specific and justified cases (e.g. hazardous industries) would be subject to more onerous procedures.

An inter-ministerial working group, coordinated by the ministry of economy, has been established with a view to setting up the SME test. A new government Council for economic affairs and investment meets every two weeks to monitor tax reforms and the timely approval of large investment projects. The efficiency of the land registry has also been significantly improved.

Portugal has continued to adopt legislation to strengthen the role of key regulators and to foster competition. A new framework law setting out the main principles of the functioning of competition and regulatory authorities is being implemented, although some by laws are still pending.

The business environment has also been enhanced by a thorough reform of the justice system. The new Code of Civil Procedure, in force from September 2013, helps expedite the court processes in commercial and civil litigation. The new Judicial Organization Act, which aims to enhance the efficiency and professionalism of court management, thus accelerating the court proceedings, was approved in June 2013. An audit of pending debt enforcement cases has also been carried out, with all backlogged and inactive cases being closed.

In 2014, Portugal plans to further liberalise professional services, enhance the regulatory regime for mergers and acquisitions, reduce the administrative burden for exports, enhance the functioning of the single point of contact for firms, ensure the effective implementation of the zero licensing project, review expropriation rules and launch a simplex programme to reduce further the administrative burden at local level. Approval of the one in, one out principle took place in May 2014. An inventory of the administrative burden was finalised in May 2014 and an analysis of the related costs of regulations has been presented. The government defined a plan to cut red tape based on this. Work is ongoing to expand the scope of the current inventory to cover additional sectors notably tourism, construction and agriculture. Portugal is working on other simplification measures, including the identification of challenging bureaucracy via an open online public participation and a newly established Inter-Ministerial Network for Administrative Modernisation (RIMA). Also in 2014, Portugal will implement a new judicial reform that will rationalise the nation's court network and facilitate the specialization of judges in several areas of expertise, namely in enforcement cases.

3.22.7 Conclusions

Portugal is making progress in enhancing its competitiveness, though further efforts are needed. The government needs to maintain reform momentum after the successful conclusion of the economic

adjustment programme. Full and effective implementation of the measures adopted is required to achieve their full potential benefits. This is crucial to continue rebalancing the economy and to boost its growth potential.

Significant progress has been observed in the area of business environment. Although it is too early to assess their impact, various indicators are showing positive trends. However, the financing of businesses, in particular SMEs, remains difficult and costly and the implementation of a comprehensive strategy is necessary to address the debt overhang of Portuguese enterprises and to help ensure access to credit for viable companies. This situation continues to be aggravated by long delays in payments, in particular by the public sector.

Major challenges remain in various areas. Regarding skills, the current mismatch between the education/training systems and labour market needs to be tackled, especially given the high level of unemployment. Also, more efforts are needed to create an innovation-friendly environment which supports the transition towards a knowledge-based economy. In the energy sector, additional efforts are necessary to ensure the long-term sustainability, the elimination of the tariff debt as well as the reduction of costs of services and excess rents. In the transport sector, significant parts of the policy agenda, especially in the railways and ports sector, remain to be implemented.