



2019 OECD ECONOMIC SURVEY OF PORTUGAL

*Promoting convergence and
wellbeing*

Lisbon, 18 February 2019

<http://www.oecd.org/economy/surveys/portugal-economic-snapshot>

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Key messages

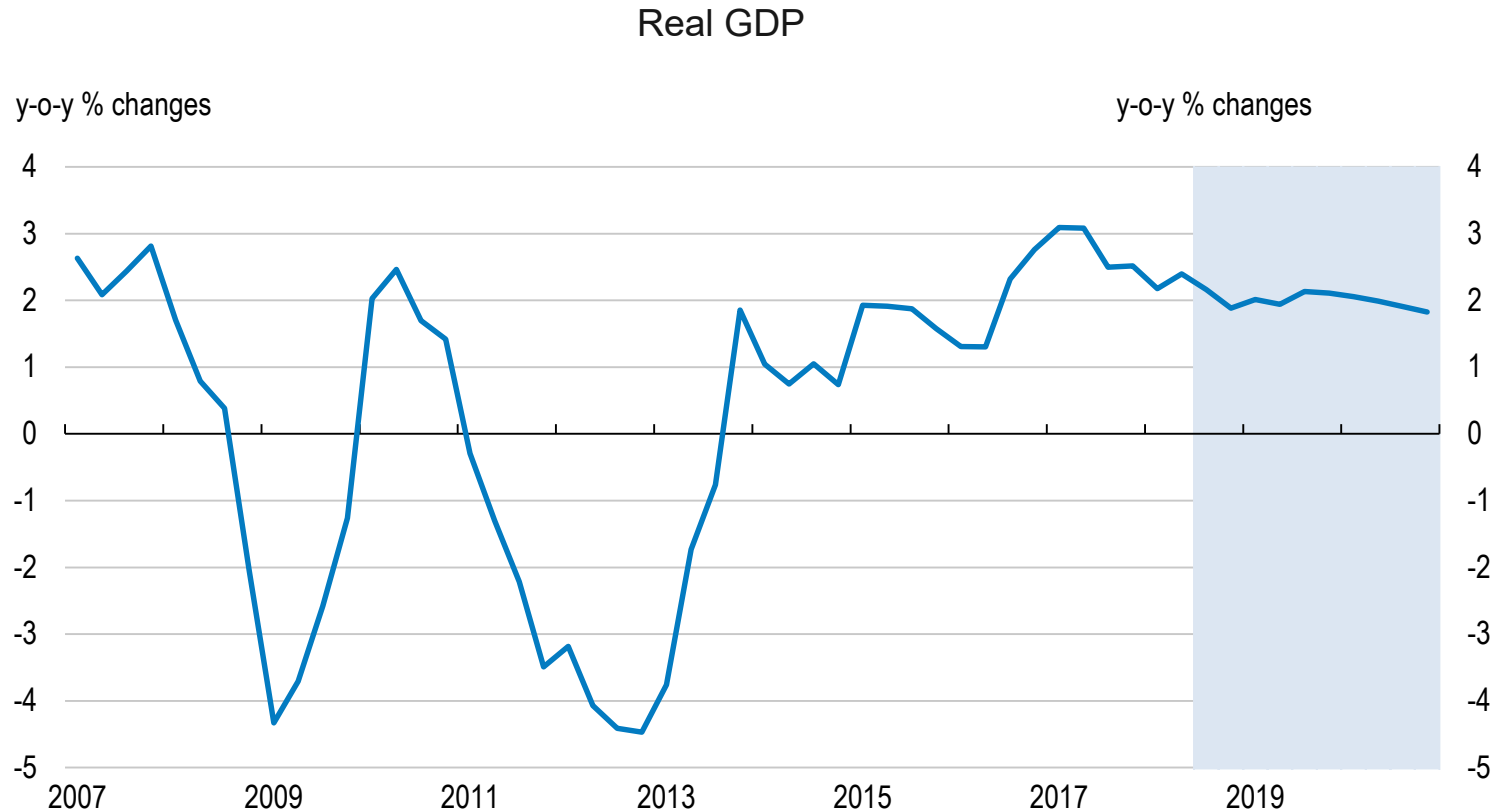
- Further progress in improving public finances, reducing private debt and the health of the banking system can improve resilience to shocks
- Export performance can be enhanced through policies that better enable exporters to innovate and grow
- The efficiency of the judicial system can be further improved, thereby spurring economic activity



Economic recovery is well entrenched but further improvements in wellbeing are needed



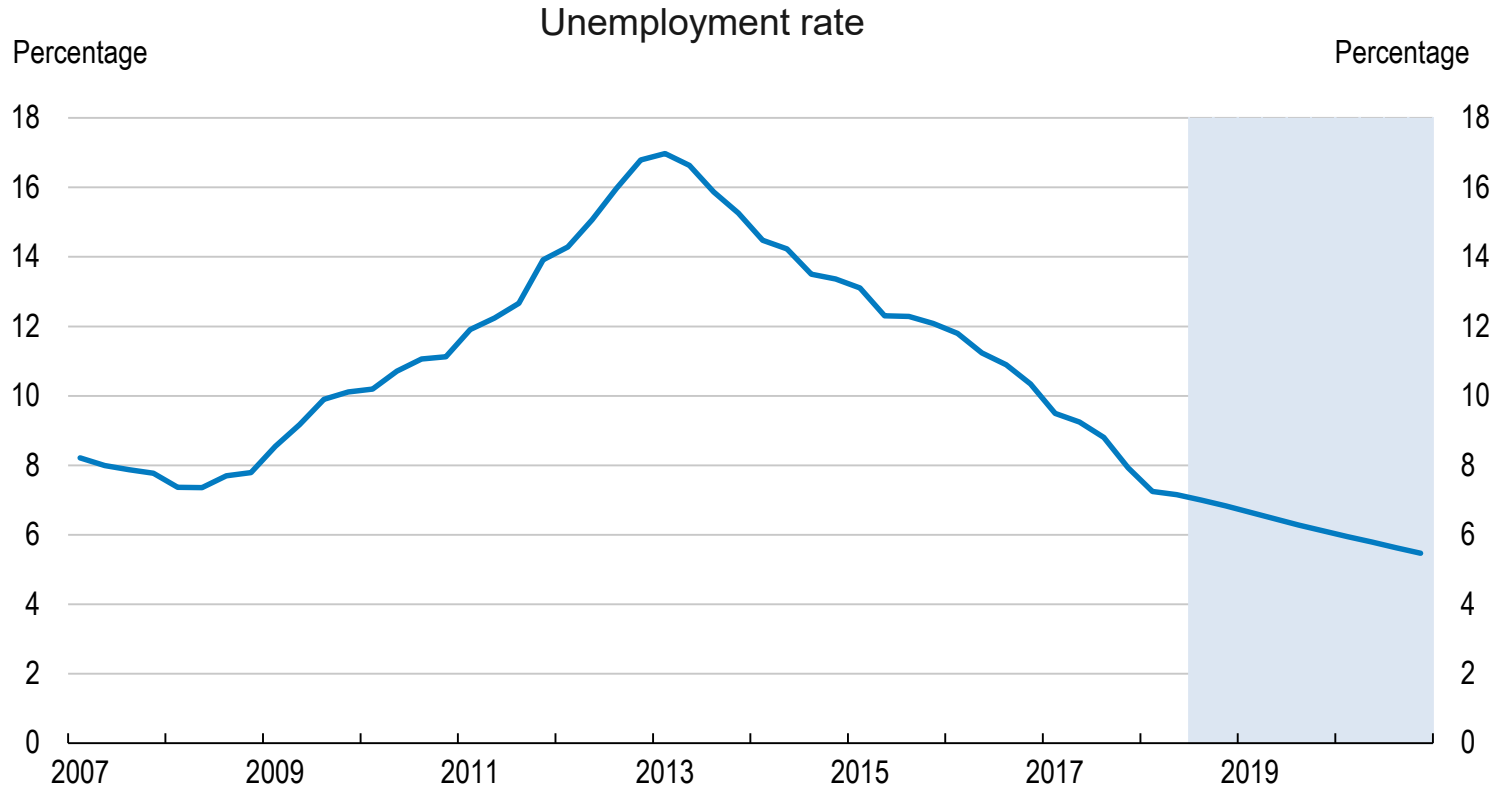
The economy is growing after a double dip recession



Source: OECD Economic Outlook.



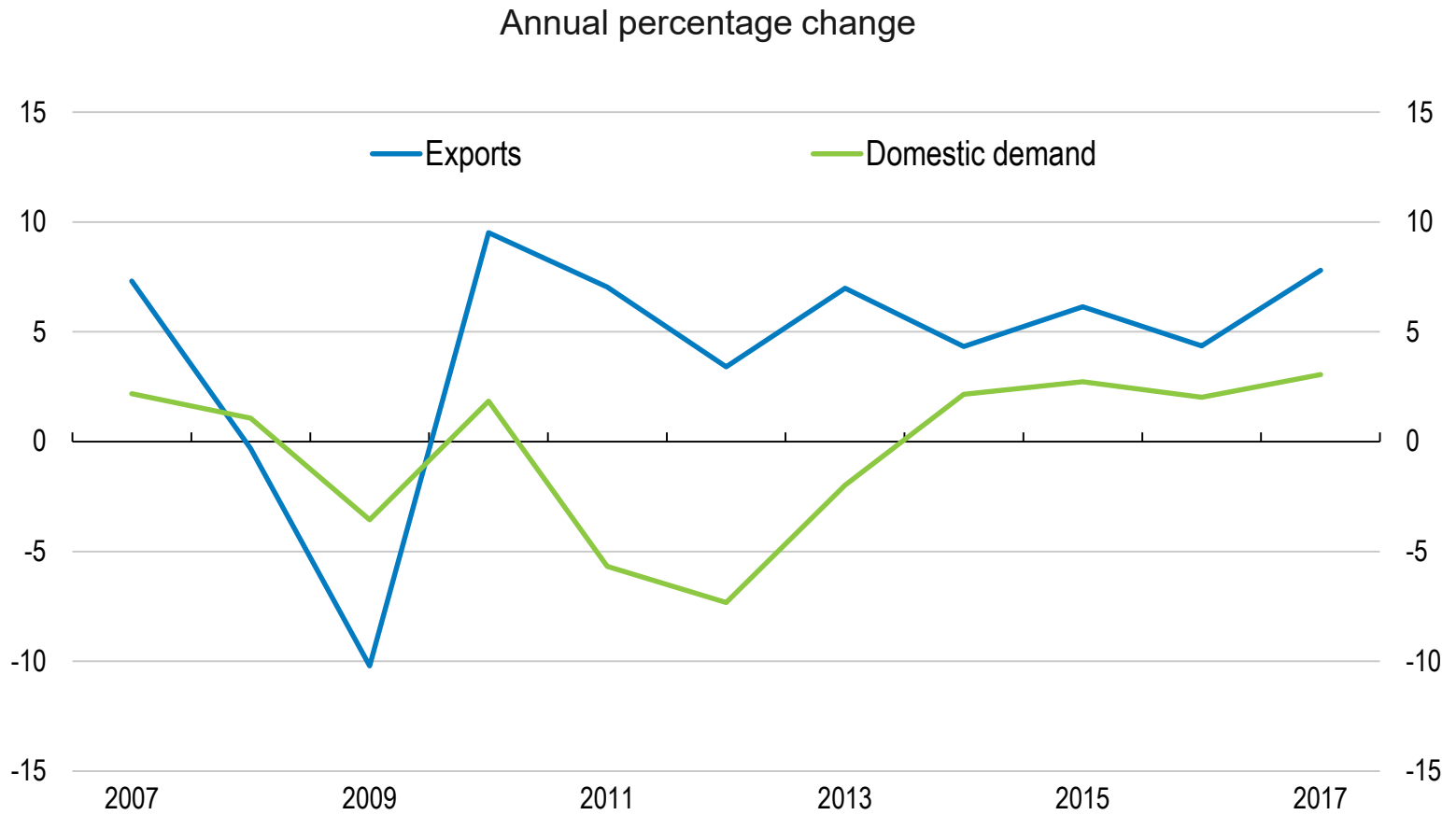
Unemployment has continued to decline



Source: OECD Economic Outlook.



Domestic demand is now also driving the recovery



Source: OECD Economic Outlook.



The economic expansion will continue

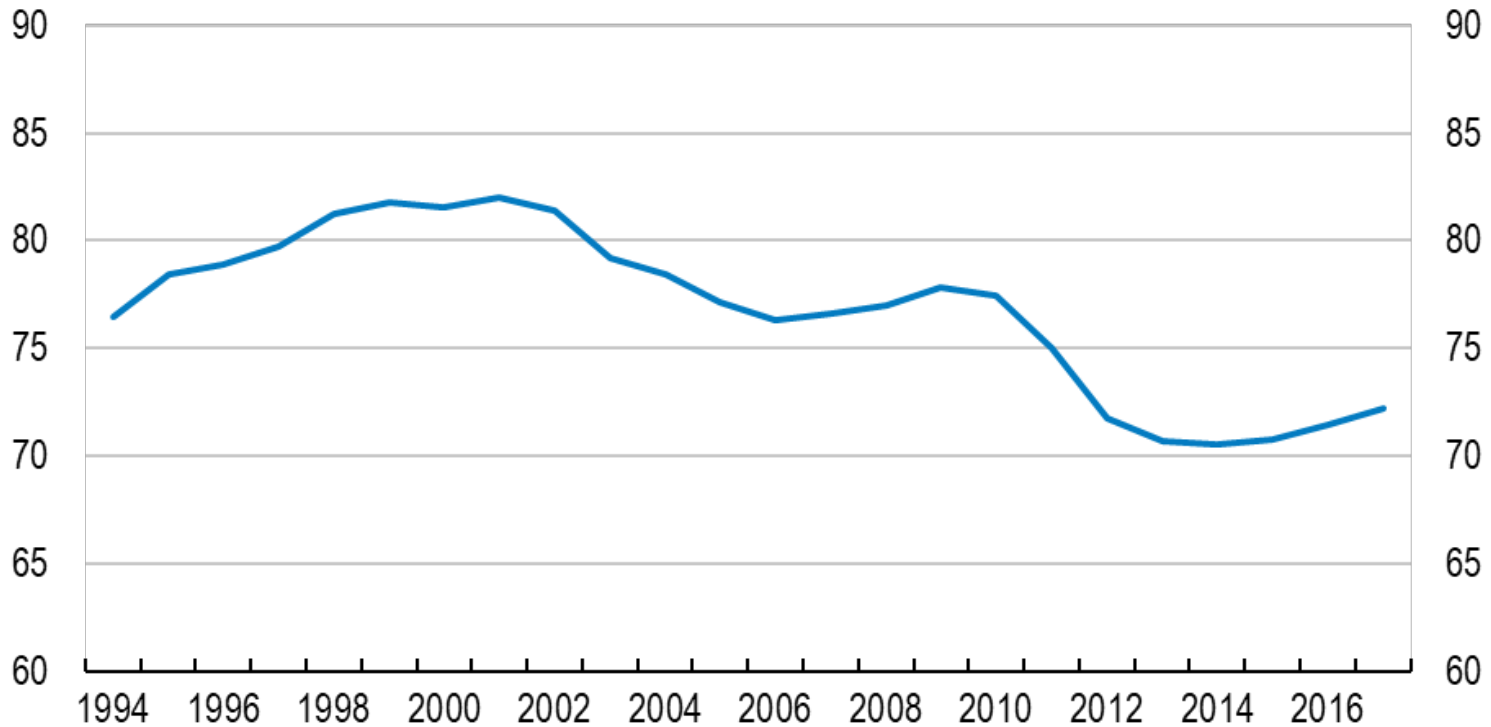
% change	2018	2019	2020
Gross domestic product (GDP)	2.1	2.1	1.9
Private consumption	2.2	1.8	2.0
Government consumption	0.7	-0.1	-0.1
Gross fixed capital formation	4.5	5.6	4.7
Exports of goods and services	6.0	4.5	3.7
Imports of goods and services	6.2	4.7	4.2
Unemployment rate	7.1	6.4	5.7
Consumer price index	1.3	1.3	1.4

Source: OECD



Convergence has been limited

GDP per capita, percentage of OECD average

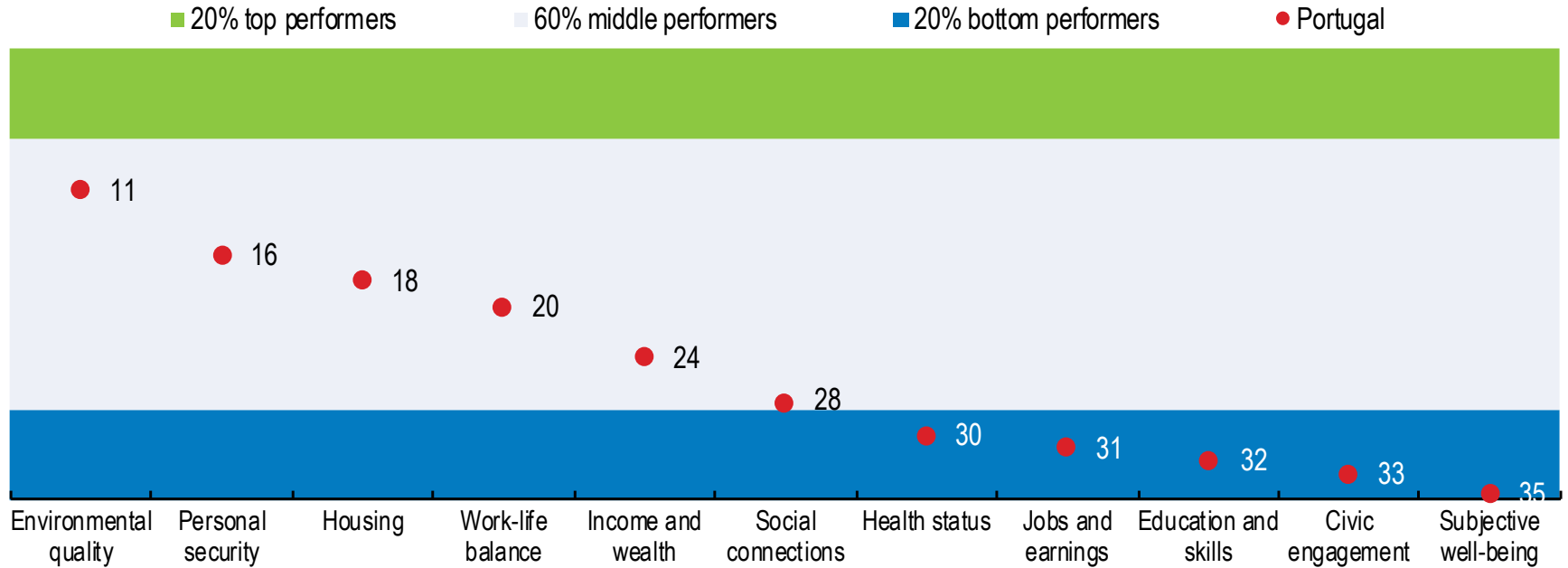


Source: OECD Compendium of Productivity Indicators



Wellbeing can be improved

OECD Better Life Index
Country rankings from 1 (best) to 35 (worst), 2017



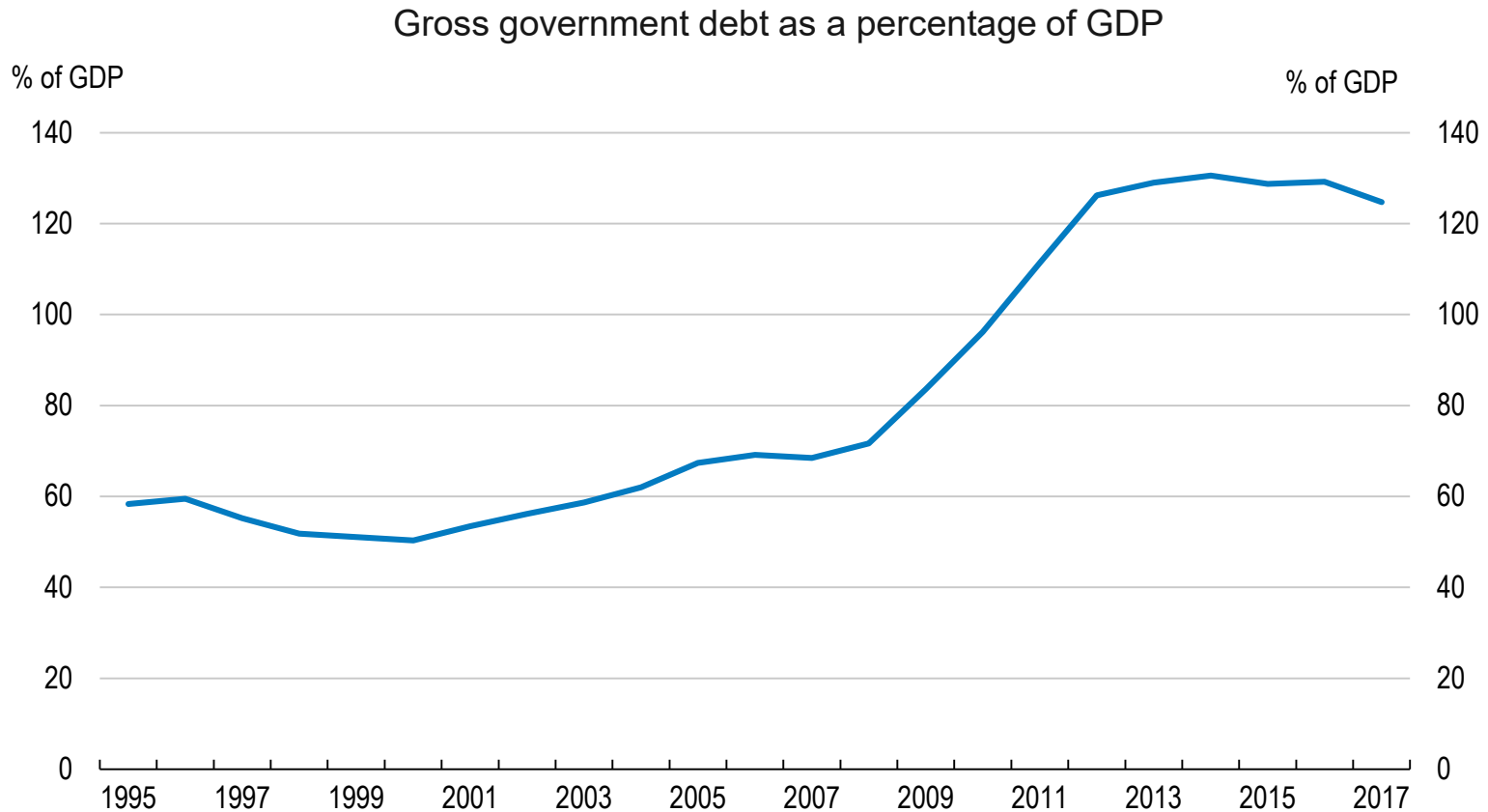
Source: OECD (2017), OECD Better Life Index



Encouraging fiscal sustainability and green growth



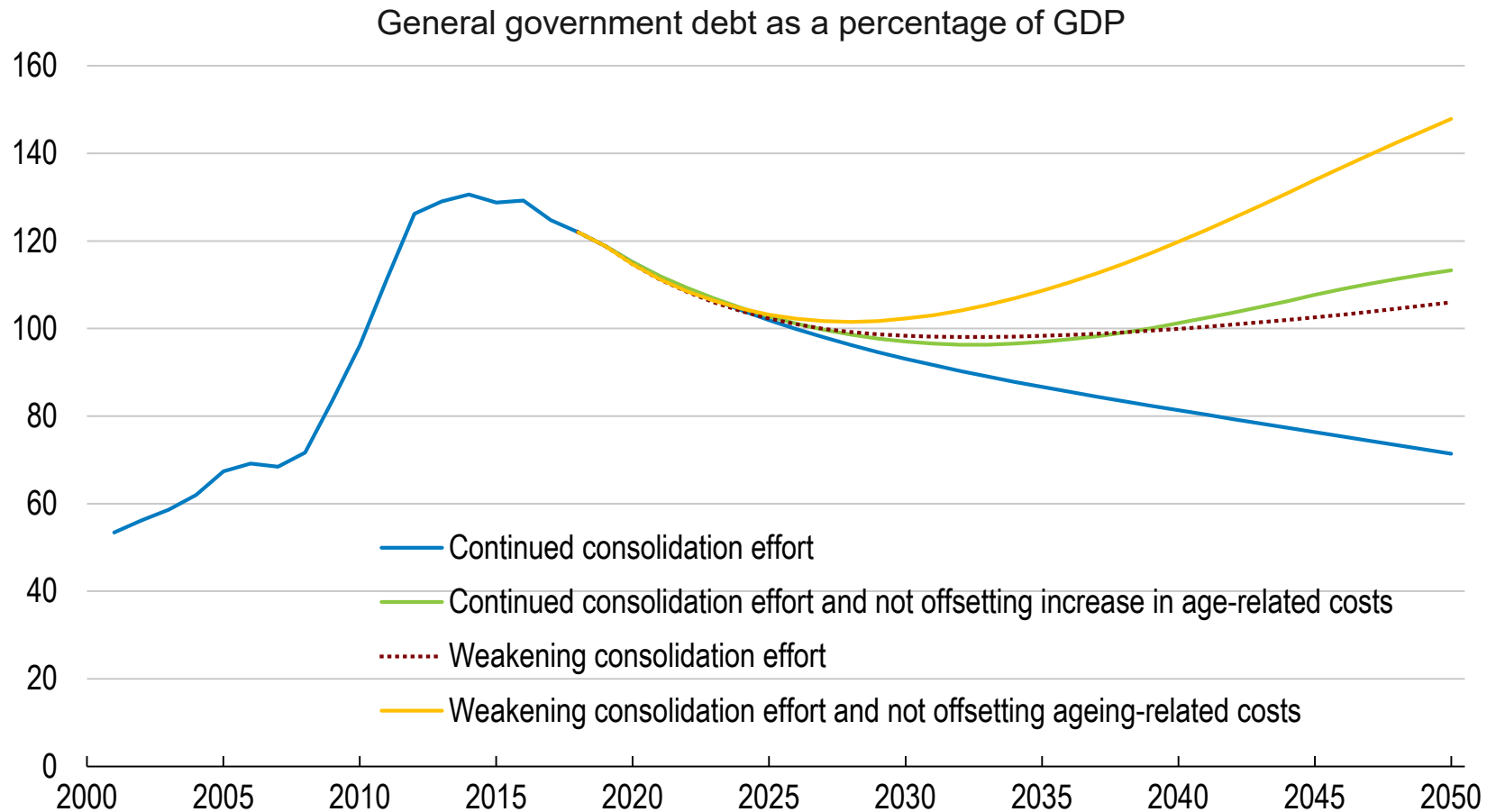
The public debt ratio is falling, but remains high



Source: OECD Economic Outlook: Statistics and Projections (database).



Ageing costs will impact public debt

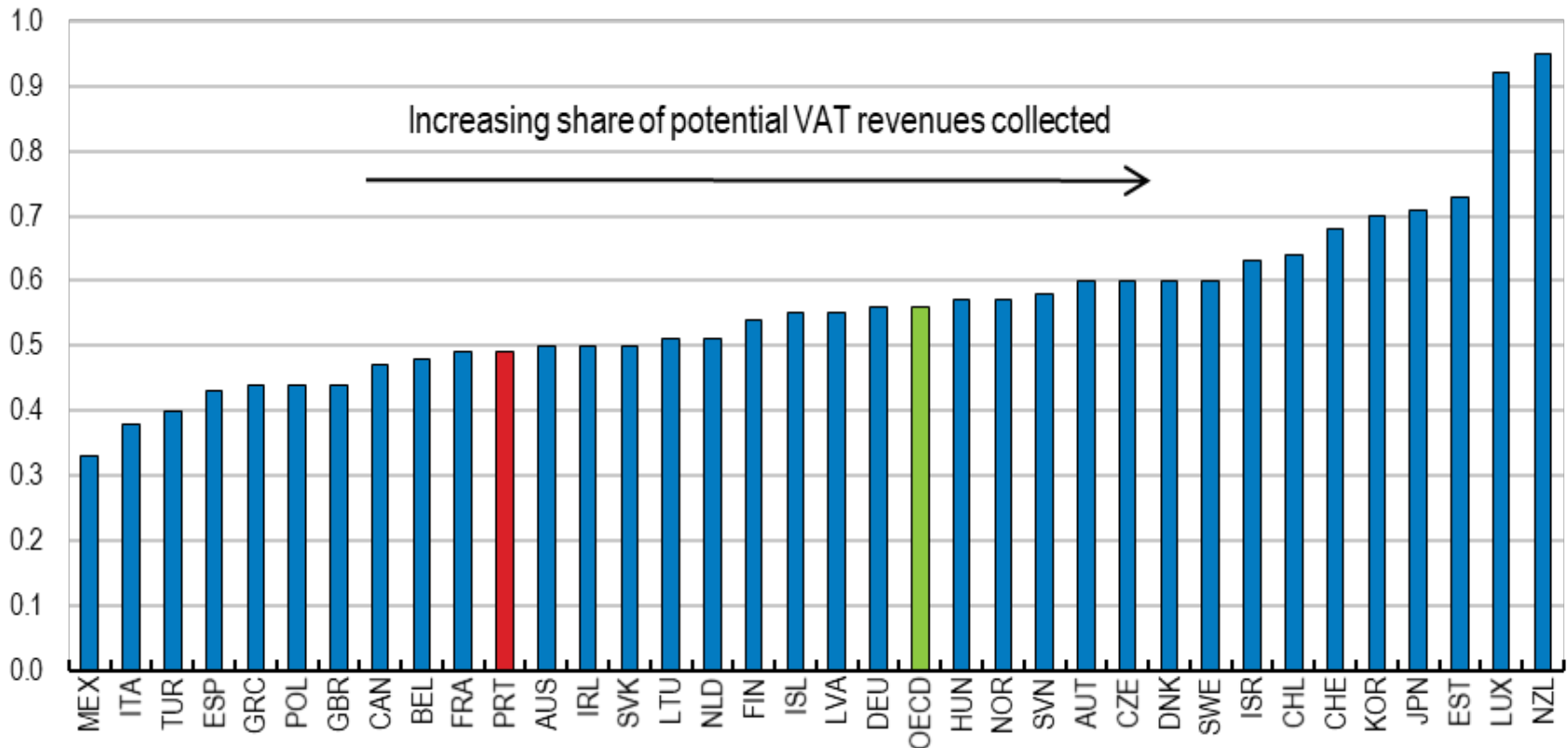


Source: OECD, European Commissions, calculations by the OECD Secretariat.



There are too many VAT exemptions and reduced rates

VAT Revenue Ratio



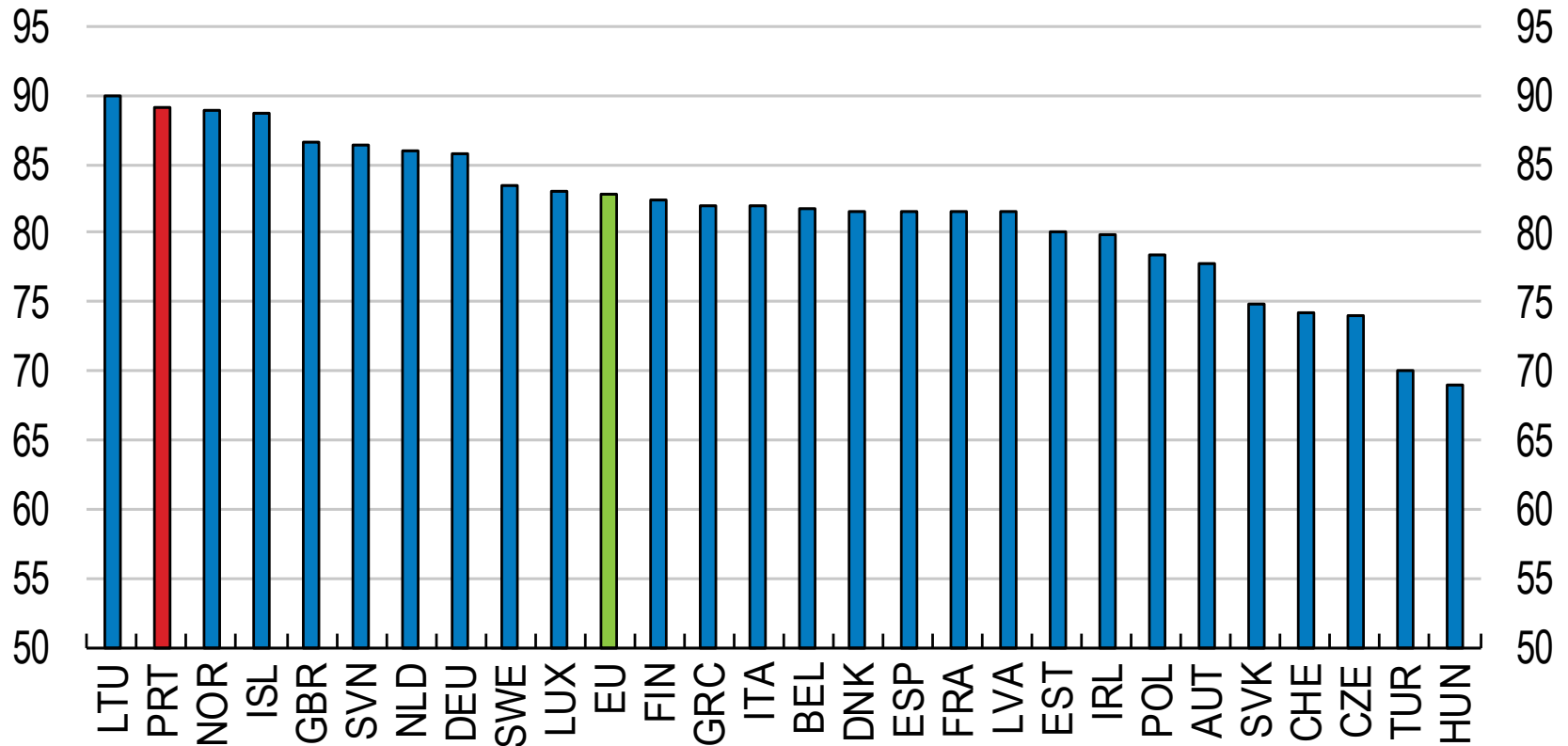
Note: The VAT Revenue Ratio is the ratio between the actual value-added tax revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption.

Source: OECD.



Public transport is used much less than in other EU countries

Percentage of individual car use in total passenger transport, 2016



Source: Eurostat.



Recommendations to improve fiscal sustainability and make growth greener

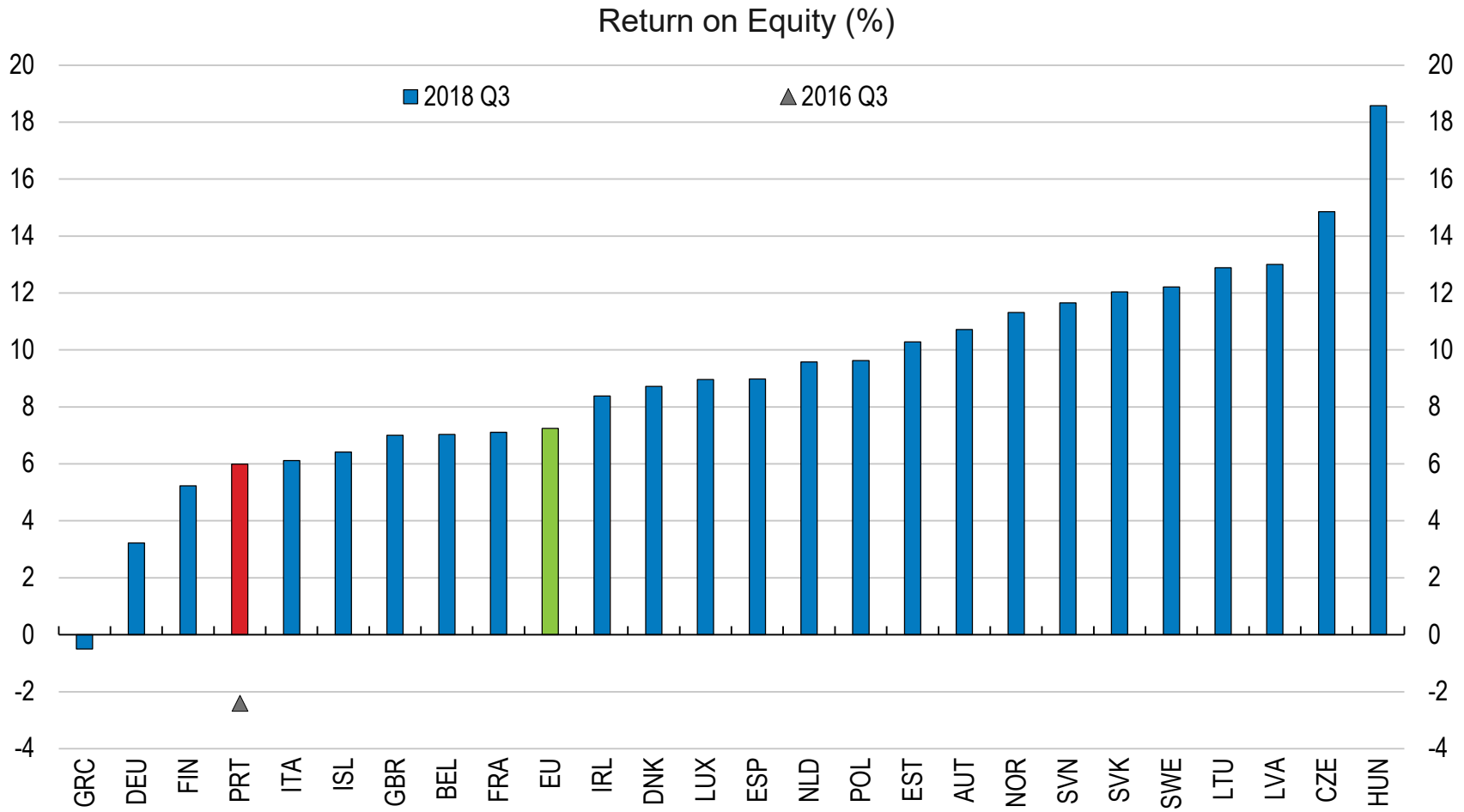
- **Continue gradual fiscal consolidation.**
- **Raise taxes on diesel fuel, and increase energy taxes on coal and natural gas.**
- **Encourage public transport use** and the development of new shared transport solutions.



Improving financial stability



Bank profitability has improved, but remains low

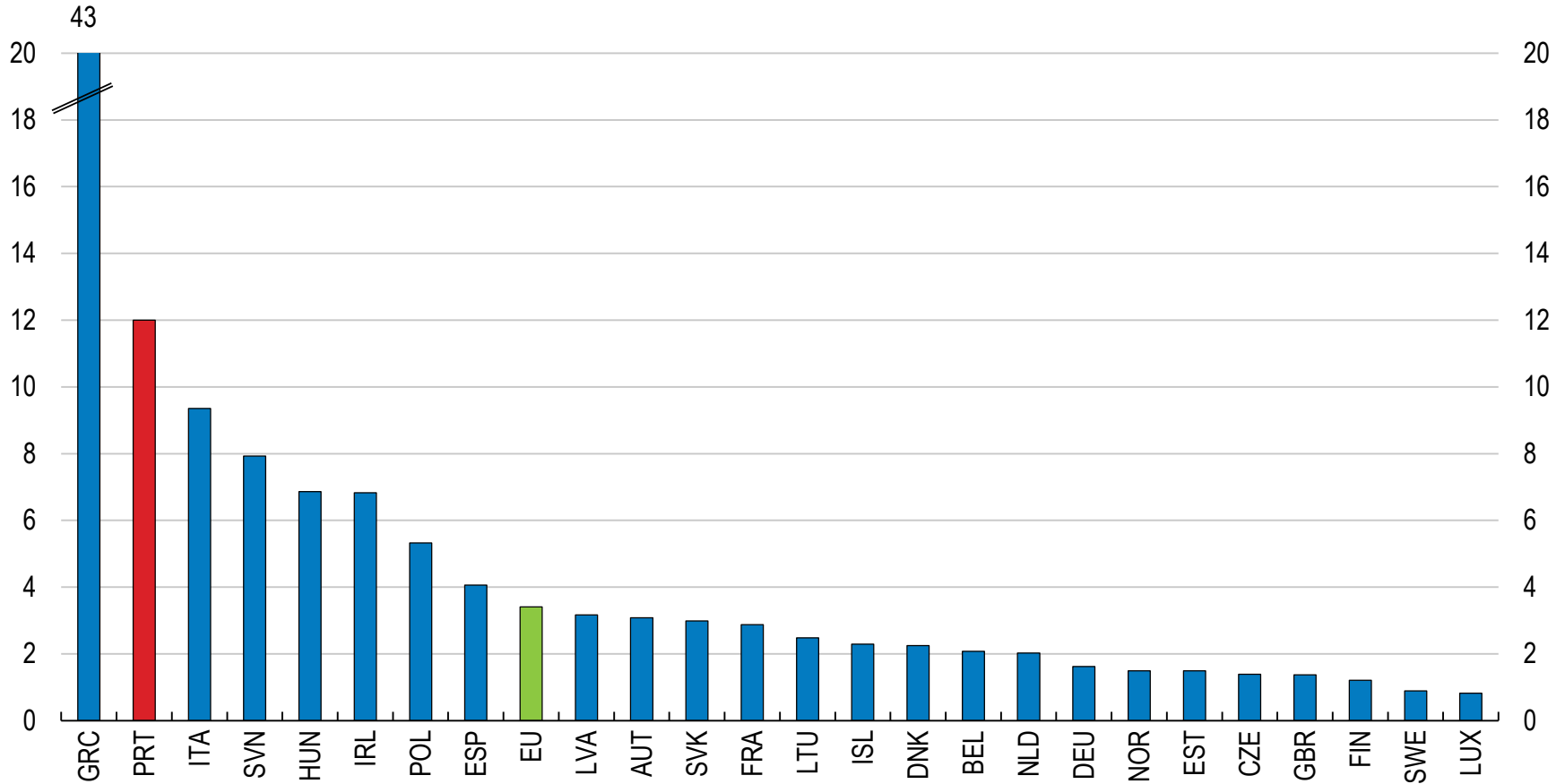


Source: European Banking Authority (EBA), "EBA Risk Dashboard"



Nonperforming loans remain elevated, despite improvements

Non-performing loans as a ratio of total outstanding loans, 2018 Q3

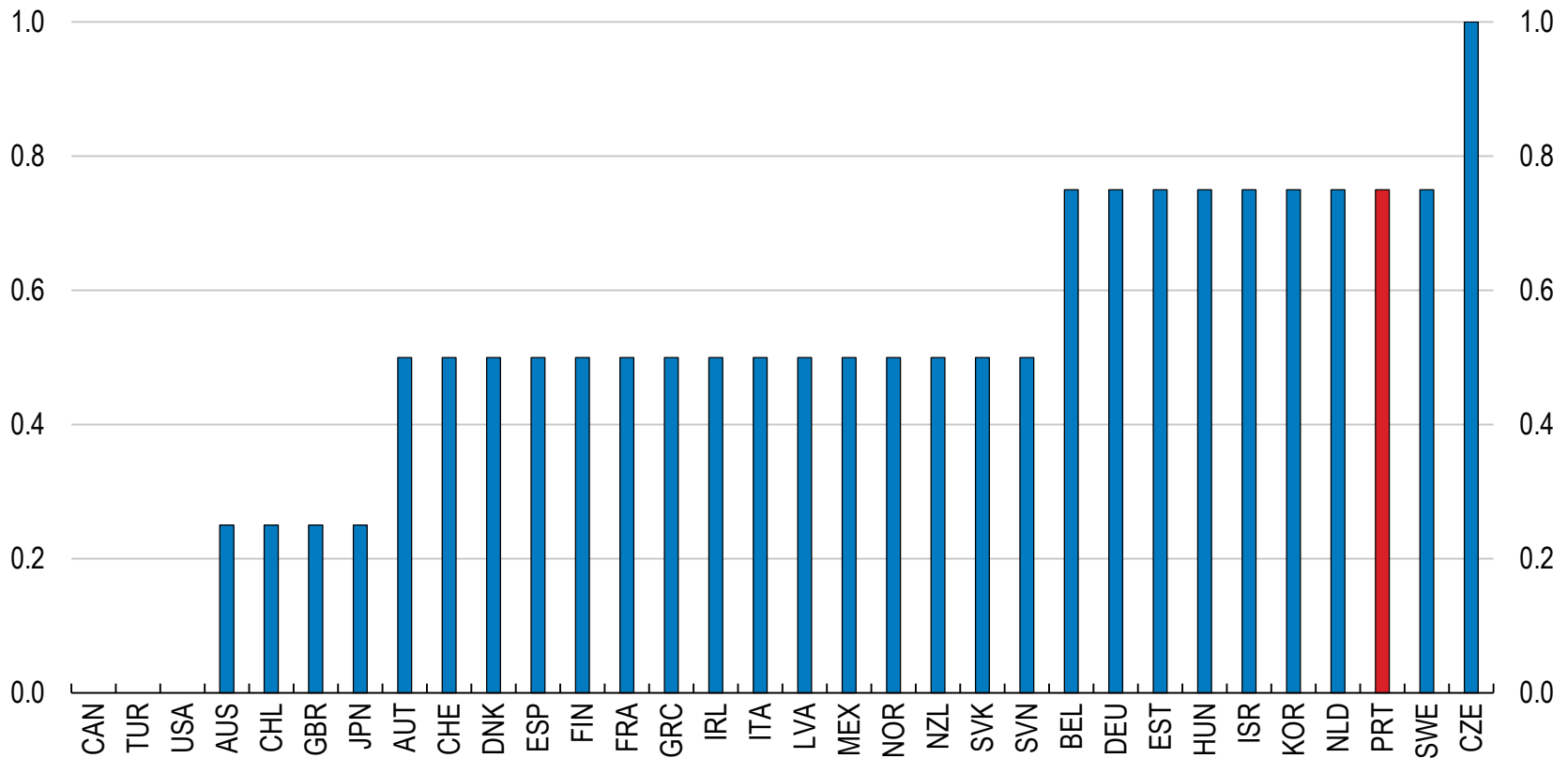


Source: European Banking Authority (EBA), "EBA Risk Dashboard".



Personal bankruptcy law is relatively stringent

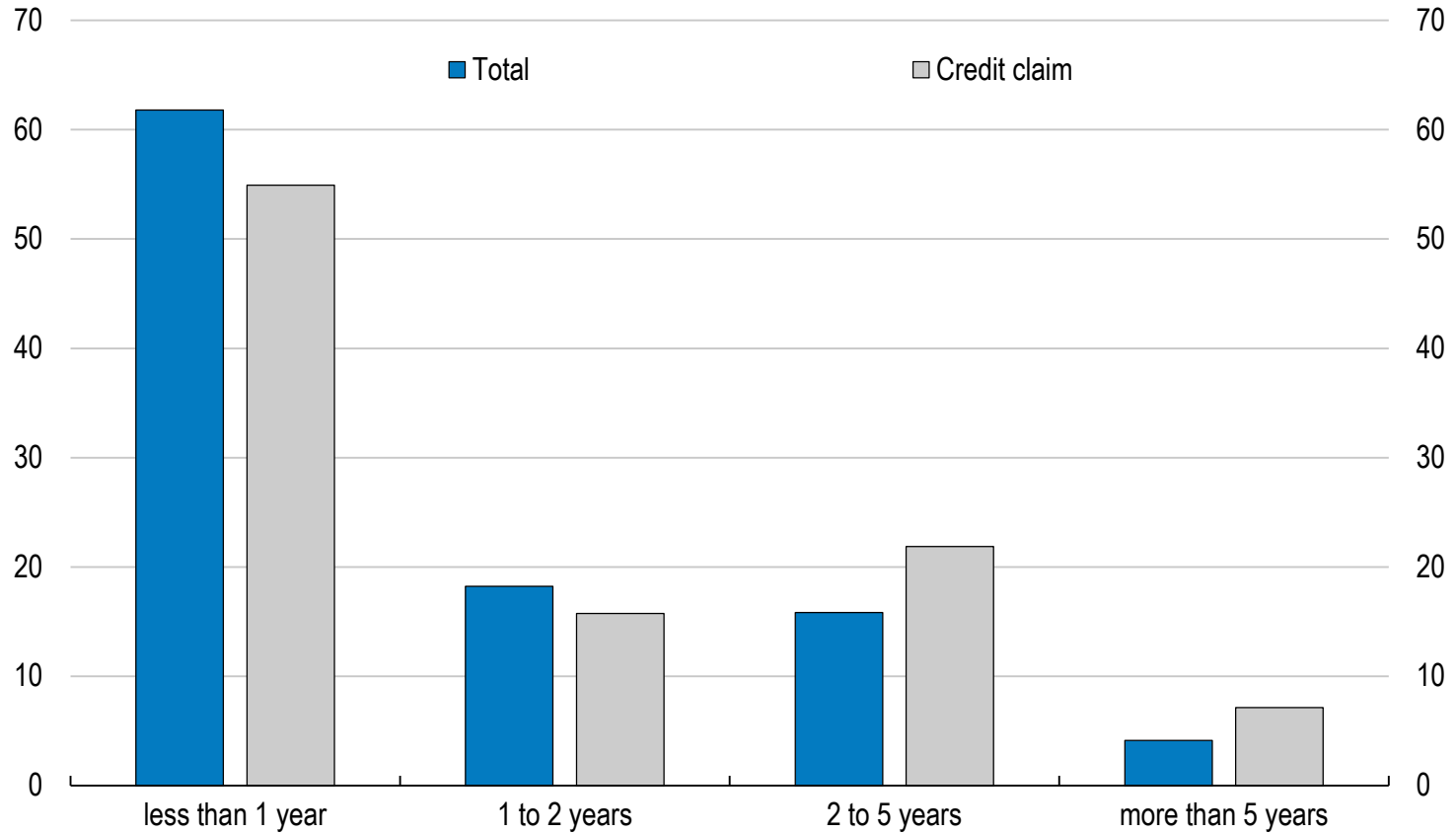
OECD insolvency indicator: Treatment of failed entrepreneurs, 2016



Source: Adapted from Adalet McGowan et al. (2017).



Court proceedings for credit claims can be long



Source: Ministry of Justice.



Recommendations to improve financial stability

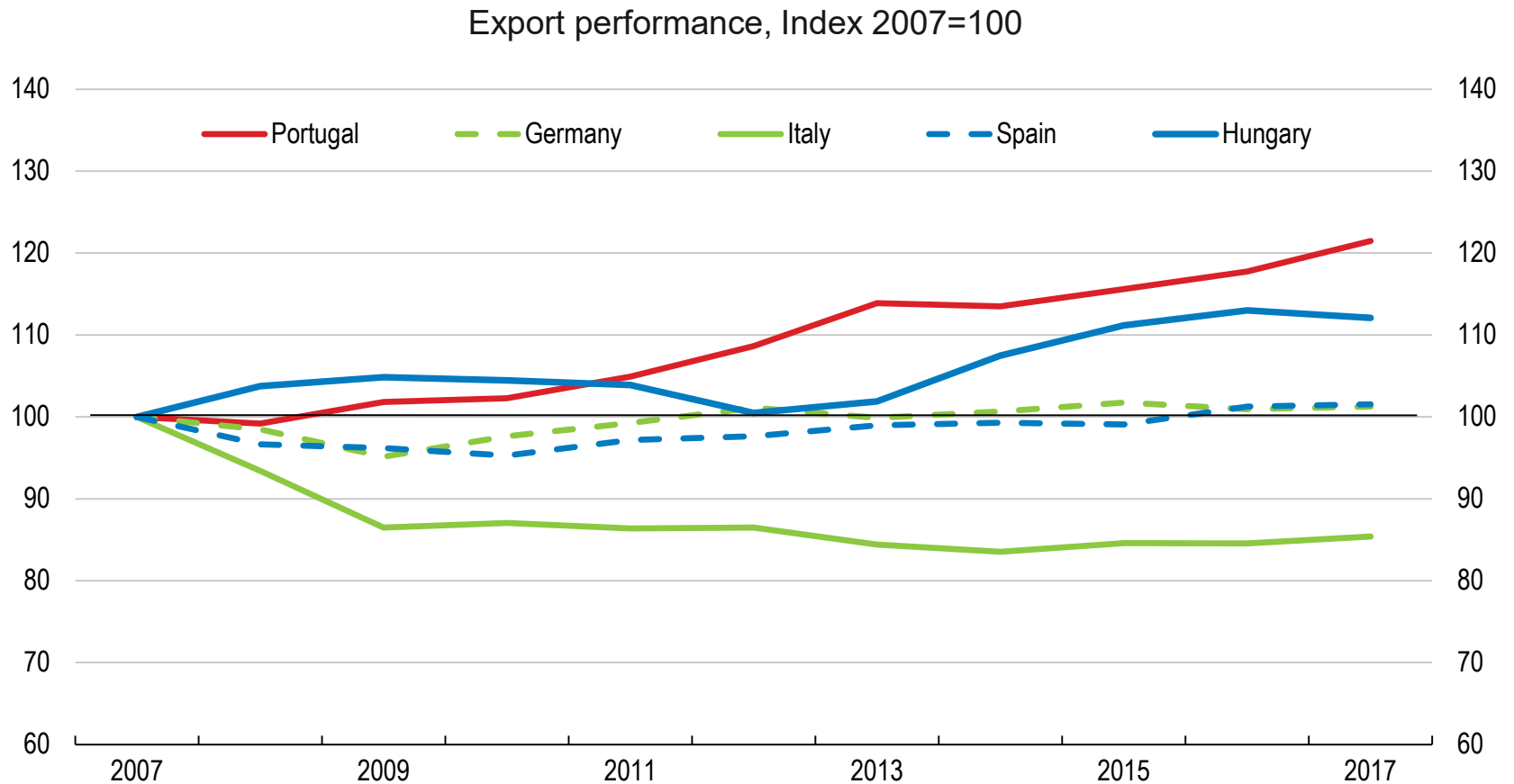
- **Continue to monitor NPL reduction plans**, translating performance in achieving targets into capital requirements.
- **Make bankruptcy a viable solution for heavily indebted individuals**, reducing the time to discharge and exempting more of the debtor's assets from bankruptcy proceedings.
- **Introduce an out-of-court mechanism** to facilitate the liquidation of non-viable firms.



Further raising export performance



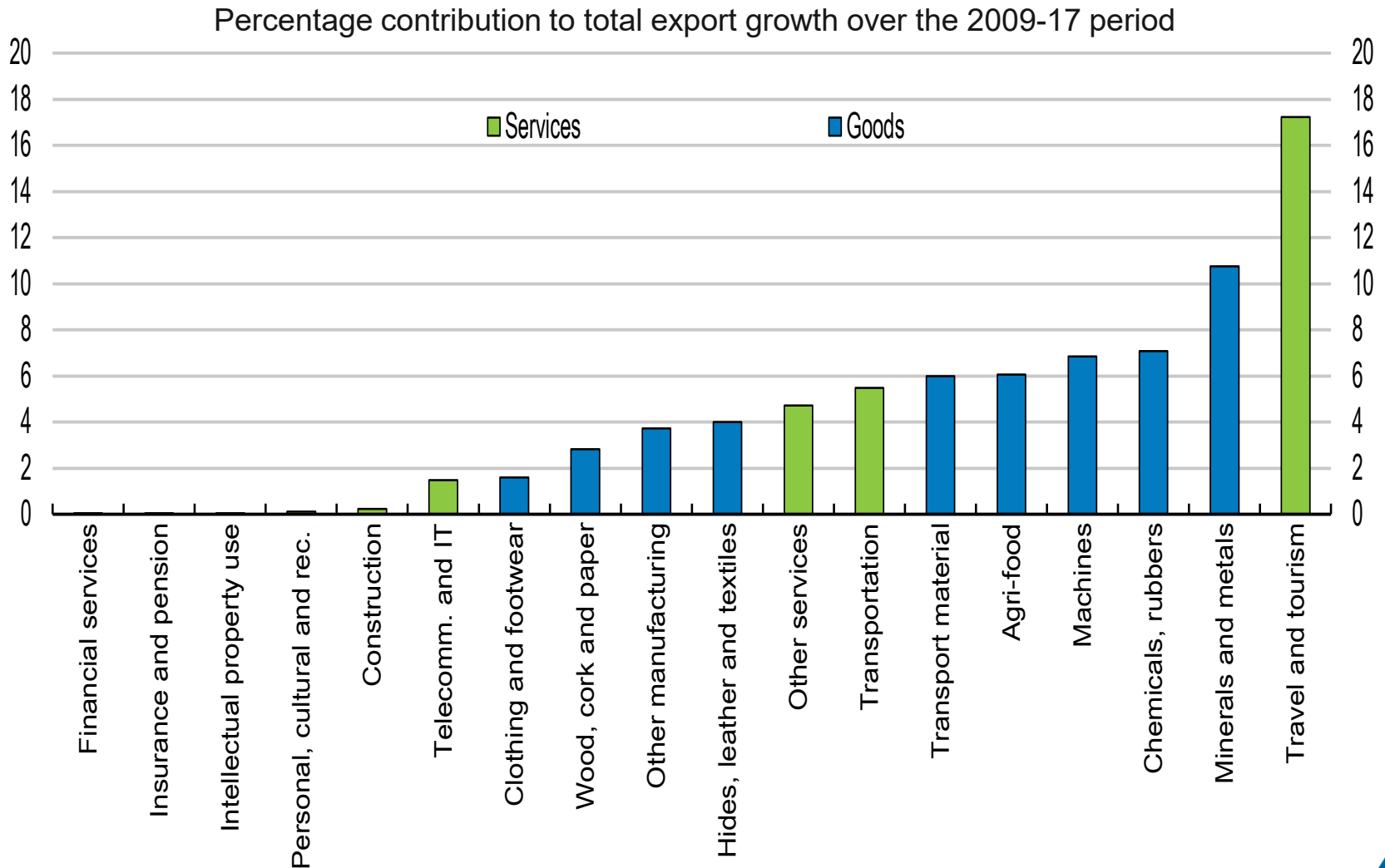
The improvement in export performance has been impressive



Source: OECD Economic Outlook: Statistics and Projections (database).



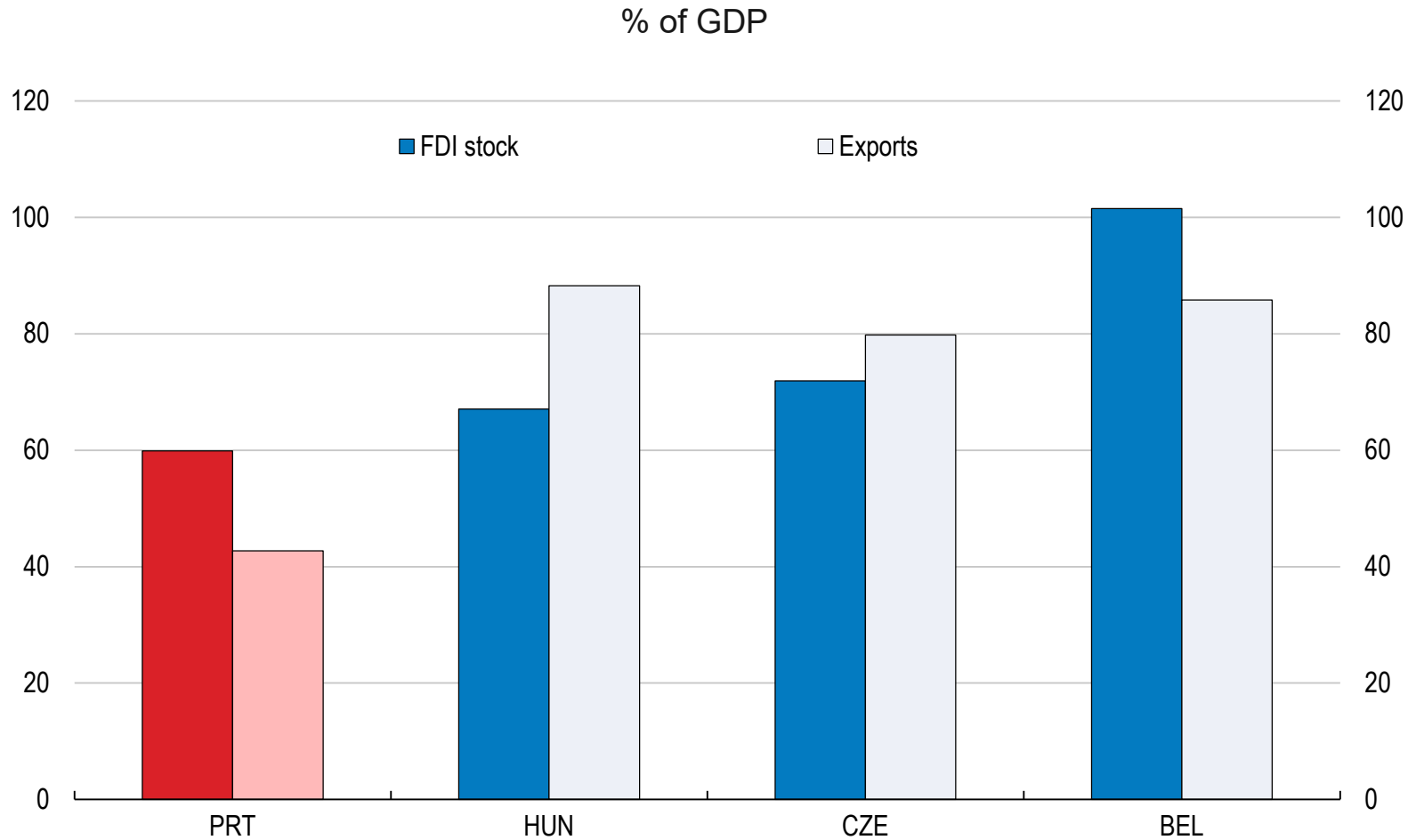
Tourism has been booming



Source: Bank of Portugal, calculations by the OECD Secretariat.



The economy can still be more outward oriented

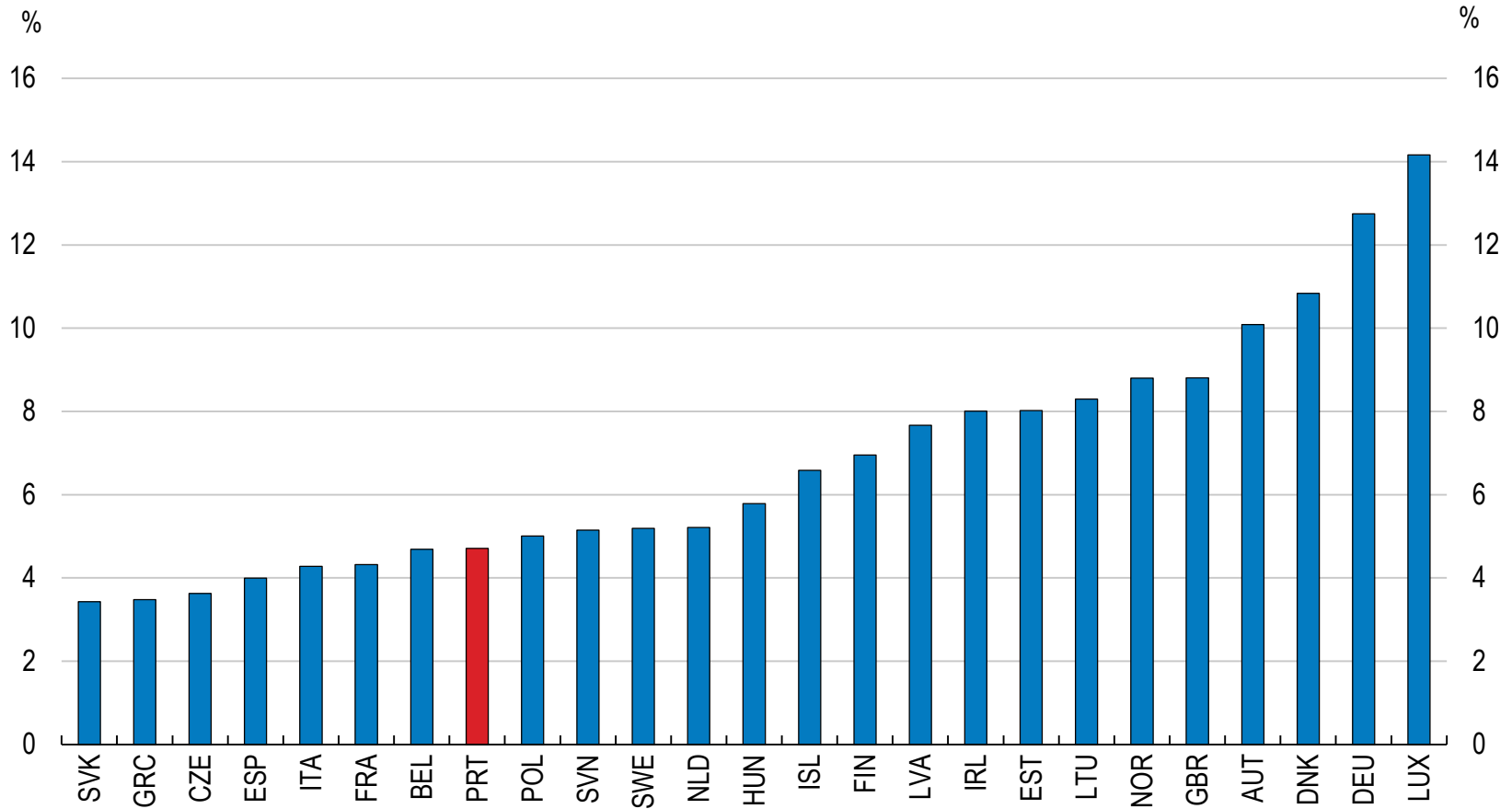


Source: OECD.



Most firms are too small to be significant exporters

Share of firms with more than 10 employees

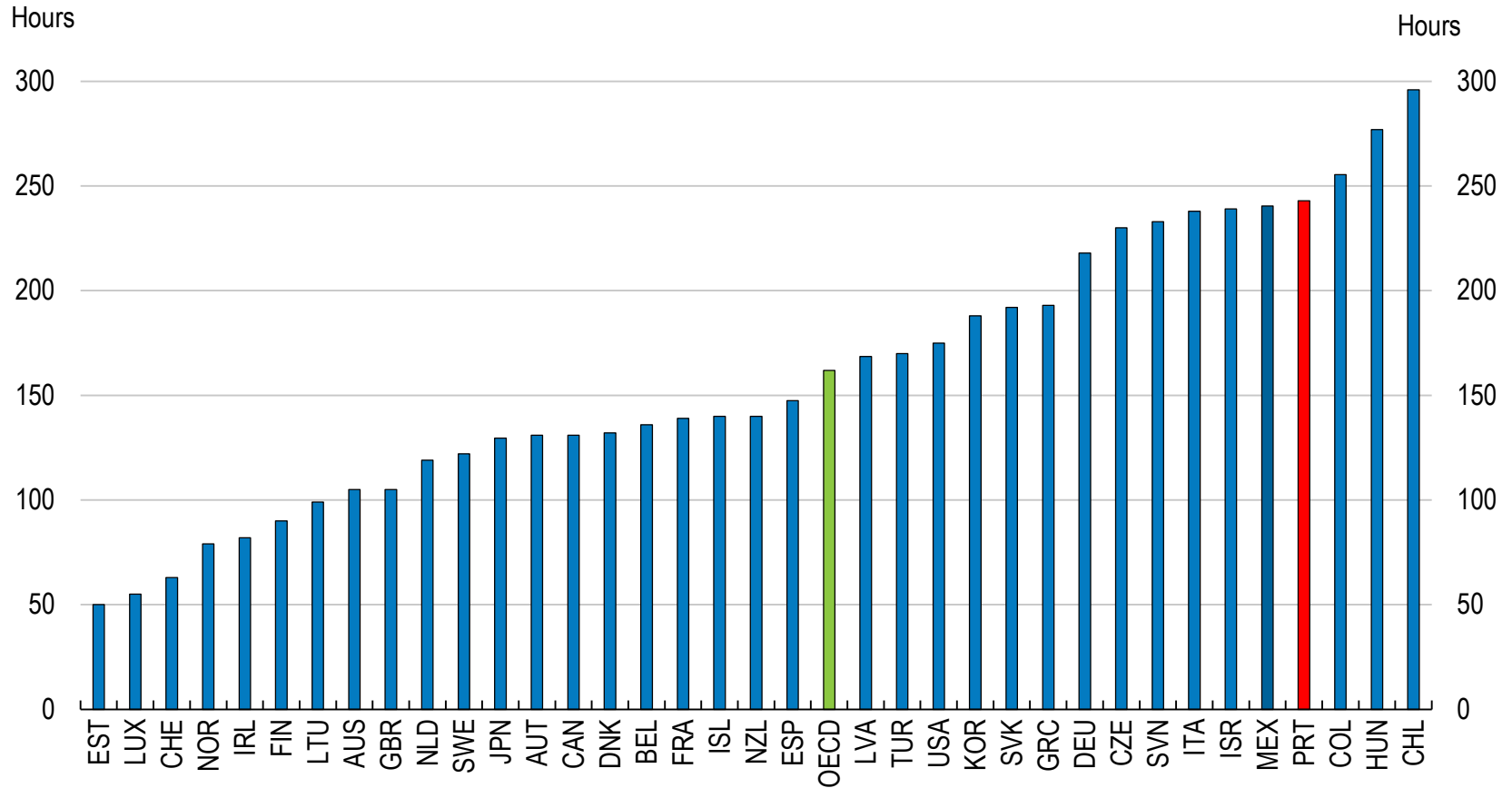


Source: Eurostat.



It takes too long to prepare and pay taxes

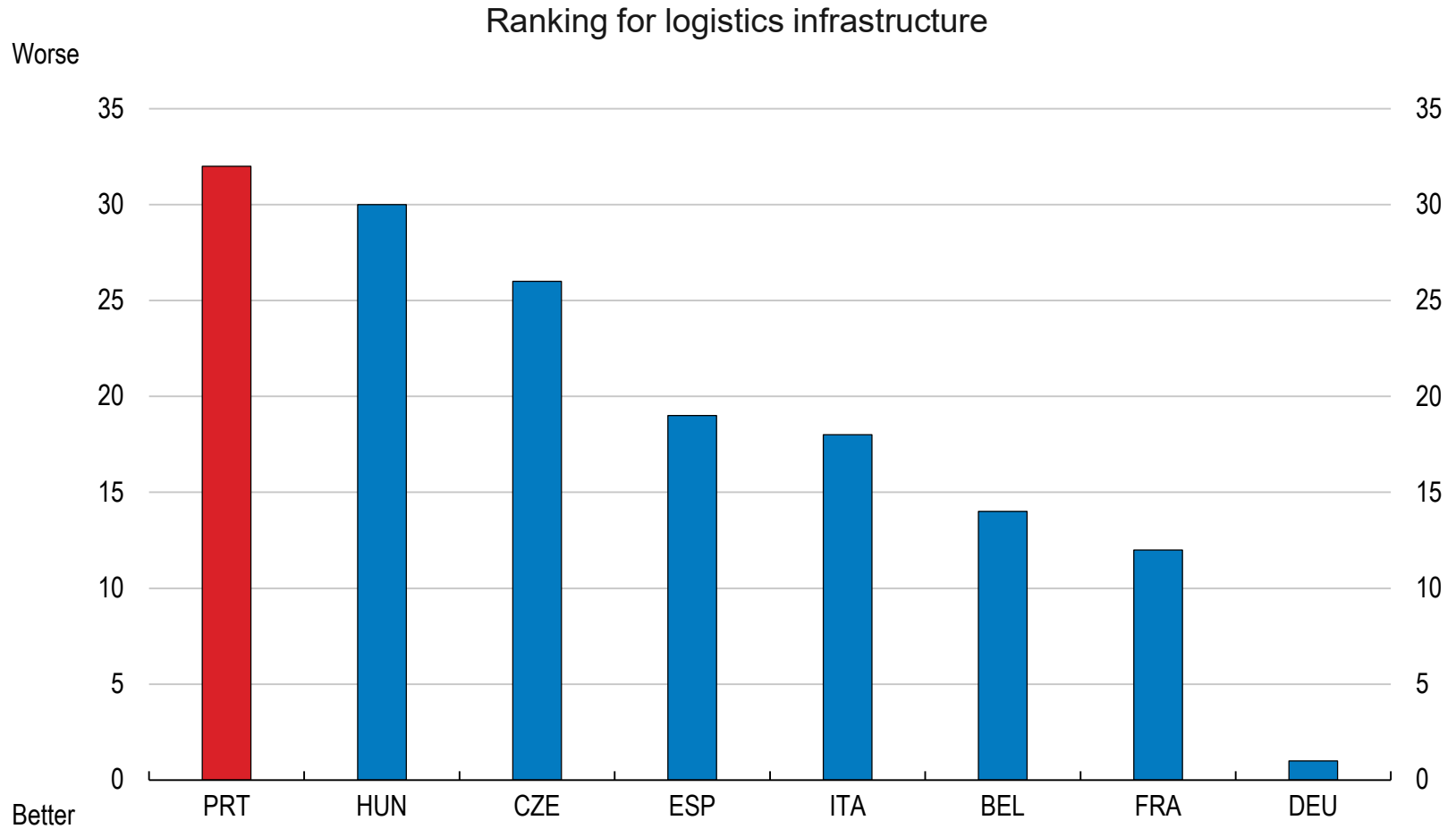
Time to prepare and pay taxes, 2018



Source: World Bank *Doing Business Indicators*.



Logistics infrastructure can be improved

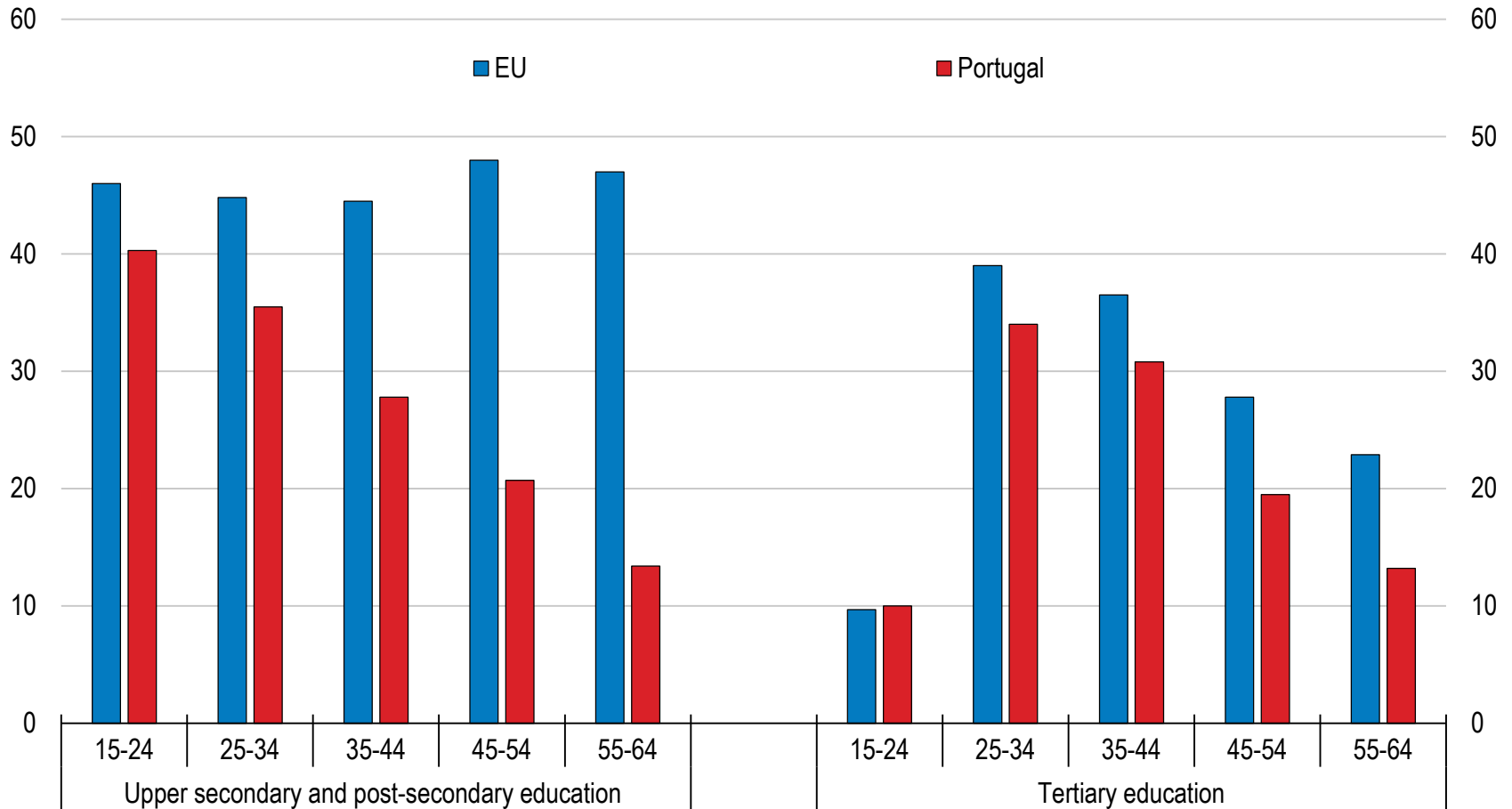


Source: World Bank *Doing Business Indicators*.



Improving workers skills is key for raising competitiveness

Percentage of individuals that have completed education



Source: Eurostat.



Recommendations for further promoting export performance

- **Simplify the tax system** by reducing the use of special provisions and ambiguity in tax language.
- **Ensure that port concession contracts specify a minimum level of investment** by the operator and do not renew concessions without opening a new public tender.
- In awarding port concessions, **take into account the price that bidders will charge port users.**
- **Target lifelong learning opportunities to the low-skilled**, including by collecting information on the private returns to skills and making it publicly available.

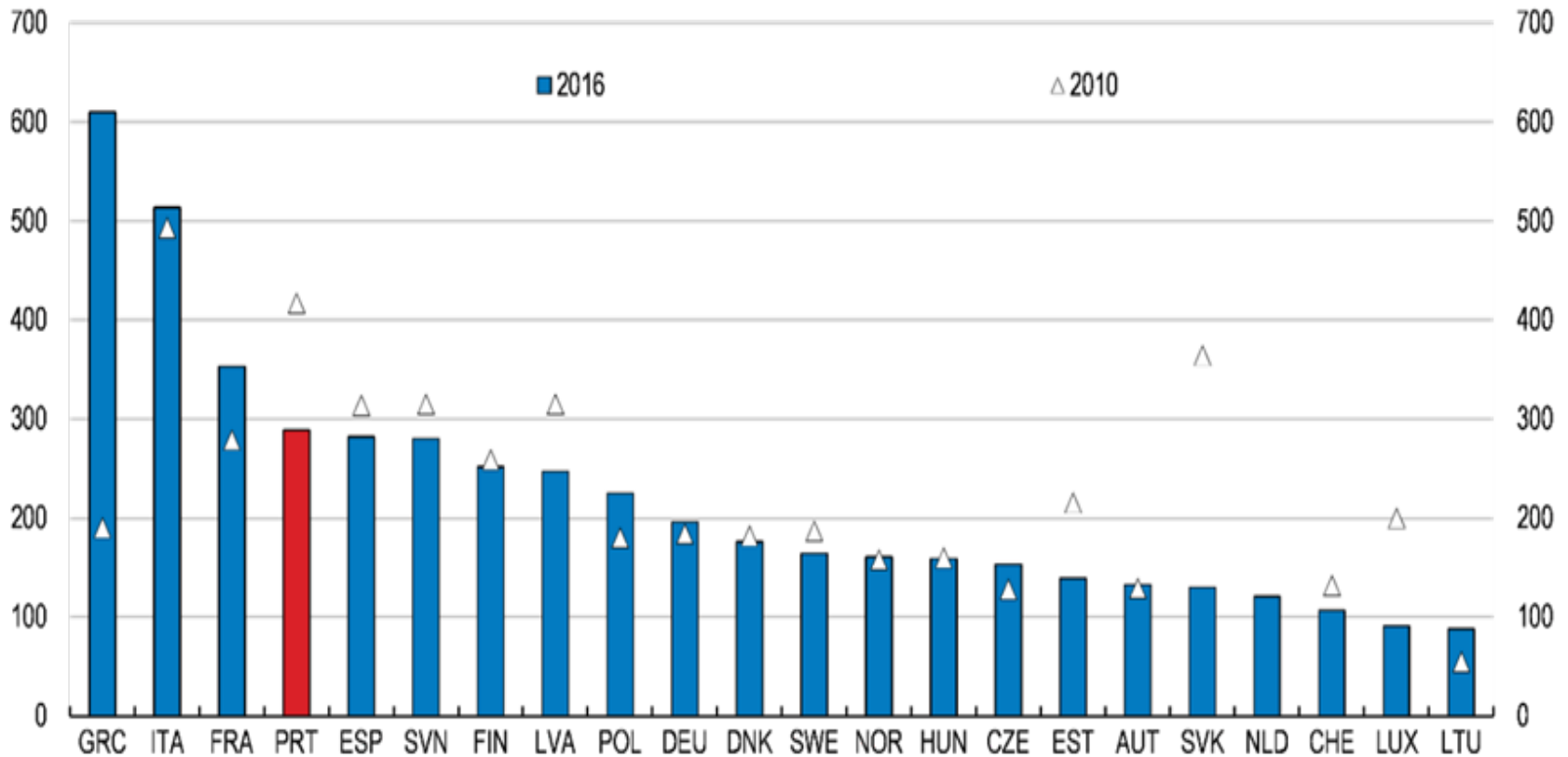


Enhancing judicial efficiency to foster economic activity



Court proceedings are shorter than before, but still long

Average time needed to resolve civil and commercial cases, first instance courts, in days

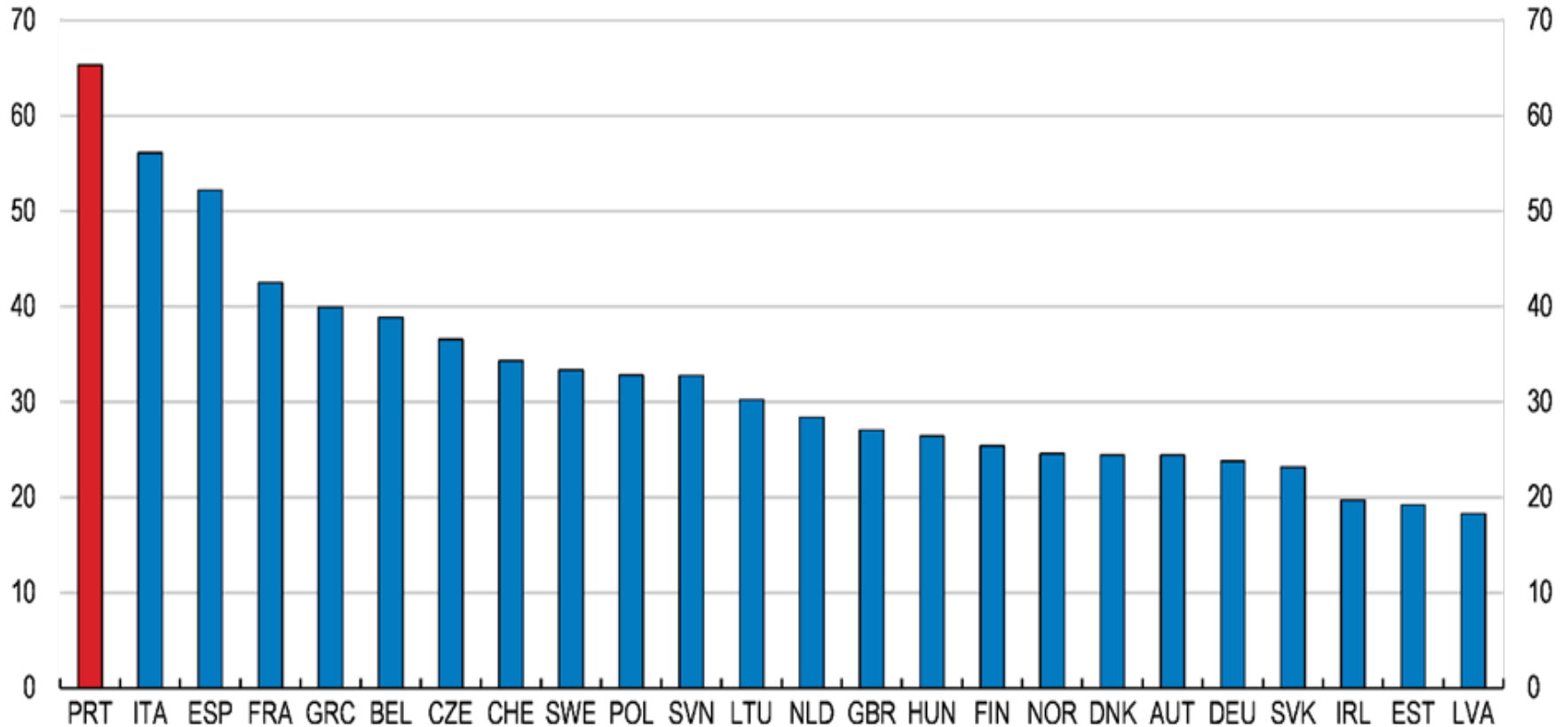


Source: Council of Europe European Commission for the efficiency of justice (CEPEJ)



The average time to pay is long in Portugal, partly reflecting weak contract enforcement

The average time actually taken to pay, Business to business, in days.

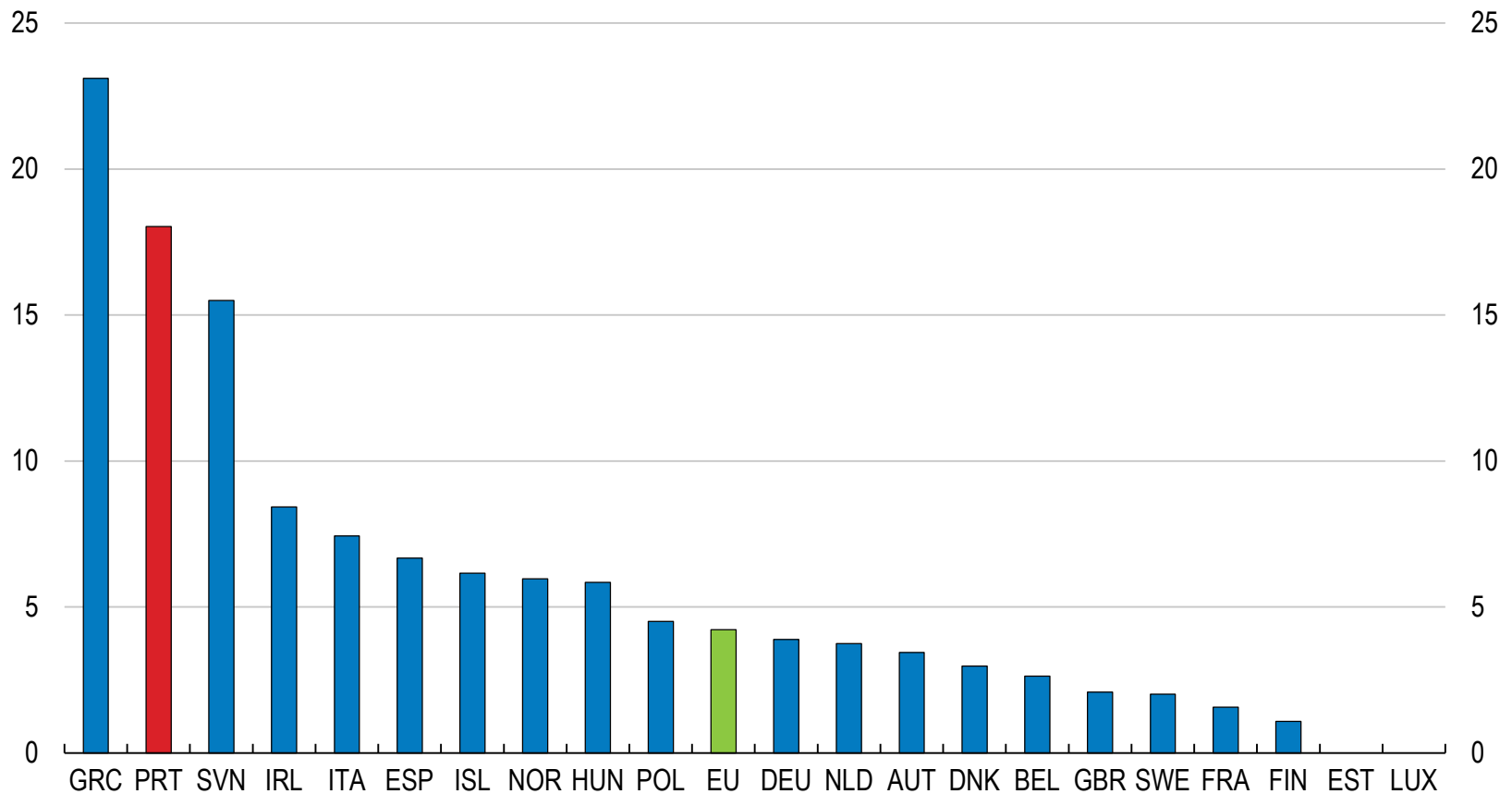


Source: Intrum (2018), "European Payment Reports 2018".



Loan forbearance is common, while collateral enforcement is difficult

The forbearance loans ratio as a percentage of total outstanding loans in the corporate sector, Q2 2018

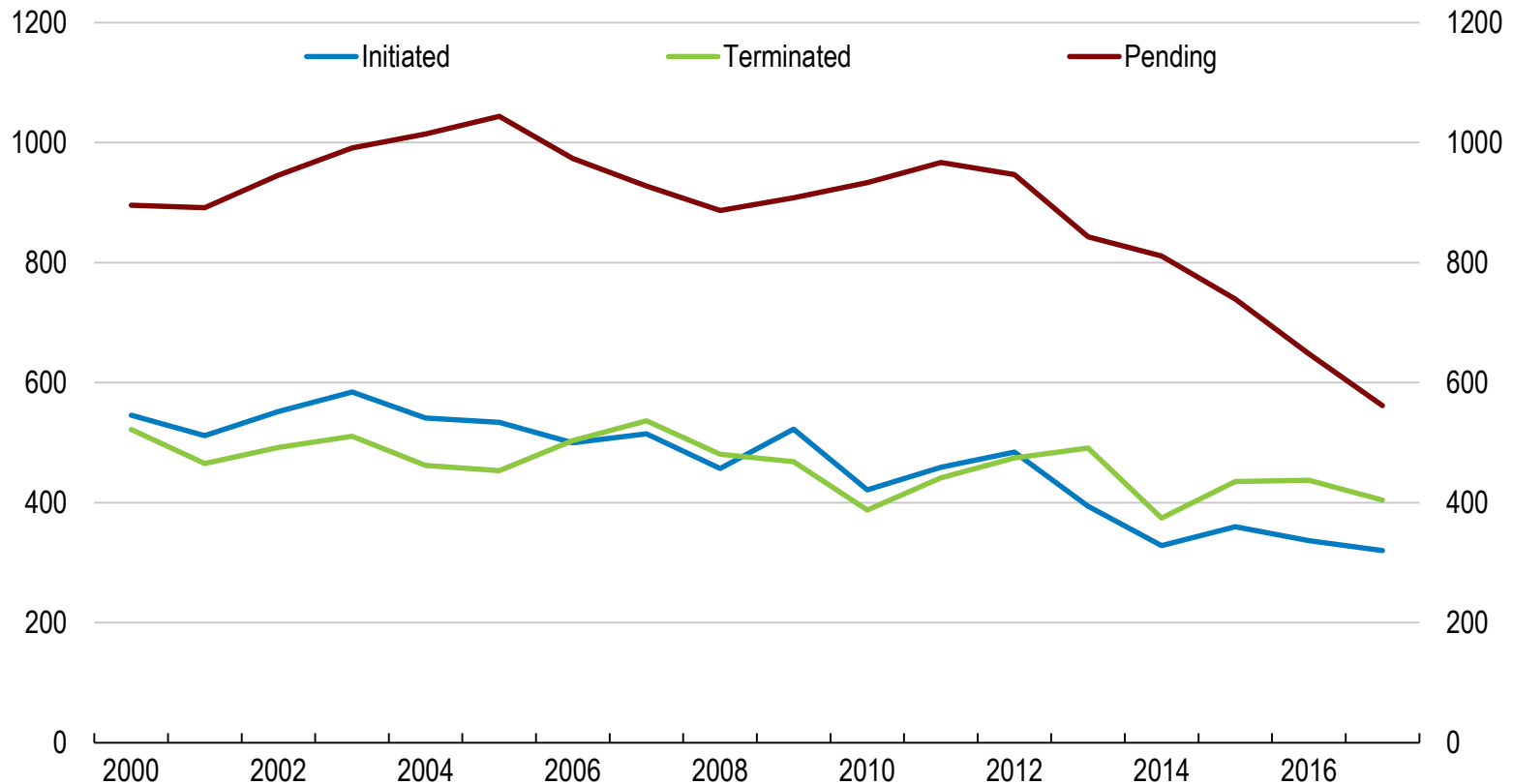


Source: EBA, "Risk Assessment Report" December 2018.



Recent reforms reduced pending proceedings, but court congestion remains significant

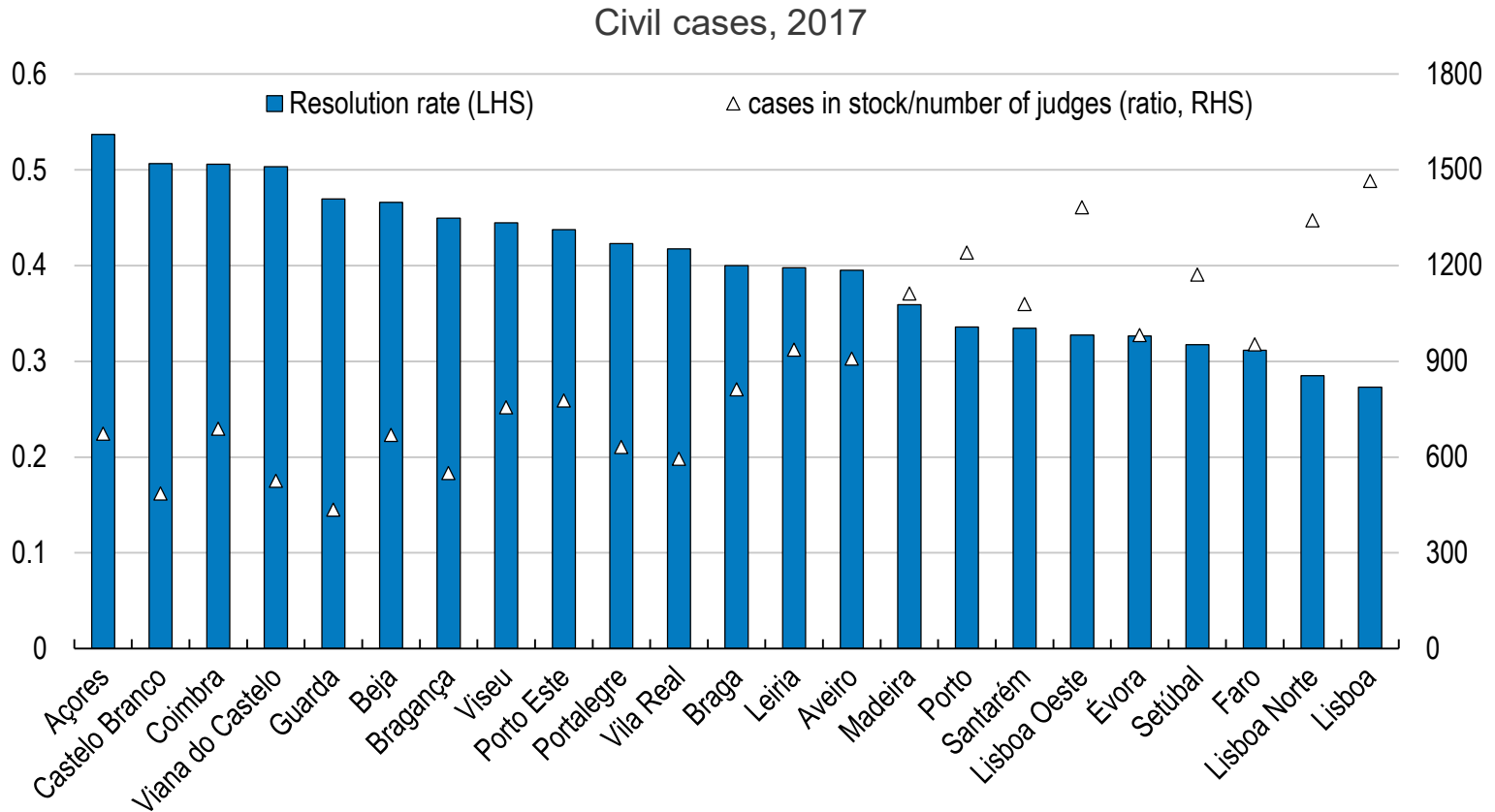
Number of initiated, terminated and pending proceedings per judge



Source: Pordata.



Significant bottlenecks remain in some courts



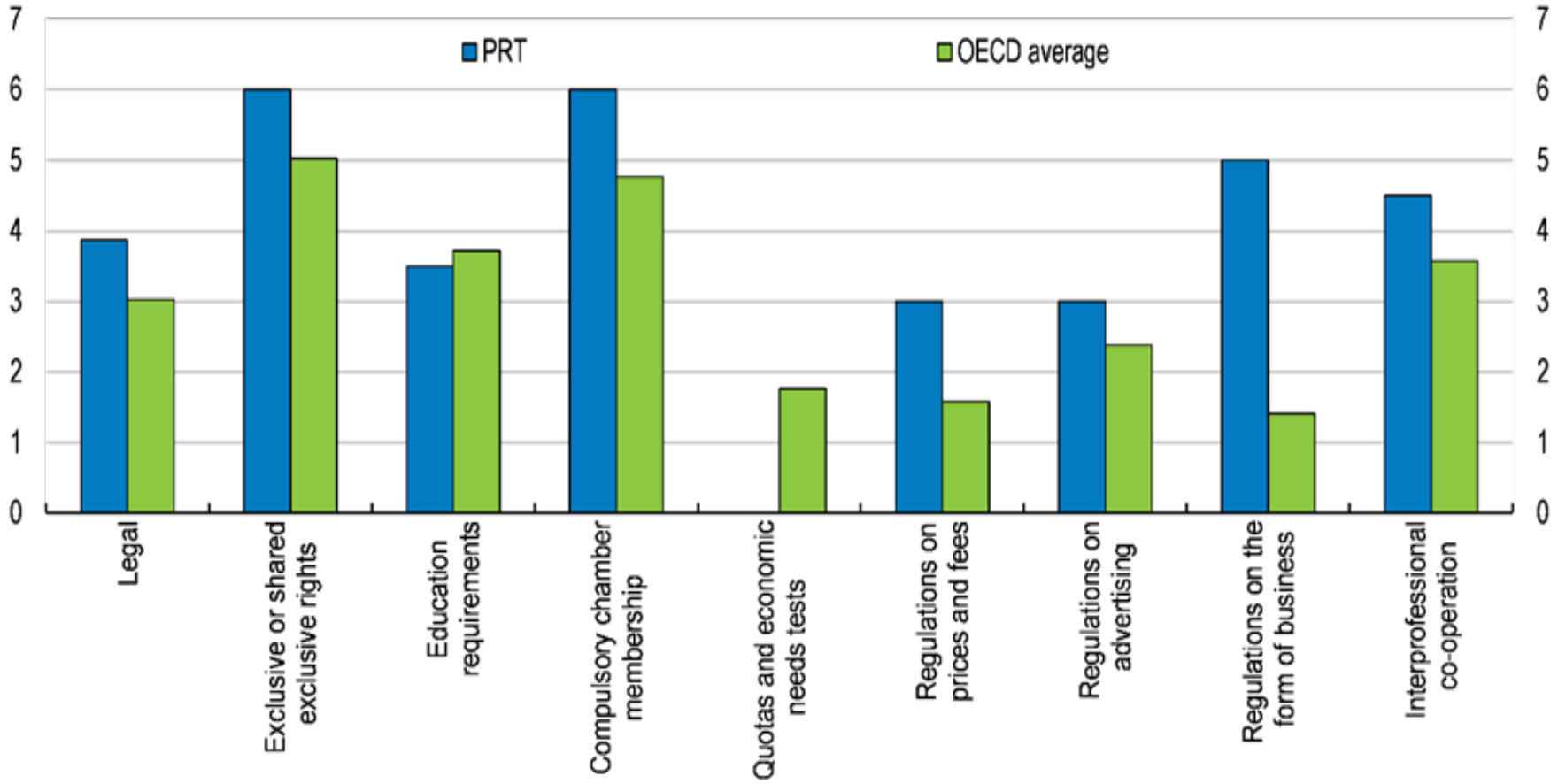
How to read this chart: Court efficiency (measured by “Resolution rate” which is the number of resolved cases divided by the cases in stock) tends to be low where court resources are relatively scarce.

Source: Ministry of Justice and High Council for the Judiciary.



Regulation in the legal professions is too strict

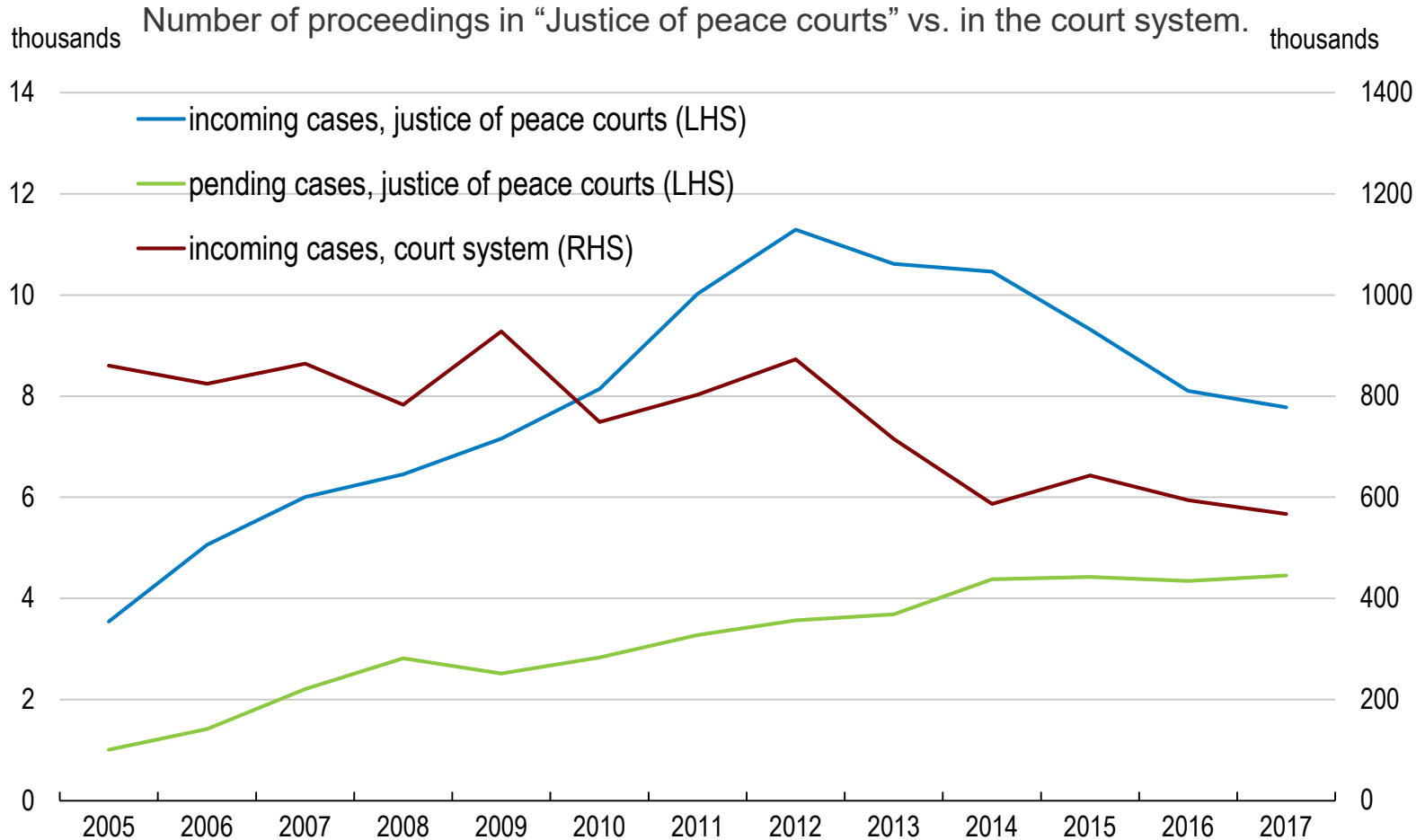
OECD Indicators of regulation in the legal services sector



Source: OECD Product Market Regulations Statistics (database).



Alternative dispute resolution mechanisms can be developed further



Source: INE.



Recommendations for enhancing the judiciary to foster economic activity

- **Increase the managerial autonomy of the courts** so that they can effectively allocate resources.
- **Fully analyse the data collected from the information system on court proceedings (CITIUS)** so that it allows the courts to identify problematic cases and those that should be prioritised.
- **Set up an independent supervisory body** to ensure that regulations in the legal profession are in the public interest.
- Continue to **enhance the capacity of the Public Prosecution Office** to address economic and financial crime. Public prosecutors should continue to undertake specialised training in this area.
- **Establish an electronic registry of interests for all government members and senior civil servants** that is regularly updated.

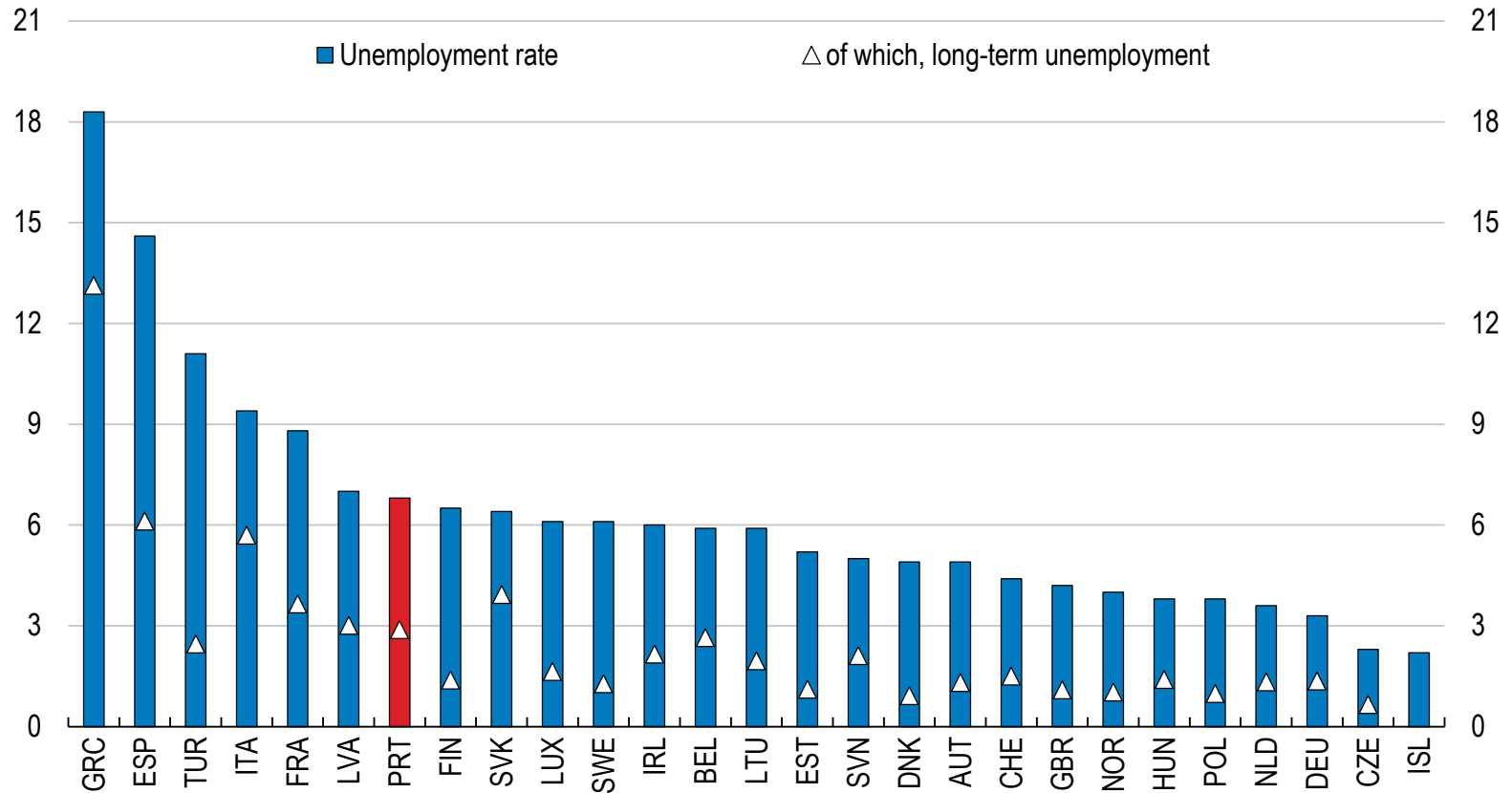


Improving labour utilisation and further reducing poverty



The incidence of long-term unemployment is still quite high

As a percentage of total labour force, 2018 Q3

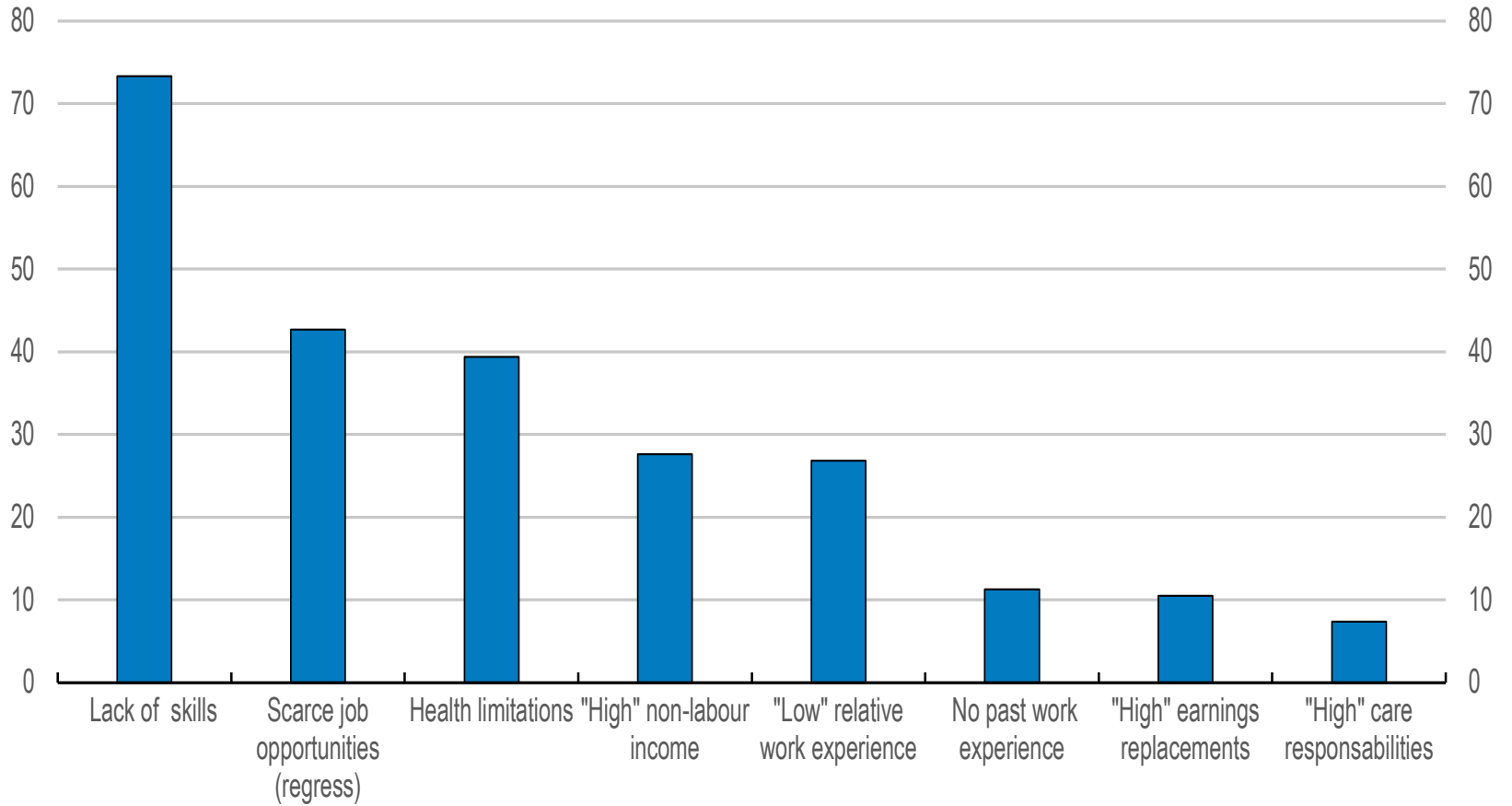


Source: Eurostat Labour Force Survey database.



Low-skilled people face significant employment barriers

Percentage of those unemployed or with weak labour market attachment facing each employment barrier



Source: OECD (2018), "Faces of joblessness in Portugal".



Recommendations for improving labour utilisation and reducing poverty

- **Avoid across-the-board rises in hiring subsidies**, limiting them to those at high risk of long-term unemployment and those at risk of poverty.
- **Expand well-designed vocational training programmes** (i.e. “Aprendizagem” and “Cursos de Educação e Formação de Adultos”), so that they reach more of the low-skilled population.
- **Consolidate the two vocational education systems** into a single dual VET system with strong workplace training and perform a thorough evaluation of all vocational training.



For more information

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