

## PORTUGAL

*Convergence in living standards with the OECD average has halted in recent years, with the large GDP-per capita gap essentially reflecting low productivity.*

### Priorities supported by indicators

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

Low human capital accumulation limits productivity growth and hampers the adoption of new technologies.

**Actions taken:** To improve efficiency, very small schools are being regrouped or closed, and better use is being made of existing teaching staff, in part by increasing the number of teaching hours. The government has launched programmes to reorganise and rationalise the tertiary education system.

**Recommendations:** Better use current education resources by increasing the proportion of primary and secondary spending allocated to non-wage spending. Continue ongoing efforts to strengthen vocational and technical education. Implement systematic evaluation of higher education institutions.

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

Weak competition in network industries and the services sector hamper productivity growth by reducing the incentive for firms to seek efficiency gains or adopt more advanced production techniques.

**Actions taken:** No major measures have been taken since the introduction of an independent Competition Authority in 2003.

**Recommendations:** Separate the ownership of fixed telephony and cable networks to allow competition between them. The restructuring of the energy sector to increase competition should continue and be accompanied by appropriate measures to facilitate consumer switching. Reduce entry controls and licensing requirements in non-manufacturing industries.

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

Despite the 2003 Labour Law reform, employment protection regulations are strict and procedures are cumbersome. This hampers labour mobility, reduces the creation of permanent jobs and slows the pace of adopting new technologies.

**Actions taken:** No further measures have been taken to reform the labour code.

**Recommendations:** Further ease employment protection legislation, particularly to facilitate individual dismissals, as this would be conducive to higher productivity growth and encourage hiring of regular workers.

### Other key priorities

- Maintain the momentum of public administration reform to increase the efficiency of the public sector and facilitate the reallocation of labour to the private sector. The number of public employees should be allowed to fall. Employment conditions in the public sector should be aligned with private-sector rules to encourage mobility and an employee evaluation system should be introduced to link performance with career progression and pay.
- Simplify the tax system and broaden the corporate tax base as the current system reduces productivity by imposing high compliance costs and encouraging inefficient informal activity. The tax system should be streamlined by reducing tax expenditures, and by making changes to the tax code less frequently.