What's the issue?

Recent structural reforms have improved Portugal’s competitiveness and long-term growth prospects. There have been important and high-profile regulatory reforms, including improvements in the electricity, gas and retail sectors. However, this generally positive message conceals significant variations between sectors and also obscures the very substantial opportunities that further reforms can bring. In particular, while markets for tradable goods are generally rather competitive, non-tradable sectors such as transport or professional services continue to be restricted and inefficient. This is reflected in comparatively high prices that Portuguese firms and households pay for these services.

Why is this important for Portugal?

OECD research suggests that the product market reforms undertaken since 2009 – including improvements in the electricity, gas and retail trade sectors – will raise the level of GDP by 3% by the year 2020. But much more remains to be done. A reform scenario in which Portugal would reduce regulatory barriers to competition by 20%, about the same magnitude of changes observed over the past ten years in OECD countries that implemented product market reforms, would raise GDP by an additional 2% by 2020. If Portugal were to align its product market regulation to best practice among all OECD countries, the level of productivity and GDP would be 5½ per cent higher by 2020 than under a no-reform scenario. This represents an annual gain in nominal GDP of EUR 1.3 billion, measured in 2014 euros.

Reform is particularly pertinent in services sectors, not only because they account for a sizable share of total value added and employment, but also because they provide key inputs to tradable good production. Cost effective, state of the art services are therefore of utmost importance for the competitiveness of the Portuguese economy as a whole. Estimates suggest that 16 percent of the costs in tradable sectors consist of intermediate inputs from non-tradable sectors.
What should policymakers do?

- Support the Portuguese competition authority in a systematic programme to review and design new more pro-competitive regulation in key sectors.
- Boost competition in the natural gas sector, where the incumbent operator continues to provide more than half the sales volumes and owns exclusive contract rights to the supply of wholesale pipeline gas.
- Review entry and price regulation in professional services such as accounting or legal services, engineering and architecture as the extent and nature of entry and price regulations may be excessive.

Further reading

