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- After widening during the crisis, the gap in GDP per capita relative to the average of the most advanced OECD countries has stabilised. It remains nonetheless very large and is explained mostly by low productivity.
- Despite a recent decline, inequality remains high and the share of national disposable income held by the poorest 20% of the population is below the OECD average. A segmented labour market narrows the opportunities of entering into stable employment for young people, who face a higher risk of poverty and exclusion.
- Active labour market policies have become more focused on training and internships for the young and the long-term unemployed. Public employment services have become more efficient, including through better management and a greater reliance on digital services. While challenges remain in this area, it is no longer considered a *Going for Growth* priority.
- Reducing corporate debt overhang would spur investment and productivity and enhance Portugal's growth potential. Improving the skills of the labour force would not only support productivity but also improve equity and well-being.

Going for Growth 2017 priorities

Reduce corporate debt overhang.¹ Private investment and resource re-allocation are being held back by the high share of non-performing loans that limit the lending capacity of banks.

Recommendations: Insolvency procedures and the restructuring of viable firms should be streamlined by eliminating special veto rights for tax authorities, improving access to information for insolvency administrators and creditors, increasing the number of judges in commercial courts and providing more specialised training to judges. Stronger regulatory incentives could lead banks to submit credible plans for reducing non-performing loans, including through write-offs and sales. Public guarantee schemes could play a role in the development of markets for distressed debt securities. The performance of the new tax allowance for corporate equity (ACE) with respect to reducing the tax distortions towards debt financing should be carefully monitored.

Improve equity and outcomes in education. Improving educational attainments will raise the skills of the labour force and strengthen productivity. It will also foster the creation of higher quality jobs and improve equity and well-being.

Actions taken: Short-cycle higher technical courses (TeSP) were created in the academic year of 2014/15 and in 2016 the Authorities have closed vocational paths in lower secondary levels. A training cheque was introduced in August 2015 to strengthen the training incentives for all employed or unemployed persons aged 16 and older. In 2016 the authorities launched the Qualifica programme, which puts a strong emphasis on upgrading the skills of the adult population.

Recommendations: Provide more earlier and individualised support to students at risk of falling behind to reduce grade repetition and drop-out rates. Improve teaching quality by

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an “*”.

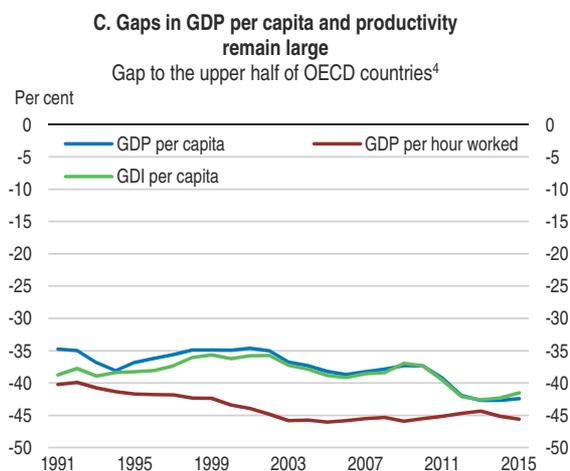
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Growth performance and inequality indicators

A. Growth		
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	0.5	-0.1
Labour utilisation	-0.6	-0.9
of which: Labour force participation rate	0.1	-0.5
Employment rate ¹	-0.6	-0.6
Employment coefficient ²	-0.1	0.2
Labour productivity	1.2	0.8
of which: Capital deepening	1.7	0.8
Total factor productivity	-0.5	0.0
Dependency ratio	-0.1	-0.1

B. Inequality		
	Level	Annual variation (percentage points)
	2013	2008-13
Gini coefficient ³	34.2 (31.7)*	-0.3 (0)*
Share of national disposable income held by the poorest 20%	6.9 (7.7)*	-0.1 (0)*

* OECD average



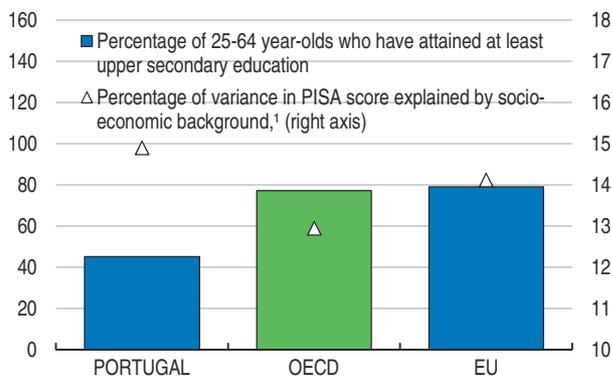
- The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
- This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
- The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
- Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, Economic Outlook No. 100 Database; Panel B: OECD, Income Distribution Database; Panel C: OECD, National Accounts and Productivity Databases.

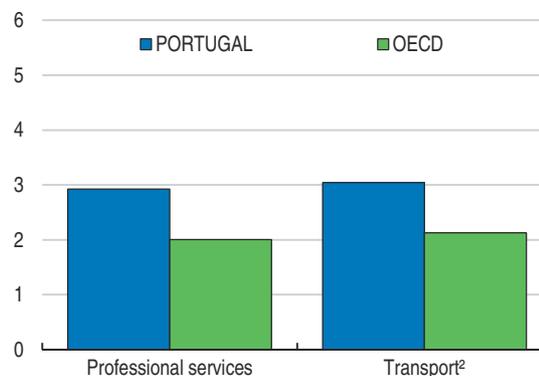
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Policy indicators

A. Student performance and equity can be improved
2015



B. Regulatory barriers to competition in professional services and transport remain high
Index scale of 0-6 from least to most restrictive, 2013



- Strength of the relationship between science performance and the PISA index of economic, social and cultural status (ESCS).
- Average of airlines, rail and road.

Source: Panel A: OECD, Education at a Glance 2016: OECD Indicators and PISA Database; Panel B: OECD, Product Market Regulation Database.

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strengthening teachers and school principals' training and exposure to best practices. Create incentives to attract the most experienced teachers to disadvantaged schools. Consolidate vocational education and training (VET) into a single system that includes workplace training of good quality. Streamline the supply of VET courses and improve its alignment with labour market needs through better career guidance and enhanced monitoring of labour market outcomes. Provide more autonomy to schools, including for adjusting class size to students' profile and in retaining good teachers.

Strengthen the link between research and businesses. Stronger links between public sector research and the private sector would boost the development of new technology-intensive products as well as process innovations. This would contribute to the creation of more high-skilled jobs and strengthen the competitiveness of the tradable sector.

Actions taken: The authorities are setting up a programme to support intermediary institutions and technology centres engaged in technology transfer and services to companies.

Recommendations: Accelerate the implementation of the programme *capaCITar*, which provides financial support for businesses that hire PhDs. Create career incentives for academics to co-operate with the private sector, including through the pursuit of dual careers. Support business innovation further by allowing refunds of R&D tax credits or significantly extending the carry-forward period for R&D expenditures.

Strengthen competition in non-manufacturing sectors. Strengthening competition would lower input prices and bolster export competitiveness and productivity.

Actions taken: Legislative initiatives regarding regulated professions have not resulted in a reduction of entry barriers.

Recommendations: Reduce entry barriers in regulated professions and monitor entry and price regulation by professional bodies to safeguard competition. Reconsider exclusive rights for certain tasks, remaining nationality requirements and restrictions on the form of business. Renegotiate port concessions to ensure that lower port labour costs translate into lower port user costs. Further reduce the scope of application of legacy remuneration schemes in the energy sector through renegotiations with incumbent companies.

Promote wage bargaining at the firm level. Productivity improvements at the firm level form the basis for sustainable wage developments, while administrative extensions can lead to a disconnect between productivity and wages.

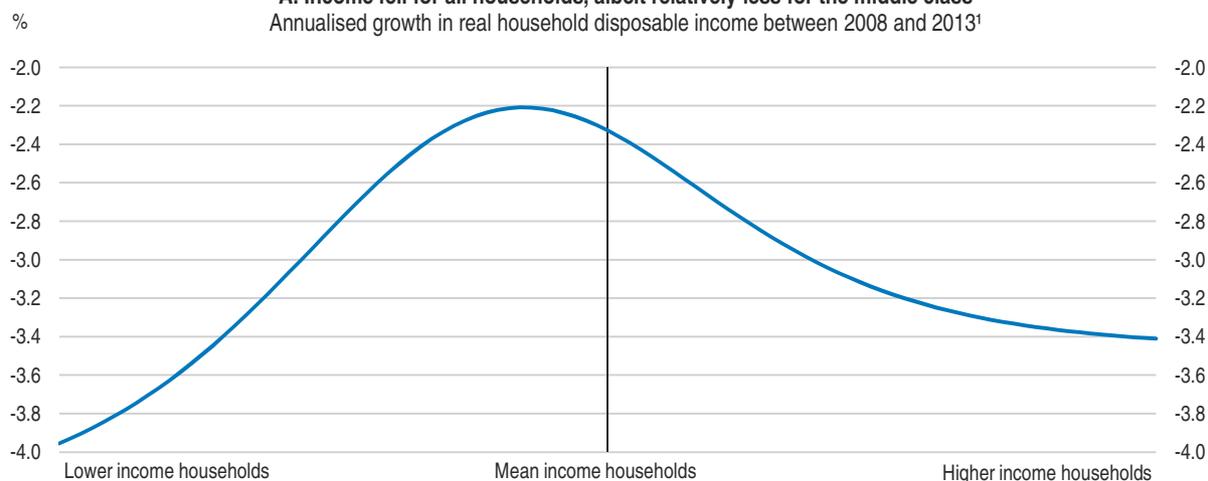
Actions taken: No action taken. Between 2014 and 2015, the number of employees affected by collective agreements has doubled.

Recommendations: Promote wage bargaining at the firm level, including by avoiding a resurgence of administrative extensions of collective wage agreements. Increase the representativeness of the collective bargaining system.

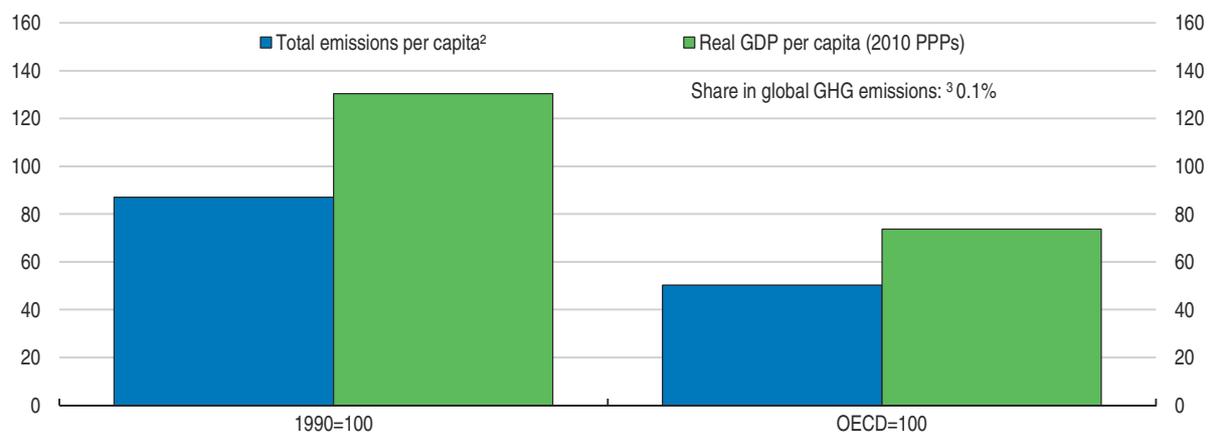
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Beyond GDP per capita: Other policy objectives

A. Income fell for all households, albeit relatively less for the middle class
 Annualised growth in real household disposable income between 2008 and 2013¹



B. Emissions per capita have decreased since 1990 and are well below OECD average
 Average 2010-14



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

StatLink  <http://dx.doi.org/10.1787/888933456178>