
Economic survey of Portugal 2008: Executive summary

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Portugal has made significant progress in fiscal consolidation and has launched important structural reforms to modernise the economy and enhance growth. After a weak performance from 2001 to 2005, output growth recovered in the past two years and, in 2007, it reached 1.9%, still insufficient to close the large income gap with wealthier OECD countries. Reaping the full benefits from globalisation in terms of faster and more sustainable growth and a durable decline in unemployment will require securing fiscal consolidation, improving the business environment and enhancing the adaptability of the labour market.

Securing the results achieved in fiscal consolidation remains a priority. The excessive fiscal deficit of 2005 was reduced to 2.6% of GDP in 2007, thanks to a broad consolidation strategy. But efforts should continue to further reduce the deficit and strengthen the medium-term budgeting framework. Moreover, addressing underlying problems in spending control will require implementing fully the public administration reform, improving the performance of state-owned enterprises, continuing the health care reform and dealing with ageing-related pressures on the health budget, and monitoring the sustainability of the contributory pension scheme, taking additional measures if developments require.

A deepening of the reform process is required to raise productivity and help the economy adjust to the changing international environment. The economy is in the process of adjusting to rapid changes in world trade and there is significant potential for Portugal to reap more benefits from globalisation. The government has already made significant progress in improving the business environment, through a wide range of reforms, including a simplification of administrative procedures to do business. Full implementation of these reforms is essential, together with an easing of pervasive licensing procedures. A high priority should also be given to strengthening competition across the whole economy and particularly in key infrastructure sectors, such as telecommunications, electricity and transportation, to enhance the quality, efficiency and quantity of the services they provide. This would have a direct effect on the cost-competitiveness of firms in Portugal, facilitate trade flows, domestically and internationally and make Portugal a more attractive destination for FDI, which has the potential to boost productivity.

Further reforms are needed to develop human capital and facilitate labour market adjustment in the changing environment. A broad strategy is required to promote job creation

and labour mobility. Reform proposals aimed at enhancing the adaptability of the labour force should be implemented, to address rigidities in labour market regulations and improve the efficiency of active labour market programmes to support job seekers. Effective training is also required to improve the skill match for new entrants and help displaced workers in sectors affected by structural adjustments. The government has launched a broad initiative to upgrade competences of young people and adults at risk. As the scale of the programmes expands, efforts should focus on monitoring the implementation and evaluating results to ensure that programmes meet private sector demand and needs.