

PORTUGAL

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

Priorities supported by indicators

Improve upper-secondary education attainments

Portugal's human capital base still lags the rest of the OECD, with low educational attainment of the population (even for young adults) and poor student performance. Reducing the gap would help boost growth by improving the quality of labour input and by facilitating the adoption of new technologies.

Actions taken: Current reforms aim to reduce drop-out rates and improve the quality of education outcomes via new curricula, a new focus on technical education, regrouping of very small schools and changes to operating and financing of tertiary education. Systematic evaluation of schools and teachers has been introduced.

Recommendations: Implement current reform programme at a steady pace. Further develop adult training as a complement.

Reduce state control of business operations in network industries

Even though privatisation has proceeded in recent years, the state has generally sought to retain influence over the conduct of business in certain sectors via special voting rights and a qualified stake in capital.

Actions taken: In order to comply with a notification from the EU Court of Justice, the *Framework Law* on privatisation was modified to remove the possibility of restricting foreign participation that existed in many sectors.

Recommendations: Replace special voting rights with arm's length regulation where genuine national security concerns are involved. Promote effective competition in sectors such as energy, transportation, water, radio and television and telecommunications.

Ease employment protection legislation

Although unemployment is low and employment rates are high by EU standards, restrictive employment protection legislation for regular workers creates labour market segmentation, hinders mobility and discourages technological and managerial innovation.

Actions taken: The new Labour Law, in force since December 2003, gives more leeway to introduce flexibility in collective agreements at the firm level regarding rules for fixed-term contracts and dismissals. It also increases geographical and functional mobility of workers and allows better control of absenteeism.

Recommendations: The need to ease general job protection legislation has not been fully addressed. EPL should be eased further, as this would facilitate hiring of regular workers and be conducive to higher productivity growth.

Other key priorities

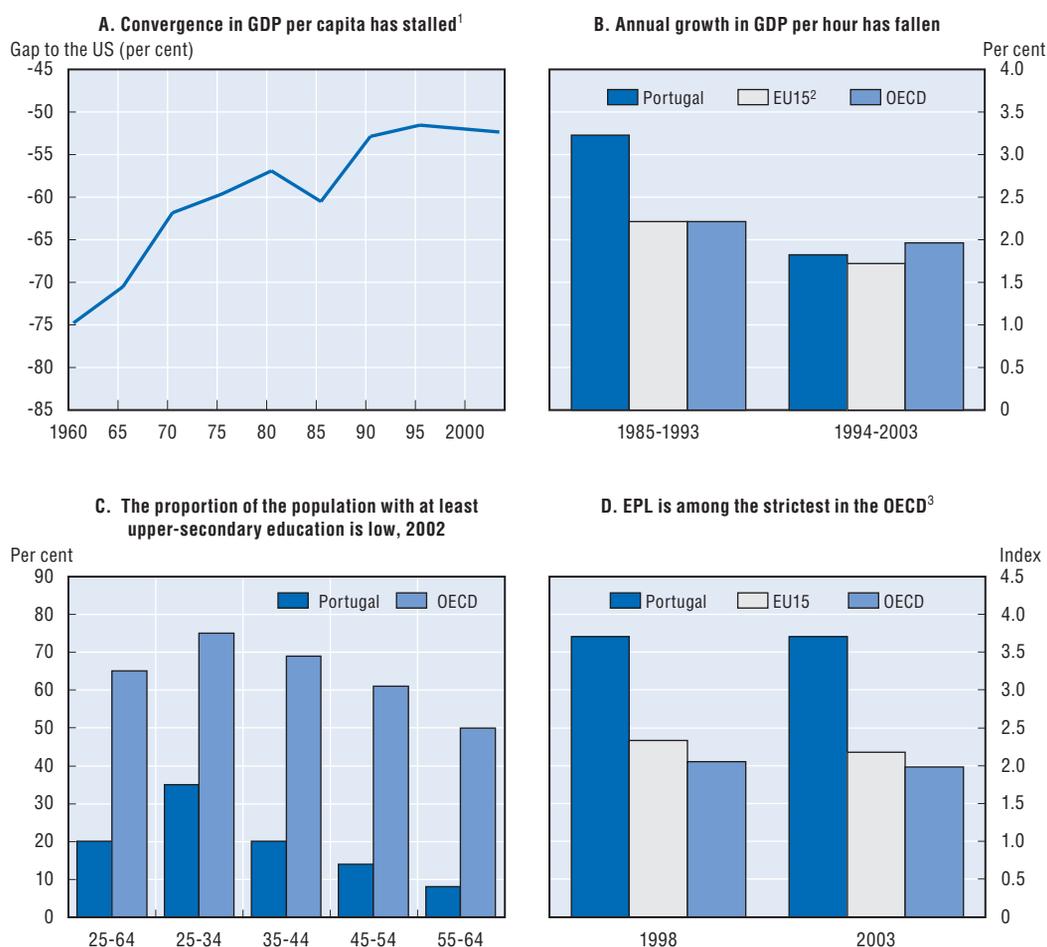
- Step up implementation of the public administration reform to enhance effectiveness, as this will accelerate the pace of reform in many other areas.
- Simplify the tax system and broaden the income tax base to reduce compliance costs for businesses and the scale of informal activities.

PORTUGAL

Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	3.5	2.2	2.6	1.2
Trend employment rate	68.3	70.1	72.1	73.1
Trend participation rate	71.5	73.4	75.2	76.2
Structural unemployment rate (NAIRU)	4.5	4.5	4.1	4.1

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

3. Index scale of 0-6 from least to most restrictive.

Source: Charts A and B: National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004; OECD Economic Outlook, No. 76; Chart C: OECD Education at a Glance, 2004; Chart D: OECD Employment Outlook, 2004.