



Economic Challenges of Lagging Regions

Annex 2

Task 2 - Country report PORTUGAL

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Task 2 - Country report PORTUGAL



A joint effort by

- › The Vienna Institute for International Economic Studies
Wiener Institut für Internationale Wirtschaftsvergleiche
- › Cambridge Econometrics
- › Applica Sprl.

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Preliminary note

The Country Reports are concerned with identifying the main structural imbalances in each of the 8 Member States on the basis of a broad range of data from various sources with regard to the 6 reform areas that has been identified as likely to most influence investment decisions and which are:

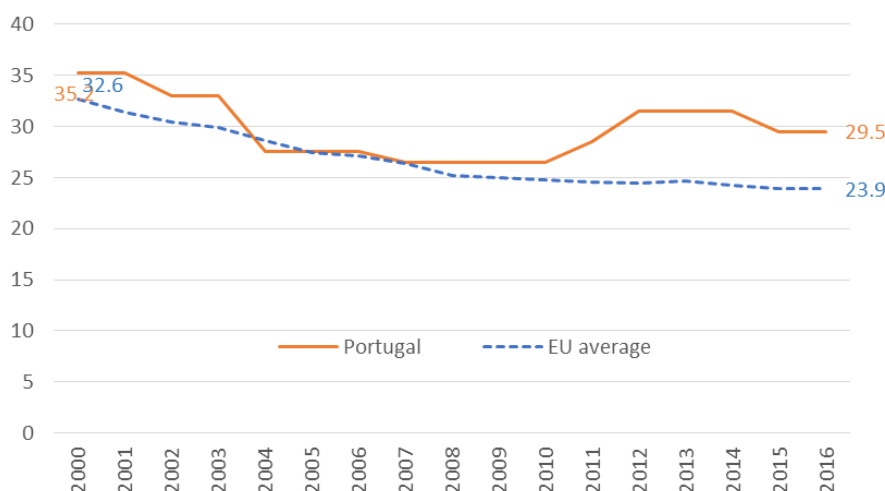
1. Corporate taxation
2. Banking and Access to finance
3. Labour market
4. Education
5. Business environment including product markets, research and innovation
6. Governance

The approach is to compare, for each structural variable, the situation in the country concerned and, so far as possible, in the lagging (NUTS 2) regions where data are available with the EU average, used as a benchmark. The findings are then confronted with the reforms recommended and implemented so to identify areas still in need of reform.

A summary of the main findings coming out from the detailed analysis provided in the Country Reports is included in the main report.

1. CORPORATE TAXATION

Figure 1 – Corporate income tax rate in Portugal, 2000-2016

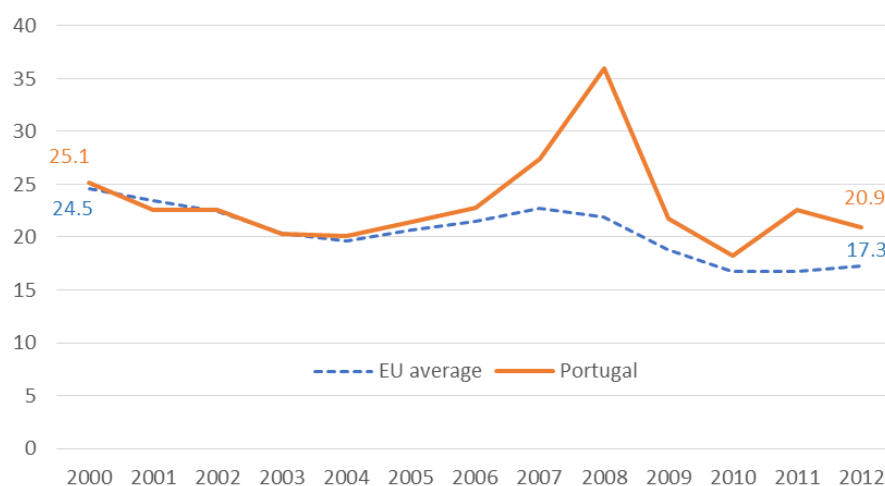


Source: OECD Tax Database.

Notes: The data presented is the combined corporate income tax rate, which is the combination of the central government corporate income tax rate and the sub-central government corporate income tax rate.

The EU average does not include BG, DK, DE, IE, EL, HR, LU, MT and RO

Figure 1.1 – Implicit tax rate on capital and business income of corporations in Portugal, 2000-2012



Source: Eurostat, Government statistics [gov_a_tax_itr].

Note: The EU average does not include BG, DK, DE, IE, EL, HR, LU, MT and RO.

CORPORATE TAXATION in Portugal

Country-specific recommendations, 2011-2015

2011	Reduction of corporate tax deductions and special regimes (abolishing all reduced corporate income tax rates, proposing amendments to the regional finance law to limit the reduction of corporate income tax in autonomous regions to a maximum of 20% vis-à-vis the rates applicable in the
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	mainland).
2014	The budget shall include revenue measures including broadening of corporate tax base by reducing tax deductions and special regimes.
2015	Reduce the debt bias for corporates under tax provisions.
Structural reforms carried out, 2011-2015	
2014	Since 2014, Portugal has had an Allowance for Corporate Equity (ACE) which allows SMEs to deduct up to 5% of their taxable income. The corporate income tax (CIT) reform initiated in 2014 is to be continued by cutting the standard rate by a further 2 percentage points. The reform was designed to promote competitiveness and investment, to help make Portuguese companies more international and to simplify the taxation system. The CIT reform included a number of measures designed to boost investment, such as revamping the R&D tax credit (SIFIDE II).
Outstanding challenges	
	The debt bias in corporate taxation remains relatively high and tax compliance low. The perceived high level of uncertainty in the tax system may weigh on Portugal's attractiveness as a destination of foreign investment.
	With a view to guarantee investors' confidence further steps should be identified to make the tax system more growth friendly while ensuring the overall stability and predictability of the tax system.
	The remaining high debt bias in corporate taxation could discourage equity investment.
	The number of hours spent by medium-sized firms to prepare, file and pay taxes is high. A relatively high effective marginal corporate tax rate (in the non-financial sector) may hamper investment in the real economy.

Sources: Memorandum of Understanding 2011, Implementing Decision 2011/344/EU, CSRs 2014-2015, CR 2016 (SWD2016 - 90 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

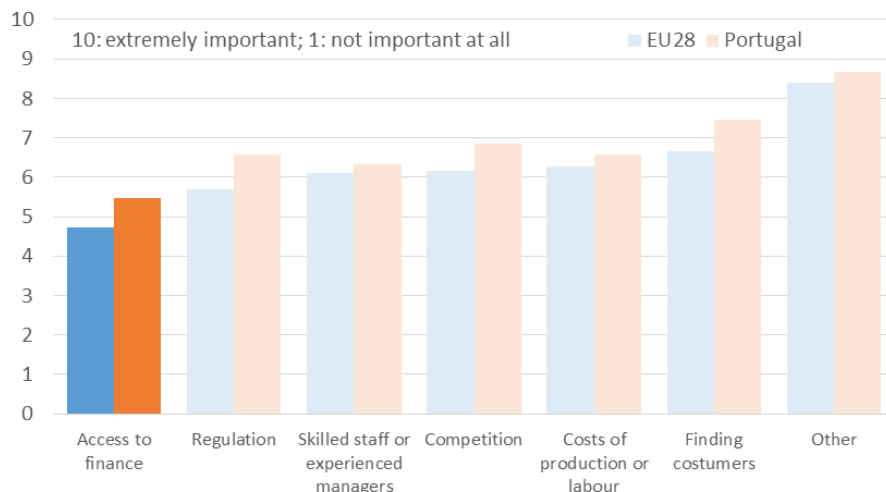
Overview

Between 2000 and 2010, the corporate income tax (CIT) rate in Portugal decreased from 35.2% to 26.5%. In 2011 and 2012 it increased to respectively 28.5% and 31.5% before falling again in 2015 to 29.5%, which is about six percentage points above the euro area average (23.9%). The recent decrease follows the 2014 CIT reform, which aimed at simplifying the system and reducing the standard rate of 2 percentage points in order to promote competitiveness and investment. On the other hand, the implicit tax rate has been falling since 2008, which is likely to be due to measures such as the R&D tax credit and the extension of the carry-forward period for tax losses from 5 to 12 years.

The country-specific recommendations focused on reducing the CIT deductions as well as the debt bias. Despite a comprehensive tax system overhaul in 2014, there remains a high debt bias. In addition, the high level of uncertainty and administrative burden related to the tax system not only damages the activity of its domestic actors but also makes the country less attractive for foreign investors.

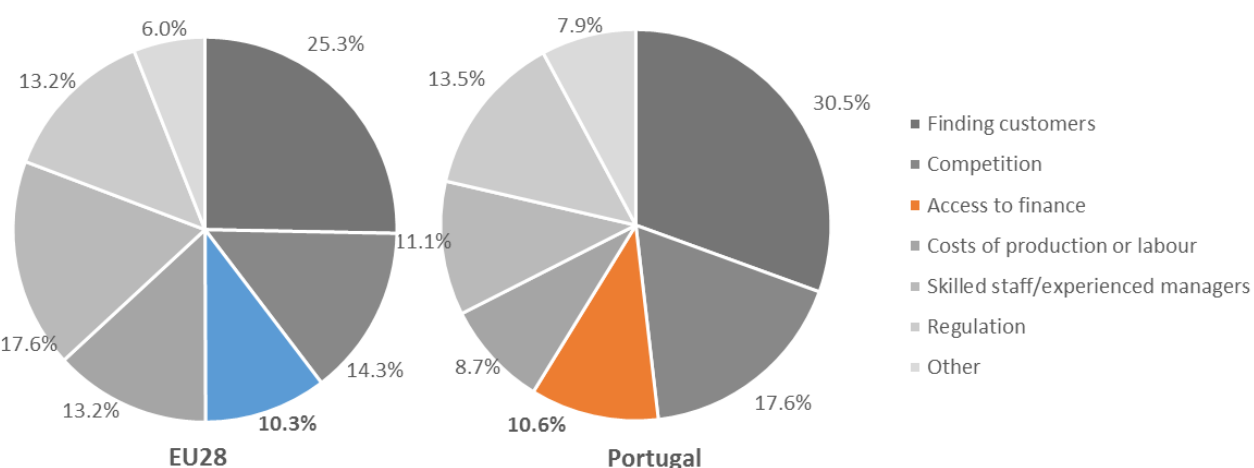
2. ACCESS OF ENTERPRISES TO FINANCE

Figure 2.1 – Problems faced by enterprises in the past 6 months in Portugal, 2015



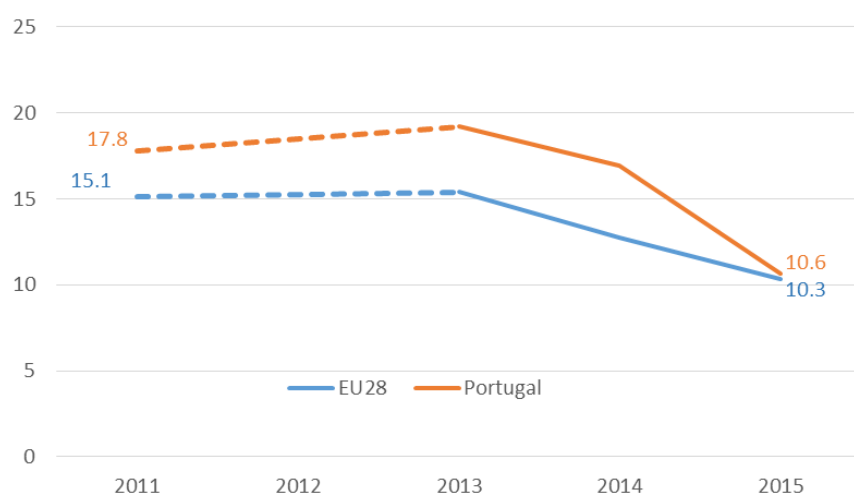
Source: SAFE, wave 13.

Figure 2.2 – Current most important problem for enterprises in Portugal, 2015



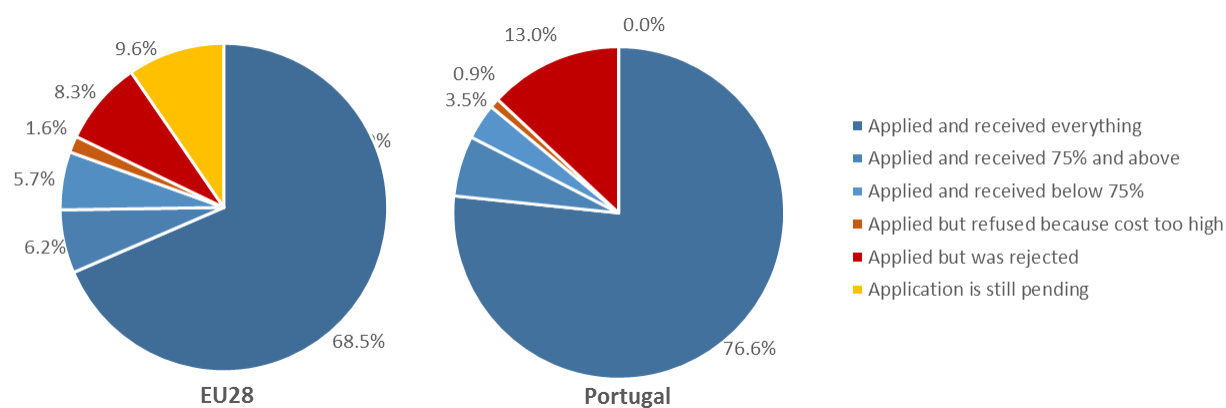
Source: SAFE, wave 13.

Figure 2.3 – Share of responding enterprises that said that access to finance was the current most important problem for them in Portugal, 2011-2015



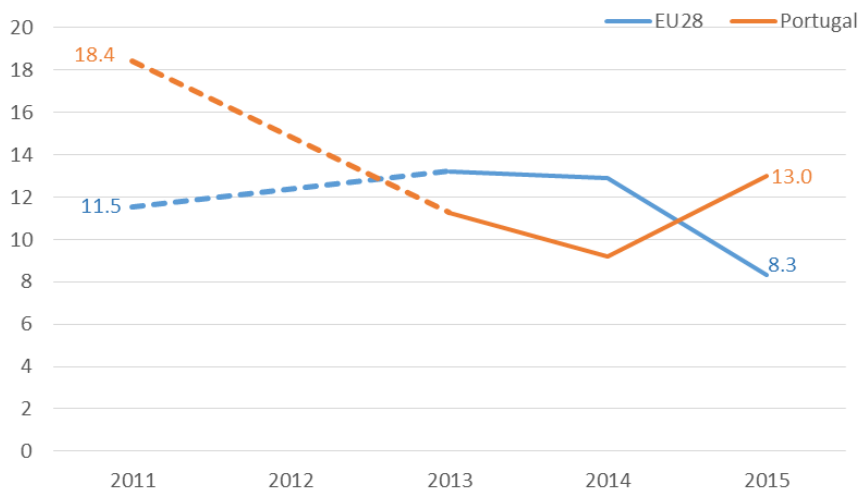
Source: SAFE, waves 5, 9, 11 and 13.

Figure 2.4 – Outcome of applications by enterprises for bank loans in Portugal, 2015



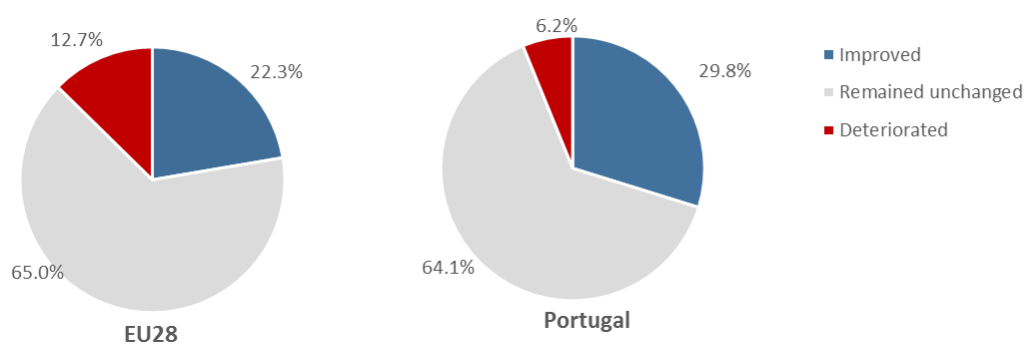
Source: SAFE, wave 13.

Figure 2.5 – Share of responding enterprises that applied for a bank loan but saw their application rejected in Portugal, 2011-2015



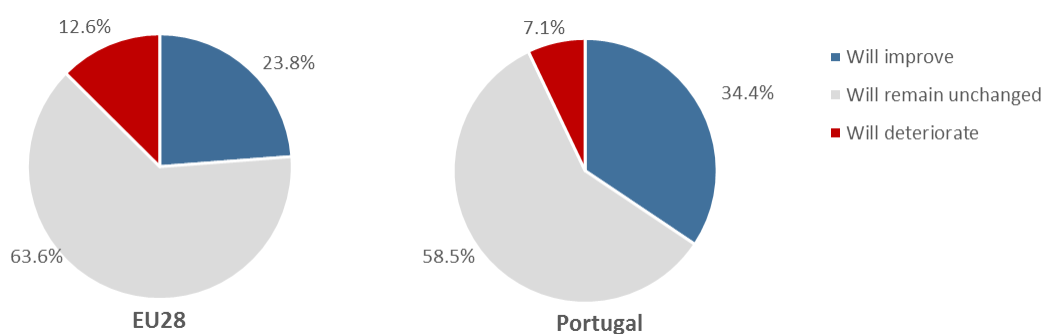
Source: SAFE, waves 5, 9, 11 and 13.

Figure 2.6 – Availability of bank loans over the past 6 months in Portugal, 2015



Source: SAFE, wave 13.

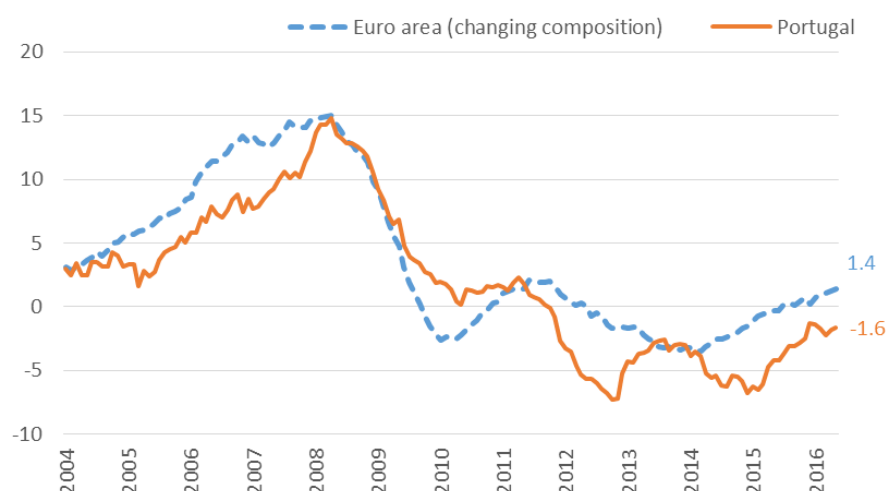
Figure 2.7 – Evolution of the availability of bank loans for the future in Portugal, 2015



Source: SAFE, wave 13.

Stock of bank loans to non-financial corporates

Figure 2.8 – Annual growth rate of monetary financial institutions loans to non-financial corporations, 2004-2016 in Portugal, 2015



Source: European Central Bank, Balance Sheet Items, 2010-2016

Notes: Annual growth rate of loans adjusted for sales and securitisation to euro area non-financial corporates (NFC), data neither seasonally nor working day adjusted. Index of Notional Stocks.

ACCESS TO FINANCE in Portugal	
Country-specific recommendations, 2011-2015	
2011	By the end of 2011, reinforce measures to facilitate access to finance and export markets for companies, in particular for SMEs.
2012	-
2013	Prepare a strategic plan aimed at addressing the corporate debt overhang and supporting reallocation towards the productive sectors of the economy.
2014	Implement a comprehensive strategy to reduce corporate debt overhang and reinforce efforts to widen the range of financing alternatives including for early stages of business developments. Implement by end-September 2014 an early warning system to identify firms with a high probability of default due to an excessive level of indebtedness and which can promote early corporate debt restructuring.
2015	Take further measures to reduce corporate debt overhang and to address the corporate non-performing loans ratio in banks. Improve the efficiency of debt restructuring tools for viable companies by introducing incentives for banks and debtors to engage in restructuring processes at an early stage.
Structural reforms carried out, 2011-2015	
2013	To mitigate the impact of banks' deleveraging strategies on their ability to finance the corporate sector, new options of financing are being considered such as the development of a commercial paper market for SMEs and improved information sharing on credit quality through the credit registry.
2015	Portugal is setting up a specialised Development Financial Institution (DFI) to promote greater efficiency and effectiveness in the management of financial instruments for supporting SMEs and to address market failures hampering some SMEs to access funding. The set of financing tools that the DFI will provide will include both debt and equity funding. (Despite its formal establishment, the DFI is not operational yet.)
2016	The Portuguese authorities have made available resources for investments in equity and venture capital and a 'new line of business angels'. The government also extended existing credit lines (SME Growth 2015-PME Crescimento 2015, Enterprise revitalising support line, Credit line Mezzanine

	Financing IFD 2015).
Outstanding challenges	
	An improvement in private and public sector deleveraging needs could ease access to credit for business, in particular for SMEs.
	Start-ups and SMEs have only limited access to finance via the capital market.
	The corporate sector remains one of the most indebted in the EU and the ongoing pressure to reduce debt will continue to have a negative effect on investment.
	The corporate debt ratio represents also a concern for banks' balance sheets through the relatively large number of non-performing loans and corporate bankruptcies.

Sources: Memorandum of Understanding 2011, Economic Adjustment Programme 2013, CSRs 2014-2015, CR 2016 (SWD2016 - 90 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

According to the SAFE results for 2015, access to finance was not considered the primary issue of concern for enterprises in Portugal, which appear more concerned about finding customers, competition as well as the cost of production or labour. However, the situation has greatly improved over the recent years: access to finance indeed was a major issue in 2013 for about one fourth of the enterprises operating in the country.

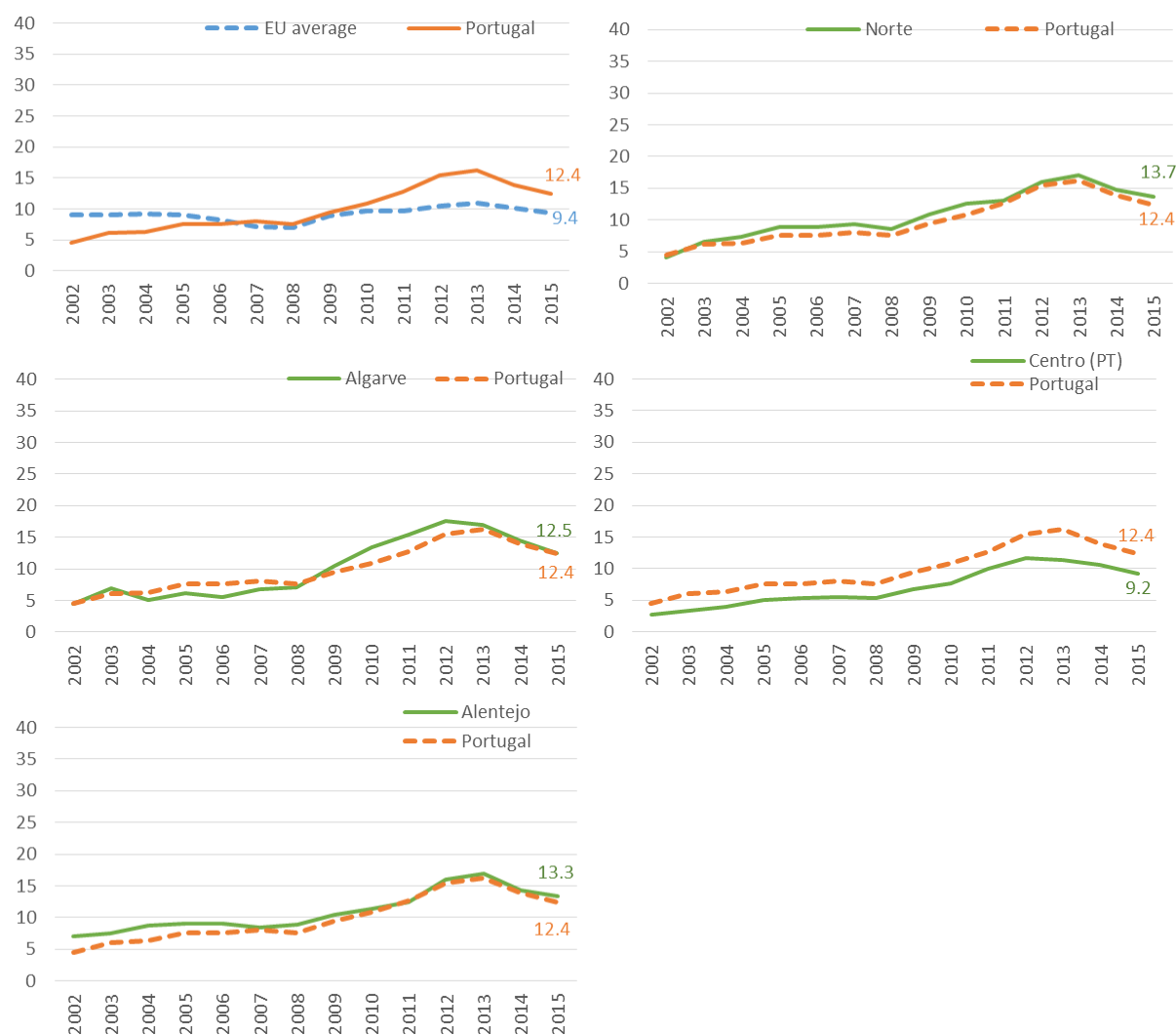
Data on the outcome of bank loan applications in 2015 tend to confirm that access to finance is slightly easier in Portugal than in the EU on average, although the share of enterprises that saw their bank loan application rejected significantly increased in 2015, while in the rest of the EU it decreased, suggesting a deterioration in the bank loan availability in Portugal. Nonetheless, Portuguese entrepreneurs seem more confident about the future availability of bank loans compared to the rest of the EU.

The European Central Bank indicator on the growth rate of loans to non-financial corporation confirms – at least in part – that access to capital is currently less of a problem for Portuguese enterprises compared to previous years, although it remains a structural problem for investment in Portugal. Despite remaining negative and below the EU average, the growth rate started to increase in 2015.

The country-specific recommendations have focused on the reduction of enterprise indebtedness and debt restructuring. Starting from 2013 the Portuguese government has implemented a new option of financing to mitigate bank's deleveraging strategies, including from 2015 the creation of a specialized Development Financial Institution providing both debt and equity funding especially for SMEs. Despite that, start-ups and SMEs still have limited access to finance and the Portuguese enterprises remain among the most indebted in the EU, thus limiting their propensity to invest.

3. LABOUR MARKET

Figure 3.1 – Unemployment rate (15 and over) in Portugal, 2002-2015



Source: Eurostat, LFS [lfst_r_lfu3rt].

Table 3.1 – Unemployment rate in Portugal, 2015

Region	Unemployment rate, 15 and over (%)
Norte	13.7
Algarve	12.5
Centro (PT)	9.2
Alentejo	13.3
Portugal	12.4
EU average	9.4

Source: Eurostat, LFS [lfst_r_lfu3rt].

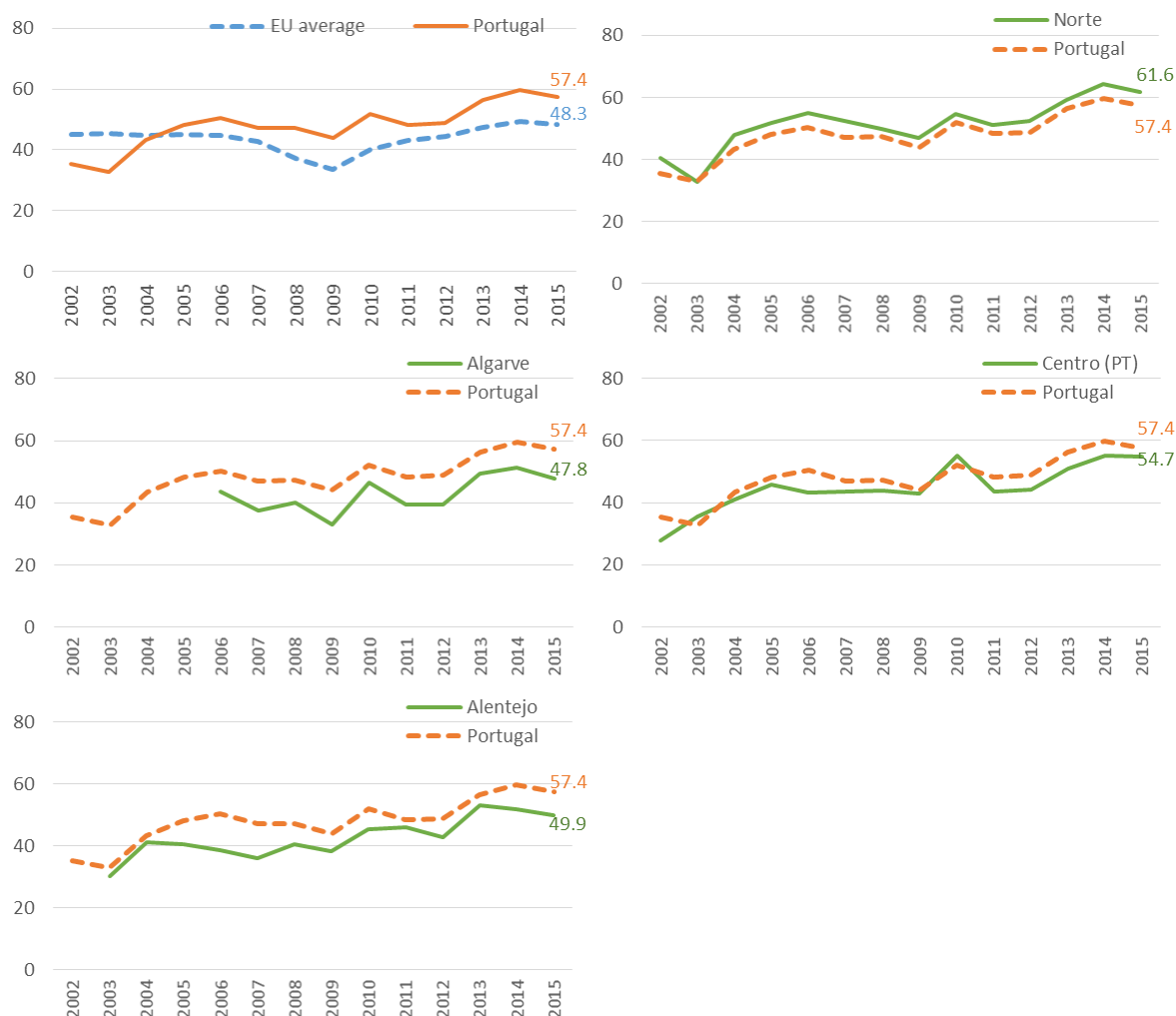
Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The unemployment rate in Portugal was slightly above the EU average in 2015, as it was in the previous five years. Between 2006 and 2009, the rate closely tracked the EU average while it was below before that period. Since the inception of the crisis, however, the rate increased above the EU average up to over 16% of the total labour force in 2013. Since 2014 the rate is however declining, achieving 12.4% of the total labour force in 2015, i.e. 3 percentage points more than the EU average.

Apart from Centro where the unemployment rate was below the national and EU average over the 2002-2015 period, the rate was higher than in the country in the other lagging regions over much of that period. In Norte and Alentejo the rate was particularly high in 2015 but closely tracked the national average over the whole period. In Algarve, unemployment was well above the national average between 2010 and 2012 but declined rapidly in the following years, being virtually equal to the national average in 2015. Job shortages, therefore, seem to be a particular problem in Norte and Alentejo.

Figure 3.2 – Long-term unemployment in Portugal, 2002-2015, % of total unemployed



Source: Eurostat, LFS [lfst_r_lfu2ltu].

Table 3.2 – Long-term unemployment in Portugal, 2015

Region	LTU rate
Alentejo	49.9
Centro (PT)	54.7
Algarve	47.8
Norte	61.6
Portugal	57.4
EU average	48.3

(% of total unemployed)	
Norte	61.6
Algarve	47.8
Centro (PT)	54.7
Alentejo	49.9
Portugal	57.4
EU average	48.3

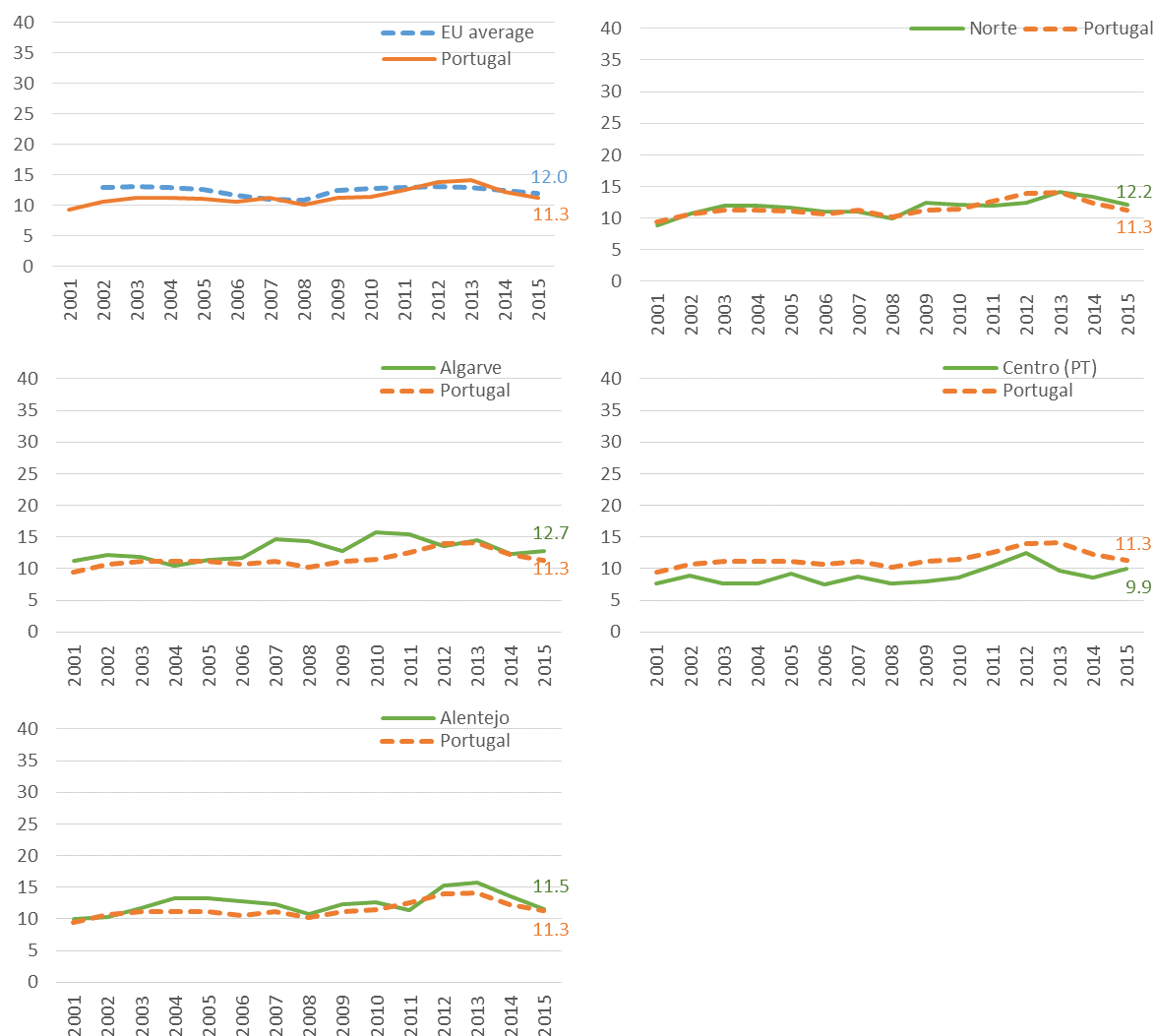
Source: Eurostat, LFS [lfst_r_lfu2ltu]

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The share of the unemployed out of work for a year or more – i.e. long-term unemployment – was much larger in Portugal in 2015 than the EU average as it was over the preceding 10 years, suggesting that structural unemployment represents more of a problem in Portugal compared to the rest of the EU. Among the lagging regions, the share of long-term unemployed was above the national average only in Norte, where it has been constantly so throughout the whole period considered. On the contrary in the other lagging regions the share was largely below the national average, and even below the EU average in Algarve. Structural unemployment, therefore, seems to be a particular problem only in Norte.

Figure 3.3 – Proportion of young people aged 15-24 neither in employment nor in education and training in Portugal, 2001-2015



Source: Eurostat, LFS [edat_lfse_22].

Table 3.3 – NEET rate in Portugal, 2015

Region	NEET rate (15-24), %, 2015
Norte	12.2
Algarve	12.7
Centro (PT)	9.9
Alentejo	11.5
Portugal	11.3
EU average	12.0

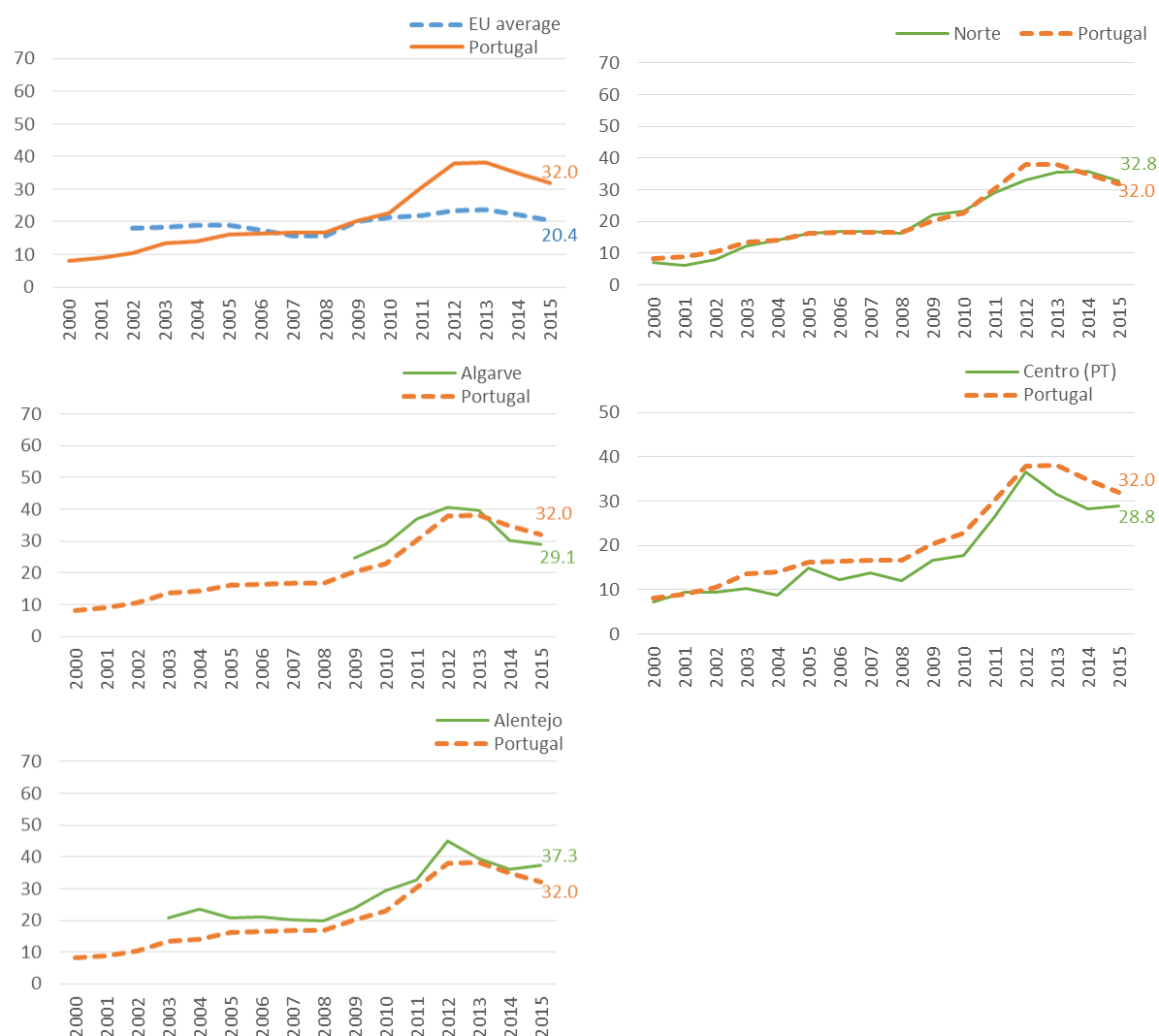
Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The share of young people aged 15-24 neither employed nor in education or training (NEET) in Portugal was about 11% in 2015, i.e. slightly below the EU average. From 2006 to 2015, the rate tracked the EU average relatively closely. In the lagging regions, the rate was below the national average in Centro over the 2011-2015 period and in Alentejo, over much of that period. The NEET rate was higher than the national and EU level in Algarve and Norte. Lack of jobs for young people and/or their limited participation in education or initial vocational training, therefore is a concern in these regions.

Figure 3.4 – Unemployment rate (15-24 years) in Portugal, 2000-2015



Source: Eurostat, LFS [lfst_r_lfu3rt].

Table 3.4 – Youth unemployment rate in Portugal, 2015

Region	Unemployment rates (15-24), %, 2015
Norte	32.8
Algarve	29.1
Centro (PT)	28.8
Alentejo	37.3

Portugal	32.0
EU average	20.4

Source: Eurostat, LFS.

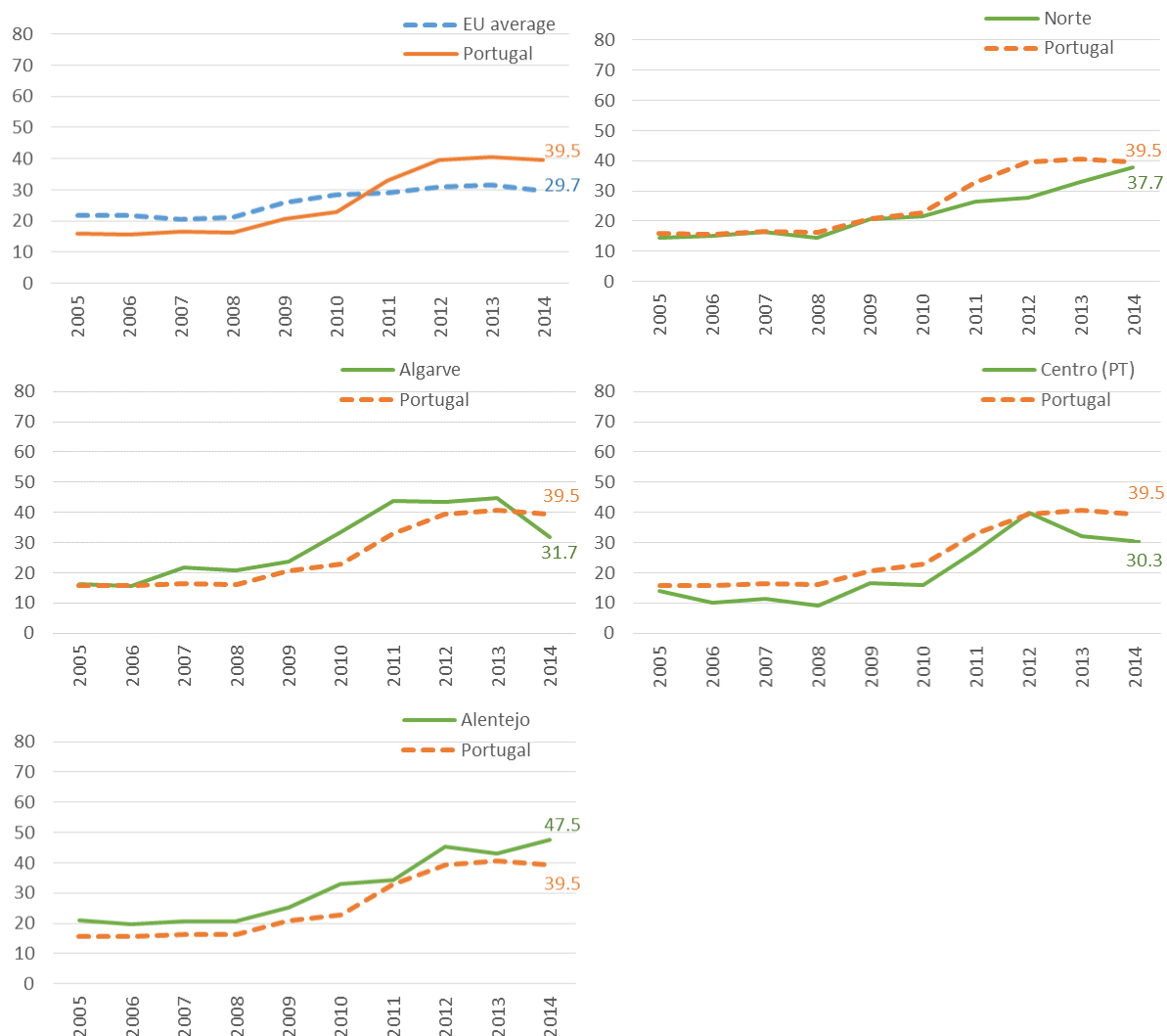
Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

The unemployment rate of young people in Portugal was 32% in 2015, which is 12 percentage points higher than the rate in the EU on average. Youth unemployment in Portugal has increased significantly more than in the EU from 2010 onwards and this has widened the gap with the latter. Nonetheless, the rate has decreasing since 2014.

At the regional level, the youth unemployment rate was highest in Alentejo, where about 37% of young people aged 15-24 were unemployed. In Norte, the rate was also above the national average in 2015, although only slightly. By contrast, in Centro and Algarve the rate was below the national average, although still above the EU one.

Figure 3.5 – Unemployment rate of young people aged 15-24 with low education in Portugal, 2005-2014



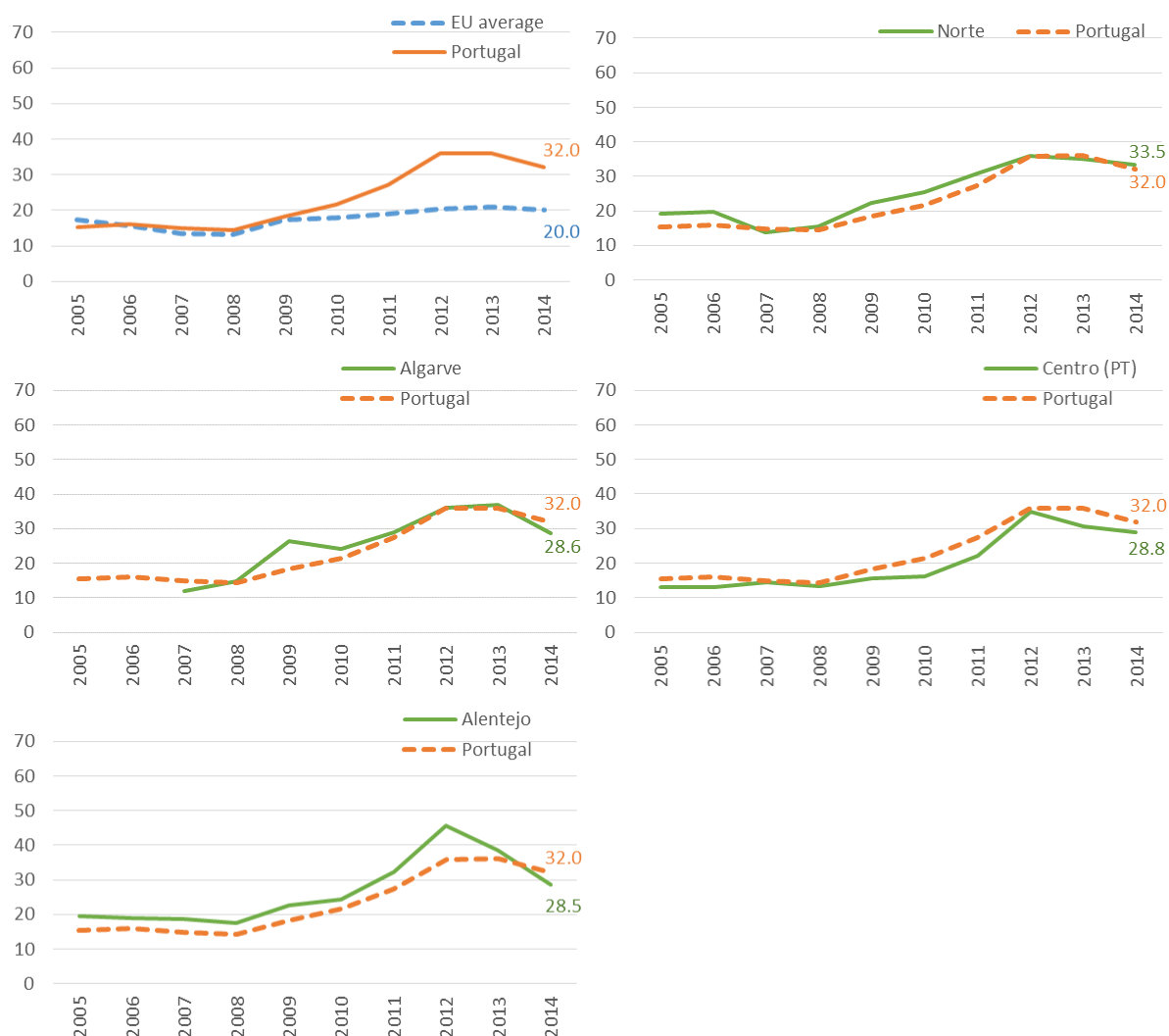
Source: Eurostat, LFS microdata.

Commentary

Since 2011, the unemployment rate among young people with only basic education in Portugal is above the EU level (unlike what was observed over the 2005-2010 period). The gap between the Portuguese and the EU rate being as wide as 10 percentage points in 2014. However, proportionally to the overall youth unemployment, the youth unemployment of those with low education is not higher in Portugal than in the EU.

At the regional level, the problem of young people not finding employment was particularly acute only in Alentejo, where over 47% of those aged 15-24 with basic education are unemployed. By contrast, the youth unemployment rate was below the national average in the other three lagging regions, in particular in Algarve and Centro where the rate was only slightly above the EU average.

Figure 3.6 - Unemployment rate of young people aged 15-24 with medium education in Portugal, 2005-2014



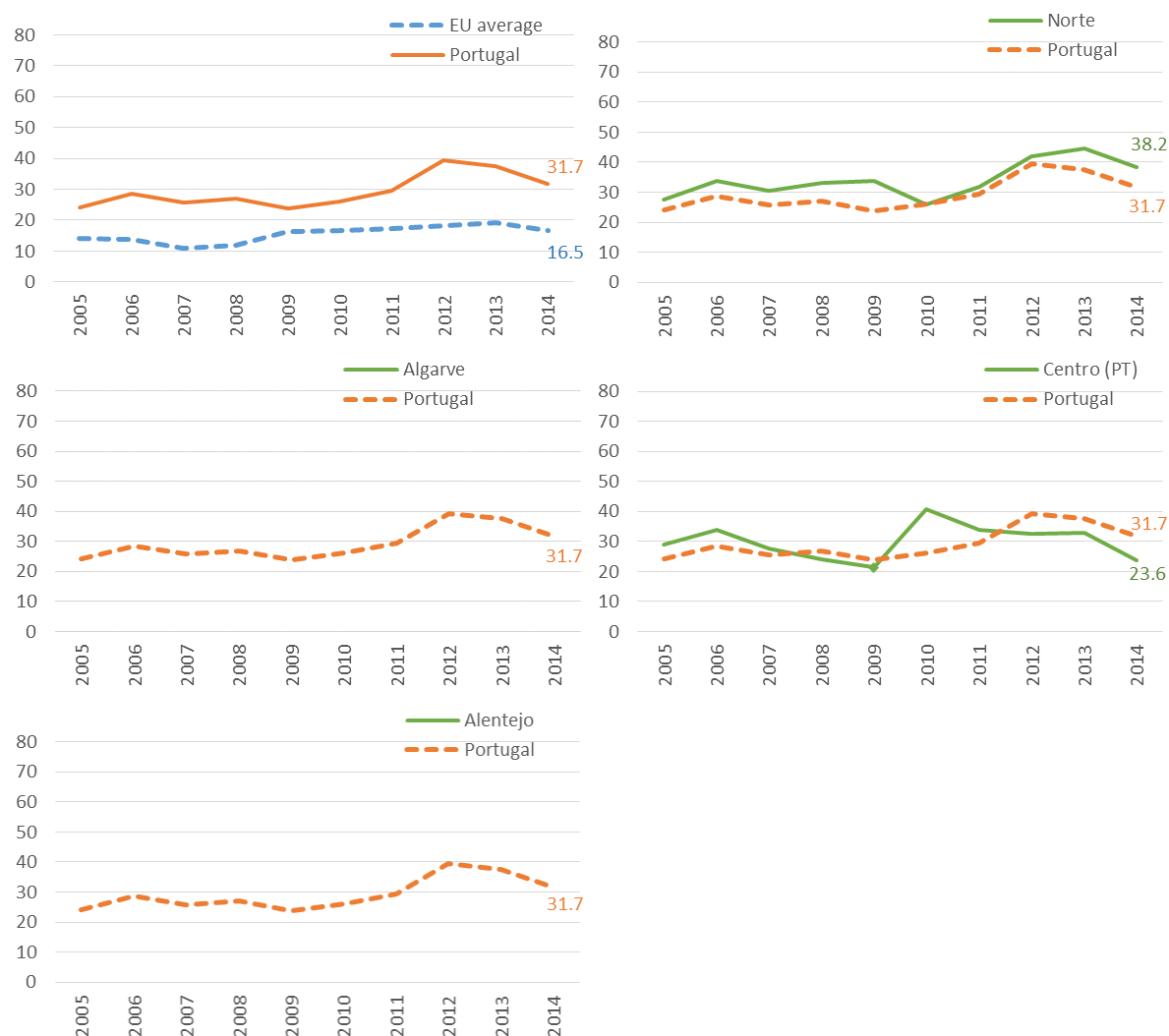
Source: Eurostat, LFS microdata.

Commentary

The unemployment rate in Portugal was consistently above the EU average for young people with upper secondary education over much of the period examined. In 2014, the rate was 12 percentage points higher than the EU average and was as high as the overall youth unemployment rate.

In all the lagging regions, with the exception of Norte, the unemployment rate of young people with upper secondary education was lower than in Portugal on average. In Norte, about a third of people aged 15-24 with upper secondary education was unemployed in 2015. The rates in the other three regions were markedly lower, but still much higher than in the EU.

Figure 3.7 - Unemployment rate of young people aged 15-24 with high education in Portugal, 2005-2014



Source: Eurostat, LFS microdata.

Table 3.5 – Youth unemployment rate by education attainment level in Portugal, 2014

Region	Unemployment rate, 15-24, %		
	Isced 0-2	Isced 3-4	Isced 5-8*
Norte	37.7	33.5	38.2
Algarve	31.7	28.6	:
Centro (PT)	30.3	28.8	23.6
Alentejo	47.5	28.5	:
Portugal	39.5	32.0	31.7
EU average	29.7	20.0	16.5

Source: Eurostat, LFS.

* Data for Algarve and Alentejo cannot be published because of the insufficient number of observations..

Notes: Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat. Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey.

Commentary

In 2015, about 32% of young people with tertiary education were unemployed in Portugal. Although this is similar to the overall youth unemployment rate, it is nevertheless about twice as high as the rate observed on average in the EU.

Unemployment among tertiary-educated young people was again highest in Norte, where over 38% of the young people with tertiary education were unemployed; while in Centro the rate was significantly below the national average. (No reliable data are available for Algarve and Alentejo.)

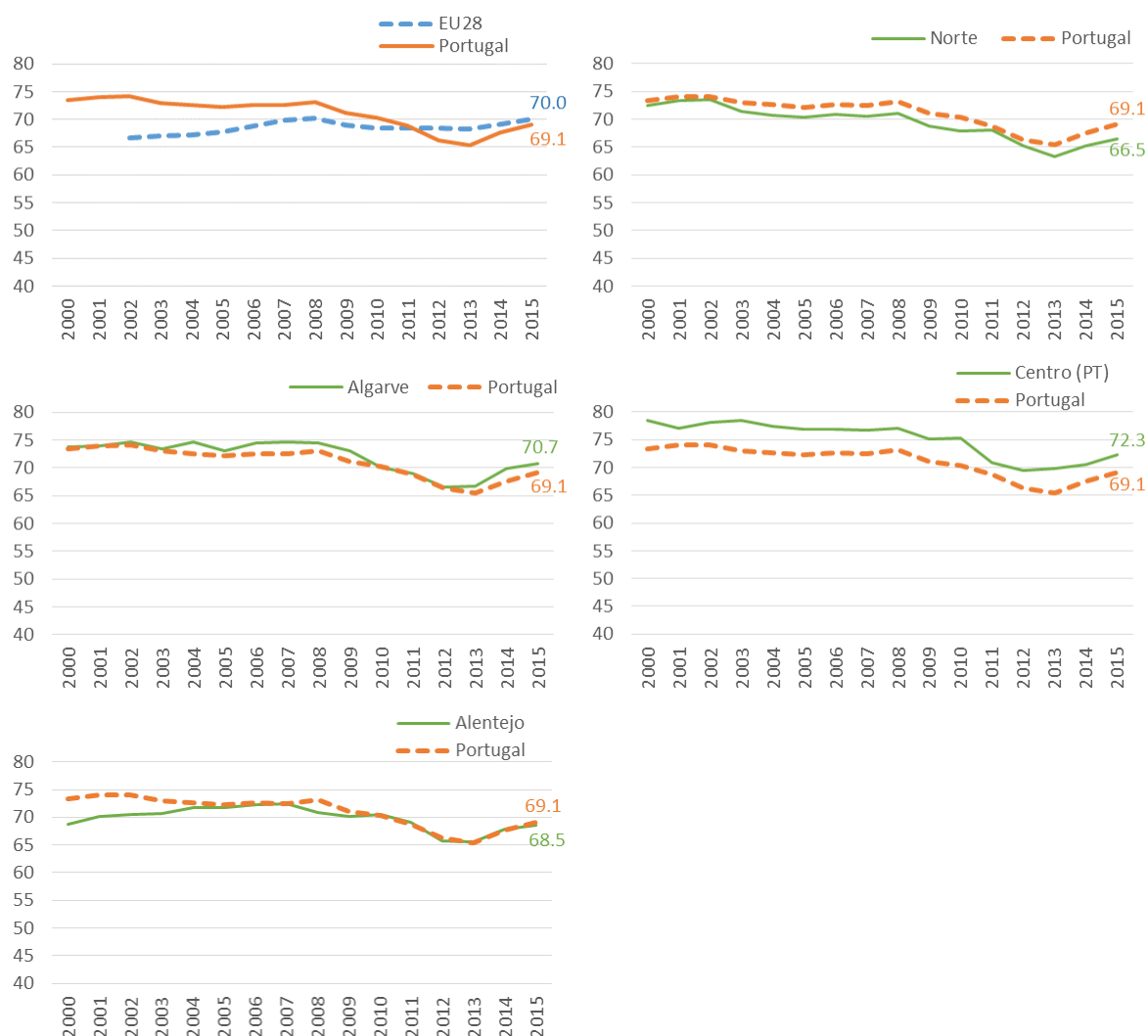
Therefore, irrespective of the educational attainment level, the unemployment rate of young people was much higher in Portugal than in the EU. However, proportionally to the overall youth unemployment rate, the unemployment rate of young people with tertiary education seems to be more critical in Italy than in the EU.

The unemployment of young people was higher than the national average in Norte for upper secondary and tertiary education but not for basic schooling. In this region, therefore, there is a severe shortage of jobs for young people with higher level of education entering the labour market.

In Alentejo, the unemployment rate of young people was above the national average for those with basic education. (Data for those with tertiary education is missing).

On the contrary, in Centro and Algarve, the unemployment rate of young people was below the national average irrespective of the level of education. (Data for those with tertiary education is missing for Algarve).

Figure 3.8 – Employment rate (20-64 years) in Portugal, 2000-2015



Source: Eurostat, LFS [lfst_r_lfe2emppt].

Table 3.6 – Employment rate in Portugal, 2015

Employment rate (20-64 years), Region % , 2015	
Norte	66.5
Algarve	70.7
Centro (PT)	72.3
Alentejo	68.5
Portugal	69.1
EU average	70.0

Source: Eurostat, LFS.

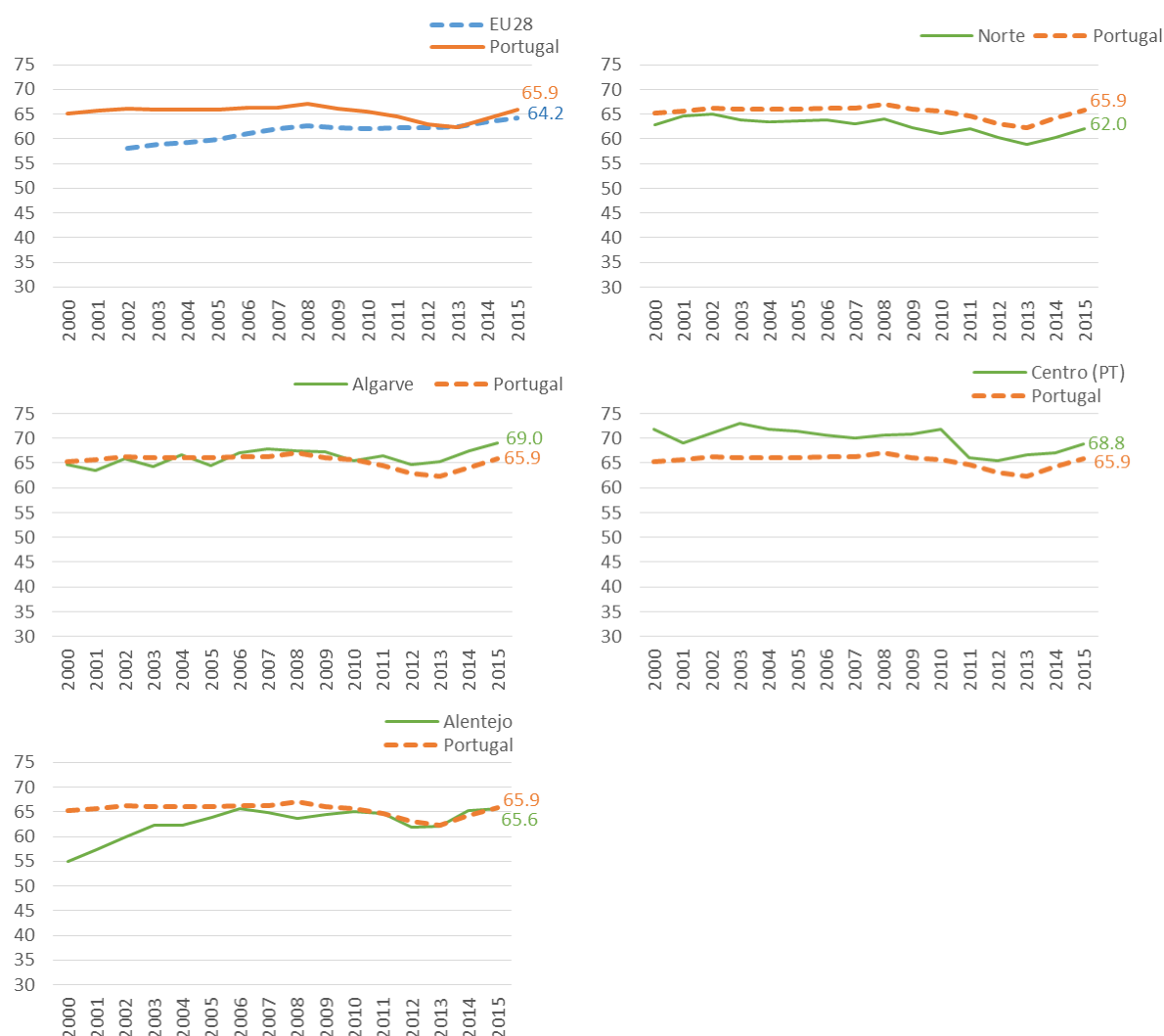
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Commentary

The employment rate in Portugal was about 69% of the working-age population in 2015, slightly below the EU level. The rate was constantly above the EU average up until 2011, but then decreased, falling below the EU average.

At the regional level, the employment rates were higher than both the national and the EU average in Centro and Algarve, reflecting (especially in the case of Centro) the relatively low unemployment rate. In the other two lagging regions, instead, the employment rate was below the national average through the considered period, though only slightly so in Alentejo. The employment rate was particularly low in Norte, about 3 percentage points below the national average, as it has been over the previous 10 years or so.

Figure 3.9 – Employment rate of women (20-64) in Portugal, 2000-2015



Source: Eurostat, LFS [lfst_r_lfe2emprt].

Table 3.7 – Employment rate of women in Portugal, 2015

Female employment rate (20-64 years), %, 2015	
Region	
Norte	62.0

Algarve	69.0
Centro (PT)	68.8
Alentejo	65.6
Portugal	65.9
EU average	64.2

Source: Eurostat, LFS.

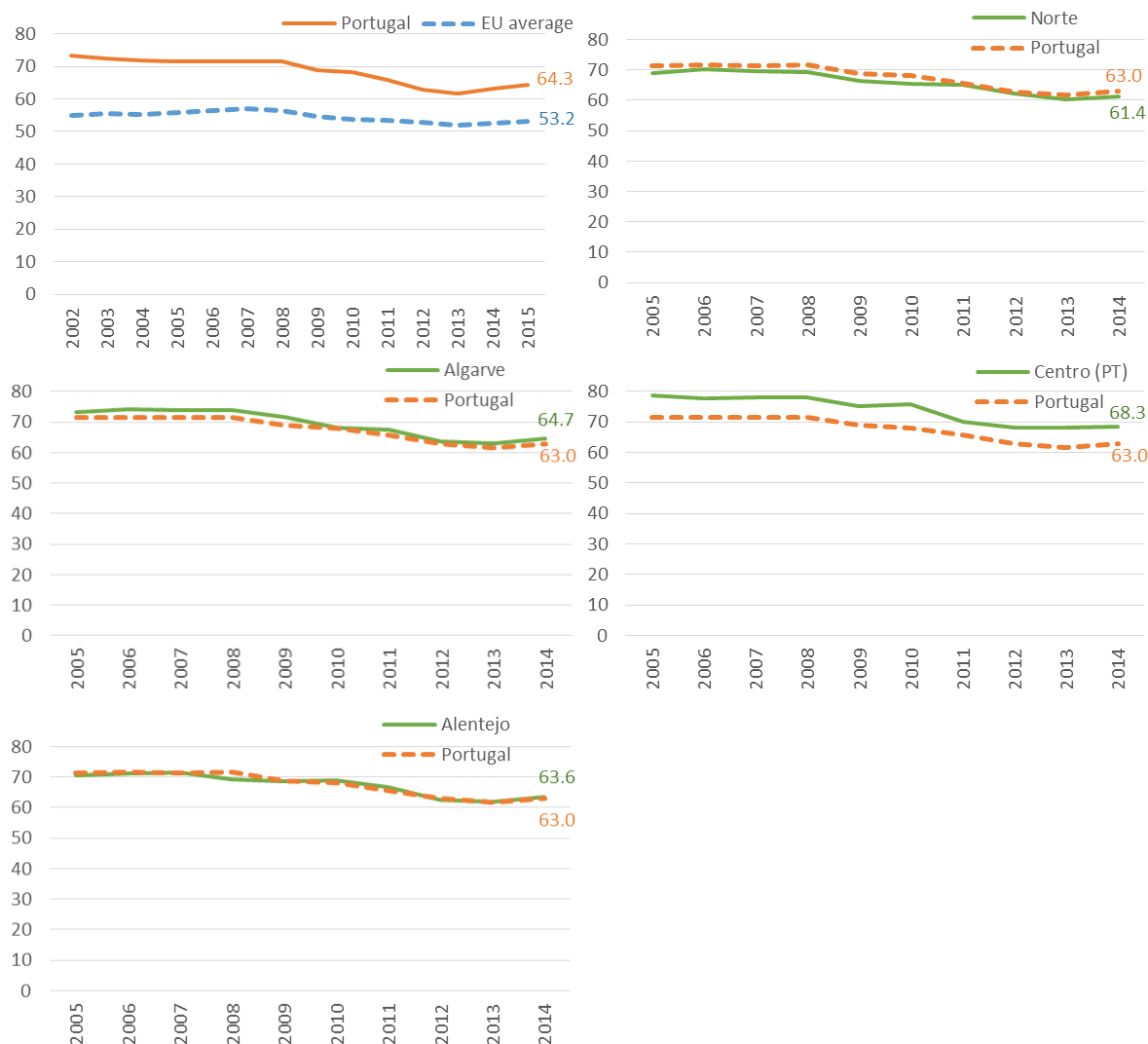
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Commentary

Unlike for the overall employment rate, the employment rate of women in Portugal was above the EU in 2015 and all over the period (although the difference narrowed between 2012 and 2013), reflecting the higher participation of women in the work force. About 66% of working-age women were in employment in 2015 against 64% in the EU.

As for the overall employment rate, the female employment rate was below the national average in Norte and Alentejo, although only slightly so in the latter. On the contrary, the rate was about 5 percentage points higher than the EU average in Algarve and Centro. Women, therefore, seem to face additional difficulties of finding employment compared to men in Norte, which might reflect a shortage of jobs as much as a reluctance to be in paid employment.

Figure 3.10 – Employment rates of those aged 25-64 with low education in Portugal in 2002-2015 and lagging regions in 2005-2014



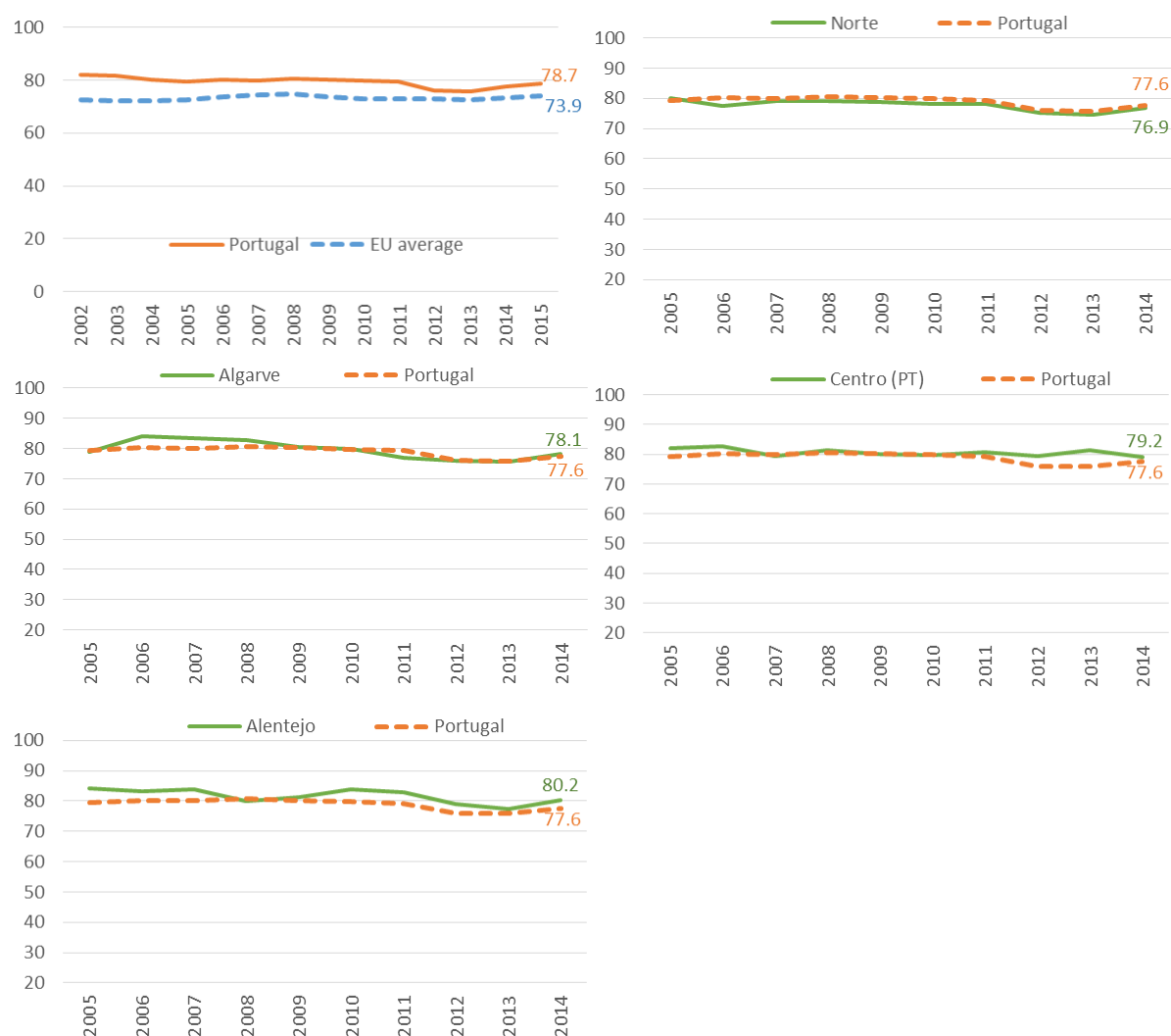
Source: Eurostat, LFS [lfst_r_lfe2eedu] and LFS microdata for the regional data.

Commentary

Contrary to the overall employment rate in Portugal, the employment rate of those aged 25-64 with only basic schooling was well above the EU average in 2015 (the difference reaching 10 percentage points) as it was in the preceding years. This means that although people with low education generally face specific problems to find employment, it seems that in Portugal low education is less of a barrier for finding a job than in the rest of the EU.

The employment rate of low educated people in the lagging regions was higher than the national average, with the exception of Norte, where it was slightly below the national average. While in Alentejo and Algarve the rate was only slightly above the country level, it was significantly so in Centro.

Figure 3.11 – Employment rate of people aged 25-64 with medium education in Portugal in 2002-2015 and its lagging regions in 2005-2014



Source: Eurostat, LFS [lfst_r_lfe2eedu] and LFS microdata for the regional data.

Commentary

The employment rate of those aged 25-64 with upper secondary education in Portugal was also above the EU average, though to a lesser extent than for those with only basic schooling.

The employment rate of people with up to secondary education was above the national average in all the lagging regions with the exception of Norte, where it was below the national average but still about 3 percentage points above the EU level.

Figure 3.12 – Employment rate of people aged 25-64 with high education in Portugal in 2002-2015 and its lagging regions in 2005-2014



Source: Eurostat, LFS [lfst_r_lfe2eedu] and LFS microdata for the regional data.

Table 3.8 – Employment rate by education attainment level in Portugal, 2014

Region	Employment rate (25-64), % 2014		
	ISCED 0-2	ISCED 3-4	ISCED 5-8
Norte	61.4	76.9	81.3
Algarve	64.7	78.1	83.9
Centro (PT)	68.3	79.2	82.2
Alentejo	63.6	80.2	82.3
Portugal	63.0	77.6	82.7
EU average	52.8	73.4	83.6

Source: Eurostat, LFS.

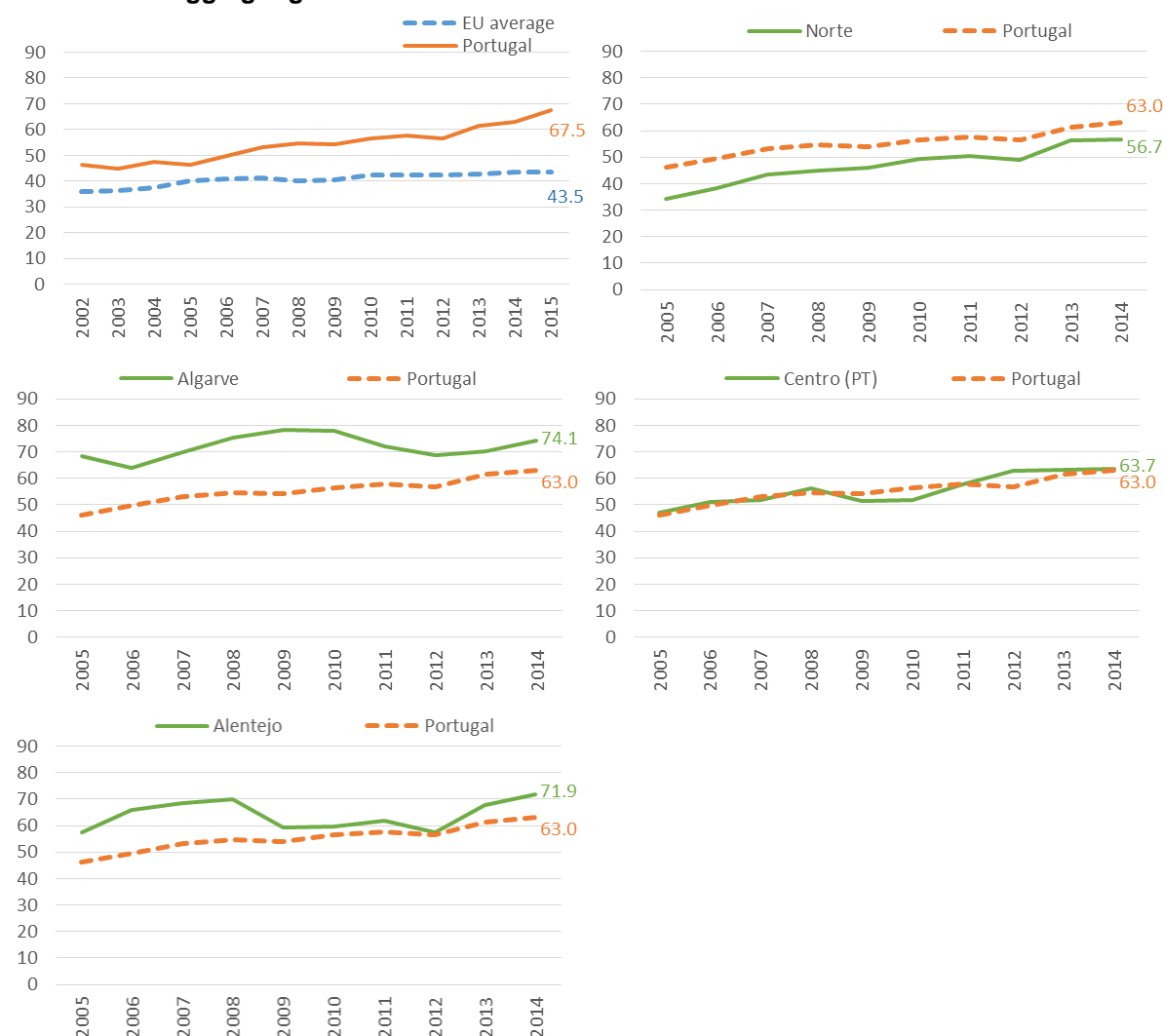
Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Commentary

In contrast with the employment rates for those with basic and upper secondary education, the employment rate of those aged 25-64 with tertiary education in Portugal was lower than the EU average in 2015 as it was in the preceding 3 years. This suggests that people with tertiary education have relatively more difficulty in finding jobs than in the EU on average presumably because the demand for those with high level of education is lower.

The employment rate of people with tertiary education was below the national average in all the lagging regions, with the exception of Algarve where it was above both the national and the EU average. This suggests that the demand for university graduates was below the national average in three of the lagging regions, most especially in Norte.

Figure 3.13 – Temporary employment (% of total employees aged 15-24) in Portugal in 2002-2015 and its lagging regions in 2005-2014



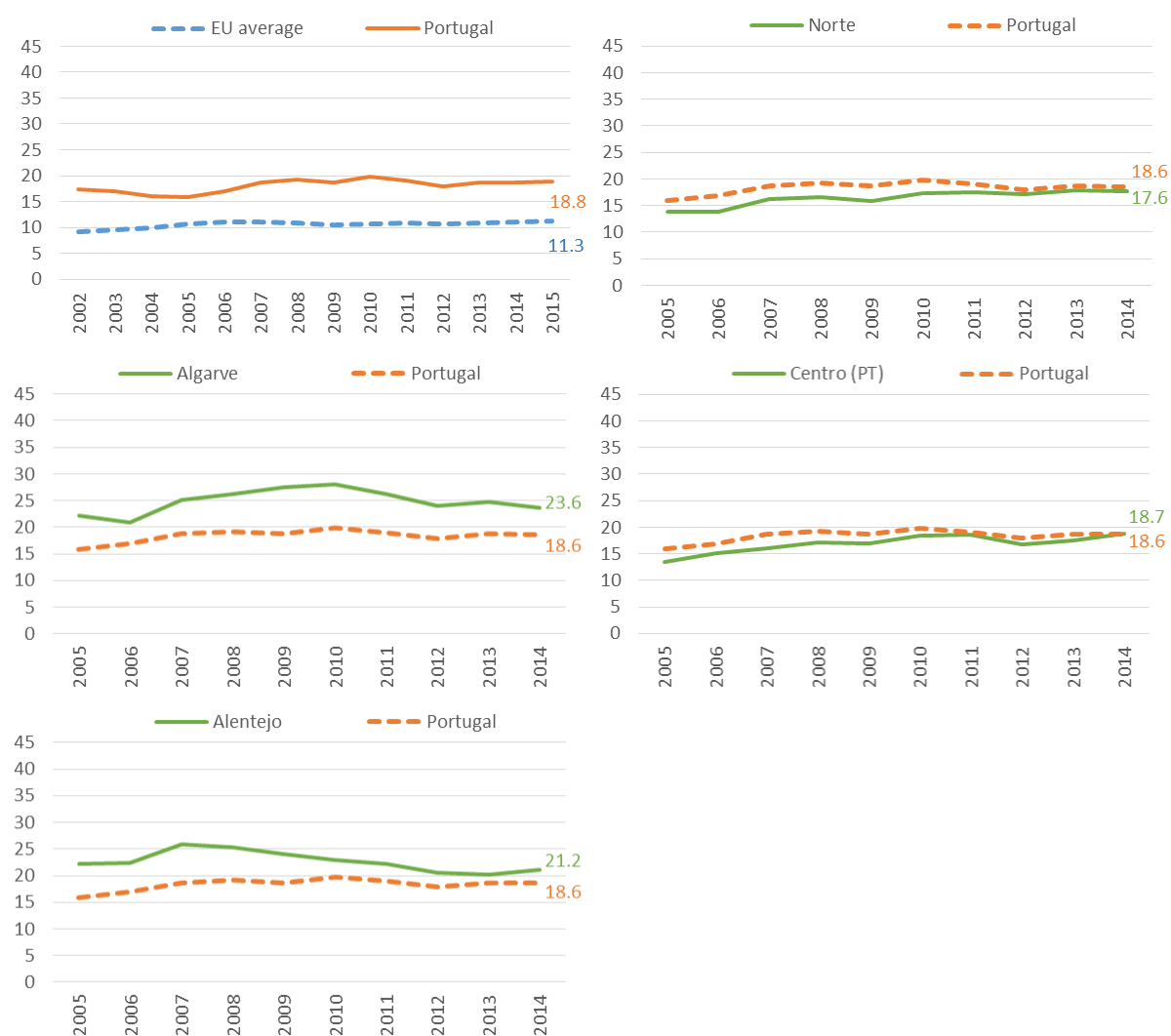
Source: Eurostat, LFS [lfsa_etpga] and LFS microdata for the regional data.

Commentary

The share of young employees aged 15-24 in temporary jobs was much larger in Portugal than in the rest of the EU. 63% of all young in employment had temporary job in 2015 against 43% in the EU (i.e. a difference of 20 percentage points). While the rate in the EU remained relatively stable over the 2005-2015 period, it markedly increased in Portugal over the same period.

Temporary employment for young people seems a relatively widespread practice in all the lagging regions, with the exception of Norte. It was particularly high in Algarve and Alentejo, while in Centro the rate was in line with the national average.

Figure 3.14 – Temporary employment (% of total employees aged 25 or over) in Portugal in 2002-2015 and in lagging regions in 2005-2014



Source: Eurostat, LFS [lfsa_etpga] and LFS microdata for the regional data.

Table 3.9 – Temporary employment in Portugal by age group, 2014

Region	Temporary employment (% of total employees), 2014	
	15-24	25 or over
Norte	56.7	17.6
Algarve	74.1	23.6
Centro (PT)	63.7	18.7
Alentejo	71.9	21.2
Portugal	63.0	18.6
EU average	43.4	11.1

Source: Eurostat, LFS.

Notes: Rates which are higher than the national average are shown in red. Rates which are higher than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Commentary

The share of employees aged 25 and over who are in temporary jobs is a more relevant indicator of labour market issues than the share of young people. As for the younger age group, the share of employees aged 25 and over who are in temporary jobs in Portugal was well above the EU average and has shown a stable tendency throughout the period considered.

The share was higher than the national average in all the lagging regions except in Norte, where it was slightly below. While in Algarve and Alentejo the share has been consistently markedly above the national average over the period considered, in Centro the share broadly tracked the national average over much of the period.

Summary 1 – Overview of labour market (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures)

LABOUR MARKET					
	Portugal	Norte	Algarve	Centro (PT)	Alentejo
Unemployment and long-term unemployment					
Unemployment rate (15+), 2015	+3.0	+1.3	+0.1	-3.2	+0.9
LTU rate (15+), 2015	+9.1	+4.2	-9.6	-2.7	-7.5
NEETs					
NEET rate (15-24), 2015	-0.7	+0.9	+1.4	-1.4	+0.2
Youth unemployment rate					
Youth unemployment rate (15-24), 2015	+11.6	+0.8	-2.9	-3.2	+5.3
Youth unemployment rate (15-24), ISCED 0-2, 2014	+9.8	-1.8	-7.8	-9.1	+8.0
Youth unemployment rate (15-24), ISCED 3-4, 2014	+12.0	+1.5	-3.4	-3.2	-3.5
Youth unemployment rate (15-24), ISCED 5-8, 2014	+15.2	+6.5	:	-8.0	:
Employment rate					

Total employment rate (20-64), 2015	-0.9	-2.6	+1.6	+3.2	-0.6
Female employment rate (20-64), 2015	+1.7	-3.9	+3.1	+2.9	-0.3
Employment rate (25-64), ISCED 0-2, 2014	+10.2	-1.6	+1.8	+5.4	+0.6
Employment rate (25-64), ISCED 3-4, 2014	+4.3	-0.7	+0.5	+1.6	+2.6
Employment rate (25-64), ISCED 5-8, 2014	-0.9	-1.4	+1.2	-0.5	-0.4
Temporary work					
Temporary employees (15-24), 2014	+19.6	-6.3	+11.1	+0.7	+8.9
Temporary employees (25+), 2014	+7.5	-1.0	+5.0	+0.1	+2.6
Job vacancy					
Job vacancy rate, 2015		:	:	:	:
STRUCTURAL IMBALANCE					
Number of unfavourable variables	15	15	12	14	12
Number of favourable variables	1	1	4	1	3

Notes: Unfavourable situations compared to the EU average are highlighted in grey and situations which are unfavourable relative to the national average are shown in red.

“:” Not available.

LABOUR MARKET in Portugal	
Country-specific recommendations, 2011-2015	
2011	-
2012	<p>Portugal shall promote wage developments consistent with the objectives of fostering job creation and improving firms' competitiveness with a view to correcting macroeconomic imbalances. Measures shall be taken to address weaknesses in the current wage bargaining schemes, including legislation to redefine the criteria and modalities of the extension of collective agreements and to facilitate firm-level agreements.</p> <p>Portugal shall adopt the first batch of measures aimed at strengthening labour market functioning by limiting severance payments and making working time arrangements more flexible.</p> <p>Portugal shall introduce legislation to reform the unemployment insurance system, including a reduction of the maximum duration of unemployment insurance benefits to 18 months, a cap on unemployment benefits to 2,5 times the social support index, a reduction in benefits over the unemployment spell, a reduction of the minimum contributory period, and an extension to certain categories of self-employed.</p>
2013	-
2014	<p>Maintain minimum wage developments consistent with the objectives of promoting employment and competitiveness. Ensure a wage setting system that promotes the alignment of wages and productivity at sectoral and/or firm level. By September 2014 present proposals on mutually agreed firm-level temporary suspension of collective agreements and on a revision of the survival of collective agreements.</p> <p>Pursue the ongoing reform of active labour market policies and PES aimed at increasing employment and labour participation rates. Address the high youth unemployment rate in particular by effective skills anticipation and outreach to non-registered young people in line with the objectives of the YG.</p>
2015	Promote the alignment of wages and productivity taking into account differences in skills and local labour market conditions as well as divergences in economic performance across regions, sectors

	<p>and companies. Ensure that developments relating to the minimum wage are consistent with the objectives of promoting employment and competitiveness. Improve the efficiency of PES in particular by increasing outreach to non-registered young people. Ensure effective activation of benefit recipients and adequate coverage of social assistance.</p>
Structural reforms carried out, 2011-2015	
2011	Rationalisation of active employment policy measures to enhance the effectiveness of interventions aimed at creating and improving the quality of jobs by grouping them in large intervention areas, with special emphasis on work placements, employment insertion contracts or self-employment programmes. Measures that create conditions to accompany the unemployed in job interviews and promote sector agreements between PES and business associations to recruit unemployed and also the rationalisation of the training centres' network are also strengthened.
2012	Labour market reform reduced severance payments (to 20 days per year of work for open-ended contracts), eased the definition of individual fair dismissals, increased working time flexibility, widened the scope for bargaining at firm level and revised the unemployment insurance benefits system to increase incentives for a rapid return to work while guaranteeing a sufficient level of protection, especially during the current recession.
2012	Stimulus: new initiative to support companies in the hiring of unemployed people (50% of the salary paid for six months).
2012	A strategic plan addresses youth unemployment through internships (Young passport), training programmes, wage subsidies, microcredit and the reinforcement of mobility. Another important objective is to facilitate further access to finance for SMEs, either in terms of own capital, loans coupled with guarantees or grants to support investments.
2013	The authorities strengthened active labour market policies by stepping up activation, launching a wage subsidy scheme, improving the training on offer and implementing specific actions to target youth unemployment such as internships and hiring incentives in the context of the Youth Employment Initiative (YEI). Financial support has become available for geographical mobility within Portugal, to encourage relocation that improves labour market matching.
2013	A further reduction in severance payments (to 12 days per year of work for open-ended contracts) was adopted.
2014	Reforms of the wage-setting mechanisms were introduced, aiming to promote firm-level bargaining and prevent automatic renewal of expired collective agreements (Law 55/2014 allowing temporary opt-outs at firm level). Moreover, more relaxed conditions for extending sector-level agreements were introduced contributing to keep wage-setting at a centralised level.
2014	Implementation of the Youth Guarantee. The Public Employment Services (PES) is conducting awareness-raising campaigns to involve partners better able to reach out young NEETS, namely NGOs and social institutions. An IT Youth Guarantee platform was created to enable monitoring young people benefitting from the programme.
2015	New framework law for employment policy which aims at further rationalising the set of ALMPs and the role of PES, as well as establishing the principle of systematic evaluation of the different ALMP programmes in the Standing Committee for Social Dialogue.
2015	A new measure, Reativar, was introduced in 2015 to support six-month traineeships for LTU aged over 30.
Outstanding challenges	
	Despite recent reforms, the wage setting system remains very centralised in Portugal, which is likely to hinder efficient wage adjustment.
	Existing provisions for firms to temporarily derogate from sectoral collective agreements under specific circumstances have proven largely ineffective.
	The absorption of the large pool of long-term unemployed remains a challenge.

Sources: Memorandum of Understanding 2011, Implementing Decision 2011/344/EU, CSRs 2014-2015, CR 2016 (SWD2016 - 90 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

Unemployment is a problem in three out of four of the lagging regions, in particular, Norte, Alentejo and Algarve, where about 13% of the working age population is unemployed.

The unemployment rate among young people aged 15-24 represents a serious obstacle to development both nationally and regionally. In Portugal about a third of young people was unemployed in 2015. The share was above the national level in Alentejo and Norte, although less so in the latter. On the contrary, the share was lower in Centro and Algarve.

The extent of NEET was relatively low in Portugal, affecting only about 11% of young people aged 15-24. The lagging regions, with the exception of Centro, are however more affected by the problem, although the shares remain close to the national and EU benchmarks.

The employment rate in Portugal was 69% of the working-age population in 2015, only 1 percentage point lower than the EU average. In Norte and Alentejo, the employment rate was smaller than the national average while in the other two lagging regions, it was above the EU level, particularly in Centro. The female employment rate in Portugal was 3 percentage points lower than the overall employment rate, but was above the EU average. Again, the rate was smaller than the national average in Norte and Alentejo.

The level of education is a factor affecting the opportunity to find a job. While only 63% of the working-age population with basic education were employed in Portugal, the corresponding share was about 83% for those with tertiary education. This is also true in the lagging regions. In the case of Norte, irrespective of the level of education, the rate was lower than the national average. All the other lagging regions, instead, have higher employment rates for people with basic and upper secondary education than the national average, but lower employment rates for people with tertiary education, with the exception of Algarve where the share was higher than the national and the EU average.

Finally, the share of employees with temporary jobs in Portugal was well above the EU average and it has been increasing throughout the period considered, widening the difference with the EU average. This type of contract appears to be particularly widespread in two of the lagging regions, Algarve and Alentejo, with likely consequences both on the extent of continuing training, as well as on labour productivity.

The country-specific recommendations have focused on fostering job creation, reducing long-term unemployment and improving youth employability. The Labour Market reform was adopted in 2012, including the reduction of severance payments, the revision of the unemployment benefits system and the conditions for employee dismissal, as well as the increase of the working time flexibility and the firm level bargaining. Several national programmes and measures were implemented over the period to reduce youth unemployment (including the Youth passport and the Youth Guarantee which were implemented in 2012 and 2013, respectively). As a consequence of the measures implemented as well as of the improved economic situation, both the overall unemployment rate as well as the unemployment rate of young people aged 15-24 started to decrease since 2013. In the same year, also the overall employment rate as well as the employment rate of young people aged 15-24 started to increase.

In the lagging regions, the labour market situation in Centro seems to be more favourable than in the other lagging regions in Portugal. Centro has a higher employment rate (including among women), a lower rate of unemployment (including for those aged 15-24), a smaller proportion of long-term unemployed and of young NEETs.

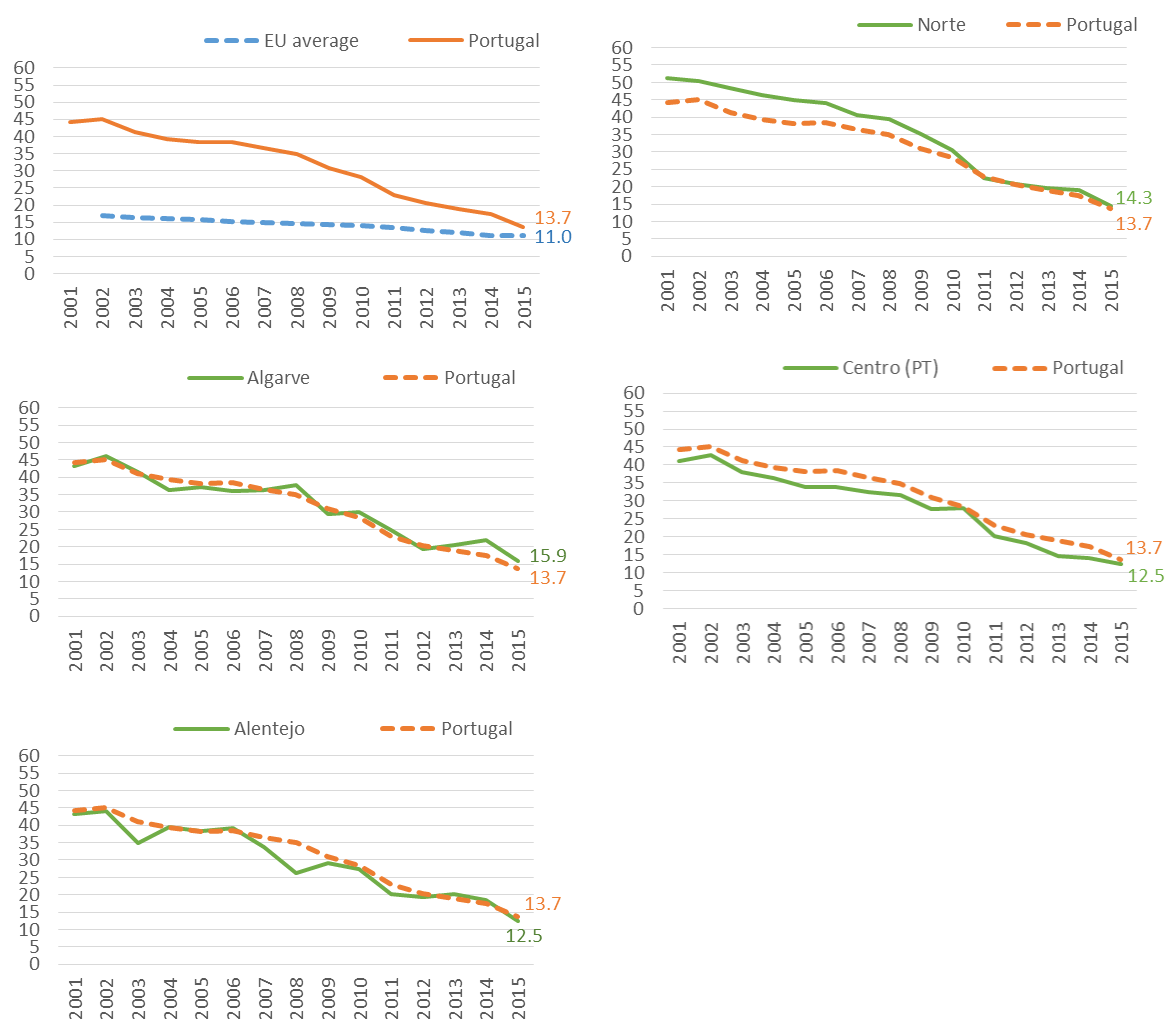
In Algarve, the situation is also better than in some of the other lagging regions. The overall unemployment rate is in line with the national average, while the unemployment rate of those aged 15-24 is lower, although it is still close to 30% of those aged 15-24. The employment rate is above the national average (including among women) irrespective of the level of educational attainment, while the proportion of the long-term unemployed is smaller than the national average. However, the NEET rate is above both the national and EU average. Since the youth unemployment rate is much higher than the NEET rate, this suggests that a relatively larger proportion of those aged 15-24 prefer entering the labour market rather than remaining in education or initial training.

Similarly, in Alentejo, the high level of unemployment among young people (37%) is combined with a relatively low NEET rate. Here too, the employment rate was below the national average and overall unemployment was higher than in the rest of the country. The employment rates of those with primary and secondary education, however, was above both the national and the EU average while the rate for those with tertiary education was slightly below. This suggests that there are relatively less jobs available for those with higher competences.

In Norte, the labour market situation seems even less favourable with relatively high long-term and overall unemployment rates, combined with a low employment rate, signalling an acute shortage of jobs (also among women).

4. EDUCATION AND TRAINING

Figure 4.1 – Early leavers from education and training in Portugal, 2001-2015



Source: Eurostat, LFS [edat_lfse_16].

Table 4.1 – Early leavers from education and training in Portugal, 2015

Early leavers aged 18-24, %	
Region	2015
Norte	14.3
Algarve	15.9
Centro (PT)	12.5
Alentejo	12.5
Portugal	13.7
EU average	11.0

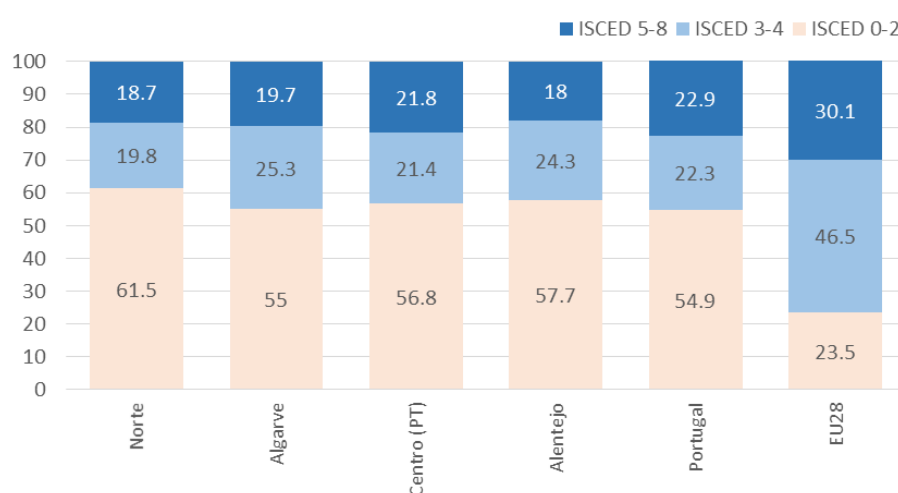
Source: Eurostat, LFS.

Notes: Rates which are higher than in the national average are shown in red. Rates which are higher than in the EU are highlighted in grey.

Commentary

The relative number of young people leaving school without any qualifications beyond basic schooling in Portugal is still above the EU average, although it substantially decreased since 2003. The proportion has also shown a tendency to reduce over the past 14 years in the lagging regions. In Algarve and Norte, the early school leaving rates were above the national average in 2015. By contrast, they were below the national average in Centro and Alentejo (although still higher compared to the EU average), in line with the relatively high employment rates among those with only basic education in these regions.

Figure 4.2 – Educational attainment by ISCED level in Portugal, % of population aged 25-64, 2015



Source: Eurostat, LFS [edat_lfse_04].

Table 4.2 – Percentage of population aged 25-64 by educational attainment in Portugal, 2015

Region	Individuals with ISCED 3-8, %	Individuals with ISCED 5-8, %
Norte	38.5	18.7
Algarve	45.0	19.7
Centro (PT)	43.2	21.8
Alentejo	42.3	18.0
Portugal	45.1	22.9
EU average	76.5	30.1

Source: Eurostat, LFS.

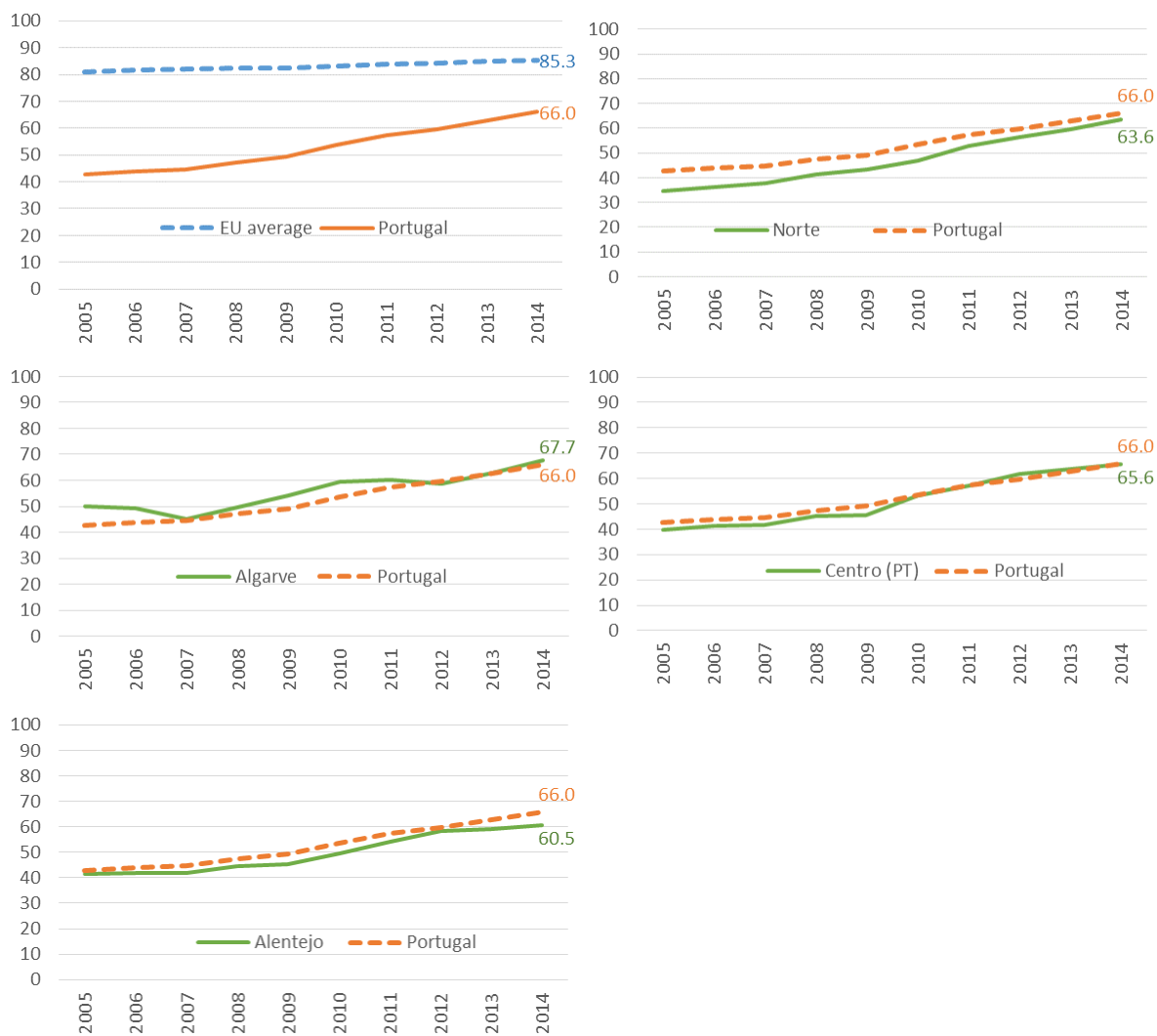
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Commentary

In 2015, the share of working-age population (25-64) with only basic education was much higher in Portugal than in the rest of the EU. It was even higher in the lagging regions where the share was above the national average everywhere, and most especially in Norte. On the other hand, both the proportions of those with secondary and tertiary education were lower than the EU average. In particular, the proportion of people with tertiary education was notably low in Alentejo and Norte.

Since the proportion of the work force with tertiary education has consistently been found to be closely correlated with GDP per head, the relatively small proportion both at national level as well as in the lagging regions is a potential hindrance to growth.

Figure 4.3 – Proportion of individuals aged 25-34 whose highest education level attained is ISCED 3-8 in Portugal, 2005-2014



Source: Eurostat, LFS microdata.

Figure 4.4 – Proportion of individuals aged 25-34 whose highest education level attained is ISCED 5-8 in Portugal, 2005-2014



Source: Eurostat, LFS microdata.

Table 4.3 – Highest educational level attained among people aged 25-34 in Portugal, 2014

Region	ISCED 3-8, %	ISCED 5-8, %
Norte	63.6	31.2
Algarve	67.7	24.8
Centro (PT)	65.6	32.3
Alentejo	60.5	24.6
Portugal	66.0	32.3
EU average	85.3	39.7

Source: Eurostat, LFS.

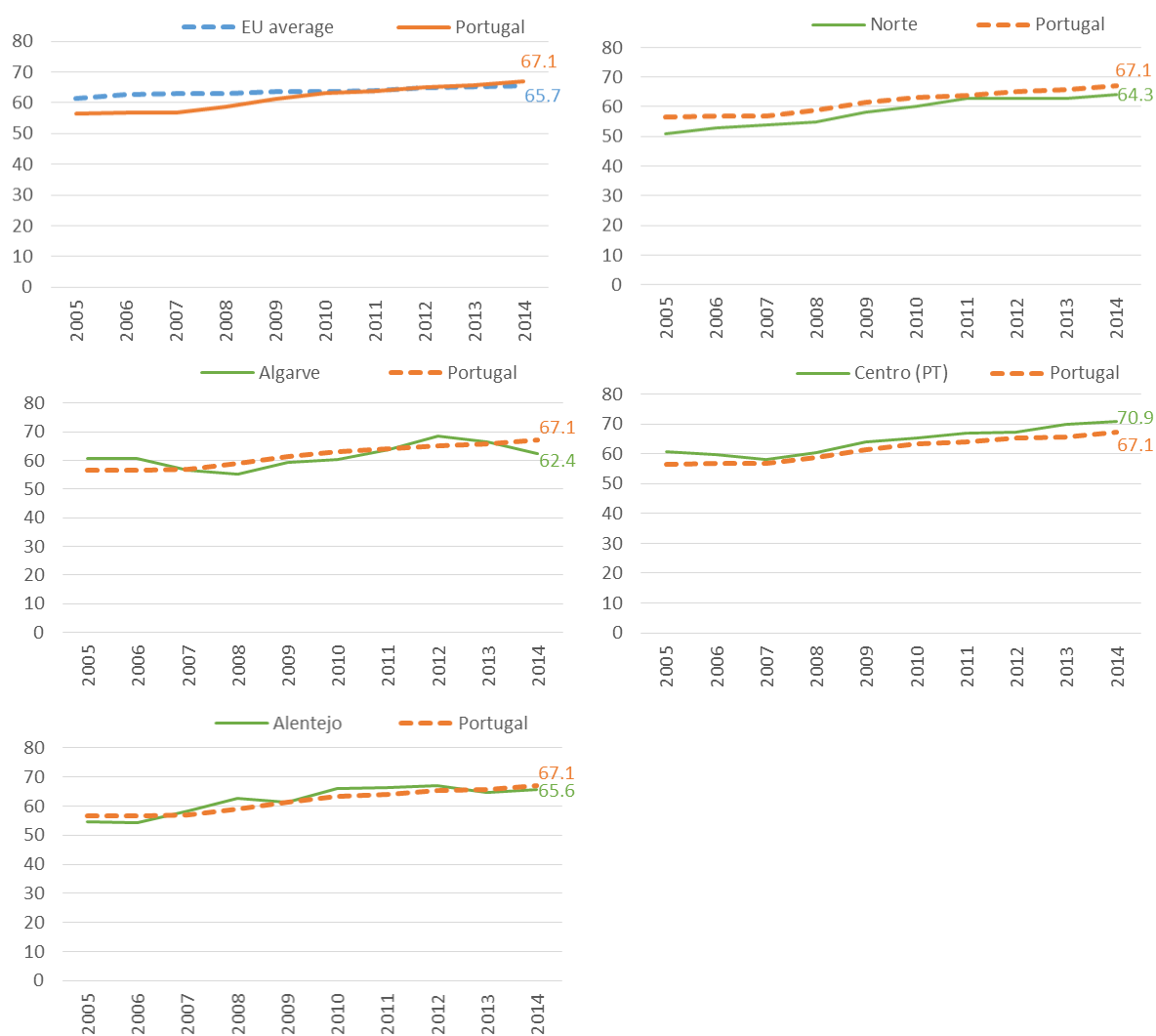
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Commentary

The share of young people aged 25-34 with tertiary education was also lower in Portugal than in the EU in 2014. Although this share has been increasing over the period considered, reflecting an

expansion in the participation to tertiary education, the gap with the EU benchmark has not been reduced. In all the lagging regions was the proportion of young people with tertiary education lower than in Portugal except in Centro, where it was similar. Algarve and Alentejo were farthest away from the national average. The gap with the latter has widened since 2010 suggesting that there has been less of an increase in young people participating in tertiary education in these regions than in others or, alternatively, that a significant number of those who have participated have left these regions to live and work elsewhere. On the other hand, in Norte, the proportion was only slightly below the national average.

Figure 4.5 – Share of young people aged 15-24 in regular education or vocational training in Portugal, 2005-2014



Source: Eurostat, LFS microdata.

Table 4.4 – Share of young people aged 15-24 in regular education or vocational training in Portugal, 2014

Region	Young people in regular education or vocational training (% of population 15-24) 2014
EU average	65.7
Portugal	67.1
Norte	64.3
Algarve	62.4
Centro (PT)	70.9
Alentejo	65.6

Norte	64.3
Algarve	62.4
Centro (PT)	70.9
Alentejo	65.6
Portugal	67.1
EU average	65.7

Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average appear are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Table 4.5 – Share of young people aged 15-24 in vocational education or training in Portugal, 2014

Region	Young people in vocational education or training (% of population 15-24) 2014
Norte	12.4
Algarve	13.3
Centro (PT)	14.4
Alentejo	13.4
Portugal	12.9
EU average	16.4

Source: Eurostat, LFS.

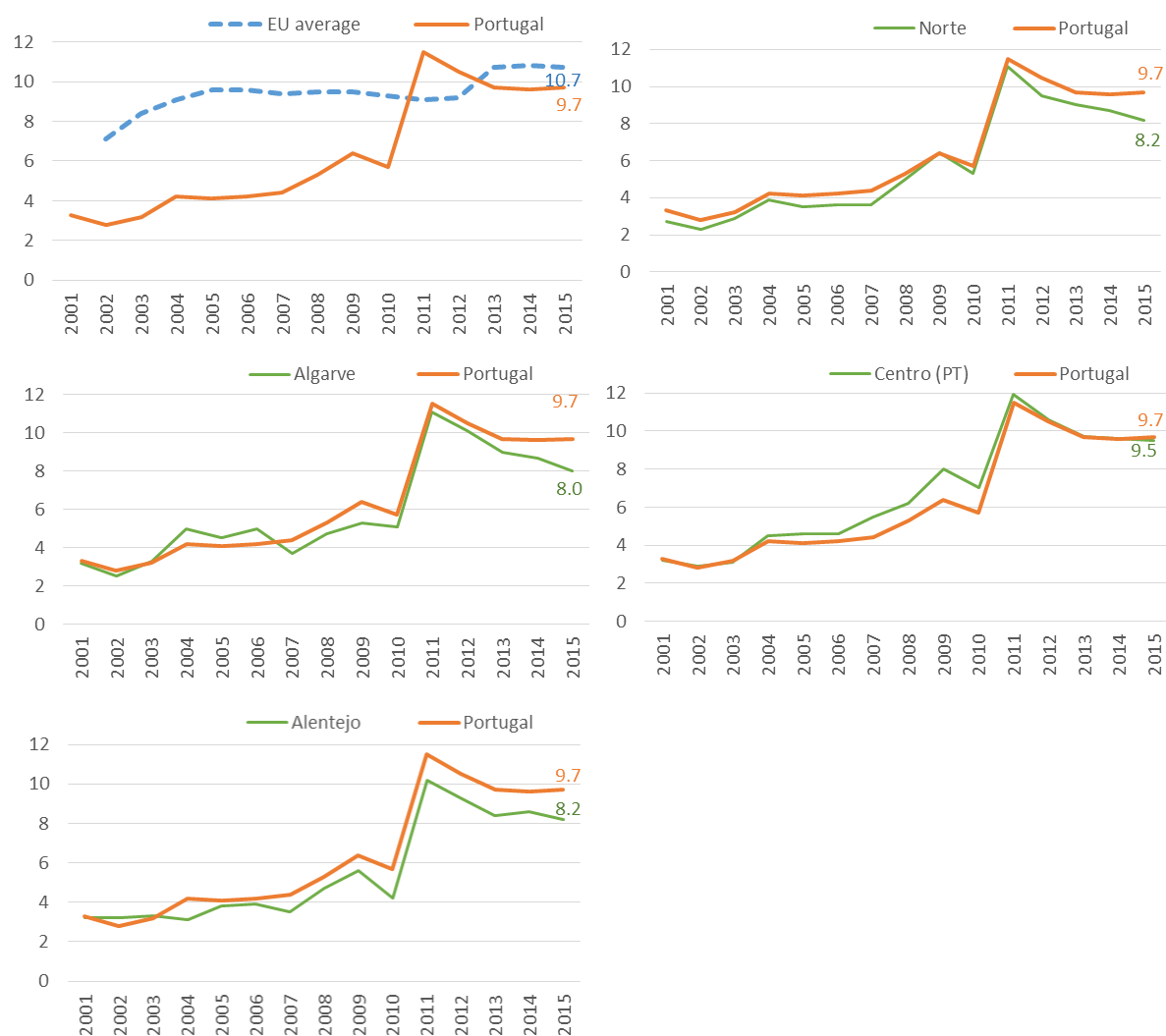
Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey. Data are from the published LFS microdata, more up-to-date data will be obtained from Eurostat.

Commentary

In 2014, the proportion of young people aged 15-24 in education or initial vocational training was slightly higher in Portugal than in the rest of the EU. The EU average has tended to increase over the recent years, but the Portuguese average has risen faster over the past 7 years. In Centro, the proportion was higher than in the country, whereas in the other three lagging regions, it was below both the national and the EU average.

The proportion of young people in vocational education or training was however lower in Portugal than in the rest of the EU. With the exception of Norte, the proportion was nevertheless above the national level in all the lagging regions, though still below the EU level.

Figure 4.6 – Participation rate of people aged 25-64 in continuing education and training in Portugal, 2000-2015



Source: Eurostat, LFS [trng_lfse_04].

Table 4.6 – Participation rate of people aged 25-64 in continuing education and training in Portugal, 2015

Region	Education and training participation rate, %, 2015
Norte	8.2
Algarve	8.0
Centro (PT)	9.5
Alentejo	8.2
Portugal	9.7
EU average	10.7

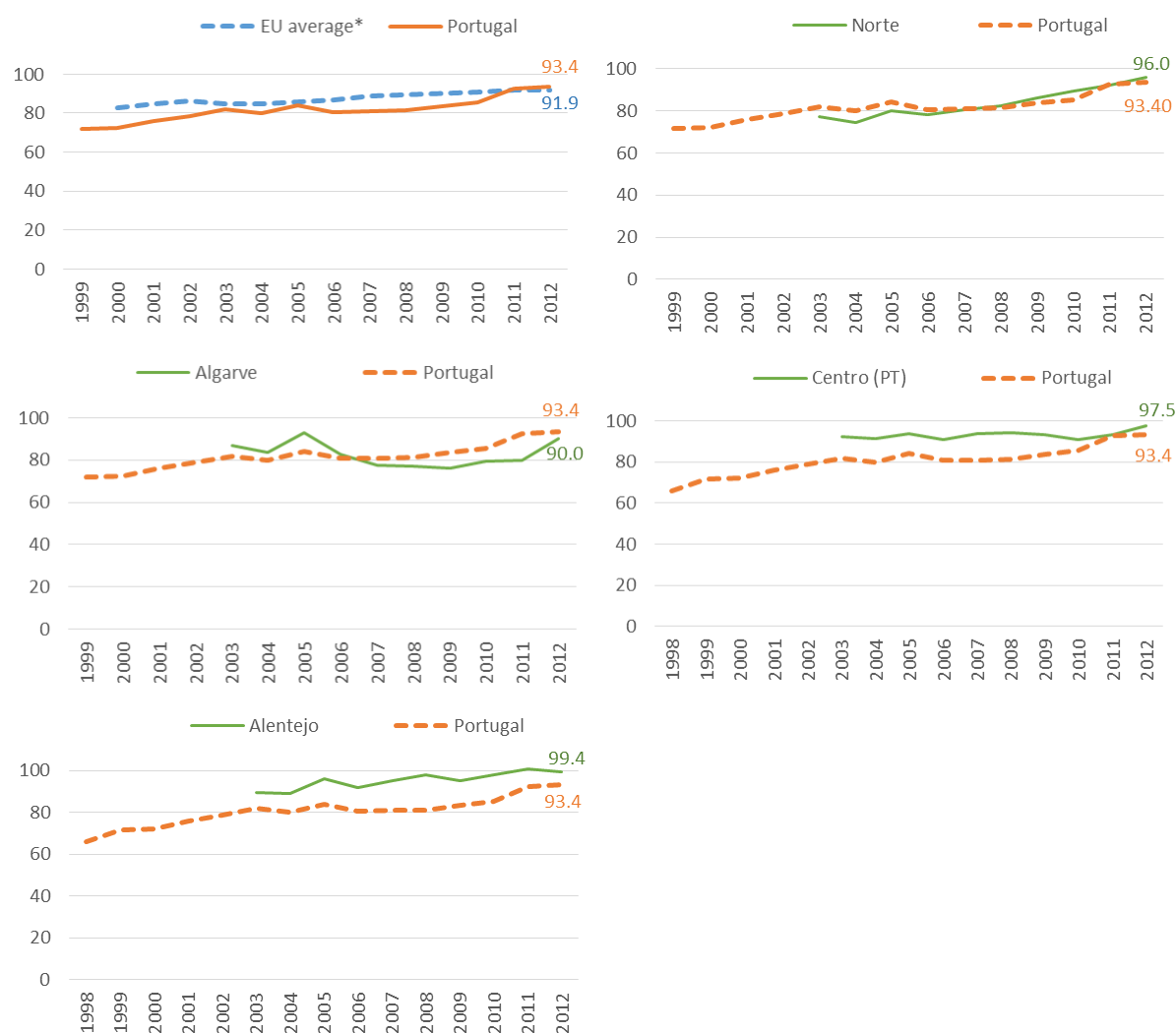
Source: Eurostat, LFS.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Commentary

The participation rate of those aged 25-64 to education and training was slightly lower in Portugal (9.7%) than in the rest of the EU (10.7%). The rates in the lagging regions were even lower especially in Algarve. Therefore, the implication is that in Portugal, generally, and in the lagging regions in particular, workers have less possibility of improving their skills or acquiring new ones than in the rest of the EU. Equally, the unemployed have less access to training to help them increase their employability.

Figure 4.7 – Participation rate of 4-years-olds in education in Portugal, 1999-2012



Source: Eurostat, Regional education statistics [educ_regind].

*EU average refers to EU27.

Table 4.7 – Participation rate of 4-year-olds in education in Portugal, 2012

Region	4-years-old in education, %, 2012
Norte	96.0
Algarve	90.0
Centro (PT)	97.5
Alentejo	99.4

Portugal	93.4
EU average	91.9*

Source: Eurostat, Regional education statistics.

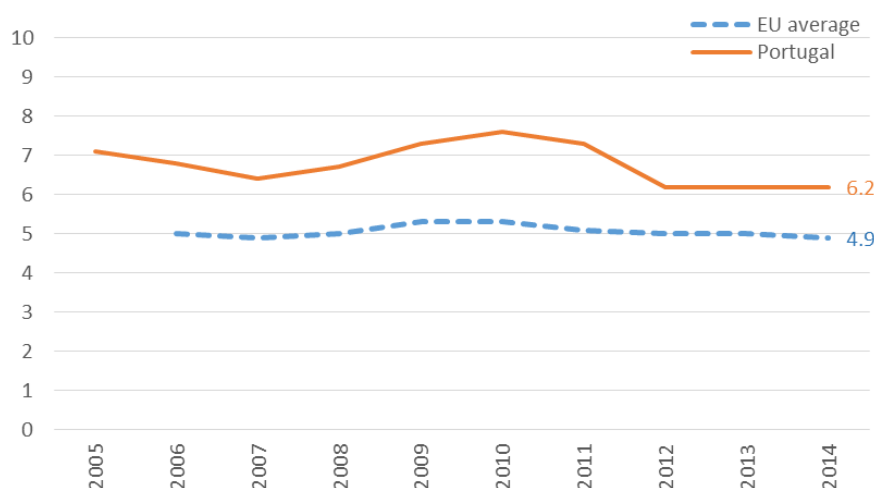
* EU average refers to EU27.

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Commentary

The proportion of children participating in education at the age of 4 was higher in Portugal than in the rest of the EU (at least in 2012 which is the latest year for which data are available). It was even higher in the lagging regions, with the exception of Algarve, where the proportion was below the EU average. The proportions were particularly large in in Alentejo and Centro. The implication is that children appear better prepared for school in Portugal and in most of its lagging regions than those in other parts of the EU.

Figure 4.8 – Expenditure of the general government in education in Portugal, 2005-2014, % of GDP



Source: Eurostat, General government expenditure [gov_10a_exp].

Commentary

Expenditure on education was much larger in relation to GDP in Portugal than in the EU in 2014 as well as over the preceding 8 years, although the difference has consistently narrowed down between 2010 and 2012 due to a decrease in the expenditure in the country rather than an increase in the EU average.

Summary 2 – Overview of Education (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures)

EDUCATION					
	Portugal	Norte	Algarve	Centro (PT)	Alentejo
Early leavers					

Early leavers aged 18-24, 2015	+2.7	+0.6	+2.2	-1.2	-1.2
Educational attainment level					
Share of population aged 25-64 with ISCED 3-8, 2015	-31.4	-6.6	-0.1	-1.9	-2.8
Share of population aged 25-64 with ISCED 5-8, 2015	-7.2	-4.2	-3.2	-1.1	-4.9
Share of population aged 25-34 with ISCED 3-8, 2014	-19.3	-2.4	+1.7	-0.4	-5.4
Share of population aged 25-34 with ISCED 5-8, 2014	-7.4	-1.1	-7.5	+0.0	-7.7
Education and apprenticeship					
Young people aged 15-24 in regular education or vocational training, 2014	+1.4	-2.8	-4.7	+3.8	-1.5
Young people aged 15-24 in vocational education or training, 2014	-3.6	-0.5	+0.4	+1.5	+0.5
Lifelong learning					
Participation rate of 25-64 in continuing education and training, 2015	-1.0	-1.5	-1.7	-0.2	-1.5
Early childhood education					
Participation rate of 4-years-olds in education, 2012	+1.5	+2.6	-3.4	+4.1	+6.0
Education expenditure					
General government expenditure in education (% of GDP), 2014	+1.3	:	:	:	:
STRUCTURAL IMBALANCE					
Number of unfavourable variables	9	2	8	7	7
Number of favourable variables	1	7	1	2	2

Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red
 “:” Not available, “-” No difference.

EDUCATION in Portugal	
Country-specific recommendations, 2011-2015	
2011	Set up an analysis, monitoring, assessment and reporting system in order to accurately evaluate the results and impacts of education/training policies (in particular concerning policies to improve school results and contain early school leaving). Present an action plan to improve the quality of secondary education services. Present an action plan aimed at ensuring the quality, attractiveness and labour market relevance of vocational education and training through partnerships with companies or other stakeholders and enhancing career guidance mechanisms for prospective students in vocational educational training.
2012	An action plan shall be prepared to improve the quality of secondary and vocational education.
2013	Present in a report how the monitoring, assessment and reporting tool will be used to evaluate the impact of education policies and support the related decision-making processes.
2014	Improve the quality and labour market relevance of the education system in order to reduce early

	school leaving and address low educational performance rates. Ensure efficient public expenditure in education and reduce skills mismatches including by increasing the quality and attractiveness of vocational education and training and fostering cooperation with the business sector.
2015	-
Structural reforms carried out, 2011-2015	
2011	Creation of a Permanent Forum for the Employability of Young Graduates, promoting systematic meetings between employers, institutions and youths in order to stimulate debate and the coordination of measures aiming to: match the training supply with the demands and ongoing changes in labour markets, fostering employers' involvement in planning the training supplied by higher education institutions; stimulate curricular work placements and the contact between youths and labour markets throughout higher education, facilitating the youths' gradual insertion in the labour market; promote mechanisms supporting companies' offer of sustainable employment for young graduates.
2013	Revision of the upper education system to align it better with market needs and the reinforcement of the capacity and quality of institutions of upper education to make them more flexible.
2013	Development of a monitoring tool which provides the means to follow results by school and student, the strengthening of the external evaluation of schools, the enlargement of the networks of schools with autonomy agreements and the setting-up of a dual training system in secondary education by which a share of the teaching will be developed in cooperation with the business community.
2014	New Centres for Qualification and Vocational Education to provide guidance to young pupils for their training choices. Portugal has adopted a number of specific measures to enhance vocational education and better link training to labour market needs, such as increasing the amount of "on-the-job" training time, the creation of short-cycle higher technical courses (TeSP) for people with a technical degree organised in collaboration with local companies and focusing on concrete labour market needs, and the creation of professional schools of reference, where some companies in "strategic" sectors contribute to the training of specialised technicians.
2013-2015	A programme offering basic vocational courses as an alternative path to students at risk of leaving education started in 2013/2014 in secondary education, and in 2014/2015 at upper secondary level as a pilot project.
2015	The revision of curricula in primary and secondary education and the definition of new learning outcomes are expected to improve students' performance in basic skills. Increased autonomy for schools and the introduction of a new funding formula based on schools' performance encourages quality programmes. In-service training for teachers is being addressed through a new system of trainings and credits.
2015	A new Law on Education included new instruments to detect learning problems early and activate special support programmes. A new basic vocational education diploma (Formación Profesional Básica) can be accessed without completing compulsory education. Changes will be introduced to higher vocational education diplomas to adapt the studies to the different occupational areas. This reform of vocational education will be combined with measures already adopted, or to be adopted in the future, to promote training and apprenticeship contracts and to promote a system of dual vocational training that improves the employability of young people in response to the reality of productive sectors and companies. In order to adapt vocational education to the new occupational realities and the needs of the productive sectors, a revision of the content of vocational education diplomas has been initiated as well as the professional certificates used to certify vocational training acquired by means other than the vocational education diploma courses, for example through training and apprenticeship contracts.
Outstanding challenges	
	The skills composition of the labour force (high share of low-skilled workers) weighs on productivity, competitiveness and on the reallocation of labour to higher value-added sectors.
	Education doesn't sufficiently meet the demands of the labour market.

Sources: Memorandum of understanding 2011, Implementing Decision 2011/344/EU, Economic Adjustment Programme 2013, CSRs 2014-2015, CR 2016 (SWD2016 - 89 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

The extent of early school leaving was slightly higher in Portugal as compared with the rest of the EU. In the lagging regions the early school leaving rates were above the EU average, though this was more the case in Algarve, where the proportion of people aged 18-24 leaving school without adequate qualifications reached about 16%.

On the other hand, the proportion of young people aged 15-24 in regular education or vocational training was slightly higher in Portugal than in the rest of the EU. Although the EU average has tended to increase over the recent years, the Portuguese average has risen faster. The proportion of young people in education or vocational training was however lower than the national average in all the lagging regions apart from Centro.

The proportion of people of working age with at least upper secondary education was much lower in Portugal than the EU average, as it was in the lagging regions, particularly in Norte. The analysis of those aged 25-34 shows a similar picture: the proportion with at least secondary education was markedly below the EU level in Portugal and its lagging regions. This share has however increased over the 2005-2014 period thereby reducing the gap between the Portuguese and the EU average.

The share of working-age population with tertiary education was significantly lower in Portugal compared to the EU, and the situation was even more critical in the lagging regions (especially in Alentejo) where the rate was below the national level. In the younger age group of 25-34, while around 40% had tertiary education in the EU, the corresponding share was about 32% in Portugal. In Algarve and Alentejo, the share was even less than in Portugal (about 25%). The share of people with university education or equivalent increased over the 2005-2014 period both among those aged 25-34 and 25-64. The relatively small proportion of young people who successfully completed tertiary education suggests that the overall share of working-age population with the level of education is likely to remain low in future years, which might handicap the catching up in these regions.

The limited participation of those aged 25-64 in continuing education and training in Portugal and in the lagging regions compared to EU may also have a negative impact on investment because of the limited opportunities to learn new skills and to adapt to advances in technology and methods of working.

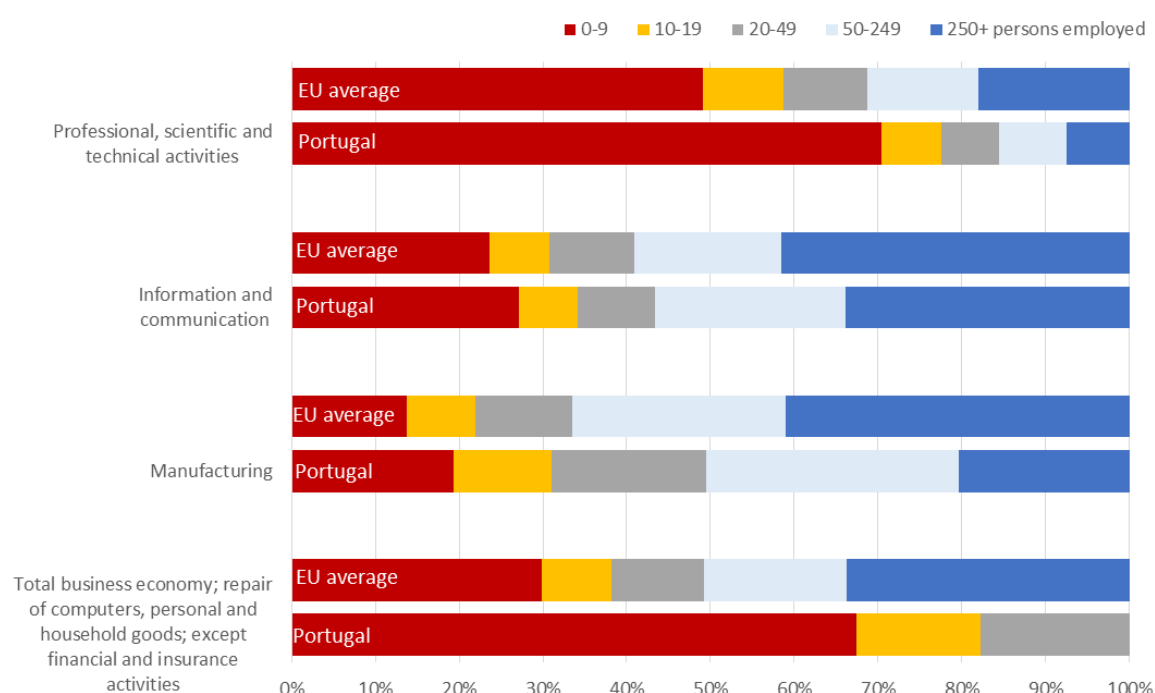
The extent of earlier childhood education (the proportion of 4-year olds in school or pre-school) was higher in Portugal than in the rest of the EU, and higher in the lagging regions than in the country (with the exception of Algarve), which suggests that children are in general better prepared for their future schooling there than those elsewhere.

Country-specific recommendations in relation to education and training have mainly focused on further reducing early school leaving, on improving the educational performance rates and on strengthening the links between the content of education and training programmes and the labour market needs. Despite several measures implemented, including the revision of the upper education system in 2013, the educational reform in 2015 and the introduction of a new system of in-service training for teacher which aimed to encourage quality programmes, a mismatch between the supply and demand of skills in the labour market still persist.

In the lagging regions, the situation is particularly unfavourable in Norte, Algarve and Alentejo. In the former two regions the proportion of school drop-out was higher than both the EU and national average. In the three regions, the proportion of working-age population with tertiary education was below the national average (which itself was below the EU average). In addition, in Algarve and Alentejo this was combined with low shares of 25-34 with tertiary education, which is a potential hindrance to growth.

5. BUSINESS ENVIRONMENT AND RDTI

Figure 5.1 – Breakdown of employment by size of enterprise in critical sectors in Portugal in 2013



Source: Eurostat, Structural Business Statistics [sbs_sc_sca_r2].

Commentary

Portuguese productive fabric is largely based on small enterprises. In 2013, nearly 70% of companies employed less than 9 persons against 30% in the EU on average. In all the critical sectors considered, the employment share in micro and small firms was larger in Portugal than in the rest of the EU, which could imply that firms in the country may face particular difficulties to compete on national and international markets.

Table 5.1 – Ease of doing business and Starting a business in Portugal, 2016

	Portugal (rank in the EU, 1-28)
Ease of doing business*	11
Starting a business**	2

Source: World Bank: Doing Business report 2016.

Note: * A low value corresponds to a high ease of doing business.

** A low value implies a more favourable situation in terms of the regulatory environment for starting a business.

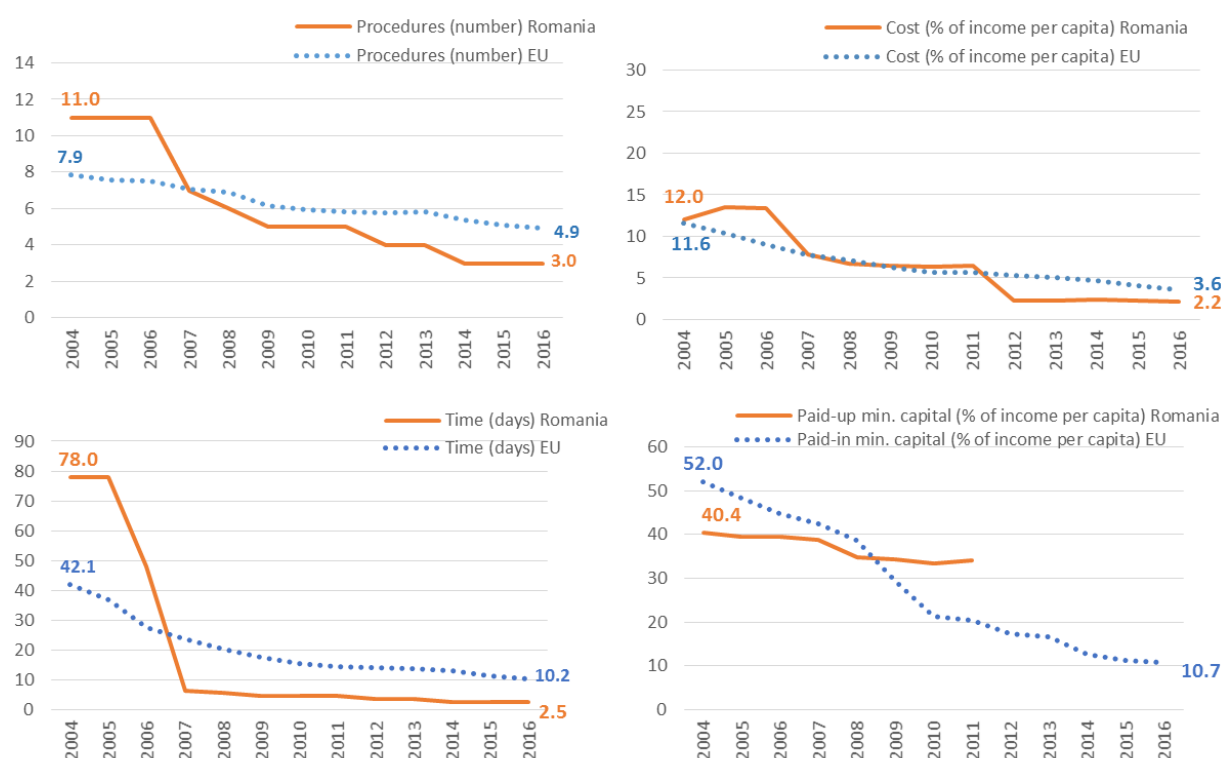
Table 5.2 – Starting a business indicators in Portugal, 2015

Region (city)	Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in minimum capital (% of income per capita)
Portugal	3	3	2	0
EU average	4.9	10.2	3.6	10.7

Source: World Bank: Doing Business report 2015 and Doing Business in Portugal report 2015.

Notes: Values which are higher than the national average are shown in red. Values which are higher than the EU average are highlighted in grey.

Figure 5.2 – Starting a business indicators in Portugal, 2004-2016



Source: World Bank: Doing Business 2004-2016.

Note: The latest available data on paid-up minimum capital for Bulgaria refer to 2011.

Commentary

In 2016, Portugal is doing better than the EU on average in terms of the ease of doing business (the country is ranked 11th out of the 28 Member States). In addition, Portugal is considered among the best countries within the EU to start a business (the country is ranked 2nd). This is a reflection of several indicators. In particular, the number of procedures necessary to start a business have been reduced from 11 in 2004 to just 3 in 2016 (compared to 5 at the EU level). The cost associated with starting a business was also reduced, to about half of the EU on average. The most significant

progress was observed for the time taken to start up a business (which was reduced from 78 days in 2004 to only 2.5 days in 2016, compared to about 10 days at the EU level).

Table 5.3 – Product Market Regulation (PMR) indicators in Portugal, 2003, 2008 and 2013

	Overall PMR			State control			Barriers to entrepreneurship			Barriers to trade and investment		
	2003	2008	2013	2003	2008	2013	2003	2008	2013	2003	2008	2013
Portugal	2.12	1.69	1.29	3.42	2.89	2.18	2.05	1.83	1.35	0.91	0.35	0.35
EU average	1.78	1.53	1.44	2.57	2.27	2.17	2.15	1.85	1.69	0.63	0.45	0.47

Source: OECD PMR indicators.

Notes: Values which are higher than the EU average are highlighted in grey.

The index ranges from 0 to 6, from least to most restrictive.

Commentary

The Product Market Regulation indicators of OECD are available only at national level. They provide the following picture: State control index has declined at a higher rate in Portugal than in the EU, but it is still slightly higher than in other Member States; barriers to entrepreneurship have also diminished to a level below the EU (in line with the World Bank index on starting a business); and barriers to trade and investment have equally been reduced to below the EU average. As a consequence, the overall PMR in Portugal is assessed as less restrictive than in the EU.

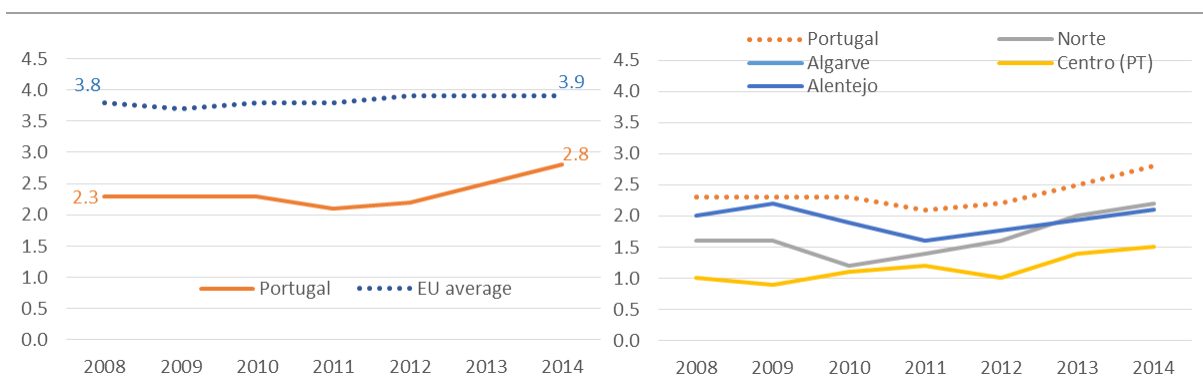
Table 5.4 – Employment in high-technology sectors (manufacturing and knowledge-intensive services) in Portugal, 2014, % of total employment

Region	Employment in high-technology sectors (% of total employment), 2014
Norte	2.20
Algarve	-
Centro (PT)	1.00
Alentejo	2.10
Portugal	2.8
EU average	3.9

Source: Eurostat, High-tech statistics [htec_emp_reg2].

Notes: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Figure 5.3 – Employment in high-technology sectors (manufacturing and knowledge-intensive services) in Portugal, 2008-2014, % of employment



Source: Eurostat, High-tech statistics [htec_emp_reg2].

Commentary

The share of employment in high-tech manufacturing and knowledge-intensive sectors in Portugal (2.8% of total employment in 2014) was smaller than in the EU (3.9%). Over the recent years, the share in the country has tended to increase by more than the share in the EU, narrowing down the gap between the two. However, in the lagging regions the share of employment in high-tech manufacturing and knowledge-intensive sectors was markedly lower than the national level (especially in Centro, where it accounted for only 1% of total employment).

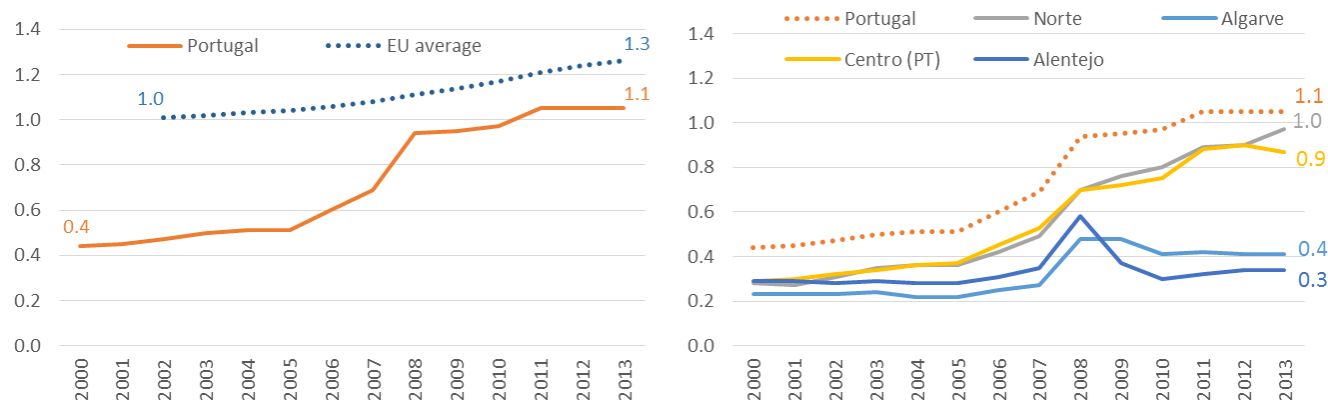
Table 5.5 – R&D personnel and researchers in Portugal, 2013

Region	Total R&D personnel and researchers (% of total employment), 2013
Norte	1.0
Algarve	0.4
Centro (PT)	0.9
Alentejo	0.3
Portugal	1.1
EU average	1.3

Source: Eurostat, R&D statistics [rd_p_persreg].

Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Figure 5.4 – R&D personnel and researchers in Portugal, 2000-2013, % of total employment



Source: Eurostat, R&D statistics [rd_p_persreg].

Commentary

In 2013, R&D personnel and researchers accounted for just over 1% of total employment in Portugal, which was slightly below the EU share. The share in Portugal has increased rapidly in the mid-2000s, drastically reducing the gap with the EU average. Starting from 2011, however, the share in the country has remained unchanged. It is smaller than the national average in all the lagging regions, though less so in Norte and Centro. On the contrary, the share was particularly small in Algarve and Alentejo (less than half of the national level).

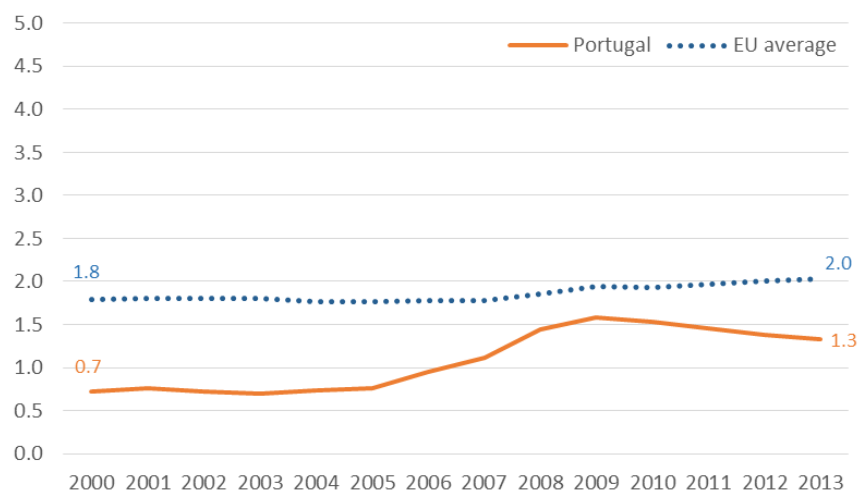
Table 5.6 – Total intramural R&D expenditure in Portugal, 2013

Region	Total intramural R&D expenditure (GERD) % of GDP, 2013
Norte	1.4
Algarve	0.4
Centro (PT)	1.3
Alentejo	0.5
Portugal	1.3
EU average	2.0

Source: Eurostat, R&D statistics [rd_e_gerdreg].

Note: Rates which are lower than the national average are shown in red. Rates which are lower than the EU average are highlighted in grey.

Figure 5.5 – Total intramural R&D expenditure in Portugal, 2000-2013, % of GDP



Source: Eurostat, R&D statistics [rd_e_gerdreg].

Commentary

In 2013 (which is the latest year for which data is available), R&D expenditure in Portugal relative to GDP was also only around two thirds of the EU average. The expenditure has tended to converge towards the EU average between 2005 and 2009 but since then, it is declining. While in Norte and Centro the share of R&D expenditure was equal or slightly above the national average, it was particularly low in Algarve and Alentejo, reflecting the relatively low number of R&D personnel and researchers in these regions.

Summary 3 – Overview of business environment (percentage point differences relative to the EU average for the national figures and relative to the national average for the regional figures, except where otherwise stated)

BUSINESS ENVIRONMENT AND RDTI					
	Portugal	Norte	Algarve	Centro (PT)	Alentejo
Doing business					
Ease of doing business ranking, 2016	Top half (11/28)	:	:	:	:
Starting a business ranking, 2016	Top half (2/28)	:	:	:	:
Procedures (number), 2016	-1.9	:	:	:	:
Time (days), 2016	-7.7	:	:	:	:
Cost, 2016 (% of income per capita)	-1.4	:	:	:	:
Paid-up min. capital, 2016 (% of income per capita)	:	:	:	:	:
PMR indicators (The index ranges from 0 to 6, from least to most restrictive)					
Overall PMR, 2013	-0.1	:	:	:	:
State control, 2013	+0.0	:	:	:	:
Barriers to entrepreneurship, 2013	-0.3	:	:	:	:
Barriers to trade and investment, 2013	-0.1	:	:	:	:

Employment in technology and knowledge intensive sector					
Employment in high-technology and knowledge intensive sector, 2014	-1.1	-0.6	:	-1.8	-0.7
R&D personnel/researchers and expenditure					
R&D personnel and researchers, 2013	-0.2	-0.1	-0.6	-0.2	-0.7
Intramural R&D expenditure, 2013	-0.7	+0.1	-1.0	-0.1	-0.9
STRUCTURAL IMBALANCE					
Number of unfavourable variables	4	3	2	3	3
Number of favourable variables	9	0	0	0	0

Notes: Unfavourable situations compared to the EU average are highlighted in grey and those which are unfavourable relative to the national average are shown in red.

“:” Not available.

BUSINESS ENVIRONMENT AND RDTI in Portugal	
Country-specific recommendations, 2011-2015	
2011	Eliminate entry barriers in order to increase competition in the services sector; soften existing authorisation requirements that hinder adjustment capacity and labour mobility; reduce administrative burden that imposes unnecessary costs on firms and hamper their ability to react to market conditions.
2012	Portugal shall take urgently action to foster competition and the economy's adjustment capacity. This includes the abolition of special rights of the State in companies, a revision of competition law to make it more effective, lighter requirements for establishment and cross-border provision in services sectors. The competition framework shall be improved by reinforcing the independence and resources of the national regulatory authorities. Professional services shall be liberalised by improving the professional qualification framework and by eliminating restrictions on regulated professions.
2013	Further improve the conditions for mobility of professionals in line with the EU Directives.
2014	Continue efforts to carry out further inventories of the regulatory burden with a view to including by March 2015 sectors not yet covered. Remove by end-September 2014 remaining restrictions in the professional services sector. Eliminate payment delays by the public sector.
2015	-
Structural reforms carried out, 2011-2015	
2011	Reduction of the minimum capital share to establish a company to 1 euro instead of 5,000 euros previously.
2011	The reform of the licensing regimes or authorisation of services activities resulting from the implementation of the Services Directive reduces the number of cases in which administrative authorisation is required and, where this remains, limits it to only essential requirements. This was mainly applied in industry, commerce and tourism.
2011	Launching of the “ZERO tax for innovation” programme to exempt new companies with innovative potential from payment of any charge, fees or administrative contribution during two years, excluding tax and social security obligations. Installation of new “Entrepreneur Desks”, allowing entrepreneurs to deal with all the formalities relating to the start-up and operation of their business in a one-stop shop. Launch of the “ZERO Licensing” programme to reduce administrative charges for companies by eliminating permits and other prior conditions for anyone wanting to open and run a business, replacing them by increased supervision and mechanisms holding promoters responsible.
2012	New Competition Law strengthening the means of supervision and resolution of anti-competitive practices, while introducing new obligations of transparency and efficiency to the regulator. A specialised Competition Court was also created.

2012	A horizontal law reforming professional services governed by professional associations was adopted. As regards deregulation of professions not regulated by professional associations, a second phase has started to identify and ease requirements for accessing the profession that may no longer be justified or proportionate. In addition, amendments to the law transposing the Professional Qualifications Directive entered into force, aiming to facilitate free movement of professionals between Portugal and the other Member States.
2013	A new exporter programme was launched in September 2013 with 20 SMEs provided with training to develop products and enter the US market. In addition, a streamlined online platform for requesting VAT exemptions by exporters was introduced, which has already resulted in a reduction in the average time to completion of a VAT reimbursement application (from 42 days initially to 8 days as of the end of December 2013).
2013	An extraordinary tax credit was put in place for investments made in 2013.
2014	Point of Single Contact: an e-government portal under the Service Directive, which allows businesses to get information and complete administrative procedures online.
2014	Inventory of burdensome regulations for businesses (in industry, commerce and services) and creation of a roadmap to address them. A second inventory covering outstanding sectors (e.g. tourism, construction and agriculture) is currently under preparation.
2015	The Portuguese authorities have made progress towards further simplifying and speeding up procedures, by approving the revised System for a Responsible Industry (SIR), the Single Environmental Licensing (LUA) and measures to make it easier to obtain construction permits.
2015	Decree-Law 10/2015 simplified rules in the retail sector, exempting certain types of shop from the authorisation procedure and reducing the number of bodies the authorisation procedure involves. However, the fact that a 2015 ordinance imposes a retail fee linked to the authorisation process may constitute a barrier to entry into the Portuguese market.
2016	The government is drawing up a new Simplex programme to propose new measures for legislative and administrative simplification, both at central and local level. The 2016 Simplex Programme should be launched in May and reviewed annually. The Inter-Ministerial Network for Administrative Modernisation (RIMA) will coincide with the Simplex Programme's network of focal points. RIMA is expected to continue strengthening the governance framework for administrative simplification, although progress has been slow over the last year and its capacity is still limited to the central administration.
2016	Portugal plans to improve the 'Entrepreneur Desks' and launch a 'Single Declaration' initiative to tackle the need to complete the same information in more than one public administration form.
Outstanding challenges	
	Restrictions to the access to a number of highly regulated professions (in particular legal professions) has hampered investment. The law on professional companies still restricts the setting-up and operation of corporate groups. The adopted by-laws on professional bodies (regarding their statutes and internal rules) are perceived as restrictive, in particular as regards access to those professions by both natural and legal persons, multidisciplinary practices and fees.
	Licensing regimes are being streamlined, but there are some bottlenecks in the implementation. This is particularly the case of the commercial licensing law that contains provisions potentially entailing unnecessary administrative burden as well as high and disproportionate fees for larger retail areas, thus hampering new entrants.
	Weaknesses in the business environment remain a main bottleneck to growth.
	Portugal's innovation performance remains below the EU average, hampering the transition to a more knowledge-intensive economy.

Sources: Memorandum of understanding 2011, Implementing Decision 2011/344/EU, Economic Adjustment Programme 2013, CSRs 2014-2015, CR 2016 (SWD2016 - 89 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

According to the 2016 World Bank Doing Business report, while Portugal is ranked around the EU average in terms of the ease of doing business, it is considered among the best countries within the EU where to start a business. Not only the the number of procedures necessary to start a business and the cost associated with it have been significantly reduced, but Portugal has also markedly decreased the time required to start a business.

In addition, product market regulation has improved over the last 10 years: State control in Portugal has declined but remains higher than the EU on average whereas both barriers to entrepreneurship and barriers to trade and investment have also decreased to a level below the EU average.

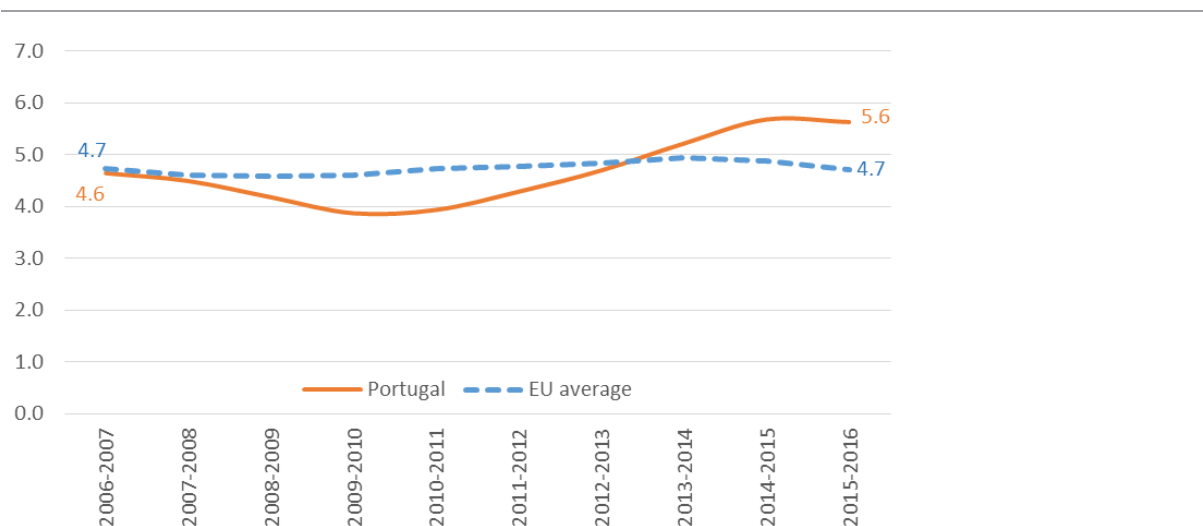
Portuguese productive fabric is less oriented towards high-tech manufacturing and knowledge-intensive activities than the EU on average. This is not only reflected by the lower employment shares in these sectors but also by the lower numbers of R&D personnel and researchers and the lower share of R&D expenditure in relation to GDP. The capacity of Alentejo and Algarve to undertake research and development can be assumed to be very limited as in both cases the share of R&D personnel and researchers in employment and the share of R&D expenditure in relation to GDP are much lower than the national average.

Accordingly, both the regulations in place and the limited availability of research expertise and R&D facilities are likely to discourage investment in Portugal, especially in the areas with most growth potential (in knowledge-intensive sectors) and in the lagging regions in particular.

The focus of the country-specific recommendations have been on removing the restriction on access to and exercise of professional activities and on reducing the procedures to obtain licensing to start up a business. Despite the numerous measures taken so far, including the reform of the licensing regimes in 2011, reducing the number of cases in which an administrative authorisation is required, and the adoption of a New Competition Law in 2012, which attempted to reduce anti-competitive practices, there remains further room for improvement in different areas. For example, although an horizontal law reforming professional services was adopted in 2012, obstacles still exist to access regulated professions (particularly in legal area); in addition, unnecessary high administrative burden and high fees for larger retail areas persist. This is particularly the case of the commercial licensing law that contains provisions potentially limiting the entrance of new actors in the market.

6. GOVERNANCE

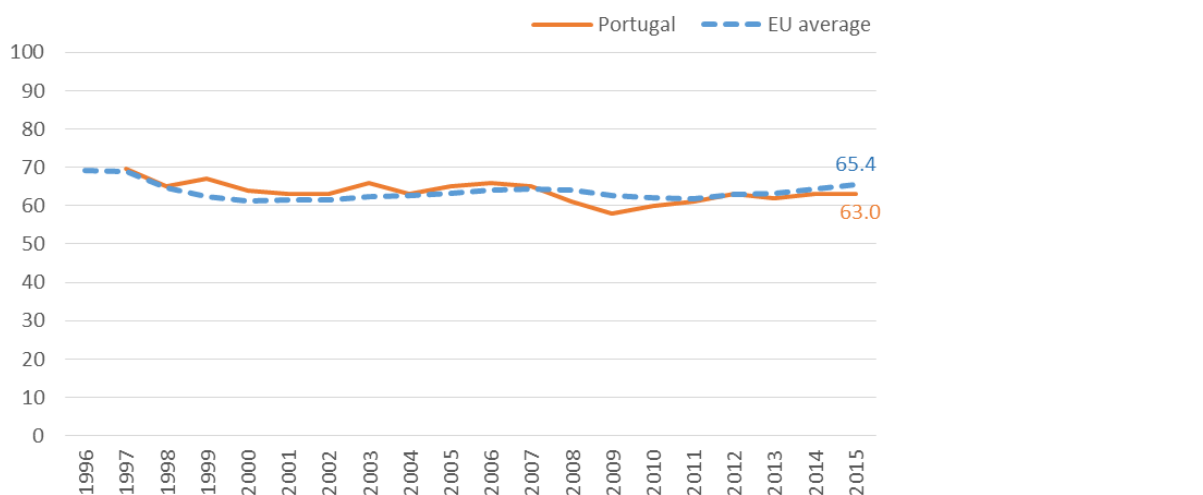
Figure 6.1 – Judicial independence in Portugal, 2006-2016



Source: World Economic Forum.

Notes: The scale ranges from 1 to 7, from least to most independent (i.e. a higher value reflects a more independent judicial system).

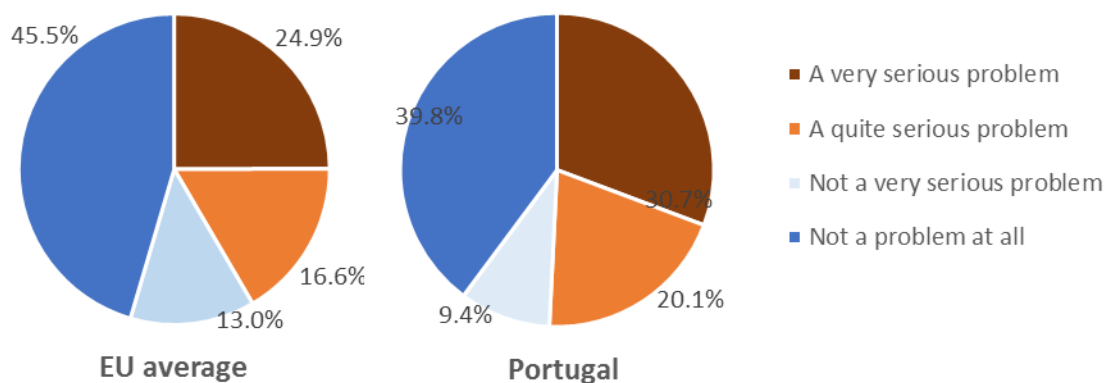
Figure 6.2 – Corruption perception index in Portugal, 1996-2015



Source: Transparency International.

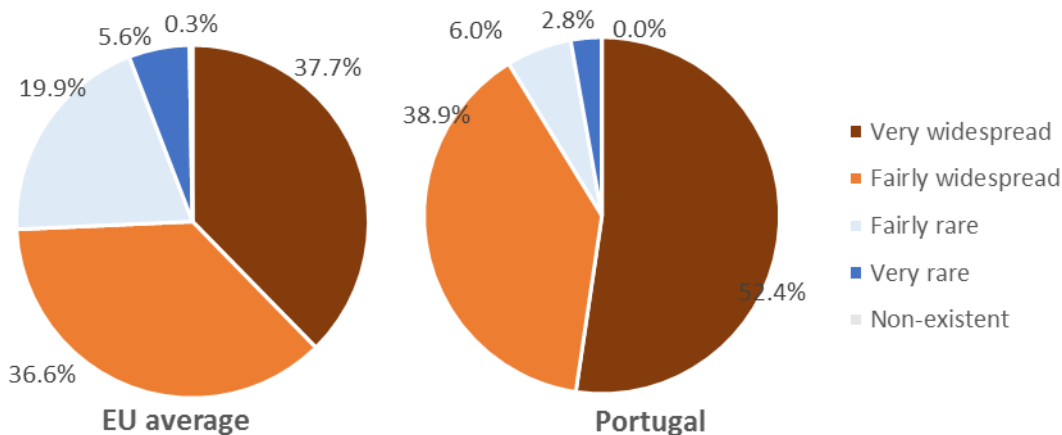
Note: The scale ranges from 0 to 100, from highly corrupt to highly clean.

Figure 6.3 – Corruption as problem for doing business in Portugal, 2015.



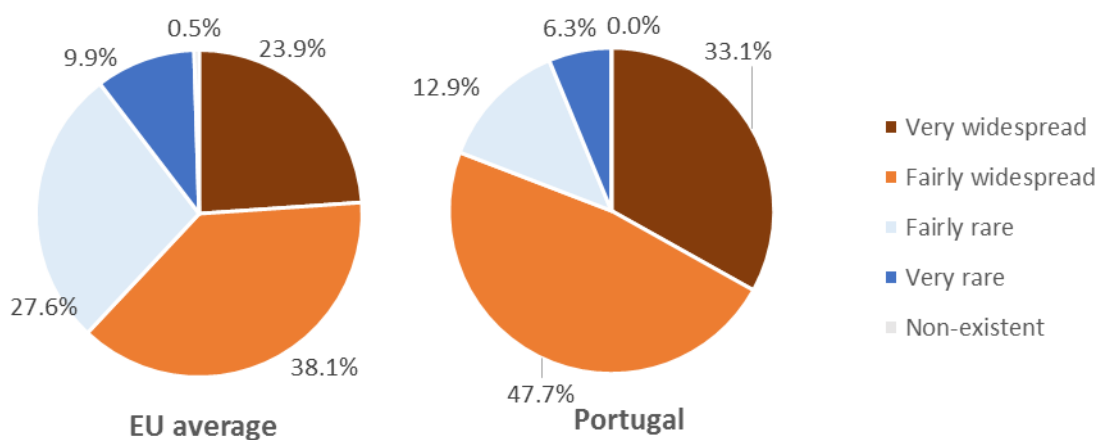
Source: Flash Eurobarometer 428, European Commission.

Figure 6.4 – Extent of corruption in Portugal, 2015



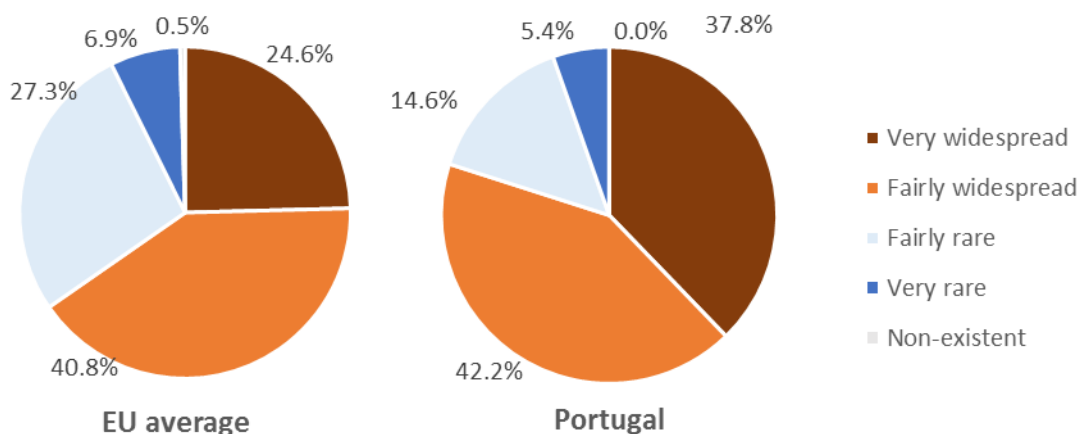
Source: Flash Eurobarometer 428, European Commission.

Figure 6.5 – Extent of corruption in public procurement managed by national authorities in Portugal, 2015



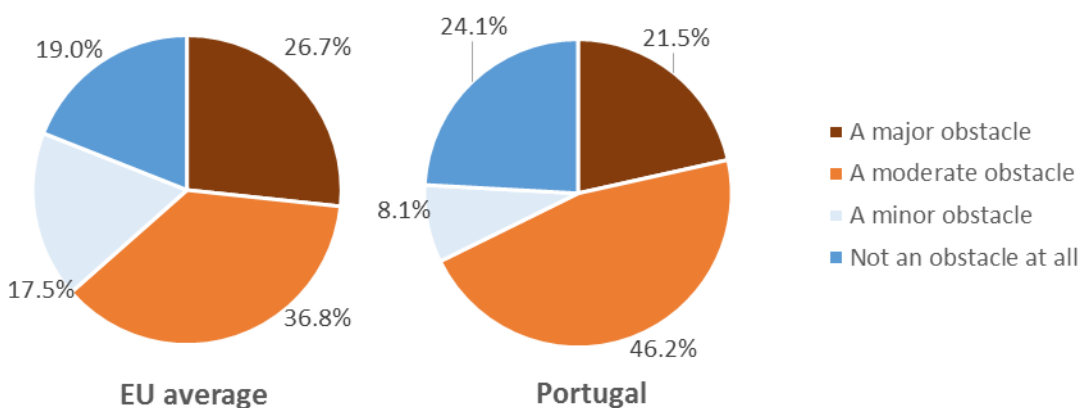
Source: Flash Eurobarometer 428, European Commission.

Figure 6.6 – Extent of corruption in public procurement managed by regional or local authorities in Portugal, 2015



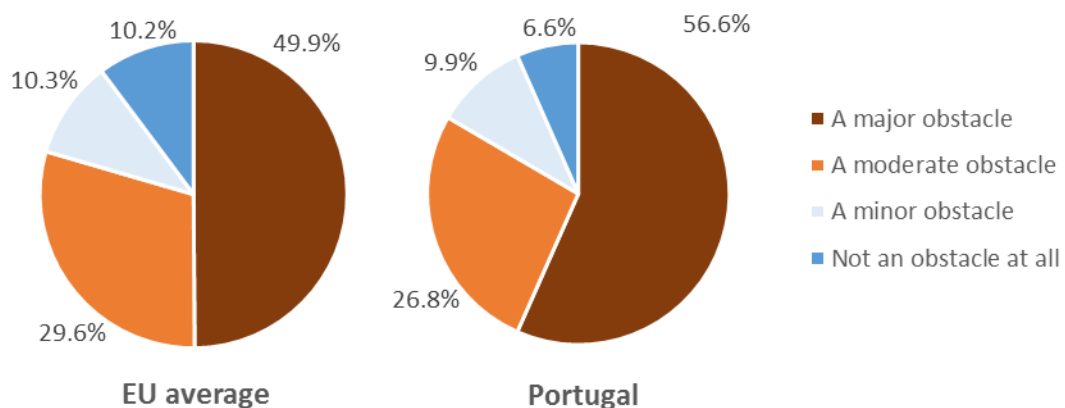
Source: Flash Eurobarometer 428, European Commission.

Figure 6.7 – Procedures for contract enforcement is an obstacle to the activities of enterprises in Portugal, 2015



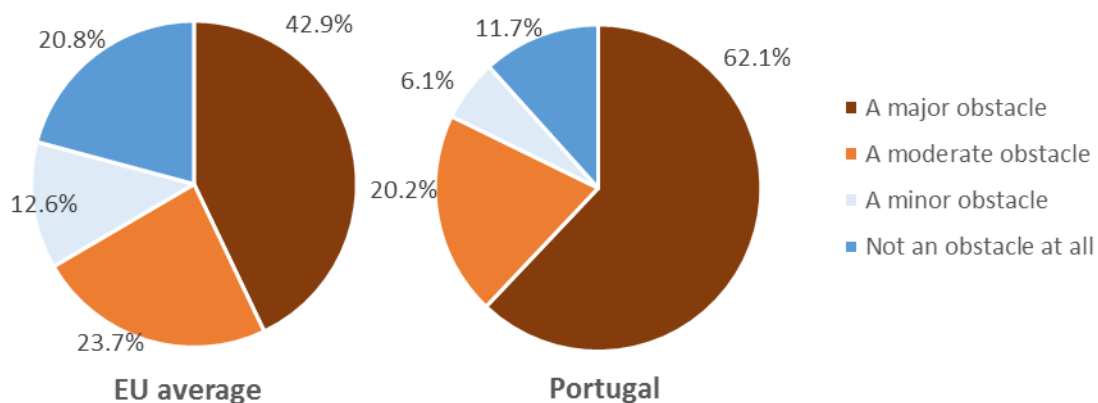
Source: Flash Eurobarometer 417, European Commission.

Figure 6.8 – Lack of predictability and stability of legislation is an obstacle to the activities of enterprises in Portugal, 2015



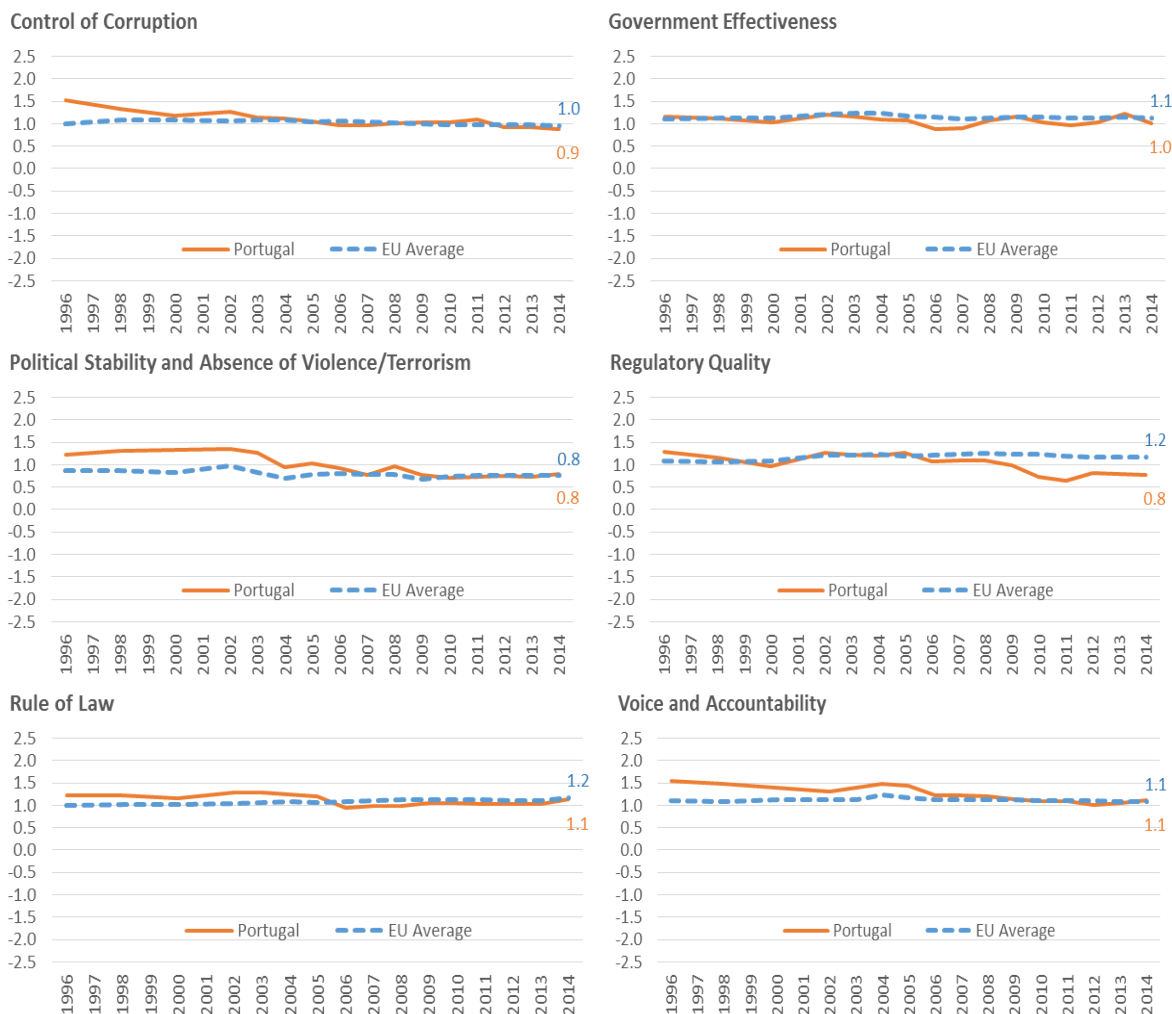
Source: Flash Eurobarometer 417, European Commission.

Figure 6.9 – The existence of an informal economy is an obstacle to the activities of enterprises in Portugal, 2015



Source: Flash Eurobarometer 417, European Commission.

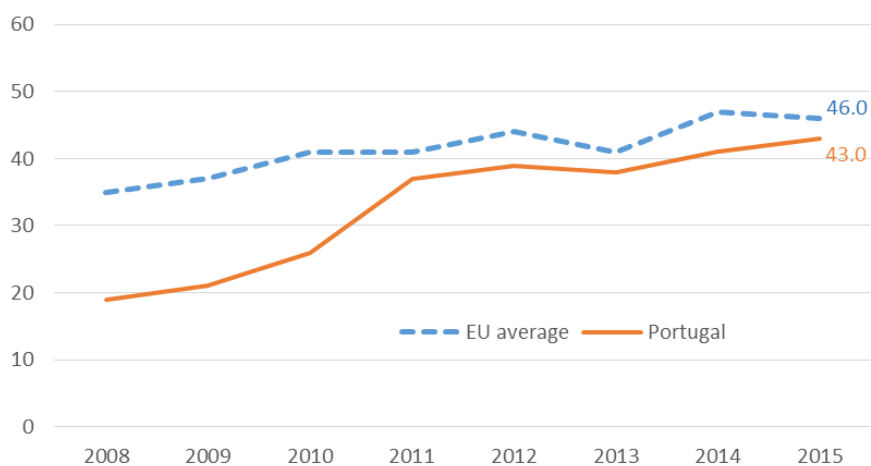
Figure 6.10 – Worldwide Governance Indicators in Portugal, 1996-2014



Source: Worldwide Governance Indicators, World Bank.

Note: The scale ranges from -2.5 to 2.5, higher values corresponding to better governance.

Figure 6.11 – People aged 16-74 using the internet for interaction with public authorities in Portugal, 2008-2015 (% total)



Source: Eurostat ([tsdgo330] for years 2000-2010; [tin00012] afterwards).

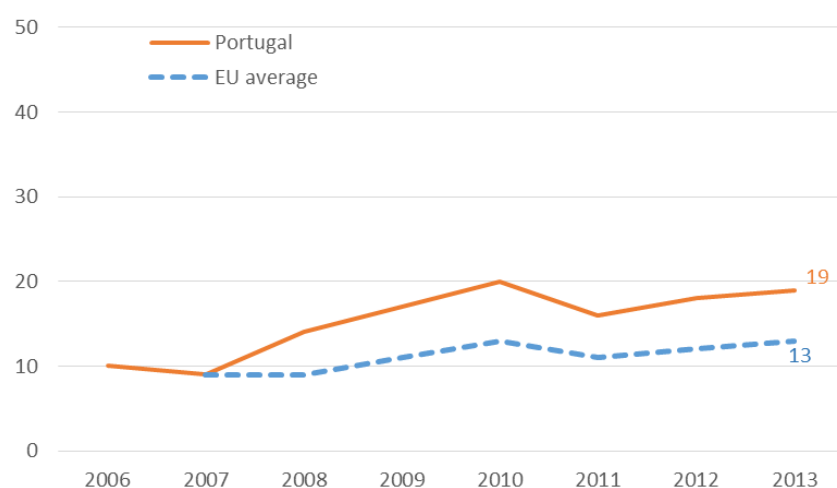
Table 6.1 – People aged 16-74 using the internet for interaction with public authorities in Portugal, 2015

Region	% of individuals 16-74 2015
Norte	36
Algarve	39
Centro (PT)	41
Alentejo	34
Portugal	43
EU average	46

Source: Eurostat [isoc_r_gov_i].

Notes: Values which are lower than in the whole country are shown in red. Values which are lower than in the EU are highlighted in grey.

Figure 6.12 – Enterprises using the Internet to submit a proposal to public authorities in Portugal, 2005-2013



Source: Eurostat [tin00109].

Table 6.2 – European Quality of Government Index in Portugal, 2010 and 2013

Region	European Quality of Government Index (0-100)	
	2010	2013
Norte	46.6	53.1
Algarve	55.1	65.2
Centro (PT)	49.8	59.7
Alentejo	67.3	77.2
Portugal	49.8	60.3
EU average	51.2	61.7

Source: N. Charron, L. Dijkstra and V. Lapuente, 'Mapping the Regional Divide in Europe: A Measure for Assessing Quality of Government in 206 European Regions'.

Notes: Values which are lower than in the whole country are shown in red. Values which are lower than in the EU are highlighted in grey.

In 2013, Portugal was ranked 15th among the EU countries.

The scale ranges from 1 to 100 range, higher values corresponding to a better quality of government.

GOVERNANCE in Portugal	
Country-specific recommendations, 2011-2015	
2011	Reduce management positions/administrative units by at least 15% in the central and local administration. To improve the efficiency of central administration and rationalise the use of resources, implement a second phase of the public administration restructuring programme. Carry out a study to identify potential duplication of activities between the central and local administration services and reform the existing framework to eliminate the identified inefficiencies. Improve the functioning of the judicial system through: (i) ensuring effective and timely enforcement of contracts and competition rules; (ii) increasing efficiency by restructuring the court system, and adopting new court management models; (iii) reducing slowness of the system by eliminating backlog of courts cases and by facilitating out-of-court settlement mechanisms.
2012	Portugal shall improve practices and rules for public procurement contributing to a more competitive business environment and to more efficient public spending. The functioning of the judicial system shall be improved by implementing the measures proposed under the Judicial Reform Map and by conducting and auditing of the backlog cases in order to target measures to eliminate court backlog and foster alternative dispute settlements.
2013	Present a report identifying potential overlaps of services and jurisdictions and other inefficiencies between the central and local levels of government, as well as new opportunities for decentralisation and outsourcing of services by the central government. Present a report reorganising the network of decentralised services of ministries, aiming at increasing efficiency in the public sector and the quality of services for citizens and businesses.
2014	Continue to rationalise and modernise central, regional and local public administration. Step up efforts to evaluate the implementation of the reforms (in particular by adding mandatory systematic ex ante and ex post assessments in the legislative process). Implement the reforms to enhance the efficiency of the judicial system and increase transparency.
2015	-
Structural reforms carried out, 2011-2015	
2011	Reorganisation of the courts with new models of court management; alternative models for the settling of legal disputes (in the tax domain) are being implemented, leading to procedural simplification and better organisation; improvements to other judicial means relevant to strengthening competitiveness; and new means of information for citizens and for the transparency of justice.
2011	The laws on bankruptcies and administrative litigation are improved, combating procedural delays.
2011	Comprehensive reform and modernisation of public administration, good examples of which are leadership in terms of e-governance, reduction of public employment and the restructuring of public administration.
2012	Amendments to the public procurement code were adopted in July 2012 to improve public contract award practices and ensuring a more transparent and competitive business environment.
2012	The Portuguese government has made progress in strengthening alternative dispute resolution to facilitate out-of-court settlements.
2013	The corporate insolvency law was amended to better support the early rescue of viable firms (early warning mechanism that aims to facilitate timely signalling of financial difficulties).
2013	The new Code of Civil Procedure, which aims to expedite the court process in commercial and civil litigation, became effective in September 2013.
2014	Implementation of the new Judicial Organization Act, which aims to enhance the efficiency and professionalism of court management. This major reform includes the closure of 54 courts,

	enlargement of courts' territorial jurisdiction to align them with administrative districts, the creation of court clusters to allow for greater economies of scale and professional specialisation, more flexible allocation of staff resources to areas where bottlenecks emerge, and the introduction of a national system of workload measurement and performance targets.
2015	For micro-businesses and small firms, a specific out-of-court mechanism (SIREVE) introduced more rapid mediation by a new public mediator agency with electronic platforms to reduce paperwork. SIREVE and PER (special revitalisation process) have both been refined.
Outstanding challenges	
	Low efficiency of the judicial system and a lack of transparency in public procurement are detrimental to business dynamics and FDI attraction.

Sources: Memorandum of understanding 2011, Implementing Decision 2011/344/EU, Economic Adjustment Programme 2013, CSRs 2014-2015, CR 2016 (SWD2016 - 89 final), National Reform Programmes (NRP) 2001-2015, Member States Investment Challenges – SWD(2015) 400 final.

Overview

According to the World Economic Forum survey, the judiciary system in Portugal is perceived to be more independent of Government and other sources of influence than the EU average. Also, the difference with the latter has widened over the last 2-3 years. On the contrary, corruption is perceived to be slightly more of a problem in Portugal than in the rest of the EU as indicated by Transparency International. This is also confirmed by the 2015 Eurobarometer survey of business views on corruption which indicates that corruption is more of a concern in Portugal than in other parts of the EU both in terms of doing business and in relation to public procurement.

In addition, according to another Eurobarometer survey carried out in 2015, a larger proportion of businesses in Portugal than in other parts of Europe considered the lack of predictability and stability of legislation, as well as the existence of an informal economy as major obstacles to their activities.

The World Bank Worldwide Governance Indicators show that Portugal is viewed less favourably than the EU average in terms of the quality of regulations and only slightly less favourably in terms of the control over corruption, rule of law and government effectiveness. On the other hand, political stability and absence of violence, the degree of accountability and the extent to which people have a voice are viewed as very similar in Portugal as in the EU as a whole.

The extent to which the internet is used by people to communicate with public authorities in Portugal is lower than the EU average (in 2015 about 43% of the people aged 16-74 used the internet to interact with public authorities in Portugal against 46% in the rest of the EU). The extent is even lower in the lagging regions, in particular in Norte and Alentejo. By contrast, a higher proportion of enterprises in Portugal used the internet to submit a proposal to public authorities in 2013 (the latest year for which data are available) than in the rest of the EU.

The European Quality of Government index, which is based on a 2013 survey of residents, assessed Portuguese government less favourably than that in other parts of the EU, although the index has improved significantly compared to the situation in 2010. (The marked variability over just three years raises a question-mark over the reliability of the index, or at least over the significance of relatively small movements in it over time.) Alentejo and Algarve have values which are higher than both the national and the EU average; whereas in Norte and Centro the values are below both the national and the EU average.

The focus of the country-specific recommendations in respect of governance over the years 2011-2015 in Portugal was on the rationalization of the central and local administration as well as on the

reform of the judiciary system. In 2011, the Portuguese government enacted a comprehensive reform on public administration modernization aimed at improving the use of IT technologies and at rationalising the structure. In addition, in 2012, the public procurement code was amended to ensure higher transparency and to ensure fair competition among participants. Furthermore, in 2014, the new Judicial Organization Act was implemented, promoting the rationalization of the judicial system and enhancing its efficiency. Nonetheless, at the end of 2015, the judicial system was still considered as not efficient and the transparency of the public procurement framework was seen as a serious issue.

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