

## PORTUGAL

Convergence in living standards with the more advanced OECD average has halted in recent years. With employment rates above EU average, the income gap essentially reflects low productivity.

### Policy priorities

#### **Improve upper-secondary education attainments**

**Challenge and recommendations:** To improve the quality of labour input and facilitate the adoption of new technologies, Portugal's human capital gap needs to be reduced. It was recommended that implementation of ongoing reforms of the curricula, technical education and teachers' evaluation be stepped up and that adult training be further developed.

**Actions taken:** The implementation and first impact of the 2004 reform of the upper-secondary education system are being assessed. Vocational and technological streams are being strengthened under the programme *Novas Oportunidades*. The authorities are promoting individualised support for low achievers to allow a larger number to reach upper-secondary education.

#### **Reduce state control of business operations in network industries**

**Challenge and recommendations:** To promote greater competition in network industries, it was recommended that the state abandon its influence in certain sectors via the replacement of special voting rights with arm's length regulation where appropriate, and that measures to foster effective competition be taken.

**Actions taken:** In the telecommunication sector, the regulator has continued to take action to reduce the power of the incumbent and put all operators on a level playing field.

#### **Ease employment protection legislation**

**Challenge and recommendations:** The 2003 reform of the Labour Law, which introduced flexibility at the firm level and allows a better control of absenteeism, was a step forward. It was recommended that EPL be eased further to promote mobility and encourage technological and managerial innovation.

**Actions taken:** No further action.

#### **Step up implementation of the public administration reform**

**Challenge and recommendations:** To enhance global effectiveness and facilitate implementation of reforms in many other areas, it was recommended that the pace of public administration reform be accelerated.

**Actions taken:** As part of a deficit-reduction package, a broadly-based reform of public administration has been launched, including in particular streamlining of central administration services (2006), the alignment of public sector employment conditions with those prevailing in the private sector and the introduction of performance-based pay (by 2007).

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

**Challenge and recommendations:** In order to reduce compliance costs for businesses and thereby the scale of informal activities, it was recommended that the tax system be simplified and that the income tax base be broadened.

**Actions taken:** The government's deficit-reduction package includes the abolition of several tax benefits and exemptions, but at the same time it introduces an additional tax bracket on personal income tax and a higher marginal tax rate for higher-income categories.