

## PORTUGAL

*Living standards have fallen vis-à-vis the OECD average in recent years, with the widening GDP-per-capita gap essentially reflecting low productivity.*

### Policy priorities

#### **Improve upper-secondary and tertiary education attainment**

**Challenge and recommendations:** To improve human capital formation, it was recommended that a greater proportion of primary and secondary education spending be allocated to non-wage spending and a systematic evaluation of higher education institutions be implemented.

**Actions taken:** As decided earlier, very small and inefficient primary schools are being closed. A new career scheme for primary and secondary teachers, including new performance assessment procedures, has been approved by the Council of Ministers. The authorities have commissioned reviews of the higher education sector, including the current accreditation and quality-assurance processes.

#### **Reduce barriers to competition**

**Challenge and recommendations:** To increase competition in network industries and the services sector, it was recommended that the ownership of the largest fixed-telephony and cable networks be separated, the restructuring of the energy sector be continued, and entry controls and licensing requirements in non-manufacturing sectors be eased.

**Actions taken:** Some steps have been taken to ease regulatory restraints in some network industries (gas and telecommunications), although no action has been taken to separate the ownership and control of the fixed-telephony and cable networks, nor to ease entry controls and licensing requirements in services sectors.

#### **Reform employment protection legislation**

**Challenge and recommendations:** To facilitate higher productivity growth and encourage hiring of workers under regular contracts, it was recommended that employment protection legislation be eased, particularly for individual dismissals.

**Actions taken:** No action taken.

#### **Continue public administration reform**

**Challenge and recommendations:** To increase the efficiency of the public sector and reallocate labour to the private sector, it was recommended that the number of public sector employees be reduced, public sector employment conditions be aligned with those in the private sector and a performance-based system be introduced in the public sector.

**Actions taken:** A recruitment rule of one new worker for every two departures was implemented in 2006 and the number of public employees fell. The reform of the civil servants' social security system has been approved, bringing it closer to the general social security scheme. The reorganisation of the public administration continues. An employee mobility scheme is in operation. Implementation of a new system for careers, contracts and pay is starting, introducing elements of performance pay in salaries.

#### **Simplify the tax system and broaden the corporate tax base**

**Challenge and recommendations:** To reduce compliance costs and informal activities, it was recommended that the tax code be simplified and modified less frequently, and that tax expenditures be reduced.

**Actions taken:** To reduce compliance costs, the authorities have streamlined tax administration procedures and have encouraged greater use of the Internet for taxpayer-tax administration interaction.