



PORTUGAL

State of Play – Winter 2018



MACROECONOMIC SITUATION

- Strong economic growth in 2017, expected to ease progressively in 2018-2019 with exports and investment picking up
- Employment keeps increasing and unemployment has fallen below the euro area average
- The level of investment remains low, but the trend is increasing
- Potential growth is improving but income convergence with the EU remains weak

Imbalances (in-depth review):

- The external position remains negative but is improving
- Public debt started decreasing from a high level
- High private debt is decreasing at an appropriate pace
- High level of non-performing loans but decreasing
- Labour productivity growth remains sluggish in the medium term



PROGRESS ON COUNTRY-SPECIFIC RECOMMENDATIONS

Some progress

- in broadening the expenditure review and the sustainability of the pension system
- in ensuring the effective activation of long-term unemployed
- in ensuring that minimum wage developments do not harm employment opportunities for the low-skilled
- in cleaning the balance sheets of credit institutions, addressing non-performing loans and improving access to capital, in particular for start-ups and small and medium sized firms
- in increasing the efficiency of insolvency and tax proceedings

Limited progress

- in strengthening expenditure control, particularly in the health sector
- in increasing the financial sustainability of state-owned enterprises
- in promoting hiring on open-ended contracts
- in implementing a roadmap to further reduce the administrative burden and in tackling regulatory barriers in construction and business services



FISCAL SITUATION

- No excessive deficit
- Public debt, at 126.4% in 2017, stands significantly above 60% of GDP reference value, but is decreasing
- Draft Budgetary Plan 2018 at risk of non-compliance with the rules of the Stability and Growth Pact



SOCIAL SITUATION

- Poverty and inequality indicators have improved further; despite strong redistributive effect of the tax and benefit system, income inequality remains high
- The impact of social transfers on reducing poverty is limited
- The share of temporary contracts remains among the highest in the EU
- The level of digital skills of the labour force is low



POLICY HIGHLIGHT

Social Innovation Portugal is an initiative to fight social challenges with innovation and it facilitates investments in the social economy. A fiscal incentive for firms to engage in social innovation was also recently introduced.