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Foreword

This Survey is published under the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Portugal were reviewed by the Committee on 4 April,2023. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 17 May 2023.

The Secretariat's draft report was prepared for the Committee by Antoine Goujard and Nikki Kergozou under the supervision of Jens Arnold. Statistical research assistance was provided by Paula Adamczyk and Mafalda Trincão and editorial assistance by Robin Houng Lee.

The previous Survey of Portugal was issued in December 2021.

Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at http://www.oecd.org/eco/surveys.

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BASIC STATISTICS OF PORTUGAL, 2022[1]

(Numbers in parentheses refer to the OECD average)[2]

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million, 2021)	10.3		Population density per km² (2021)	112.7	(38.7)
Under 15 (%, 2021)	13.3	(17.4)	Life expectancy at birth (years, 2021)	81.1	(78.7)
Over 65 (%, 2021)	22.6	(17.7)	Men (2021)	78.0	(75.9)
International migrant stock (% of population, 2019)	8.7	(13.2)	Women (2021)	84.3	(81.7)
Latest 5-year average growth (%)	0.0	(0.5)	Latest general election	January	2022
ECONOMY					
Gross domestic product (GDP)			Value added shares (%, 2021)		
In current prices (billion USD)	252.1		Agriculture, forestry, and fishing	2.5	(2.6)
In current prices (billion EUR)	239.2		Industry including construction	22.7	(26.6)
Latest 5-year average real growth (%)	1.7	(1.6)	Services	74.8	(70.8)
Per capita (thousand USD PPP, 2021)	36.6	(50.9)			
GENERAL GOVERNMENT Per cent of GDP					
Expenditure (OECD: 2021)	44.8	(46.3)	Gross financial debt (OECD: 2021)	116.6	(107.5)
Revenue (OECD: 2021)	44.4	(38.8)	Net financial debt (OECD: 2021)	79.9	(68.7)
EXTERNAL ACCOUNTS					
Exchange rate (EUR per USD)	0.95		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.55		Machinery and transport equipment	26.3	
In per cent of GDP			Manufactured goods	22.3	
Exports of goods and services	50.0	(33.3)	Miscellaneous manufactured articles	15.4	
Imports of goods and services	52.6	(34.9)	Main imports (% of total merchandise imports)		
Current account balance	-1.3	(-1.1)	Machinery and transport equipment	27.0	
Net international investment position (2021)	-90.5		Chemicals and related products, n.e.s.	16.3	
			Manufactured goods	15.2	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	55.1	(57.5)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	6.0	(5.0)
Men	59.6	(65.4)	Youth (aged 15-24, %)	19.0	(10.9)
Women	51.2	(50.2)	Long-term unemployed (1 year and over, %)	2.7	(1.2)
Participation rate (aged 15 and over, %)	60.1	(60.9)	Tertiary educational attainment (aged 25-64, %, 2021)	31.1	(39.9)
Average hours worked per year (OECD: 2021)	1,635	(1,728)	Gross domestic expenditure on R&D (% of GDP, 2020)	1.6	(3.0)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2021)	1.9	(3.8)	CO2 emissions from fuel combustion per capita (tonnes, 2021)	3.3	(7.9)
Renewables (%, 2021)	29.4	(11.6)	Water abstractions per capita (1 000 m³, 2021)	0.7	
Exposure to air pollution (more than 10 µg/m³ of PM 2.5, % of population, 2019)	15.2	(61.7)	Municipal waste per capita (tonnes, 2021, OECD:2020)	0.5	(0.5)
SOCIETY					
Income inequality (Gini coefficient, 2019, OECD: latest available)	0.310	(0.315)	Education outcomes (PISA score, 2018)		
Relative poverty rate (%, 2019, OECD: 2018)	10.6	(11.7)	Reading	492	(485)
Median disposable household income (thousand USD PPP, 2019, OECD: 2018)	18.7	(25.5)	Mathematics	492	(487)
Public and private spending (% of GDP)			Science	492	(487)
Health care (2021, OECD: 2020)	11.2	(9.7)	Share of women in parliament (%)	37.0	(32.5)
Pensions (2019)	12.5	(9.5)	Net official development assistance (% of GNI, 2017)	0.2	(0.4)
Education (% of GNI, 2021)	4.6	(4.4)			

[1] The year is indicated in parenthesis if it deviates from the year in the main title of this table.

[2] Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

Executive summary

The strong recovery has decelerated

High inflation and weak global economic conditions have slowed down growth. Despite renewed fiscal support to cushion the impact, household disposable incomes and firm profit margins have yet to recover fully. Implementing the ambitious Recovery and Resilience Plan (RRP) and ensuring fiscal sustainability are key to a sustained recovery.

High energy and food prices, supply disruptions and renewed uncertainty, especially since Russia's war of aggression against Ukraine, will lower growth (Table 1). The war is affecting energy costs and raising uncertainty. This is holding back consumer spending and delaying firms' investment and hiring decisions. The RRP disbursements, including EU grants worth EUR 14 billion, and fiscal support are buffering these shocks and will support growth once energy prices stabilise.

Table 1. The recovery has slowed

% change unless noted	2022	2023	2024
Gross domestic product	6.7	2.5	1.5
Private consumption	5.8	0.6	1.0
Gross fixed capital formation	3.1	3.1	4.2
Exports of goods and services	16.6	8.0	2.6
Current account balance (% of GDP)	-1.3	2.9	3.4
Employment	2.0	0.5	0.4
Harmonised consumer price index	8.1	5.7	3.3
Harmonised core price index	5.0	4.7	3.4
Fiscal balance (% of GDP)	-0.4	-0.1	-0.1
Government gross debt (Maastricht definition, % of GDP)	113.9	106.2	102.9

Source: OECD Economic Outlook 113 (database).

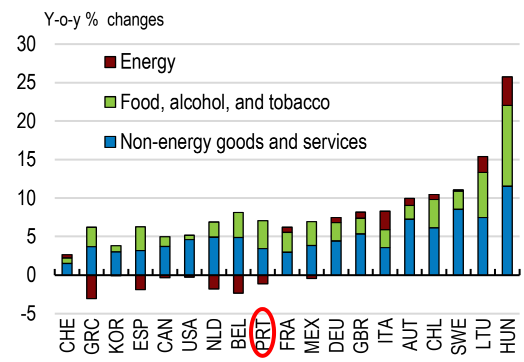
Temporary fiscal support has been extended to cushion the inflation shock. Electricity, gas and fuel price subsidies have been raised, alongside social transfers and temporary energy tax cuts, some of which are targeted to low-income households. To maintain strong incentives for energy savings and the green transition, it will be important to increasingly target support to the most vulnerable households and phase out energy support measures.

Strong revenues from the rebound in activity and surging prices have improved the budget balance. The public debt ratio to GDP has fallen and Portugal's relatively long debt maturity structure and the rollover of high-interest bonds are containing financing costs in the short term.

Inflation reached historical highs in 2022 as supply pressures broadened. Large increases in energy and food prices drove inflation to the highest level in over a quarter-century. Capacity use and input costs remain high. Yet, headline and core inflation started to decline in late 2022 (Figure 1).

Figure 1. Headline inflation has eased from historical highs

Contributions to annual headline inflation, April 2023



Source: OECD, Consumer Price Indices (database).

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Wage growth has picked up following the increase in inflation. Workers whose skills are in high demand, such as in the ICT and construction sectors, are experiencing stronger wage growth. The minimum wage increased by 7.8% in 2023 and is set to increase by 6.6% in 2024. This will support wage growth and the real incomes of many households, provided that the high level of employment of the recent past endures.

Bank lending to households and businesses has slowed and the quality of loan portfolios should continue to be watched closely. Gross household debt, mostly housing loans, was 90% of gross disposable income in 2022. Households are vulnerable to rising interest rates, with 89% of mortgages subject to variable rates. Risks surrounding corporate loan portfolios are also likely to rise with higher interest rates. Restructuring or insolvency processes have increased from a low level, and the planned implementation of a new insolvency framework has strong potential to support medium-term growth, especially in combination with efforts to accelerate judicial proceedings.

Efficient public spending is key for fiscal sustainability and growth

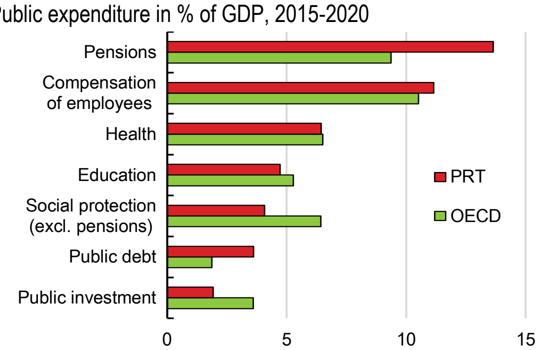
Public debt relative to GDP has declined below its 2019 level, although it remains high. More efficient spending will be key to face mounting fiscal pressures from population ageing and strong investment needs, notably to support the green and digital transitions.

The RRP includes reforms and investments with strong potential to support growth and more effective public sector management. Implementation has started, but supply-side disruptions, inflation, the size of the planned investments and the ambitious timeline present challenges. A rapid execution of projects should boost investment.

Looking ahead, Portugal needs to design and implement a credible and transparent medium-term fiscal consolidation strategy. Over the past decade, underinvestment in education, health and infrastructure has weighed on potential growth (Figure 2). Rising pension entitlements have outpaced other social expenditures, while the low level and coverage of minimum income benefits hold back progress on reducing poverty. Tax expenditures amounting to 6.2% of GDP often fail to support long-term growth, including many reduced value-added tax rates.

Figure 2. Pension and debt costs leave little space for pro-growth and inclusive spending

Public expenditure in % of GDP, 2015-2020



Source: OECD (2023), National Accounts Statistics (database).

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Improvements in fiscal governance would help to better prioritise public spending and ensure cost-effective investments. The modernisation of the budget framework, including the implementation of performance budgeting, is crucial to ensure an efficient use of public funds. The full implementation of the 2015 Budget Framework Law and of new accounting standards, one of the objectives of the RRP, needs to accelerate. The implementation of regular spending reviews should also help to shift spending to more growth-enhancing uses. The implementation of the national anti-corruption strategy for 2020-24 has made significant progress, and efforts need to continue to alleviate corruption risks and better monitor lobbying activities.

A sustained recovery will require tackling long-standing challenges

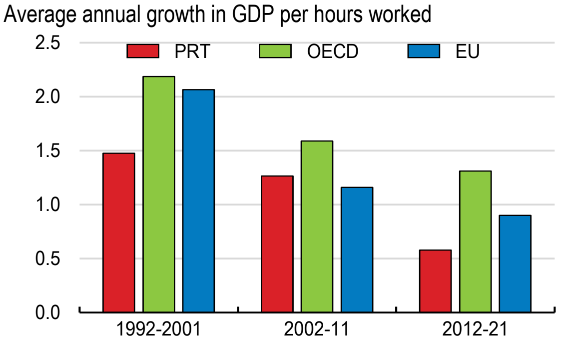
Potential growth and productivity gains have declined. Skill shortages have emerged and the working-age population is set to decline. Low investment weakens productivity and firms' ability to seize new opportunities from the digital and green transitions.

Productivity growth will be key to improve future living standards (Figure 3)**.** Micro firms account for close to 40% of business employment, and their limited management skills and low investment have held back productivity gains, while increasing R&D support did not generate the expected increase in innovation. Streamlining complex administrative processes as part of the public sector's digitalisation efforts can improve the business environment. Reviewing regulations in professional services and retail trade will reduce costs and improve productivity for enterprises. Strengthening active labour market policies that focus on smaller firms, such as pre-screening candidates for vacancies, would improve the match between jobseekers and employers. Improving counselling to guide student's study choices and adults' reskilling and upskilling decisions would better align skill development with labour market needs.

Investment in the green transition should continue to reduce greenhouse gas emissions and strengthen climate resilience, in line with Portugal's carbon neutrality goal. Strengthening carbon pricing, including by removing distorting tax benefits, while protecting vulnerable groups, and gradually tightening regulations on the use of fossil fuels and energy efficiency can provide policy certainty. This will be crucial to guide investments and productive capacities through this extended transition. Making buildings more energy efficient also promises large energy savings but requires a new mix of regulation, grants and loans, as well as sizeable upfront investments.

Figure 3. Strengthening productivity is key to long-term growth

Average annual growth in GDP per hours worked



Source: OECD Productivity indicators (database).

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Recent increases in employment need to continue for Portugal to achieve more inclusive growth. Despite recent progress, 17% of workers and 59% of 15–24-year-olds were on temporary contracts in 2021. Enhancing the balance of protection across contract types by continuing efforts to restrict the use of temporary contracts and reducing the cost of dismissals would allow more workers to move into permanent contracts. The authorities should also closely monitor the effects of the planned increases in the minimum wage and, if needed, consider reducing employer social security contribution for low-wage workers to mitigate the impact of increases in labour costs.

Reforms are needed to strengthen the health system

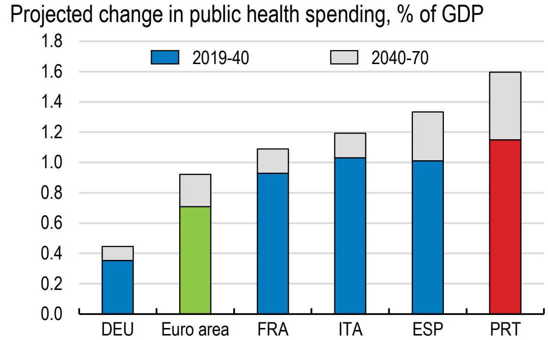
Health gains have been impressive over recent decades and life expectancy is now amongst the highest in the OECD. At the same time, structural challenges include staff shortages, weak investment, an ageing population and high out-of-pocket payments. Improving spending efficiency and strengthening primary care and prevention would be ways to address these challenges.

The government has initiated key reforms for the health sector. The RRP and the 2022 framework law for the universal National Health Service reforms aim at moving away from a largely hospital-based system to one that will better integrate primary, community and long-term care. Effective implementation will be key to manage the rising impact of population ageing (Figure 4). Healthcare governance reform, also in the RRP, financial reporting and management should be based on sound accounting standards and multi-annual budgets, balancing medium-term health priorities with available fiscal space.

Investment spending and remuneration in the healthcare sector will have to rise. Waiting times are long, with complementary private insurance giving higher-income households better access to private providers. Past underinvestment in buildings and equipment is slowly being corrected but will take time to overcome fully. Long hours and low wages in the public sector have made it increasingly difficult to attract and retain medical staff.

Figure 4. Ageing will put pressure on the health system

Projected change in public health spending, % of GDP



Source: EC (2022), The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070).

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Promoting prevention and cost-efficient behaviour through primary care providers will become a rising priority. Spending on prevention amounts to less than 2% of health spending. Around 12.8% of the population is not registered with a dedicated general practitioner and the excessive use of emergency rooms drives up costs without promoting better health outcomes. In addition, the organisation of primary care is fragmented with various public care centres and payment schemes that fail to encourage a systematic follow-up of patients from disadvantaged groups. Expanding the number of general practitioners and streamlining the different payment schemes for primary care centres would improve both access and quality.

MAIN FINDINGS	KEY RECOMMENDATIONS
Improving macroeconomic policy and fiscal policies	
The fiscal stance is estimated to have been broadly neutral in 2022 as the unwinding of COVID-19-related measures was offset by support to households and firms in the face of high inflation. Although some fiscal support to households and firms has been extended in 2023, fiscal policy is set to tighten.	Tighten the fiscal policy stance, including through increasingly targeting fiscal support towards the most vulnerable households and gradually phasing out energy support measures.
Public debt has been on a declining trend for years and is now below its 2019 level. In light of mounting ageing costs, however, the current debt level remains high, while investments in health, education and infrastructure have been low.	Continue to lower public debt, by developing a medium-term strategy to improve the structure and efficiency of public spending.
Social expenditures have increased rapidly over the years, in contrast to investment in infrastructure, education and health. Heterogenous accounting standards across public entities do not allow for assessing the effectiveness of some policies.	Carry out systematic, regular spending reviews, including in the health sector, to rationalise public expenditures and improve their efficiency. Roll out new accounting standards and develop performance budgeting.
Numerous tax expenditures reduce public revenues and in some cases the evidence of their effectiveness is weak.	Reduce tax expenditures, notably those that do not target low-income households or substantially raise compliance costs.
A large share of outstanding credit is subject to variable interest rates and rising interest rates are reducing households' and firms' debt-servicing abilities. The authorities eased the conditions for mortgage restructuring and introduced interest rate subsidies for low-income households.	Closely monitor the quality of bank credit and the impact of the measures to reduce debt service costs for low-income households.
The social safety net is fragmented and some programmes have low benefit take-up. The government plans to streamline social benefits.	Consolidate the different support programmes for low-income households and simplify eligibility conditions, while considering an overall increase in the level and coverage of minimum income benefits. Permanently expand social protection to non-standard workers.
Boosting employment and productivity	
The use of temporary labour contracts remains high and they are often used for relatively long periods, while costly legal processes add to the cost of hiring on permanent contracts.	Enhance the balance of protection across contract types by continuing efforts to promote the use of permanent contracts and reducing the cost of dismissals.
The minimum wage as a share of the median wage is among the highest in the OECD, and planned increases will further add to labour costs.	Closely monitor the effects of the minimum wage on employment. Reduce employer social security contributions for low-wage workers to mitigate the impact of labour cost increases.
Upskilling and reskilling will be key to continue to boost workers' skills and productivity.	Better align the supply and demand of skills to current and future labour market needs, while improving counselling to guide students' study choices and adults' reskilling and upskilling decisions.
A large share of small firms has weak management and human resources.	Strengthen active labour market policies targeting smaller firms, such as pre-screening programmes for job vacancies by public employment agencies.
Competitive pressures are weak in some sectors. The Recovery and Resilience Plan foresees a review of regulations that remain high in some key professions, such as legal services.	Lower entry barriers by streamlining regulations, prioritising professional services and the retail sector. Further expand the use of Regulatory Impact Assessments for new regulations and undertake sectoral reviews of existing policies and their competition impact.
The national anti-corruption strategy has made significant progress, but indicators point to further room for improvement.	Continue efforts to prevent and fight corruption and introduce a permanent lobbying registry.
Improving health outcomes	
The budget for the National Health Service has repeatedly been set below the cost of providing health services, hindering incentives for efficiency gains and accountability.	Produce multi-annual budgets for the National Health Service, balancing medium-term health priorities with available fiscal space.
Emergency rooms are overused due to difficulties in accessing general practitioners, driving up costs without better outcomes.	Ensure that every patient is registered to a dedicated general practitioner.
Despite the development of some integrated care delivery services and the planned roll-out of local health units, the coordination between hospitals and primary care providers can be improved.	Move towards integrated care delivery between hospitals and primary care providers.
Supporting the transition towards a green and sustainable economy	
Responding to rising energy prices, the government froze planned carbon tax increases at the end of 2021. Carbon prices vary across sectors and fuels.	Gradually increase environmental taxes for sectors outside of the EU Emissions Trading System (ETS), including excise taxes on fuels, while protecting low-income households.
The building stock is in poor condition. Current policies to boost energy efficiency are complex and not fit for purpose.	Accelerate the retrofitting and renovation of buildings, using a mix of regulation, grants and loans.

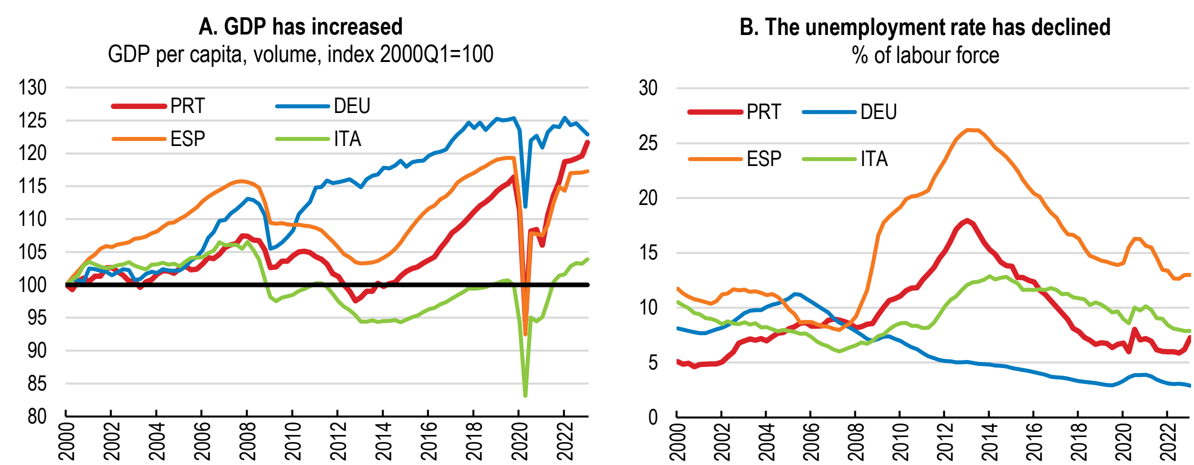
1 Key policy insights

COVID-19 and rising costs of living are threatening growth and well-being

Portugal has made impressive strides in raising living standards over recent years (Figure 1.1). Solid trend growth from 2013 up until the COVID-19 pandemic reflected the benefits of past structural reforms, strong export performance supported by favourable global economic conditions and solid domestic demand. Employment picked up and the unemployment rate fell from 17% in 2013 to 6% in 2022. Over the same period, the economy increased its reliance on renewable energy sources, such as wind power.

The economy weathered the COVID-19 pandemic reasonably well and is now coping effectively with the repercussions from Russia's war of aggression against Ukraine. After the historically deep recession of 2020, the economy recovered rapidly in 2021-22 and unemployment declined quickly, supported by a sizeable policy response (Figure 1.1) (OECD, 2021[1]). Since then, Portugal has achieved one of the highest COVID-19 vaccination rates worldwide, particularly among the elderly, who are almost fully vaccinated. The war in Ukraine has affected the Portuguese economy through the slowdown in global demand, particularly in major European trading partners, and the surge in energy and food prices, but the government has put in place a wide set of measures to support households and firms.

Figure 1.1. The economic rebound has been strong



Source: OECD (2023), OECD Economic Outlook: Statistics and Projections (database); OECD (2023), Productivity database.

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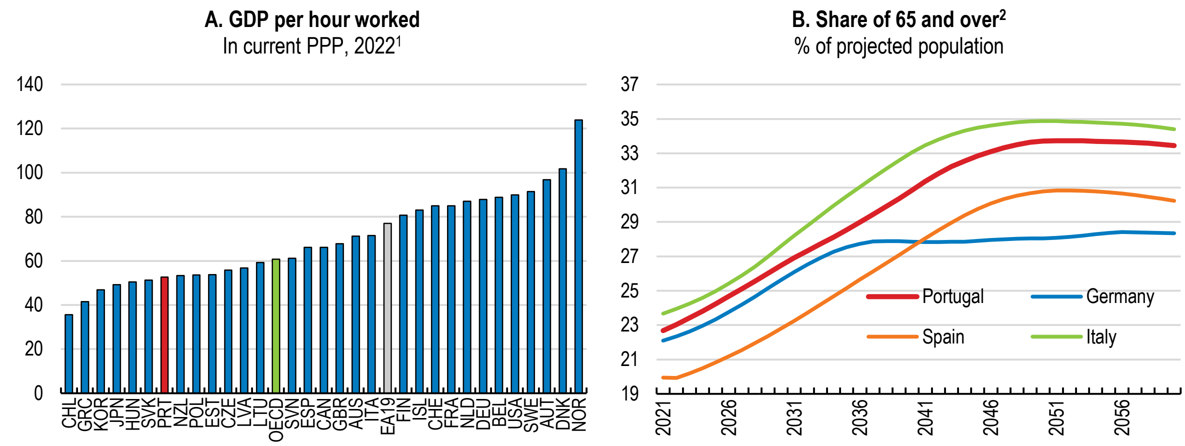
At the same time, Portugal faces multiple challenges to sustain growth and improve well-being over the longer term, some of which have been exacerbated by the pandemic and the war in Ukraine. Productivity is low (Figure 1.2) and its growth has been modest. Low levels of investment, particularly in intangibles, low R&D intensity and low average skill levels remain key challenges, despite recent improvements with respect to workforce skills. In addition, parts of the population struggle to maintain a continuous attachment to the labour market and face heightened risk of poverty. Measures fostering the acquisition of skills relevant for a more digital and greener economy would likely boost participation and productivity, in addition to measures improving access to finance for innovative SMEs. Some public expenditures could be reallocated to more effective policies to enhance overall spending efficiency and growth.

Improvements in healthcare could also lead to sizeable benefits (Chapter 2). While measures of health sector performance are good overall and the system weathered the COVID-19 pandemic better than initially feared, access and quality of care have deteriorated. The health system is facing mounting spending pressures as the population is ageing rapidly (Figure 1.2), while a legacy of past underinvestment and the build-up of long waiting lists during the pandemic will need to be addressed over time.

Figure 1.2. Improving productivity and addressing population ageing are long-term challenges



1. Or latest available.
2. Share of the projected population over 65 in the total population.
Source: OECD (2023), OECD Compendium of Productivity Indicators; OECD (2023), Population statistics.

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In the face of these challenges, decisive policy action is needed to sustain improvements in living standards and put growth on a sustainable and resilient path. In light of the ageing and declining working-age population, future growth will hinge on productivity gains. The National Plan for Recovery and Resilience (Box 1.1) and the Portugal 2030 Strategy outline a set of investments and structural reforms in public administration, health and education, as well as competition meant to remove obstacles to growth and facilitate the financing of investments in faster, greener and more digitalised growth. The sizeable scale of planned spending, the broad scope of reforms, and the tight link between reforms and spending could boost potential growth by improving both investment and confidence. Successful implementation of these ambitious policy plans, however, will hinge on a more effective public administration. Reforming public finances with a view to improve spending efficiency could allow more growth- and equity-enhancing spending and ease the burden of the tax system on job creation.

Against this background, the key messages of this Survey are:

- High tax revenues during the recovery allowed the government to cushion the impact of Russia's war of aggression against Ukraine but high inflation, and foreseeable fiscal pressures from population ageing will require a continuation of prudent fiscal policies, both in the short and medium term.
- Past underinvestment, low productivity and the ongoing green transition call for further efforts to boost productivity growth and for major investments. Reducing policy uncertainty and high transaction costs would accelerate and boost the impact of new investments, including those supported by the Recovery and Resilience Plan (RRP).
- The health sector is suffering from staff shortages, underinvestment and long waiting lists (Chapter 2). Moving towards a more integrated system of primary, community and hospital care offers solutions to improve quality of care and value for money.

Box 1.1. Portugal's Recovery and Resilience Plan (RRP) and 2030 Strategy

Portugal's Recovery and Resilience Plan (RRP), alongside the Portugal 2030 Strategy, is intended to foster a stronger post-COVID recovery, while making the economy more sustainable, resilient and better prepared for the green and digital transitions (EC, 2023[2]). The Portugal 2030 Strategy seeks to ensure the coherence of measures financed through the Multiannual Financial Framework 2021-27, the Recovery and Resilience Facility and other EU and national funds.

Portugal's RRP currently includes 83 investment projects and 32 reforms (EC, 2023[2]). Portugal was initially set to receive EUR 16.6 billion or around 8% of 2019 GDP from the Recovery and Resilience Facility (RRF) between 2021 and 2026, including EUR 13.9 billion in grants and EUR 2.7 billion in loans (Ministério do Planeamento, 2021[3]; Recuperar Portugal, 2023[4]). On 26 May, Portugal submitted a request to the European Commission to modify its RRP and add a REPower EU chapter, proposing a further 49 investments and 11 reforms (EC, 2023[5]). This modification follows the upward revision of its maximum amount of grants to EUR 15.5 billion and REPower EU grants, totalling EUR 704 million. Portugal also requested EUR 3.2 billion in additional loans. These funds make the overall modified plan worth EUR 22.2 billion.

Investments and reforms to boost resilience focus on better supporting vulnerable people, strengthening investment, innovation and infrastructure, boosting qualifications and skills and supporting forest and water management. Key measures currently include:

- Strengthening the response capacity of the National Health Service (NHS), including a stronger role for primary care, upscaling long-term and mental healthcare, reforming the governance model of hospitals and boosting health digitalisation (EUR 1.4 billion).
- Increasing the supply of social and student housing (EUR 2.7 billion).
- Reinforcing the responsiveness of the education and training system (EUR 1.3 billion).
- Strengthening research and promoting innovation and investment (EUR 2.9 billion).

Investments and reforms to support the climate transition currently make up 38% of the RRP, which will be further strengthened in the forthcoming update to the RRP as a result of the REPowerEU programme. They focus on improving energy efficiency to reduce greenhouse gas (GHG) emissions, the dependence on fossil fuels and the share of households who are unable to afford the use of energy or to adequately heat their homes. Some key measures currently include:

- Improving the energy efficiency of buildings (EUR 610 million).
- Promoting sustainable mobility through extending the metro, constructing light rail, creating a bus rapid transit system and acquiring clean buses and charging stations (EUR 967 million).
- Strengthening decarbonisation, energy and resource efficiency and the use of alternative energy sources in industrial processes (EUR 715 million).

Key investments and reforms to support digitalisation make up 22% of the RRP. They focus on developing digital skills and the digitalisation of the public sector and small firms. Measures currently include:

- Modernising the computer systems of the NHS and enhancing the digitalisation of medical records (EUR 351 million).
- Supporting SMEs and their workers with tailored digital training, coaching and support to foster the adoption of digital technologies (EUR 650 million).

The European Commission estimates that the RRP could lift GDP by 1.5% to 2.4% by 2026 and create 50,000 jobs, not including the impact of the planned structural reforms (EC, 2021[6]). Spill overs from the RRP's of other EU countries are expected to boost Portugal's GDP by a further 0.5% by 2026.

The timeline of the RRP is ambitious and supply-side disruptions and inflationary pressures are adding to existing challenges. Though Portugal received the second RRP instalment on 8 February 2023, spending rates should accelerate to maximise the potential benefits.

Source: EC (2021[6]), Analysis of the recovery and resilience plan of Portugal; EC (2023[2]), Portugal's recovery and resilience plan; EC (2023[5]), NextGenerationEU: Portugal submits request to revise recovery and resilience plan and add a REPower EU chapter; Ministério do Planeamento (2021[3]), Recuperar Portugal, Construindo o futuro – Plano de Recuperação e Resiliência; Recuperar Portugal (2023[4]), Recovery and Resilience Plan, https://recuperarportugal.gov.pt.

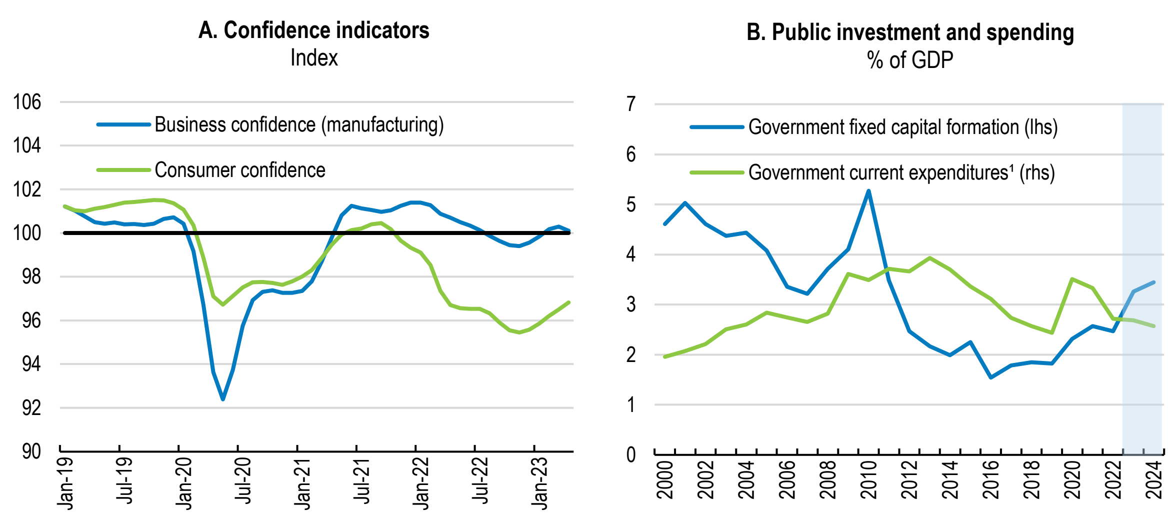
High uncertainties have dented the pace of the recovery

Growth has slowed amid tighter financial conditions and high uncertainty

Following the sharp rebound in real GDP over 2021 and early 2022, growth is projected to ease to 2.5% in 2023 and 1.5% in 2024 (Table 1.2). As the rebound in consumption and tourism began to fade over 2022, Russia's war of aggression against Ukraine, the slowing global economy, high energy and food prices, uncertainty and rising interest rates started to weigh on activity. Historically high employment rates, rising wage growth, government support measures and excess savings are providing some support to households. Nevertheless, consumer confidence remains low, although it has picked up from its end-2022 trough (Figure 1.3, Panel A). Consumption growth is projected to remain subdued, as job creation slows, high inflation dents purchasing power and monetary and financial conditions tighten further, despite some offset from energy support measures and rising wages. Both consumption and housing demand are expected to slow as higher interest rates translate into rising mortgage payments, with around 89% of housing loans subject to variable interest rates.

Firms will continue to face challenging business conditions amid high production costs, although supply bottlenecks appear to be easing. These conditions have hurt business confidence (Figure 1.3, Panel A), particularly in construction and industry. Confidence in the services and retail sectors has increased over 2023, as strengthening external demand continues to support exports, particularly of services. Export growth is expected to continue, although at a more moderate pace. As tighter financial conditions and heightened uncertainty weigh on private investment, EU funds are expected to boost to public investment (Panel B). While the Recovery and Resilience Plan (RRP) provides a unique opportunity to raise investment and productivity growth, implementation should accelerate to maximise the potential benefits.

Figure 1.3. Confidence appears to have bottomed out and public investment is supporting activity



1. Current expenditures includes government final consumption, social security benefits, property income and other outlays.

Source: OECD Main Economic Indicators database; OECD (2023), OECD Economic Outlook: Statistics and Projections (database).

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Fiscal policy is providing significant support to households and firms to cushion the inflation shock, with policy support estimated to total 1.9% of GDP in 2022 and 3.7% in 2023. Measures include one-off cash transfers to households, an increase in pension payments, temporary cuts in VAT on basic foodstuffs and lower prices for energy and public transport (Box 1.2). To maintain strong incentives for energy savings and the green transition, it will be important to increasingly target support to the most vulnerable households and phase out energy support measures (OECD, 2022[7]; 2022[8]; 2023[9]).

Box 1.2. Fiscal support to alleviate the effects of the inflation shock

The government has been supporting households and firms in the face of rising prices since late 2021 (Table 1.1). Over 2022 and 2023, the fiscal cost of energy support measures is amongst the highest in the OECD (OECD, 2023[10]).

Income support includes one-off transfers, some of which targeted to the lowest income deciles (Bank of Portugal, 2022[11]). For example, the first two of three payments to low-income households in 2022 largely supported the lowest income decile, with smaller benefits up to the fourth-lowest income decile. However, the support to adults earning less than EUR 2700 per month ended up supporting incomes across the income distribution (Bank of Portugal, 2022[11]). Untargeted price measures are also supporting households and firms. One such measure is the cap on housing rent increases in 2023 at 2%, with full compensation to landlords through reduced personal income taxes in 2024, estimated at EUR 45 million (Governo da República Portuguesa, 2022[12]).

Table 1.1. Government measures to support against rising prices

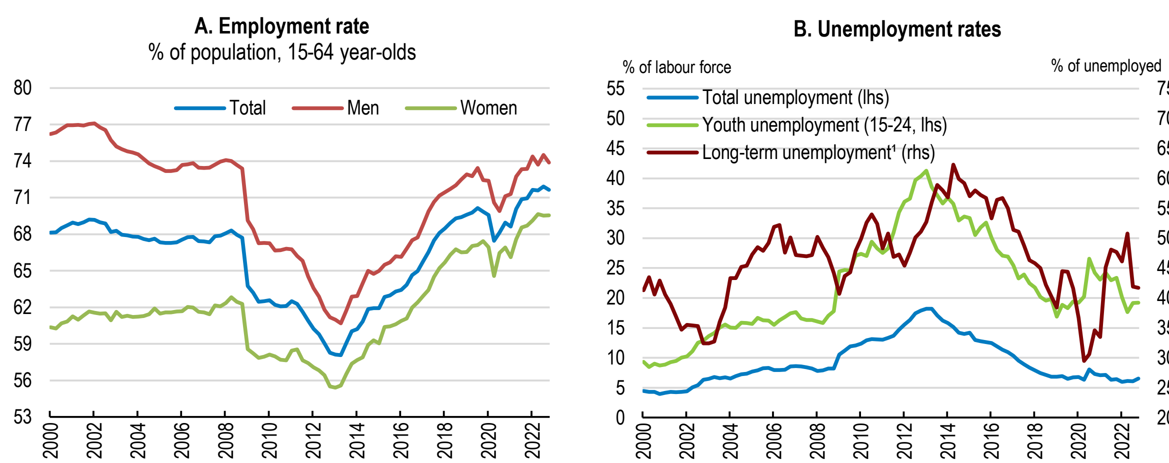
	2022		2023	
	Million EUR	% of GDP	Million EUR	% of GDP
One-off cash payments to households	2200	0.9	580	0.2
Reduction in the energy products tax (ISP), including reduction equivalent to a decrease of the VAT rate from 23% to 13% and delayed increase in the carbon tax	1485	0.6	385	0.1
Reduction of the VAT rate on electricity from 13% to 6%	20	0.0	67	0.0
Fuel subsidies for public transport and price freezes on consumer prices	75	0.0	66	0.0
Extraordinary electricity support to firms			2500	0.9
Rebate on gas consumption for high-usage firms (over 10 000m³ annually)			1000	0.4
Gas support to companies in high-usage industries	235	0.1		
Revision of income tax brackets			560	0.2
General increase in pensions			1820	0.7
Inflation-related increase in wages for civil servants			1060	0.4
Elimination of VAT on basic foodstuffs from mid-April to October 2023			410	0.2
Support for rent and interest payments for low-income households under the More Housing programme			450	0.2
Other measures	420	0.2	964	0.4
Total measures	4435	1.9	9862	3.7

Source: Bank of Portugal (2022[11]), Economic Bulletin, December; Governo da República Portuguesa (2022[13]), Novas medidas para compensar aumento dos preços da energia; Governo da República Portuguesa (2022[12]), Famílias Primeiro - perguntas e respostas; Governo da República Portuguesa (2022[14]), Novo apoio extraordinário de 240 euros abrange um milhão de famílias; Governo da República Portuguesa (2022[15]), Empresas vão ser apoiadas em mil milhões de euros na aquisição de gás e 2500 milhões de euros na de eletricidade; Governo da República Portuguesa (2022[16]), State Budget 2023; Governo da República Portuguesa (2023[17]), Stability Program 2023-2027; OECD (2023[18]), OECD Economic Outlook, Volume 2023 Issue 1, OECD Publishing, Paris.

The implementation of the RRP, in conjunction with the Multiannual Financial Framework 2021-27 and other EU and national funds, will boost investment and spur productivity growth (Box 1.1). Spending from RRP grants was projected to increase from 0.3% of GDP in 2022, to 1.5% of GDP in 2023 and 1.3% of GDP in 2024. This will help offset the slowdown in 2023 while boosting green infrastructure, energy efficiency and the capacity to generate renewable energy. However, designing, approving and implementing programmes is challenging, and an acceleration of the implementation is important. Ensuring coherence between the RRP and operational programmes of the EU cohesion policy will be a key factor of success. While Portugal has absorbed a higher share of allocated structural funds than the average EU country over 2014- 20, future delays could be minimised by continuing to develop administrative capacities and streamlining the public procurement system. Public procurement practices still have room for improvement in the areas of competition and transparency (OECD, 2021[1]). The take-up of the simplified rules in place since 2021 and that have been extended to 2026 to speed up procedures has increased, but information on awarded contracts is partly lacking (Tribunal de Contas, 2022[19]; CIMEC, 2022[20]), as well as for procurement contracts under the general procedure (EC, 2022[21]). Contracting authorities should ensure that procedures launched under the new simplified procedures meet high levels of transparency and accountability to raise competition and prevent the risk of fraud (Tribunal de Contas, 2022[19]).

The labour market remains robust, even as the unemployment rate is projected to continue to increase over 2023-24. Participation and employment rates remain around the historical highs reached over 2022 (Figure 1.4, Panel A), including for women, whose employment rate was around 7 percentage points higher than the OECD average. The unemployment rate increased in end-2022 and early 2023 from its lowest rate in over two decades, alongside slowing growth (Figure 1.4, Panel B). The recovery in labour-market opportunities for young people has been slower, with the unemployment rate among those aged 15-24 only returning to pre-pandemic levels during 2022, following a particularly strong increase in 2020. Growth in the annual nominal wage rate increased to 5.7% in 2022, slightly lagging headline inflation, and is projected to reach 8.7% in 2023 and 3.5% in 2024. Alongside by strong, although easing growth in employment, real disposable income increased by 2.9% in 2022, and is projected to increase to 4.3% and 0.8% in 2023 and 2024. Measures under the 2022 Medium-Term Agreement on improving incomes, wages and competitiveness are likely to support household income, including through the increase in the minimum wage by 8% in 2023 and tax incentives for firms to raise wages (Box 1.7). A regular evaluation of these policies, including of their effects on employment and wage inequality, would help to ensure their effectiveness (see below).

Figure 1.4. Labour market performance has continued to improve



1. Long-term unemployment refers to those who have been unemployed for 12 months and more.
Source: OECD Labour Force Statistics (database); and Eurostat, Labour Force Statistics (database).

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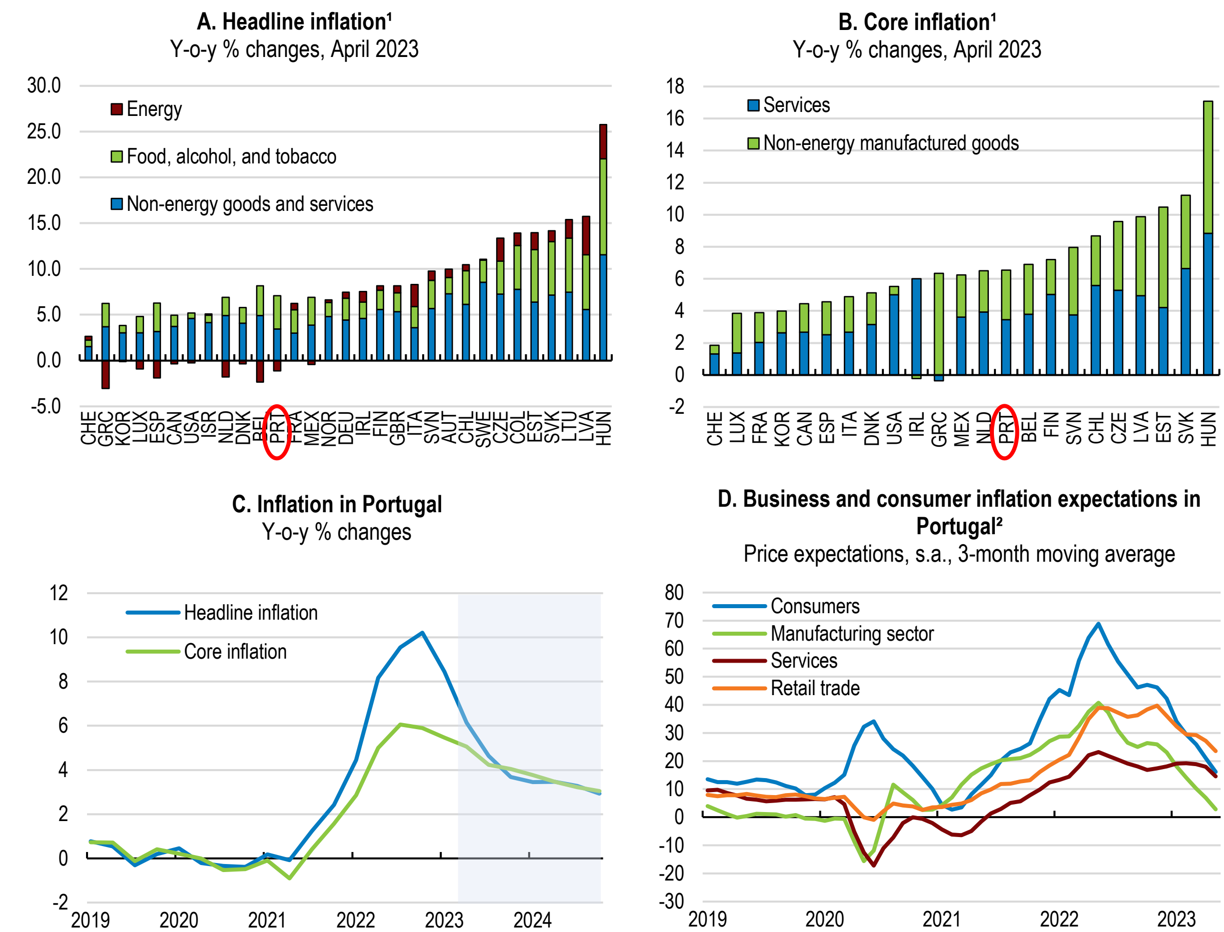
Table 1.2. Macroeconomic indicators and projections

	2019	2020	2021	2022	2023	2024
	Current prices (billion EUR)					
Gross domestic product (GDP)	**214.4**	**-8.3**	**5.5**	**6.7**	**2.5**	**1.5**
Private consumption	137.3	-7.0	4.7	5.8	0.6	1.0
Government consumption	36.4	0.3	4.6	1.7	2.6	1.2
Gross fixed capital formation	38.8	-2.2	8.7	3.1	3.1	4.2
Housing investment	6.9	-6.9	12.2	3.6	-8.9	-0.7
Final domestic demand	212.6	-4.9	5.4	4.5	1.5	1.7
Stockbuilding[1]	0.8	-0.5	0.3	0.1	-1.0	0.0
Total domestic demand	213.4	-5.3	5.6	4.5	0.5	1.7
Exports of goods and services	93.3	-18.6	13.4	16.6	8.0	2.6
Imports of goods and services	92.3	-11.8	13.2	11.1	3.5	3.0
Net exports[1]	1.0	-3.0	-0.2	2.0	2.2	-0.1
Other indicators (growth rates, unless specified)						
Potential GDP	. .	1.9	2.0	1.8	1.6	1.6
Output gap[2]	. .	-9.1	-6.0	-1.5	-0.5	-0.6
Employment	. .	-1.9	2.7	2.0	0.5	0.4
Unemployment rate	. .	7.0	6.6	6.0	7.4	7.5
GDP deflator	. .	2.0	1.5	4.4	8.0	3.4
Consumer price index	. .	-0.1	0.9	8.1	5.7	3.3
Core consumer price index	. .	-0.2	0.2	5.0	4.7	3.4
Household saving ratio, net[3]	. .	3.3	1.3	-1.5	2.0	1.8
Current account balance[4]	. .	-1.0	-0.8	-1.3	2.9	3.4
General government fiscal balance[4]	. .	-5.8	-2.9	-0.4	-0.1	-0.1
Underlying general government fiscal balance[2]	. .	0.6	-0.5	0.0	-1.0	-1.0
Underlying government primary fiscal balance[2]	. .	3.1	1.6	1.8	1.0	1.5
General government gross debt (Maastricht)[4]	. .	134.9	125.4	113.9	106.2	102.9
General government net debt[4]	. .	112.7	104.2	79.9	72.3	68.9
Three-month money market rate, average	. .	-0.4	-0.5	0.3	3.2	3.4
Ten-year government bond yield, average	. .	0.4	0.3	2.2	3.6	3.9

Note: 1. Contribution to changes in real GDP.
2. As a percentage of potential GDP.
3. As a percentage of household disposable income.
4. As a percentage of GDP.
Source: OECD (2023), OECD Economic Outlook: Statistics and Projections (database) with projections from "OECD Economic Outlook No. 113", June.

High energy and food prices and the quick rebound in services sector activity pushed headline consumer price inflation to a peak of 10.6% in October 2022, which declined to 6.9% in April 2023 following a downturn in energy prices (Figure 1.5). Over 2022, increases in energy prices made a smaller contribution to inflation in Portugal than in many other European countries. This reflects a relatively higher share of renewable energy sources, various measures to reduce wholesale prices in the Iberian electricity market and temporary tax reductions, including for VAT on electricity and the energy products tax (ISP), which covers most energy demand including fossil fuels, electricity and heat. Yet, the drought and the rebound in tourism pushed food inflation significantly higher than the euro area average, while services prices rose quickly with the reopening of the economy and the recovery in tourism (Panel B). Looking ahead, inflation is projected to moderate to 5.7% in 2023 and 3.3% in 2024 as tighter monetary policy curbs inflationary pressures and food prices stabilise (Panel C). Inflation expectations have also declined from their 2022 peak (Panel D).

Figure 1.5. Inflation is high



1. Contributions to annual inflation of each component.
2. Inflation expectations are obtained from business and consumers opinion surveys, from responses to the question on price expectation for the next 3 months for businesses, and for the next 12 months for consumers. Data are expressed in balance between weighted percentages of positive and negative replies.
Source: OECD, Consumer Price Indices (database); OECD Economic Outlook: Statistics and Projections (database); and INE, Business and consumer surveys.

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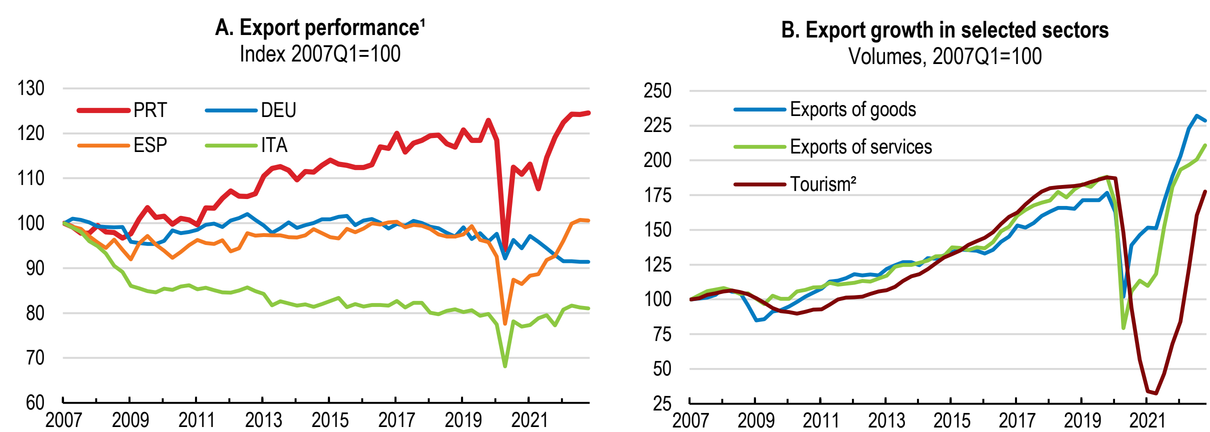
The balance of risks is to the downside

Significant uncertainty about economic prospects remains, and the major risks are on the downside, affecting both firms and households. Like in other OECD countries, businesses have been hit by two shocks in a row, as the pandemic was immediately followed by the war in Ukraine and increasing price pressures. High input costs, including for energy, are stretching thin financial buffers and some firms will face liquidity and solvency challenges that could potentially lead them into bankruptcy. Households are facing increasing debt-servicing costs that may become difficult to meet, while the risk of a decline in house prices would further weigh on consumer sentiment and residential investment. However, the effect on banks will likely be cushioned by relatively sound residential mortgage loan portfolios (see below). Moreover, direct macroeconomic risks from Russia's war against Ukraine are limited, as Portugal's goods trade with Russia and Ukraine is modest.

The risk of energy supply shortages appears to have receded across Europe and risks in Portugal appear less severe than in other European countries. Portugal imports liquified petroleum gas via ship and has significant LNG port capacity and gas storage was at 95.5% of capacity in early March 2023 (GIE AGSI, 2023[22]). Moreover, around 58% of electricity came from renewable sources in 2021 (OECD, 2022[23]). The forthcoming revision of the RRP, including the chapter on the REPowerEU plan, is planned to lower energy dependency over the medium term, including through further boosting energy efficiency and supporting the production of renewable energy and the decarbonisation of industry and public transport. If RRP spending were implemented more slowly than projected, this would constrain investment and the green transition. On the other hand, if wages increase by more than projected, it would boost consumption, although it would also fuel inflation.

Portugal's export performance has been strong since 2007 (Figure 1.6, Panel A), but a more significant slowdown among Portugal's main trading partners is a risk to export growth. Exports have been particularly susceptible to economic developments in euro-area trading partners, where growth has softened. Both goods and services exports fell sharply in 2020, before recovering to their pre-pandemic level over 2022 and continuing to grow at a robust pace (Figure 1.6, Panel B). The tourism sector accounted for around half of all services exports in 2019 (Figure 1.7) and tourists from abroad accounted for around 71% of nights spent in tourist accommodation (OECD, 2023[24]). Finally, a number of large potential shocks could also alter the economic outlook (Table 1.3).

Figure 1.6. Exports fell sharply during the pandemic but export performance remains strong



1. Difference between export growth and export markets' growth, in volume terms (based on export markets as of 2015).
2. Proxied by the nights spent at accommodation establishments by foreign nationals.
Source: OECD (2023), OECD Economic Outlook: Statistics and Projections (database).

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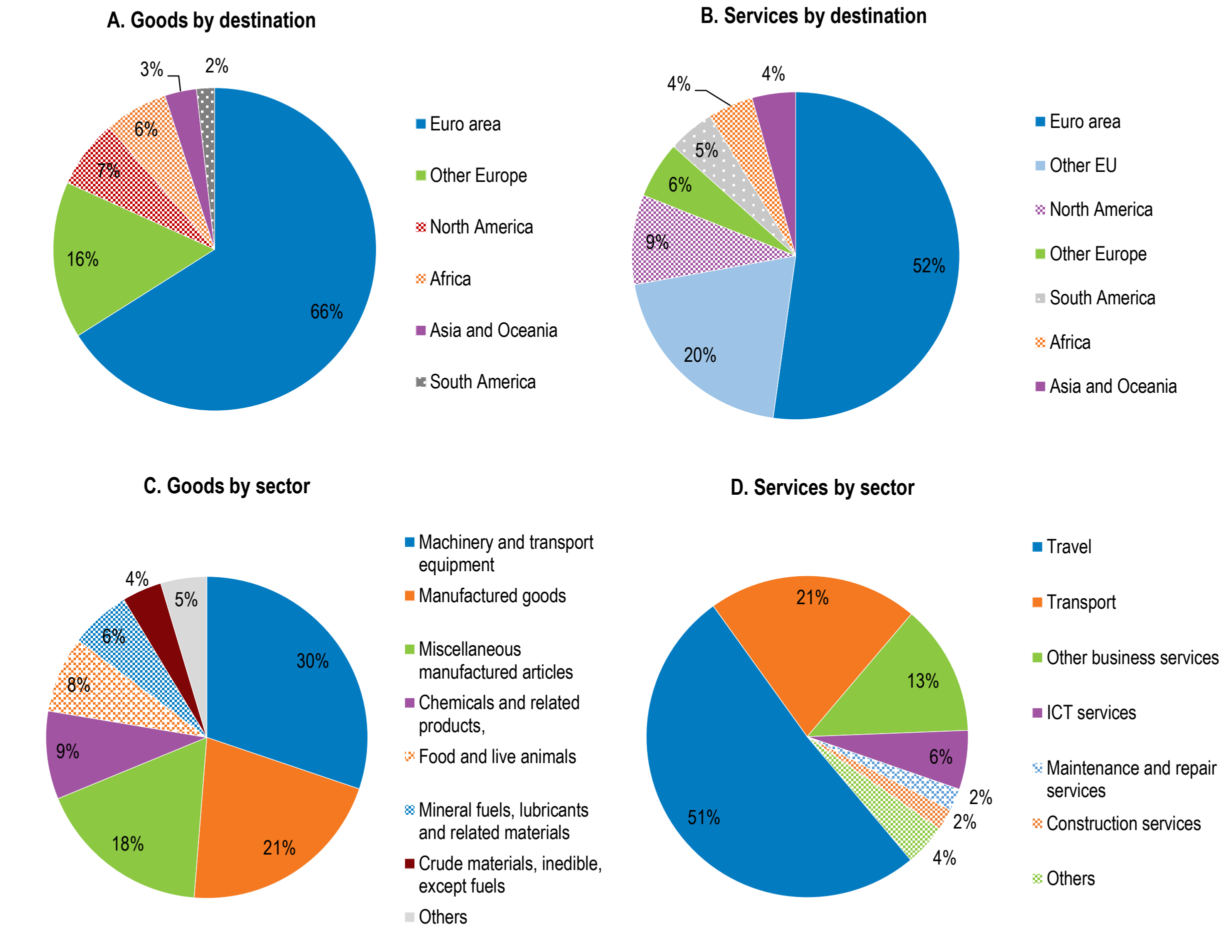
Table 1.3. Low-probability events that could lead to major changes in the outlook

Shock	Possible impact	Policy response options
Escalating trade tensions.	Some exporters could face difficulties in accessing key markets.	Help affected companies identify new market opportunities.
Outbreak of a new vaccine-resistant COVID variant.	New waves of infections could lead to the reimplementation of measures to contain the spread of the virus, limiting people's movement and ability or desire to travel. Confidence would fall, lowering domestic consumption, and tourism activity would decline.	Closely monitor health developments and continue to encourage vaccination, including booster shots. Keep contingency plans for moving to online work. Continue to develop digital tools to be able to limit interactions. Maintain stocks of personal protective equipment.
A significant increase in risk premiums due to a deterioration in macro-economic conditions and heightened financial market volatility.	Higher risk premiums would increase interest rates on the issuance of sovereign debt, raise market financing costs for firms and could affect the quality of assets in bank portfolios.	Continue the focus on fiscal consolidation to lower debt. Continue to develop non-bank sources of financing to diversify risks. Ensure that banks have adequate capital buffers.

Figure 1.7. Portugal's export structure

Share of exports by sector and destination, 2019



Note: In Panel C, Others include beverages and tobacco, animal and vegetable oils, and commodities and transactions. In Panel D, Others include financial services, insurance and pension, and cultural services.
Source: OECD International Trade Statistics.

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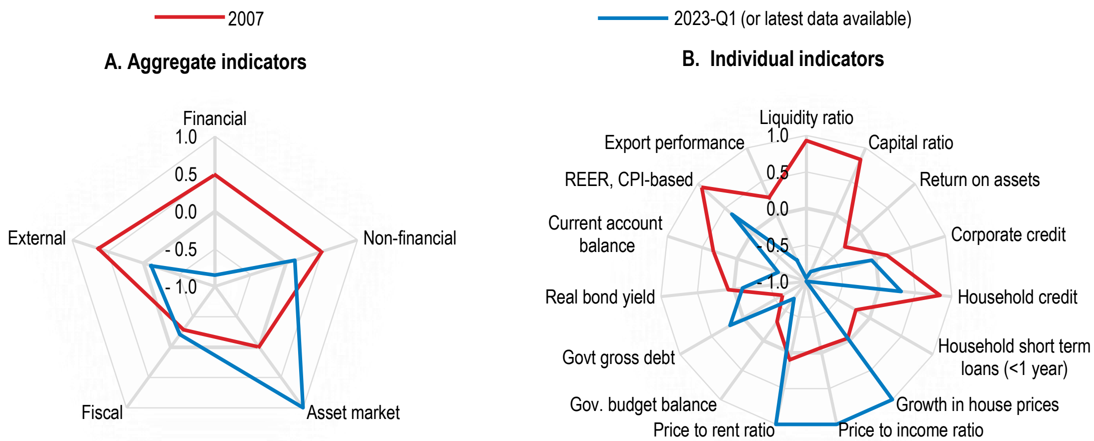
Financial risks will require close monitoring

The resilience of Portugal's financial system has been strengthened significantly since 2007 (Figure 1.8). Financial soundness indicators show continuous improvements since the onset of the sovereign debt crisis in 2010 and the credit ratings of major Portuguese banks have improved over recent years. Non-performing loans (NPLs) have declined sizably, to 3.0% of all outstanding loans and 1.3% net of impairments in 2022Q4 yet remain above the OECD and euro area averages (Figure 1.9, Panels A and B). Liquidity and capital ratios have improved, although capital ratios remain below the OECD average and should further increase in light of potential future challenges (Panels C and D). Prudence with respect to dividend distributions and share buybacks would be one possible step in this direction. Banks' funding structure has become more stable, with the share from customer deposits increasing to around 70% of bank liabilities in mid-2022, helping to mitigate high market volatility. Rising interest rates are leading to greater net interest income for banks, and alongside greater operating cost efficiency, are boosting bank profitability. At the same time, rising interest rates are also the most salient financial stability risk. Credit default risks may well increase as higher policy rates trickle down into lending rates, compounded by rising energy and input prices that are reducing households' disposable income and firms' profit margins. Banks remain vulnerable to potential swings in sovereign spreads and investor confidence in the sustainability of Portuguese public finances, as Portuguese sovereign debt securities accounted for 5.7% of the banking system's assets in early 2023, higher than the 2.7% euro area average (ECB, 2023[25]).

Figure 1.8. Macro-financial vulnerabilities have declined with the exception of the housing market

Index scale of -1 to 1 from lowest to greatest potential vulnerability, where 0 refers to long-term average



1. Each aggregate macro-financial vulnerability dimension is calculated by aggregating (simple average) normalised individual indicators from the OECD Resilience Database. Individual indicators are normalised to range between -1 and 1, where -1 to 0 represents deviations from long-term average resulting in less vulnerability, 0 refers to long-term average and 0 to 1 refers to deviations from long-term average resulting in more vulnerability. Financial dimension includes: regulatory capital ratio, regulatory Tier 1 capital ratio and the return on equity ratio. Non-financial dimension includes: private bank credit (% of GDP), household credit (% of GDP) and corporate credit (% of GDP). The asset market dimension includes: growth in real house prices (year-on-year % change), house price to disposable income ratio and house price to rent ratio. Fiscal dimension includes: government budget balance (% of GDP) (inverted) and government gross debt (% of GDP). External dimension includes: current account balance (% of GDP) (inverted) and real effective exchange rate (REER) (relative consumer prices).

Source: Calculations based on OECD (2023), OECD Resilience Database, June.

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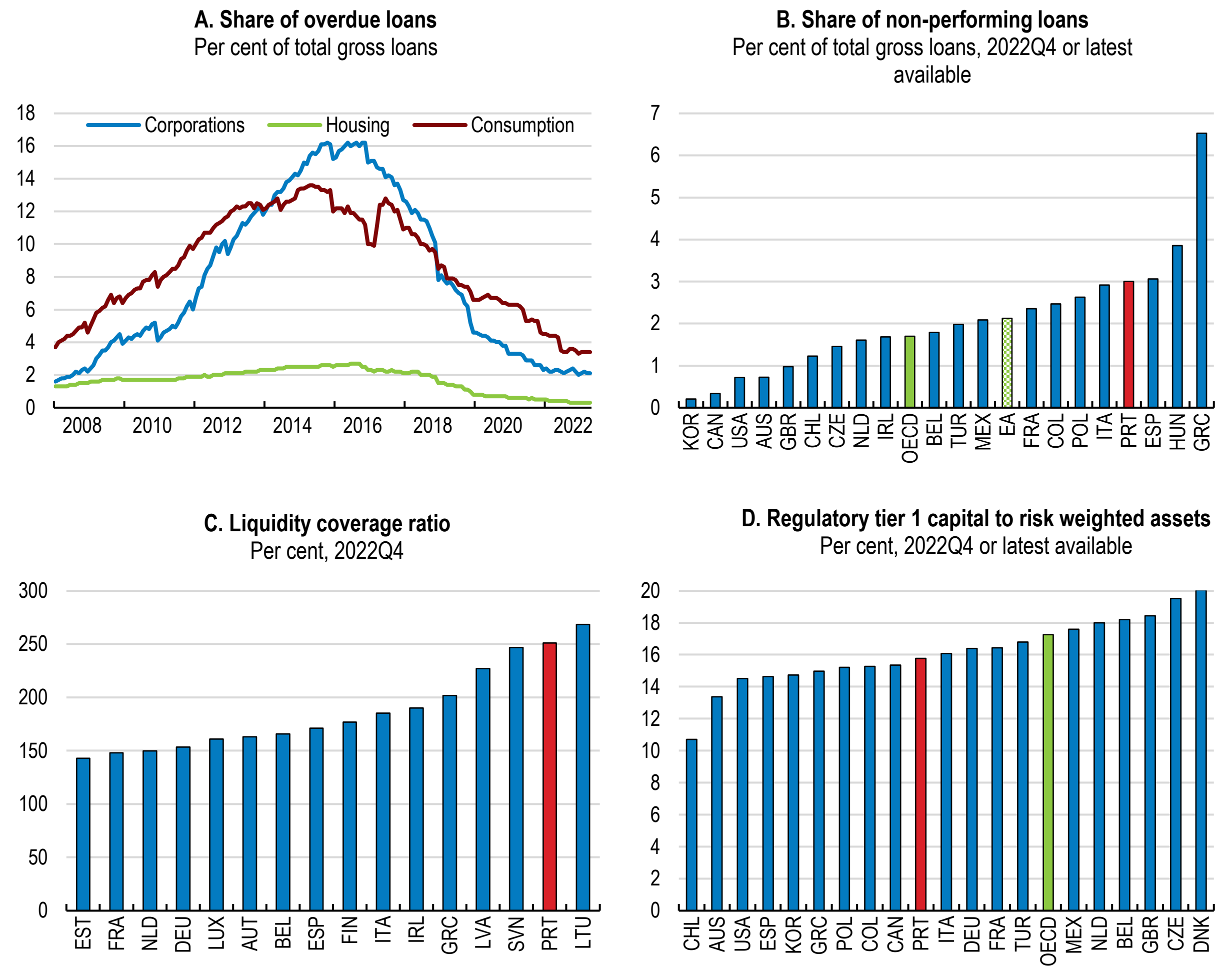
For loans to households, which accounted for 63% of bank loan portfolios and of which 78% consist of mortgages (Bank of Portugal, 2022[26]), higher interest rates have rapidly raised mortgage payments. In January 2023, 89% of the stock of housing loans was subject to variable interest rates, almost all of which with rates indexed to EURIBOR for up to and including one year. Around 85% of these will have had their interest rate revised by June 2023, relative to the low interest rates prevailing in early 2022 (Bank of Portugal, 2023[27]). While more households are now taking out loans with fixed rates, 68% of new housing loans are being issued with variable rates, compared to 15% in the euro area (Figure 1.10, Panel D). Increases in interest rates and subdued real household incomes are starting to affect households' ability to service their debts and may diminish the quality of mortgage loan portfolios. Average monthly mortgage payments have increased from EUR 254 in January 2022 to EUR 299 in December 2022 (INE, 2023[28]). By the end of 2023, around 11% of households with outstanding mortgages are estimated to have a loan-service-to-income ratio over 40%, compared to 5% in June 2022 (Bank of Portugal, 2022[29]). In the face of increasing risks, banks tightened credit standards on new housing loans over 2022 (Bank of Portugal, 2022[29]).

Risks associated with rising debt service costs are mitigated by the improved financial situation of households over the past decade (Figure 1.10, Panel C) and the low unemployment rate. The Government has also introduced policy measures to improve access to housing and lower debt repayments for low-income households (Box 1.3). Gross household debt as a share of gross disposable income has fallen to 90% in 2022, a decline of around 29 percentage points since 2013 (Figure 1.10, Panel C). Loan portfolios are mostly healthy, with loan-to-value (LTV) ratios at or below 80% for 93% of total mortgage loans in June 2022. Additional macroprudential measures implemented by the Bank of Portugal in 2018 introduced limits on LTV and debt service-to-income ratios, which has reduced the risk profile of borrowers (Bank of Portugal, 2022[26]; 2022[29]). Measures were further amended in 2022 by limits on the maximum maturity of mortgage loans.

Figure 1.9. The resilience of the banking sector has improved



Source: Banco de Portugal (2023), BPstat Database and IMF (2023), Financial Soundness Indicators, and ECB (2023), Statistical Data Warehouse, European Central Bank.

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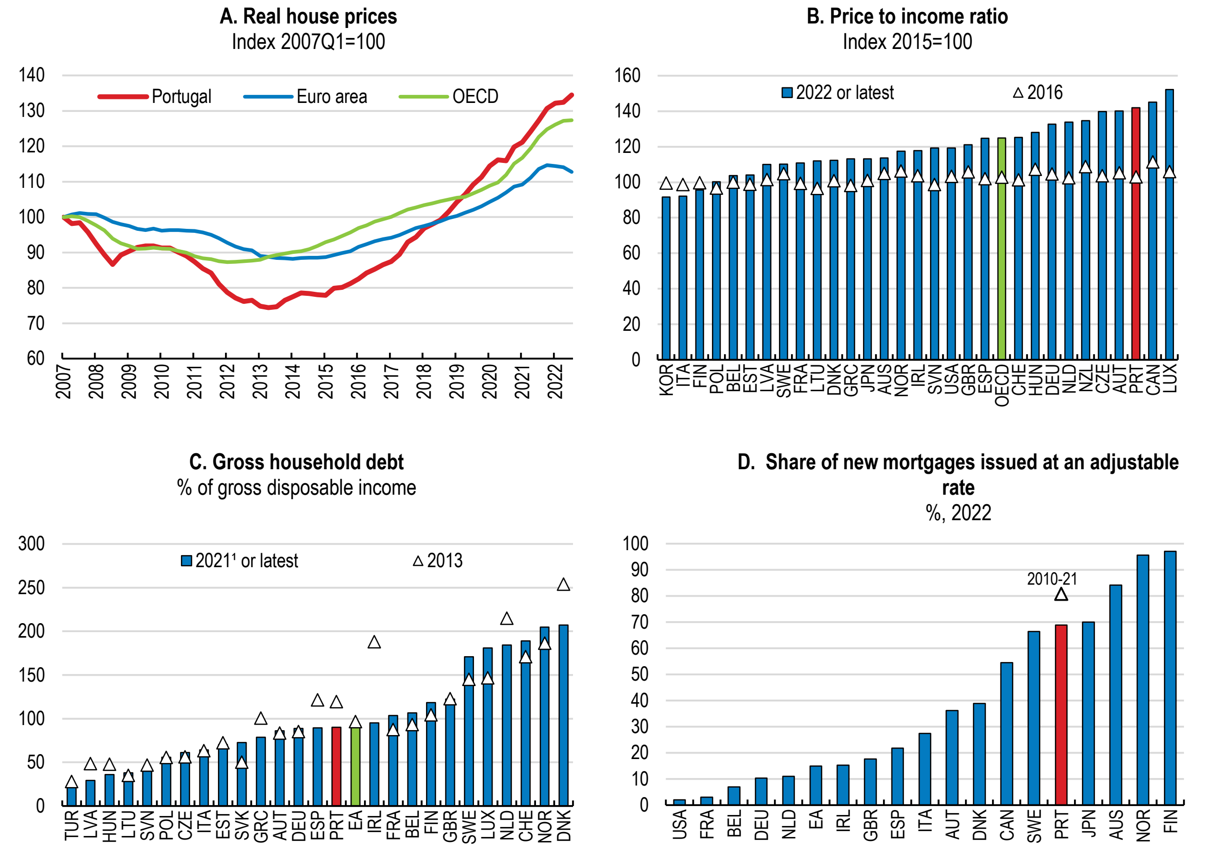
House prices have increased rapidly in recent years and have reached high levels compared to incomes (Figure 1.10, Panels A and B). This is in part due to the increasing share of non-resident buyers in the Portuguese real estate market, which amount to around 12% of the transactions' value, but significantly more in the Algarve region, Lisbon and Porto (Bank of Portugal, 2022[29]). However, the projected loss in real household income and the expectation of a continued increase in interest rates will tend to lead to lower demand for housing by residents. While in the short term, the risk of a sharp decline in house prices is likely to be limited by tight supply constraints and continued demand from non-residents, the housing market is a key risk to the financial system and requires careful monitoring (Figure 1.8). In line with the strengthened legal and regulatory framework for managing credit at risk of default or overdue, obliging credit institutions to adopt a more proactive approach (Bank of Portugal, 2022[29]), banks should continue to identify and present solutions to prevent household credit default. This could include the renegotiation and restructuring of credit contracts to adapt loan conditions to borrowers' ability to service their debt. Adults' financial knowledge appeared low in 2020 (OECD, 2020[30]) and in the longer term, further efforts to improve financial literacy could help to limit financial risks for households, as planned in Portugal's ambitious long-term strategy to raise financial literacy (OECD, 2022[31]).

Figure 1.10. Housing market vulnerabilities remain high



1. 2022 for the euro area, Portugal and the Slovak Republic.
Source: OECD Analytical House Prices Indicators (database); Eurostat, National Accounts (database); OECD (2023) Economic outlook and ECB, Statistical Data Warehouse.

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The financial situation of firms, which account for around 36% of banks' loan portfolio (Bank of Portugal, 2022[29]), has improved over the past decade, and this provides a greater buffer for firms to face the current challenging macroeconomic conditions. At the onset of the pandemic, policy measures helped to mitigate financial stress for firms, including a moratorium on bank loan repayments, guaranteed credit lines, tax relief and extended deadlines for tax payments (OECD, 2021[1]). After a temporary increase in 2020-21, corporate debt declined to its 2019 level in mid-2022 (Figure 1.11, Panel A) and the coverage ratio of corporate debt service costs was above its 2019 value. Insolvencies remain lower than in 2019, although filings remain incomplete as mandatory insolvency filings for debtors unable to meet credit obligations remain suspended, even though the moratorium on bank loans was phased out in September 2021 (Bank of Portugal, 2022[29]).

Risks surrounding corporate loan portfolios are likely to rise in the future as higher interest rates quickly increase financing costs, adding to the financial challenges resulting from the pandemic and the rise in energy and other input costs. Around 70% of firm debt was on floating rates in 2022 and an additional 15% was fixed at a maturity of less than 12 months (Bank of Portugal, 2022[29]). While firms' profit margins have increased since 2020, they have been low over the past five years relative to the previous decade, which may limit firms' ability to absorb increasing costs (Figure 1.11, Panel B). Input cost pressures could also further reduce profit margins, particularly for those firms most exposed to price increases in energy or raw materials. The Bank of Portugal estimates that in 2023 the proportion of vulnerable firms will increase to around one in four, only slightly below the levels reached during the sovereign debt crisis (Bank of Portugal, 2022[29]). These developments should continue to be closely monitored. Portugal could also consider adopting a mechanism to review inbound foreign investment with the objective of safeguarding national security goals.

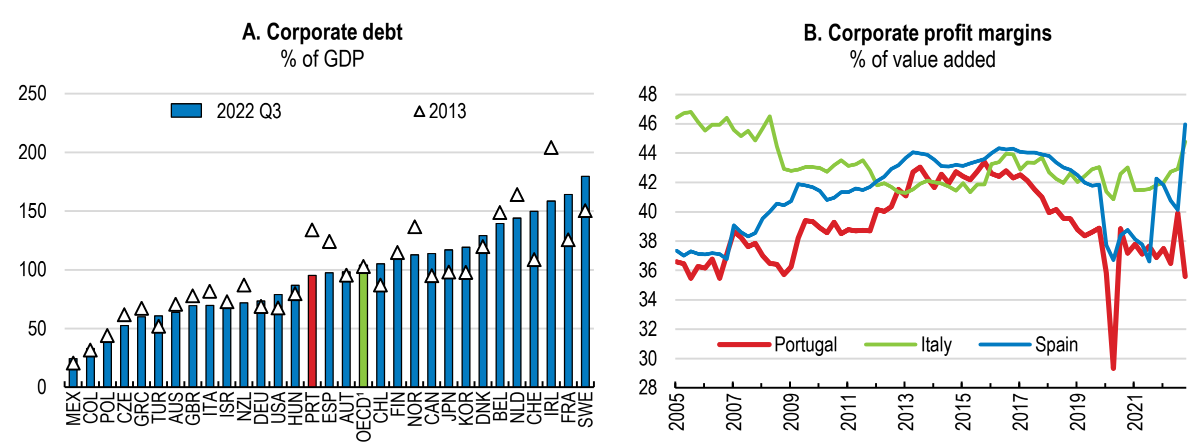
Box 1.3. Recent developments in housing policies

The More Housing (*Mais Habitação)* programme is expected to be approved mid- 2023. The programme is based around five pillars, including:

- **Increasing the supply of residential property** by reclassifying land or commercial property for residential use and making state property available for development as affordable housing.
- **Simplifying licensing procedures** by shifting the licensing responsibility of specialty projects from municipalities to designers and introducing a financial penalty on public entities for not meeting legal licensing deadlines.
- **Increasing the supply of houses for rent.** Some measures aim to increase landlord's confidence, such as through the state rent-to-sublet scheme and state guarantee in the case of a tenant's default. Others aim to increase the state supply of rental housing through exempting the capital gains tax on property sales to the state. Lastly, some measures promote affordable rent by providing a credit line to municipalities to carry out coercive works, the compulsory letting of certain vacant houses; and increasing tax exemptions for affordable rents and longer-duration leases.
- **Combatting speculation** by ending golden visas and regulating rental growth.
- **Supporting households** by exempting the capital gains tax on housing sales for loan repayments; requiring banks to offer fixed-rate mortgages; and subsidising interest repayments and rents of low-income households.

Source: Governo da República Portuguesa (2023[32]), *Mais Habitação*.

Figure 1.11. Vulnerabilities of non-financial corporations remain high



1. Average of the OECD countries for which data is available.
Source: BIS, Credit Statistics (database); Eurostat (2023), National Accounts (database).

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Table 1.4. Past OECD recommendations to address financial risks

Recommendations in past surveys	Actions taken since 2021
Strengthen incentives for banks to reduce their non-performing loans should they prove insufficient.	Non-performing loans continued to decrease over 2022.
Consider establishing a national asset management company.	No action taken.
Develop equity markets to diversify financing sources, for instance by establishing equity funds.	The Securities Code Act was revised, simplifying and reducing some regulatory burdens and barriers and increasing alignment with European legislation.
Improve awareness of entrepreneurs on equity instruments tools.	The Portuguese Securities Market Commission (CMVM) has promoted initiatives, including the *Issuer's Guide* online resource and *Via the Market* communication channel.

Strengthening macroeconomic fundamentals for a sustainable recovery

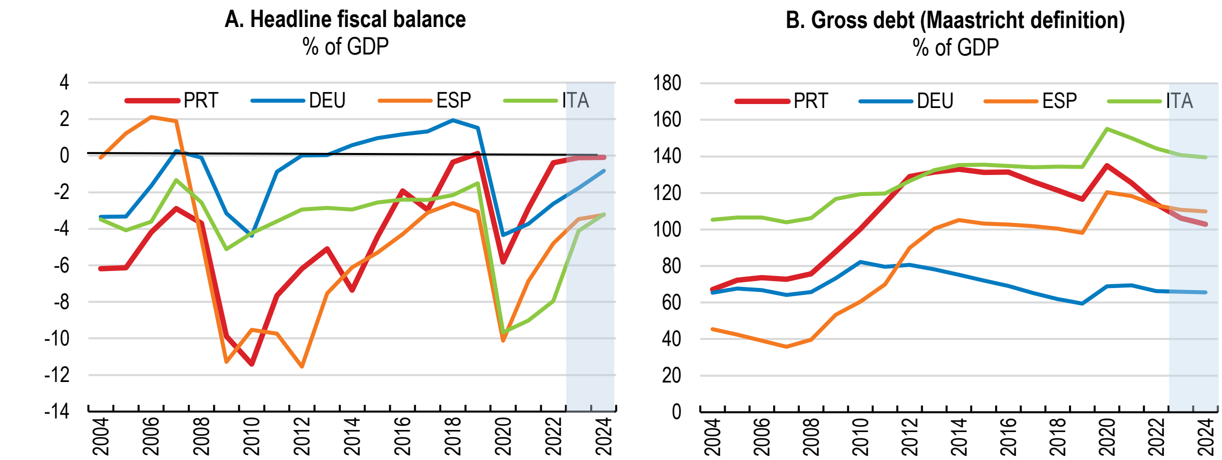
Ensuring fiscal sustainability

Like in all OECD countries, the COVID-19 crisis triggered a deterioration of public finances in Portugal, widening the fiscal deficit to 5.8% of GDP in 2020. Since then, the deficit has progressively declined to 2.9% of GDP 2021 and 0.4% in 2022 (Figure 1.12, Panel A). After a steady trend decline over 2011-19, public debt increased in 2020, but fell back to its pre-COVID-19 level in 2022. In 2022, the significant support measures linked to surging inflation were compensated by the phasing out of the COVID-19 measures, and by buoyant revenues stemming from the economic rebound and higher-than-expected inflation.

Current fiscal plans are projected to result in a continuous improvement in headline fiscal results over 2023-24. Nonetheless, public debt will remain at high levels in historical comparison and as an open economy, Portugal will remain exposed to external shocks (Figure 1.12, Panel B). The planned fiscal easing of 0.8% of GDP in 2023 aims to strike a balance between providing necessary support without adding to inflation. The general increase in pensions (0.7% of GDP), as well as the increase in wages for civil servants (0.4% of GDP), and the prolonged emergency measures in response to high inflation will raise current spending. On the revenue side, grants from the Recovery and Resilience Facility are set to provide funding of about 1.5% of GDP in 2023, while the adjustment of the personal income tax brackets and new investment incentives in the corporate income tax will lead to a (minor) reduction in 2024 income taxes.

Fiscal risks have grown due to large increases in contingent liabilities and the rise in energy and commodity prices, as well as disruptions to global value chains and tighter financing conditions. The impact of the pandemic pushed government guarantees to non-financial-corporations to 6.4% of GDP in 2020 and liabilities linked to State-Owned Enterprises (SOEs) and Public-Private Partnerships (PPPs) to 40.5% of GDP (Eurostat, 2022[33]). Government guarantees were rightly directed to firms with good pre-crisis creditworthiness in the most affected sectors (Bank of Portugal, 2022[29]). Nevertheless, these off-balance-sheet liabilities are vulnerable to potential corporate defaults, and the fiscal impact of executing the guarantees could be large (Tribunal de Contas, 2022[34]). In the same vein, capital injections in private companies, like for instance in the national aviation company TAP, could become a drag on fiscal accounts if the supported firms do not recover (OECD, 2021[1]).

Figure 1.12. The budget position is projected to improve in the short term



Source: OECD (2023), OECD Economic Outlook: Statistics and Projections (database).

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Demographic changes will further weigh on public finances in the coming decades. According to the baseline scenario of the European Commission's Ageing report, ageing-related expenditures are set to rise by 2.7% of GDP by 2040, with half of the increase coming from health and long-term care, before declining thereafter (Table 1.5; Chapter 2). Despite an automatic link between the retirement age and life expectancy, pension expenditures will also rise in the medium term (see below). Sizable efforts will therefore be required to maintain Portugal's public debt on a firmly declining path. In the absence of structural reforms to increase spending efficiency and curb the projected rise in expenditures, ageing could push the debt level significantly upwards by 2060 (Figure 1.13). By contrast, gradual fiscal consolidation combined with policies to foster GDP growth would keep public debt on a firmly declining path (Box 1.5 and Box 1.6). Although clouded by significant uncertainty, these debt simulations appear broadly in line with recent analyses by the Portuguese fiscal council (CFP, 2021[35]) and the European Commission (EC, 2022[36]).

Table 1.5. Ageing-related spending is projected to increase substantially

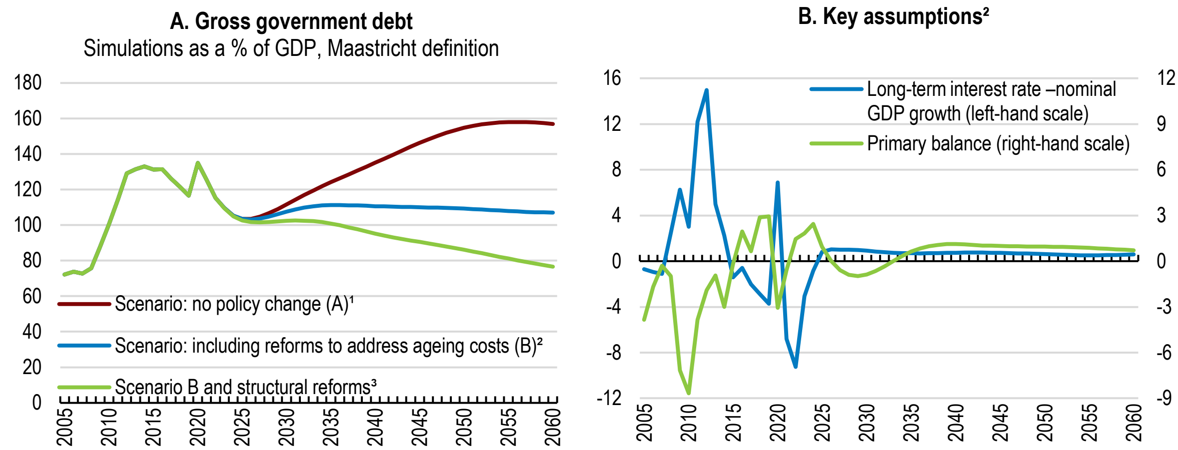
As a percentage of GDP unless otherwise indicated

	2019	2025	2030	2040	2050	2060	2070
Public pensions expenditure, gross[1]	12.7	13.3	14.2	14.4	12.6	10.5	9.5
of which:							
Old-age and early pensions	10.4	10.9	11.7	11.7	10.2	8.4	7.8
Disability pensions	0.5	0.5	0.5	0.6	0.5	0.5	0.6
Survivors pensions	1.6	1.7	1.8	1.9	1.8	1.5	1.1
Public spending on healthcare[2]	5.7	6	6.3	6.8	7.2	7.4	7.3
Public spending on long-term care[2]	0.4	0.5	0.5	0.6	0.8	0.9	0.8
Education	4.3	3.9	3.8	4	4.2	4.1	4.1
Total ageing-related spending	**23.1**	**23.7**	**24.8**	**25.8**	**24.8**	**22.9**	**21.8**
Old-age dependency ratio (20-64)	*37.3*	*41.9*	*47.2*	*59.6*	*68.8*	*67.9*	*67.3*
Life expectancy at 65[3]	*18.4*	*18.9*	*19.4*	*20.4*	*21.4*	*22.3*	*23.2*

Note: 1. AWG baseline scenario, 2. AWG Reference scenario. 3. Males.

Source: EC (2021), The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070).

Figure 1.13. Structural reforms will help keep public debt on a declining path



1. This scenario includes the costs of ageing as described in European Commission Table III.1.137 (2021). As a result, the primary balance deteriorates by 1.2% of GDP on average over 2025-60, compared to the key assumptions in Panel B.
2. The public debt path in scenario B is based on the assumptions in Panel B. These assumptions are taken from the long-term model described in Guillemette and Turner (2021). In the model, the rise in spending related to ageing is offset in full, and the primary deficit develops endogenously and stabilises public debt in the long term at 2021 levels.
3. The "OECD-recommended reforms" scenario adds the estimated effects of the reforms recommended in this Survey (Boxes 1.4 and 1.5). This scenario assumes an increase of the primary balance of 0.6 percentage point of GDP by 2028.

Source: Adapted from OECD (2023), OECD Economic Outlook: Statistics and Projections (database), June; and EC (2021), "The 2021 Ageing Report: Economic and budgetary projections for the EU Member States (2019-2070)" Directorate General for Economic and Financial Affairs.

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In this context, Portugal should strengthen its fiscal strategy to keep debt on a declining path over the medium term in line with EU fiscal rules. The government plans to achieve a primary surplus of 2.9% of GDP by 2027 on the back of the economic recovery, the gradual phase-out of emergency support measures and the containment of public spending (Portuguese Ministry of Finance, 2023[37]). In the short term, fiscal support should become more targeted to mitigate the impact on vulnerable households while gradually phasing out support. At the same time, the strategy needs to contain escape clauses to avoid that maintaining targets despite slower growth leads to a pro-cyclical fiscal stance. In the medium term, in order to set the debt-to-GDP ratio on a sustainable path and increase the efficiency of public spending, it is necessary to better identify the costs and benefits of each public policy while improving the budgetary process (OECD, 2019[38]; 2021[1]; Tribunal de Contas, 2022[34]). This should be centred on stronger financial management, reducing tax expenditures, containing pension expenditures and increasing public spending efficiency, notably in the health sector (Chapter 2), to help rebuild fiscal room for much-needed investment after the European funds end.

Moving towards a performance-oriented and transparent budget framework

Strengthening the fiscal framework

Improving the budgetary framework and ensuring its effective implementation is key for the sustainability of public debt and the efficiency of public spending. The implementation of the 2015 Budgetary Framework Law (BFL) – which has experienced systematic delays since its adoption – has a clear potential to strengthen overall budgetary planning and monitoring, through a stronger medium-term focus and enhanced transparency (OECD, 2021[1]; Tribunal de Contas, 2022[34]). In particular, the development of the foreseen new accrual-based public accounting system by all government sectors and bodies is still outstanding (Tribunal de Contas, 2022[39]). A number of measures contained in the BFL are being gradually implemented, and the 2022 amendments to the Budgetary Framework Law will aim to improve the ex-post evaluation of macroeconomic forecasts and the role of the Portuguese fiscal council (IMF, 2022[40]). Yet, more needs to be done to strengthen expenditure control, cost-efficiency, and appropriate budgeting to prioritise growth-enhancing expenditures and facilitate the rechannelling of public resources to strategic priorities, such as ensuring a better functioning of the health system (Chapter 2) and delivering on the green and digital transitions.

Portugal should take stock of overall public expenditure and systematically reassess the strategic importance of spending items for policy priorities. In recent years, social expenditures have increased rapidly, while investment, notably in infrastructure, education and health has lagged behind (Figure 1.14). Rationalising public expenditures and improving their efficiency will require regular spending reviews and evaluations. A major first step would be to establish coordinating entities in each ministry in charge of budget execution, as recommended in past Surveys. This would provide them with guidelines for setting programme objectives and assessments of targets (OECD, 2018[41]) and free up resources in the Ministry of Finance for the analysis of the financial performance of programmes and for establishing regular and systematic spending reviews. Indeed, the spending review launched in 2016 (*revisão da despesa*) did not lead to quantified savings and lacked monitoring (CFP, 2021[35]). Broadening the collection of performance information and developing evaluation capacity is a necessary condition for the success of future spending reviews. Performance information is unevenly collected and data are not sufficiently used as a strategic asset to serve citizens (OECD, 2021[1]). A renewed and improved spending review, focusing in particular on social benefits, healthcare costs, and controlling pensions and public sector wages, could help to identify areas for potential savings, and support prioritisation, as in Canada and the United Kingdom (Box 1.4). Regular evaluations of their effects would be key to ensure the efficiency of these reviews (Tryggvadottir, 2022[42]).

Strengthening medium-term budgeting would also help define concrete actions to achieve fiscal objectives by subsectors and policy areas. In Portugal, medium-term fiscal plans are not binding, temporarily due to a transitional rule of the Budgetary Framework Law, and deviations from plans within a year were frequent even before the pandemic (OECD, 2021[1]). The multi-annual framework still has several weaknesses with regard to budget transparency and accountability (Tribunal de Contas, 2021[43]). Its updates are presented at the same time as the annual budget, the coverage of expenditure limits is not transparent about the inclusion of capital increases and transfers, and the prospective expenditure path is insufficiently documented (CFP, 2022[44]; Raudla, Douglas and MacCarthaigh, 2022[45]; UTAO, 2022[46]). Furthermore, estimated impacts of policy decisions on the budget are not detailed (UTAO, 2022[47]). The Fiscal Council (CFP) and the Parliamentary Budget Office (UTAO) regularly point to the lack of information and incoherence in budget documentation. The budget administration needs to devote more resources to the provision of timely, transparent and comprehensive information on the draft budget (OECD, 2019[48]). The implementation of medium-term budgeting by programmes, in addition to the current breakdown by economic function, would also help for evaluation and prioritisation and would allow linking medium-term targets to the government's annual fiscal management (Tribunal de Contas, 2021[43]).

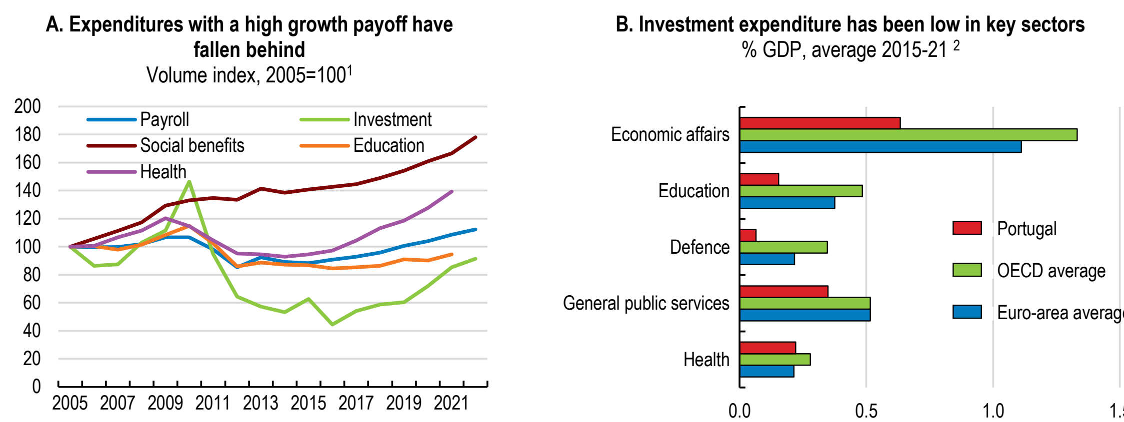
Box 1.4. Spending reviews in Canada and the United Kingdom

Canada's Policy on Results (2016) prioritised the achievement of better policy outcomes across government by enhancing transparency on the allocation of public resources, including a better use of evidence on performance and systematic spending reviews (OECD, 2019[49]). Spending reviews focused on thematic areas of spending, such as support for innovation and management of fixed assets. These reviews apply a results-driven, rather than a fiscally-driven, approach to spending assessment across all levels of government.

The United Kingdom provides an interesting example for linking spending reviews to the mid-term fiscal strategy. Such multi-year spending reviews were introduced in 1998. They usually set capital and current budgets for each ministry for a period of 3-4 years, with the final year of each spending review period becoming the first year of the subsequent one. After the publication of a spending review, the Treasury is responsible for overseeing its implementation, including spending controls during the year, and monitoring potential risks (Tryggvadottir, 2022[42]).

Source: OECD (2019[49]), *Budgeting and Public Expenditures in OECD Countries 2019*, OECD Publishing, Paris; Tryggvadottir, Á. (2022[42]), "OECD Best Practices for Spending Reviews", *OECD Journal on Budgeting*, vol. 22/1.

Figure 1.14. There is room to improve the structure of public spending



1. Expenditures are deflated by the GDP deflator. Public education and health expenditures are defined according to the COFOG classification.
2. Average gross fixed investment over GDP over 2015-21. The OECD average is unweighted and includes 30 countries (excluding Portugal) and the euro-area average includes 11 countries (excluding Portugal). Economic affairs cover transport, communication, fuel and energy and other industries.
Source: OECD (2023), National Account database and OECD calculations.

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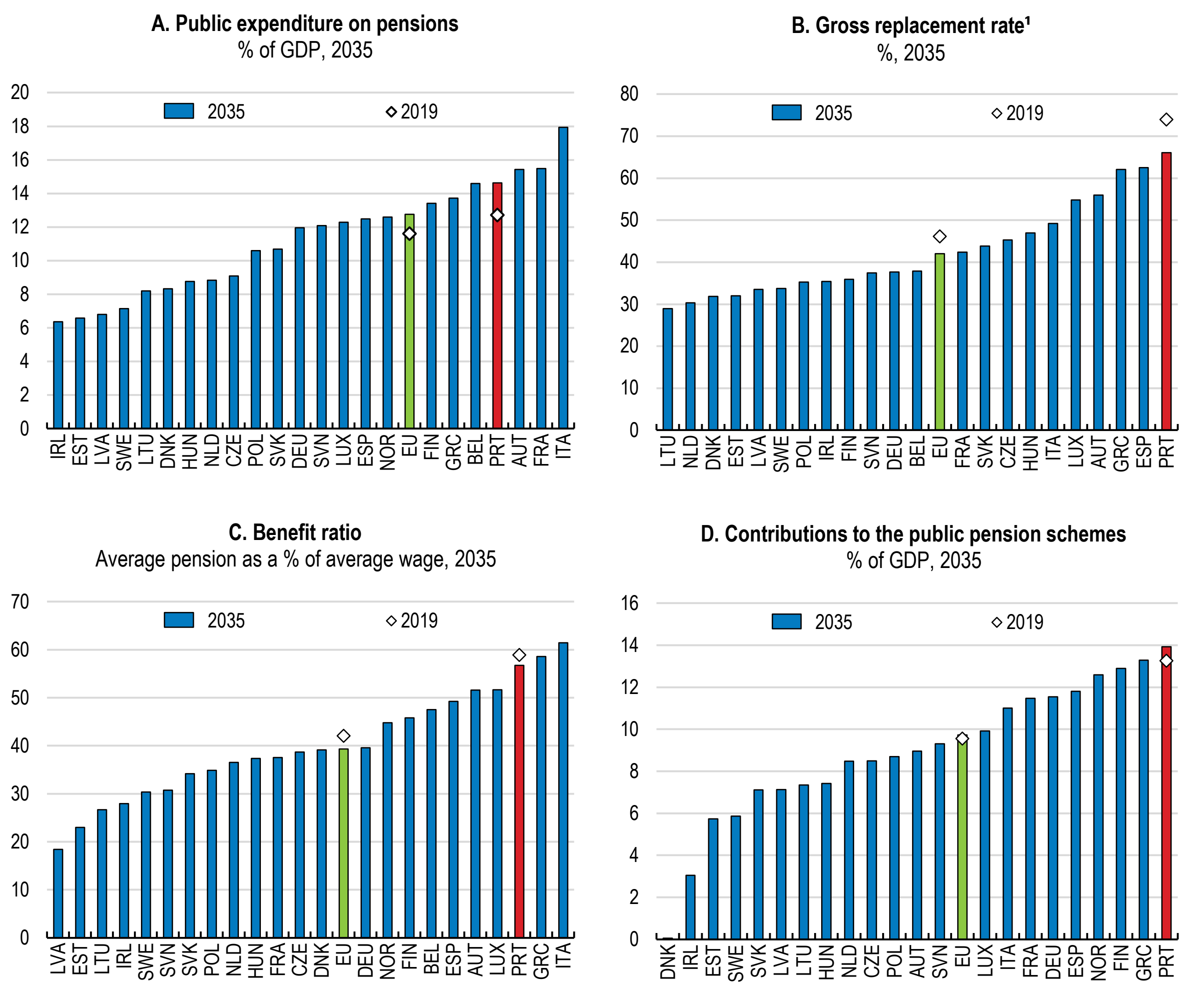
Improving the structure of social expenditures

A review of social expenditures could help to improve their effectiveness and promote more equal opportunities. Social expenditures have grown steadily from 18.6% of GDP in 2000 to 24.6% of GDP in 2022 (OECD, 2023[50]) and are expected to increase further due to population ageing, notably in the areas of healthcare (Chapter 2) and pensions (OECD, 2020[51]; 2021[52]). Moreover, the effects of the COVID-19 pandemic and the energy crisis have exacerbated structural challenges of social protection systems and drawn renewed attention to social safety nets in Portugal and many OECD countries (Cardoso, Vilar and Casquilho-Martins, 2020[53]; Hyee et al., 2020[54]). A strong social safety net should ensure socially acceptable living standards for households that have insufficient labour incomes and do not qualify for other benefits. Such benefits have become an increasingly crucial part of governments' strategies for stabilising family incomes and relieving acute economic needs (OECD, 2022[55]).

Public expenditures on pensions are set to rise markedly in the coming two decades (Table 1.5). Portugal has a public pay-as-you-go pension scheme and a small voluntary private pension market. Despite a shrinking working-age population, gross and net replacement rates in the main public scheme are expected to remain high, at the expense of high social contributions (Figure 1.15) (OECD, 2021[52]). Over the years, Portugal has implemented a wide range of reforms that improve the sustainability of the pension system: the statutory retirement age increases in line with the evolution of life expectancy and pathways into early retirement have been restricted (OECD, 2019[56]). Yet, the European Commission's projections foresee continuous increases in the public system deficit up to 2038, before its finances will gradually start improving (EC, 2021[57]). Moreover, following the COVID-19 and the energy crisis, a prolonged period of weak growth, especially via its potential negative impact on employment, could reduce social security contributions, increase unstable jobs and the already high number of older workers eligible to minimum pensions (OECD, 2019[56]) and weigh on fertility (Bravo, 2021[58]; Lopes, 2020[59]).

Figure 1.15 Public expenditures on pensions are set to increase further



Note: 1. Gross replacement rate at retirement in the old-age earnings-related public pension scheme.
Source: EC (2021), The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070), European Commission.

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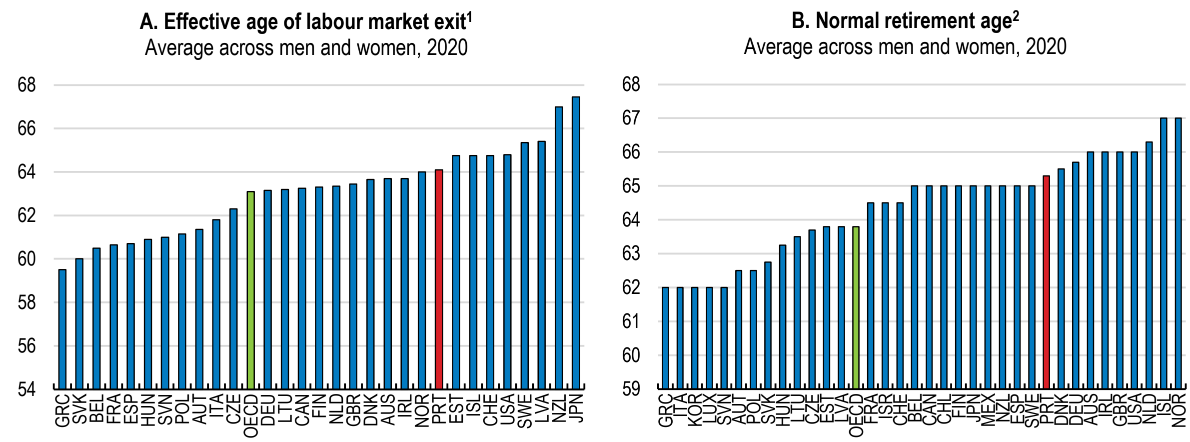
Efforts to further strengthen the sustainability of the pension system should ensure maintaining the level of old-age benefits while limiting increases in contributions, as the latter could weigh on employment prospects. This essentially leaves the retirement age as the only remaining margin of adjustment. However, both the statutory and the effective retirement age are above the OECD average (Figure 1.16).

The regular retirement age is already indexed to changes in life expectancy, but one option would be to apply the same indexation to the minimum age for early retirement, which is currently set at 60. This would help to improve pension sustainability over the long term as life expectancy rises, while limiting very large pension penalties for those who have to retire early (OECD, 2019[56]). Increasing progressivity in the public pension system could compensate for induced cuts in low pensions that such reforms could generate (OECD, 2021[1]). Moreover, the current design provides little incentive for deferring pensions after the normal retirement age. Reviewing the pace of additional benefit entitlements for each month of postponed retirement could help. Finally, a current pathway to early retirement that allows the long-term unemployed over the age of 62 (or 57 if they have sufficiently long contribution periods) to retire should also be reconsidered as it may disincentivise the reintegration of older workers into the labour market (OECD, 2019[56])

Figure 1.16. The effective and statutory retirement ages are relatively high



Note: 1. The average effective age of labour market exit is defined as the average age of exit from the labour force for workers aged 40 and over. 2. The normal retirement age is the age of eligibility of all pension schemes combined without penalty, based on a full career after labour market entry at age 22.

Source: OECD, Pension at a glance 2021.

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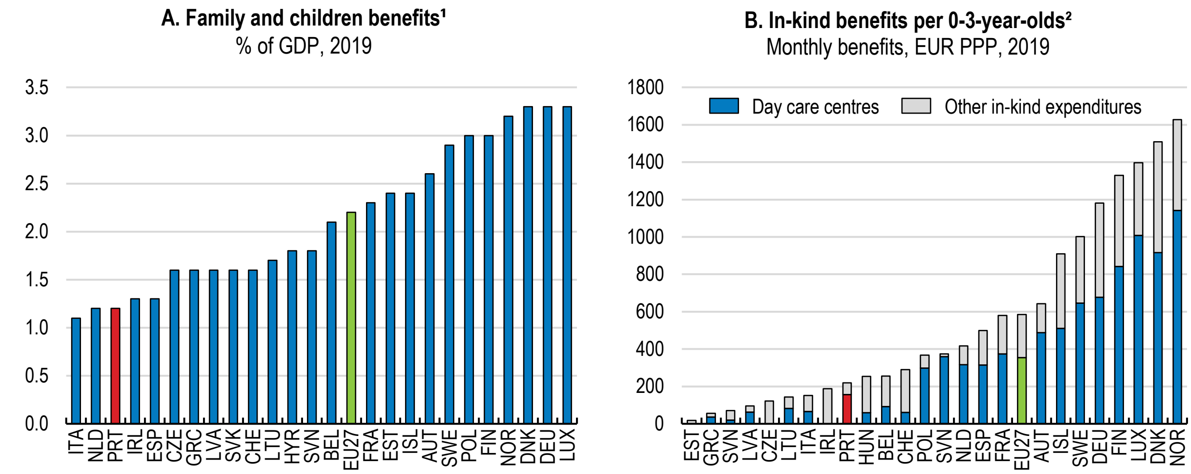
The complexity of Portugal's social protection system hinders its effectiveness and improvements would allow for better social protection without adding to fiscal costs (EC, 2022[60]). Income inequality as measured by the Gini coefficient is above the average of EU countries and slightly below the OECD average, while relative poverty is close to the EU average (OECD, 2023[61]). Portugal's main anti-poverty programme, the minimum income benefit (*RSI* or *Rendimento Social de Inserção*), which is available to residents above 18-years-old and their dependents, is subject to extensive means-testing and eligibility conditions but modest in terms of benefit values (Arnold and Farinha Rodrigues, 2015[62]; Narazani, Riscado and Wemans, 2022[63])). The RSI tops up recipients' monthly incomes to a reference income threshold, which was set at around EUR 190 for a single person in 2021-22, at 38% of the poverty threshold. Reforming the RSI, as planned by the 2021-30 Strategy Against Poverty, should be a priority. In particular, increasing the reference income threshold would improve protection against poverty risks. Efforts to increase the take-up of the RSI could also be reinforced as the benefit covered only around 20% of poor households in 2016, well below the OECD average (Hyee et al., 2020[54]). This is due to the low reference income threshold and the complexity of regulations and procedures (EC, 2022[60]). Streamlining and reducing the large number of means-tested benefits in Portugal, establishing a one-stop shop application within the public employment system as done in Austria, simplifying the eligibility criteria, and using data-linking to identify eligible non-applicants can help to improve take-up (OECD, 2020[64]). In addition, a large number of other social and means-tested benefits are directed to vulnerable groups (e.g. *Complemento Solidário para idosos, Prestação social para a inclusão, Pensões sociais mínimas, Apoio a* *pessoas com dependência*), often with overlapping entitlement provisions. Streamlining and consolidating them into a simpler system as currently planned could make them more cost effective and render support more accessible for the most vulnerable.

Reducing the fragmentation of the social protection system would help to better link social benefits with active labour market policies and unemployment benefits. Improving the coverage of non-standard workers would help. Workers with non-standard work contracts, notably young people (see below), are poorly covered by conventional social protection. In Portugal, as in Spain and Italy, the estimated probability of receiving social support after a job loss was around 50% lower for former self-employed workers than for workers who were on standard contracts (Immervoll et al., 2022[65]). This is despite unemployment benefits being (conditionally) open to owners of businesses and independent contractors. Indeed, some self-employed workers do not have access, e.g. unincorporated self-employed workers, or those working for more than one client. Moreover, the required contribution period for self-employed workers is twice as long as for employees (OECD, 2021[1]).

Family and child benefits are also comparatively weak (Figure 1.17). As part of a broad family policy framework of parental leave policies, family cash benefits, early childhood education and care provisions, as well as out-of-school-hours support, such policies could support more families' choices to have (more) children and a greater gender balance (OECD, 2011[66]). Indeed, the current fertility rate is low, at 1.40 children per woman in 2021, compared to 1.59 in the average OECD country (OECD, 2023[67]). Through the combination of the different types of paid leave around childbirth available in Portugal, 23.3 weeks of leave is earmarked exclusively for mothers, which is relatively close to the OECD average of 24.6 weeks. With 22.3 weeks, fathers have a noticeably longer period of earmarked leave than the OECD average (10.4 weeks). The remaining 6.9 weeks of fully shareable leave is below the OECD average of 25.4 weeks (Adema et al., 2023[68]). Though the take-up among men remains low (CES, 2022[69]), it is significantly higher than the OECD average (OECD, 2023[67]).

Yet, broader access to early childhood education and care provision could help parents combine a return to full- or part-time work with ensuring care for their child. Although enrolment in pre-school childcare in Portugal stood at around 93% for 3-5-year-olds in 2020, around half of it occurs in private institutions and enrolment rates in early childhood education and care services for 0-2-year-olds remain much lower, at close to 40% (OECD, 2022[70]). The government has been expanding free access to pre-primary care to low-income households in 2020 and 2021 and plans to roll out free access to all 3-year-olds by 2024-25 (EC, 2022[60]). This should go hand-in-hand with policies to reduce the cost of the mostly private day care centres (*Creche)* at earlier ages, notably by developing the publicly-funded network of non-profit *Creches*, as planned in the RRP, as well as expanding vouchers for accessing the private ones for low-income households (CES, 2022[69]) that were launched in 2023. This would allow more women to enter the labour market and support gender equality (Andersen and Nix, 2019[71]) and probably also fertility (OECD, 2011[66]). It could be partly done by reviewing the existing cash benefits system that extends up to age 24 and refocusing it on early childhood.

Figure 1.17 Family and child benefits are low



Note: 1. In 2022, the Childhood Guarantee was created, aimed at children under the age of 18 in a situation of extreme poverty. The benefits would amount to EUR 71 million in 2023. 2. Total in-kind benefits are not necessarily targeted at 0-3-year-olds. In-kind benefits include: child day care; accommodation; home help; and other benefits in kind, such as leisure centres and price reductions for children.
Source: Eurostat (2022), Social protection statistics - family and children benefits.

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Streamlining the tax system

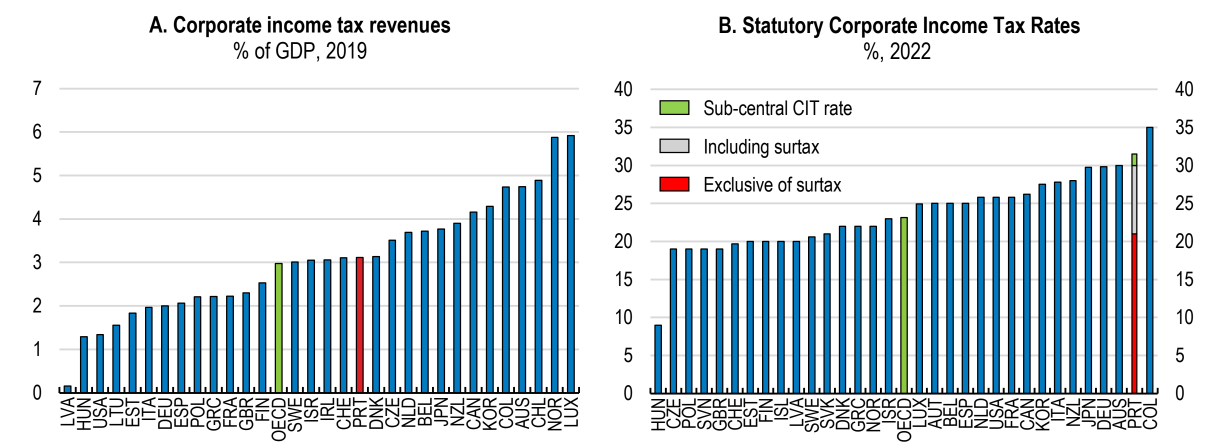
The revenue side of government accounts presents opportunities for improving efficiency and fiscal sustainability. Revising the tax composition can foster economic growth by reducing taxes most harmful to growth and inclusiveness (Johansson et al., 2008[72]; Brys et al., 2016[73]). Tax revenue has increased from 30.9% of GDP in 2000 to 35.8% in 2021, slightly above the OECD average (OECD, 2022[74]). Priority should be given to improving and simplifying the tax system, thus reducing the high compliance costs it imposes, especially on small and medium-sized firms, and broadening the tax base, allowing to potentially reduce statutory tax rates and the relatively high tax wedge on labour income (OECD, 2022[75]), notably for low-income workers (Box 1.5).

The medium-term fiscal strategy should include a revision of special provisions in the tax system. While taxpayers have online access to their prefilled tax declaration, filling tax returns remains lengthier than in most OECD countries (OECD, 2021[1]). Previous Economic Surveys pointed to the need to simplify the tax system by reducing the use of special provisions (tax allowances, credits, exemptions and reduced tax rates), as they make the tax system complex and less transparent and some of them may undermine the green transition (OECD, 2019[38]; 2021[1]; Tribunal de Contas, 2022[34]). Tax expenditures accounted for 6.2% of GDP in foregone tax revenues in 2019, which is high in international comparison, and reforms to broaden the tax base and evaluate whether all tax expenditures are cost-effective and meet their desired objectives should be considered. In fact, of the more than 500 identified tax expenditures, 120 do not appear to have a clear objective (Grupo de Trabalho para o Estudo dos Benefícios Fiscais, 2019[76]). As recommended by the OECD (Table 1.6), Portugal is setting up a unit to regularly monitor and assess tax benefits: it should regularly monitor these through public reports and assess their effects to help to reform the tax system.

Significant scope exists to improve the design of the corporate income tax system (Figure 1.18). A state surtax ranging from 3 to 9% depending on profits, reduced rates for small and medium-sized enterprises depending on their location, as well as municipal surcharges at rates of up to 1.5%, generate complexity for taxpayers (Braz, Manuel Campos and Cabral, 2022[77]). Direct tax withholdings are often too high, resulting in sizeable refund claims in the subsequent year, whose overall volume has exceeded 2% of GDP in the recent past. This entails considerable additional costs for businesses (EC, 2022[60]). Corporate income tax incentives to stimulate investment, R&D (OECD, 2021[78]) and more recently wage increases should be carefully evaluated and phased out if found ineffective. The international experience of payroll-based corporate income tax incentives to stimulate employment or wage increases is mixed. In France, such tax breaks did not have a significant effect, notably on small and young firms that tend to be less affected by the delayed corporate income tax reductions (Bozio, Cottet and Malgouyres, 2018[79]). In addition, there may be a case for reviewing size-contingent tax rates that were extended in 2023, as they may hamper the growth of small firms (Garicano, Lelarge and Van Reenen, 2016[80]).

Similarly, the design of the value added tax (VAT) remains characterised by a sizeable range of goods and services that are taxed at reduced VAT rates or exempt (EC/CASE, 2022[81]). In 2020, the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption stood at 49%, well below the OECD average of 56% (OECD, 2022[74]). Many goods and services that are taxed at a reduced rate do not appear to significantly contribute to reducing income inequality (Braz and Da Cunha, 2009[82])). For example, the reduced rates on housing maintenance, development and renovation work have a limited impact on employment and tend to benefit the wealthiest households. Moreover, once the recovery in these sectors is confirmed, it would be reasonable to review the reduced rates on hotels and restaurants, which tend to largely benefit the owners of these businesses (Benzarti and Carloni, 2019[83]), and the most affluent households. 10.2778/109823

Figure 1.18 Corporate tax revenues are around average despite a high headline rate



Source: OECD (2022), Corporate Tax Statistics: Fourth Edition.

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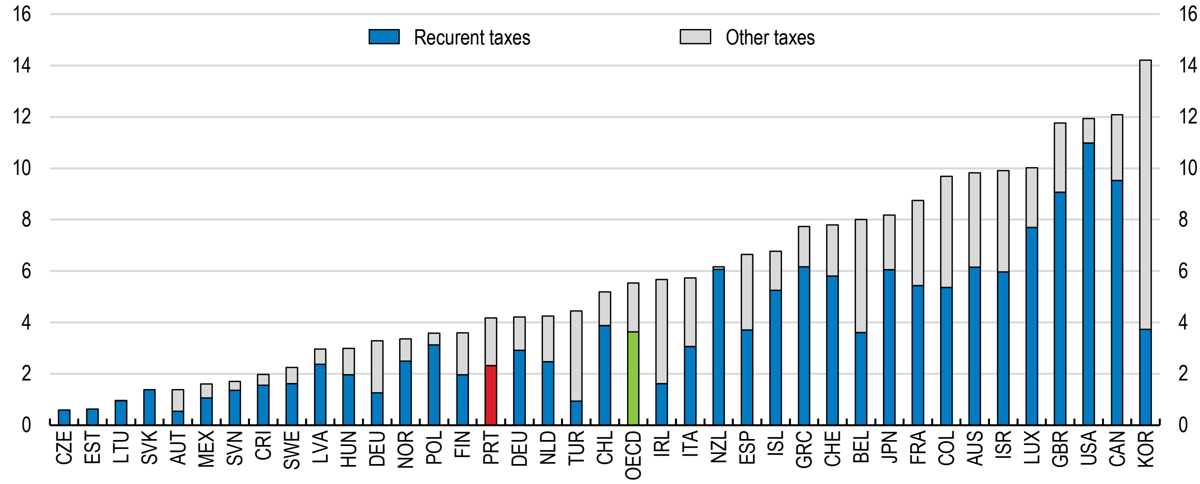
In addition, taxes on immovable property and inheritance taxes are relatively low, suggesting potential room for increases (OECD, 2021[1]) (Figure 1.19). The recurrent tax on real estate property (IMI) only accounted for 0.8% of GDP in 2021, its amount depends on the property reference value, the municipality, the household's characteristics and income. In addition, some new home buyers and properties are exempt. The tax base of the IMI should be reviewed and broadened including by abolishing some of the its numerous exemptions. This should go hand in hand with lower reliance on transaction taxes, which have been found to have negative effects on residential and labour mobility (OECD, 2022[84]). There is also scope to increase the use of environmentally-related taxes (see below).

Figure 1.19 Property taxation could be improved

Property tax revenue as a share of total tax revenues in 2020



Note: 2019 data for Australia, Greece, Japan, New Zealand and the OECD average. Data include taxes paid by households and non-households and include household and non-household real estate.
Source: OECD (2022), Housing Taxation in OECD Countries, OECD Tax Policy Studies, No. 29, OECD Publishing, Paris.

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Table 1.6. Past OECD recommendations on improving fiscal sustainability and effectiveness

Recommendations in past surveys	Actions taken since 2021
Simplify the tax system by reducing the use of special provisions (e.g. tax exemptions, special rates) and ambiguity in the tax language.	Portugal is setting up a unit to regularly monitor and assess tax expenditures. Yet, the temporary CIT reduced rate was extended in 2023. The partial Personal Income Tax exemption for younger workers was reinforced and a new partial Corporate Income Tax Exemption was also created in 2023.
Ensure the transparent and effective implementation of programmes financed with EU funds. Prioritise projects that have the strongest economic and social impact by relying on cost-benefit analysis.	Portugal has started implementing its Recovery and Resilience Plan. Supply-side disruptions, inflation, the size of the planned investments and the ambitious timeline present challenges.
Accelerate the implementation of the 2015 budget reform. Allocate adequate resources for the development of data collection, data interoperability, and analytical capacity.	The Recovery and Resilience Plan foresees the modernisation and simplification of public financial management, notably though the full implementation of the 2015 budget reform.
Duly implement the link between increases in the retirement age and life expectancy gains to continue to ensure the long-term financial sustainability of the pension system. Extend that link to the minimum age of early retirement.	In December 2022, the standard age to access retirement pension in was maintained at 66 years and 4 months in 2024 (as before) in line with life expectancy developments.
Increase the level and coverage of the minimum income benefits.	The Social Support Index (IAS), the reference value for many social support programmes, has been updated by 8.4% in 2023.

Box 1.5. Illustrative fiscal impacts of selected reforms

The *potential* fiscal impacts of policy recommendations made in this Survey are presented in Table 1.7 below. These estimates do not take into account indirect effects, such as those induced by the positive impact of the reforms on growth and public revenues, and some recommendations are not quantifiable.

Table 1.7. Illustrative fiscal impacts of selected reforms

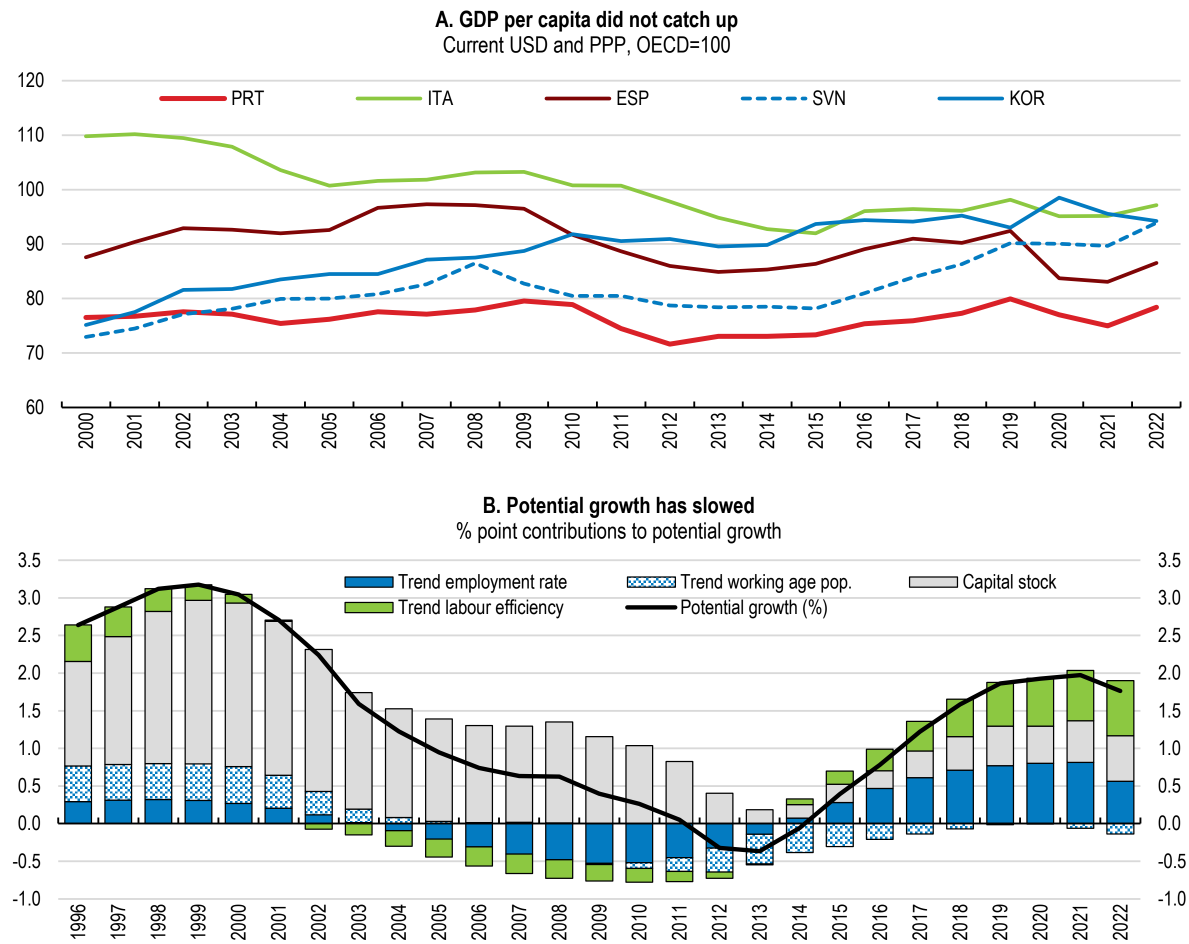
Reform	Medium-term fiscal impact (savings (+)/ costs (-)) (% of GDP)
Improving public spending efficiency – excluding health spending	0.6
Improving health spending efficiency (Chapter 2)	0.4
Increasing spending on R&D policies, while rebalancing support to SMEs	-0.2
Increasing spending on active labour market policies, including for smaller firms	-0.1
Improving family and children benefits	-0.2
Increasing environmental taxes and associated flanking measures:	
- Impact on revenues	1.0
- Additional support to the most vulnerable households and to accelerate investment in green mobility	-0.9
Strengthening the design of the VAT and CIT systems:	
- Streamlining reduced rates	1.0
- Lowering headline rates	-1.0
Increasing taxes on immovable property while lowering the labour tax wedge:	
- Increasing taxes on immovable property	0.3
- Lowering the tax wedge	-0.3
Total	0.6
Of which expenditure changes	-0.4

Note: These estimates roughly quantify the medium-term annual fiscal impact of selected recommendations in this Survey. They are based on the following assumptions: i) improving public spending efficiency as in OECD (2021) and health spending as the average 2020-60 difference between the reference scenario and the healthy-ageing scenario in EC (2021); ii) an increase in subsidies to business R&D as a share of GDP by 0.2 percentage points and rebalancing existing support by 0.2 percentage points; iii) an increase in active labour market spending as a share of GDP by 0.1 percentage point; iv) an increase of family in kind benefits by 0.2 percentage points; v) an increase in environmental taxation as a share of GDP to the average of the top quintile of the OECD (from 2.6% to 3.6% of GDP), with most of the revenues used to compensate poor households and to invest in electric mobility and public transportation; vi) a reduction of headline VAT and CIT rates financed through the streamlining of reduced rates and exemptions; and vii) an increase of taxes on immovable property by 0.3 percentage points while lowering the tax wedge.
Source: OECD (2021[1]), OECD Economic Surveys Portugal, OECD publishing, Paris; EC (2021[57]), The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070); and OECD calculations.

Policy reforms for stronger, more inclusive and greener growth

Additional reforms are needed to sustain further increases in employment, productivity and household income. Over the past two decades, Portugal's GDP growth did not allow for a significant catch-up with the EU or the OECD average (Figure 1.20). In 2021, GDP per capita was around 75% of the OECD average, or a third below the average of Germany and France, levels that are similar to those of the early 2000s. Despite its significant potential for economic catch-up, productivity growth has been slow and declining for the past 25 years. Capital accumulation per worker has substantially declined, including well before the crisis, as for most comparable economies. Multifactor productivity, which is more closely related to innovation, also decelerated and appears low in international perspective. Moreover, in the coming years, the high level of corporate debt, the foreseen slight increase in the unemployment rate and the disruption to the training and education system during the pandemic, as well as higher energy costs, could weigh heavily on corporate investment capacity and productivity.

Figure 1.20. Stronger growth is needed to support gains in living standards



Source: OECD (2023), OECD Economic Outlook: Statistics and Projections (database); OECD (2023), Productivity database.

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According to illustrative OECD simulations, the key recommendations made in this Survey could generate further gains of 2.2% in GDP per capita GDP after 10 years and 4.1% in the long term, mostly through higher productivity growth (Box 1.6). Measures to improve the institutional environment, such as those to ease regulatory barriers, strengthen support for SMEs and improve judicial efficiency, would generate stronger growth, largely through higher productivity growth and investment. Labour market reforms to promote hiring on permanent contracts, reduce labour taxes and increase the provision of early childcare services would help to further reduce long-term unemployment rates.

Boosting productivity growth

Portugal's low productivity growth is tightly related to resource allocation, in particular the increasingly inefficient allocation of jobs to less productive businesses in both the manufacturing and services sectors (Figure 1.21) (OECD, 2019[85]; Dias and Robalo Marques, 2020[86]). Laggard firms, as defined by the least productive firms within a sector, tend to have very low productivity compared to their peers (OECD, 2021[87]). From 2009 to 2015, the reallocation of labour and capital towards the most productive firms slowed markedly. Cumbersome regulations may have been partly to blame, as they tend to hinder firm entry and growth, as well as the flow of resources towards more efficient incumbent firms. Moreover, contrary to previous crises, there has been no acceleration in the exit of lower-productivity firms during the COVID-19 crisis (Banco de Portugal, 2021[88]; Kozeniauskas, Moreira and Santos, 2022[89]).

Box 1.6. Potential impact on growth of the OECD-recommended reforms

The estimated impact of some of the key structural reforms proposed in this Survey is calculated using historical relationships between reforms and growth in OECD countries (Table 1.8). These estimates assume a full and swift implementation of reforms.

Table 1.8. Potential impact of some reforms proposed in this Survey on GDP per capita

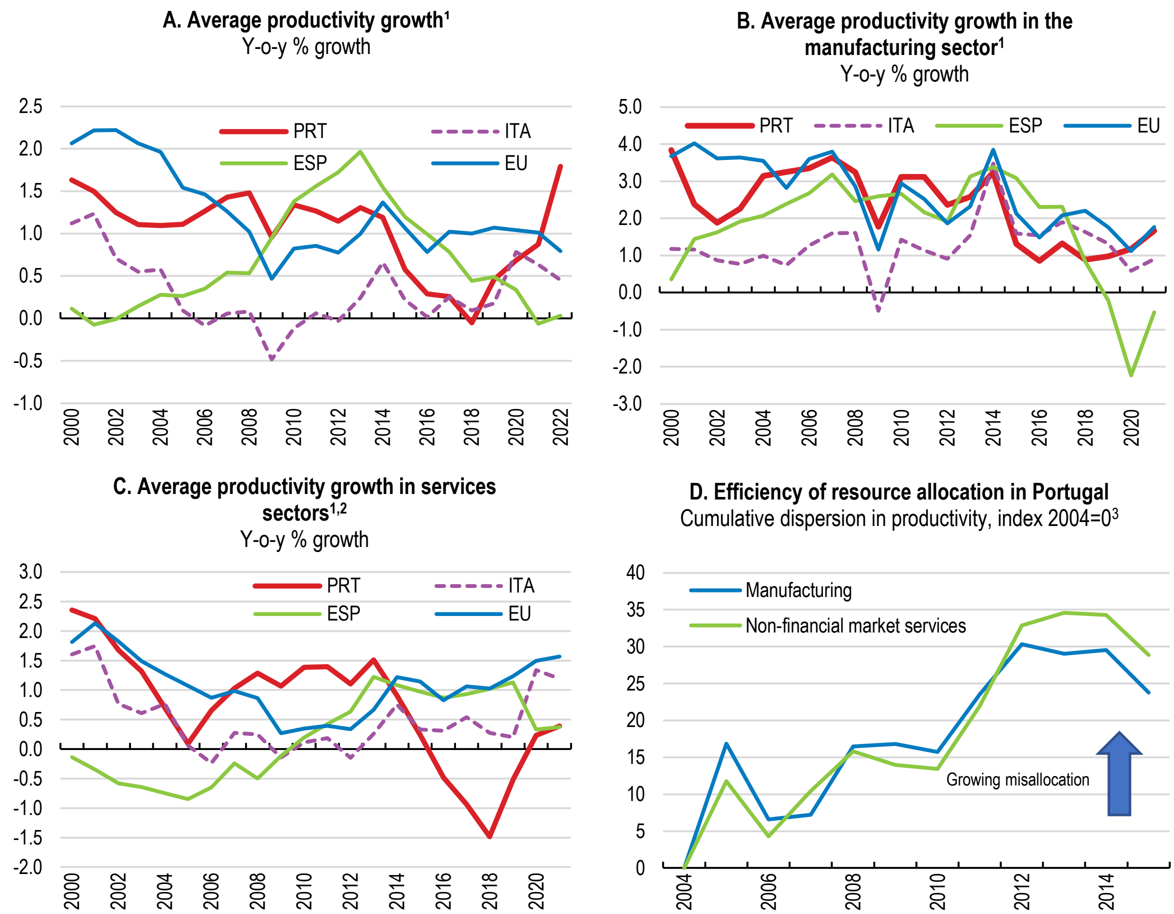
	Impact on GDP per capita[1] %			Decomposition of the long-term effect[1]	
	After 5 years	After 10 years	Long-term effect	Through employment	Through productivity
Strengthening active labour market policies for small firms (by 0.1% of GDP)	0.2	0.3	0.4	0.1	0.4
Increasing direct R&D support targeted at SMEs (by 0.4% of GDP)[2]	0.0	0.2	0.4	0.0	0.4
Improving judicial efficiency and contract enforcement[2]	0.2	0.9	2.0	0.0	2.0
Reviewing regulations in professional services[3]	0.0	0.1	0.1	0.0	0.1
Rebalancing of contract protection[4]	0.1	0.2	0.6	0.1	0.5
Increasing property and environmental taxes, while reducing labour taxes[5]	0.1	0.1	0.1	0.1	0.0
Increasing family benefits in kind by 0.2% of GDP	0.3	0.4	0.4	0.3	0.1
Total impact on GDP per capita	0.9	2.2	4.1	0.6	3.6

1. All figures are rounded to the nearest decimal point. The estimates assume full implementation of the reforms. 2. As in OECD (2021), the estimate for judicial efficiency and contract enforcement corresponds to increasing the Rule of Law indicator from the World Bank "Worldwide Governance Indicators" from 1.14 to 1.4 (the OECD median). 3. Reforms in regulations in regulated professions are assumed to bring the OECD regulatory sub-indicator from 2.4 to 1.3 (the level observed in the Netherlands). 4. Reforms are assumed to bring compensation for unfair dismissals as measured by the OECD Employment Protection Legislation indicator from 20 months to 12.4 months (as in France). 5. Increase in property taxes (0.3% of GDP) and revenues from environmental taxes (0.2% of GDP) are assumed to lower the tax wedge by 0.6 percentage points.

Source: OECD estimates based on based on B. Égert and P. Gal (2017[90]), "The quantification of structural reforms in OECD countries: A new framework", OECD Journal: Economic Studies, Vol. 2016/1; OECD (2021[1]), OECD Economic Surveys Portugal, OECD publishing, Paris; Guillemette, Y. and D. Turner (2018[91]), "The Long View: Scenarios for the World Economy to 2060", OECD Economic Policy Papers, No. 22, OECD Publishing, Paris.

Facilitating the reallocation of resources while preventing failures of viable businesses and facilitating corporate restructuring and insolvencies will be necessary to support a shift towards stronger growth. This means supporting lifelong training and boosting innovation, particularly in the digital field (OECD, 2021[1]), and increasing competition on markets that remain protected, for example the retail sector and regulated professions. Portugal's Recovery and Resilience Plan (Box 1.1) appropriately includes a number of initiatives which can improve employment (boosting digital skills and improving active labour market policies for jobseekers) and productivity growth of domestic firms (supporting their digitalisation, reducing barriers to investment, such as regulatory barriers to entrepreneurship, housing affordability and skill shortages).

Figure 1.21. Productivity gains have trended down until recently



1. 5-year lagged moving average of the growth rate of GDP per hour worked. 2. Business sector services excluding real estate. 3. The figure shows the estimated coefficients of annual dummy variables in a regression of logarithmic variance in labour productivity within industries in France, and within country-industry pairs in a set of reference countries, taking the first year as reference (Desnoyers-James et al., 2019). The dispersion is measured as the ratio of the 9th to the 1st deciles of the distribution of business productivity. The equations are estimated separately for manufacturing and non-financial market services.

Source: OECD (2023), Productivity database; OECD (2019), “Portugal: Productivity”, OECD Insights on Productivity and Business Dynamics, February 2019; Desnoyers-James, I., S. Calligaris, and F. Calvino (2019), “DynEmp and MultiProd: Metadata”, OECD Science, Technology and Industry Working Papers, OECD Publishing, Paris.

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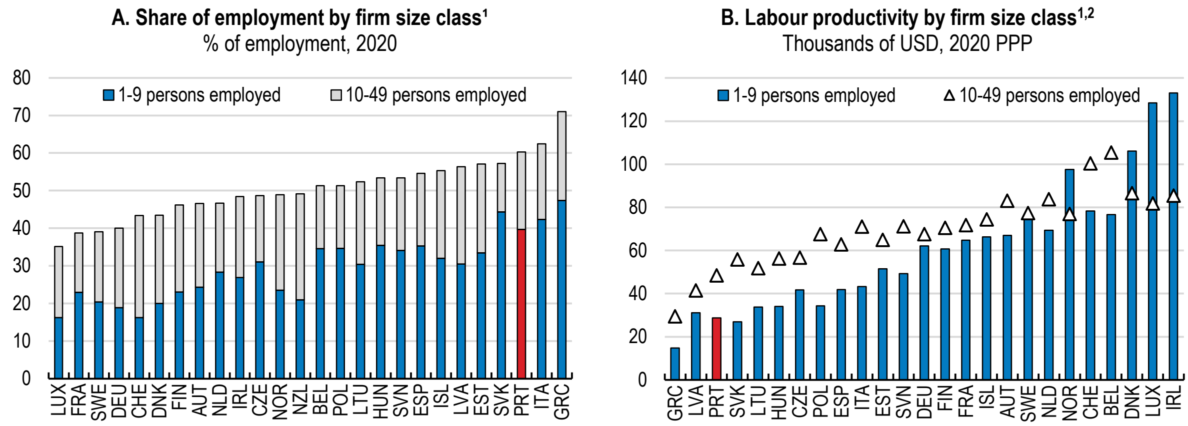
Helping small and innovative firms to grow

The productivity gap of Portuguese businesses relative to other OECD economies is particularly large for micro and small firms (OECD, 2019[85]). Micro and small firms are markedly less productive than larger ones (Figure 1.22). Start-ups and young firms grow slower than in other OECD countries, while employment is concentrated in micro firms and SMEs (OECD, 2019[92]): micro firms (those with up to nine employees) account for 40% of total business employment and those with up to 50 employees for over 60%, significantly more than in most OECD countries. Portugal also counts relatively more self-employed compared to the rest of the OECD. On the other hand, medium-sized and large firms account for only 16% and 24% of employment respectively, below the shares seen in many other OECD countries. While this is partly due to Portugal’s economic structure, small firms also account for relatively high shares of total employment in the manufacturing and knowledge-intensive services sectors.

Figure 1.22. Micro and small firms employ most workers but their productivity is low



1. Business sector excluding financial and insurance activities.
2. Value added per person employed in 2020.
Source: OECD (2023), Structural Statistics on Industry and Services and Business Statistics by Size Class and National account database.
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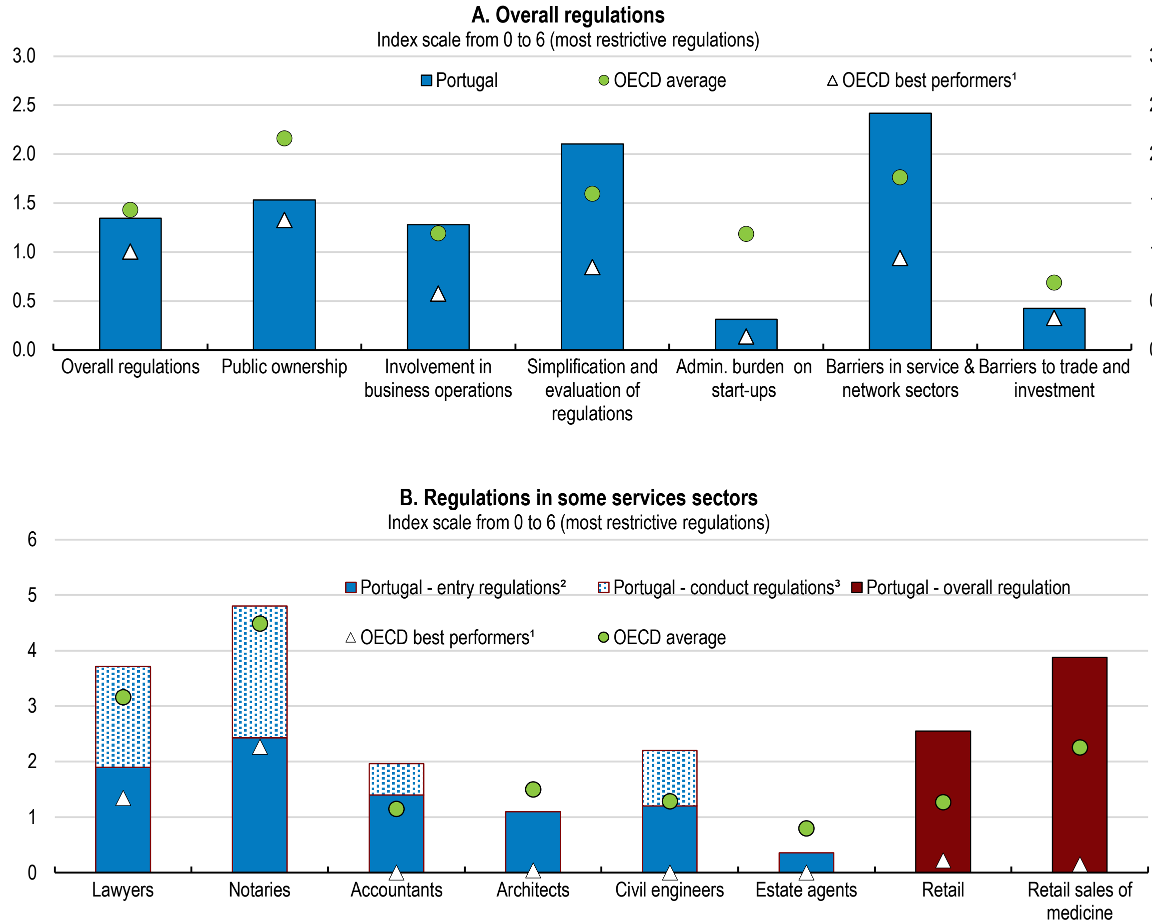
Portugal has a reasonably supportive regulatory and incentive environment for entrepreneurs, strengthened by recent reforms. Portugal ranks relatively well on the OECD Product Market Regulation (PMR) indicator, which measures regulatory barriers to firm entry and competition, although the detailed sub-indicators point to specific sectors where regulations remain relatively stringent, including some professions and the retail sector (Figure 1.23). Progress has been made in several areas. For example, the Portuguese economy is now one of the most open to foreign investment, the Entrepreneur's Desk (*Balcão do Empreendedor*) initiative aims to simplify entrepreneurship and business management by offering a digital single point of contact, and the SIMPLEX programme has progressively cut the administrative burden (OECD, 2020[93]). Nevertheless, there is room to strengthen evidence-based policymaking in Portugal, especially in terms of regulatory impact assessments (OECD, 2021[94]; EC, 2022[60]). The Government of Portugal has recently undertaken a range of key reforms to implement and strengthen regulatory impact assessments (RIA). Although the role of RIA has expanded, they are not yet used in consultations on regulatory proposals with stakeholders and preliminary RIA and RIA could be shared at various stages of consultations, as in Canada (OECD, 2016[95]). Moreover, there is no mandatory requirement for consultation with the general public or for conducting RIAs for primary laws initiated by the parliament. More extensive use of ex post reviews would also help to ensure that existing rules remain up to date and continue to deliver their policy objectives, for example by introducing "in-depth" reviews in particular sectors or policy areas (OECD, 2021[94]; 2023[96]).

Figure 1.23 Product market regulations remain stringent in some sectors



Note: 1. The figure for "OECD best performers" is the average of the five OECD countries with the least distortive regulations. 2. Entry regulations refer to the regulation of new entrants to the profession. 3. Conduct regulations refer to the regulation of the conduct of existing professionals.
Source: OECD (2019), Product Market Regulation indicators.

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Some regulatory settings also do not sufficiently promote competition in important industries that produce intermediate inputs, such as professional services, which can raise costs to firms and hamper growth (Figure 1.23) (OECD, 2021[1]). The reform of regulated professions as part of Portugal's Recovery and Resilience Plan (RRP) and the ongoing reform licensing requirement are an opportunity to address these barriers. They currently include nationality requirements for owning and practicing in some professional services, protective powers of the regulatory professional bodies and the use of exclusive rights that reserve certain tasks for members of the profession. In 2018, the OECD Competition Assessment of self-regulated professions in Portugal provided recommendations to address these barriers. As stressed in the previous Economic Survey and by the Portuguese Competition Authority, their full implementation should be a priority for policymakers (OECD, 2021[1]; AdC, 2021[97]). In addition, regulatory settings in the area of retail distribution are more restrictive than in most other OECD economies due to relatively strict registration and licencing requirements. Further simplifying procedures by reducing the number of permits, the number of entities involved, shortening procedural deadlines by using more tacit approval and reducing the cost of expanding businesses should contribute to supporting firm growth.

Improving access to finance can support new entrants. Venture capital is a valuable source of investment for innovative start-ups since they have few or tangible assets that can serve as security for obtaining finance (Lassébie et al., 2019[98]). Despite significant improvements in the past, namely through the Venture Capital Funds (e.g. Business Angels) and Co-investment Funds (e.g. 200M), the availability of venture capital financing is low in Portugal (OECD, 2021[1]). In addition, there is a wide gap in the availability of funds between early stage and later stage start-ups, that is significantly larger in Portugal than in other European countries (EIT Digital, 2020[99]) reflecting a lack of later stage financial options for start-ups to scale up.

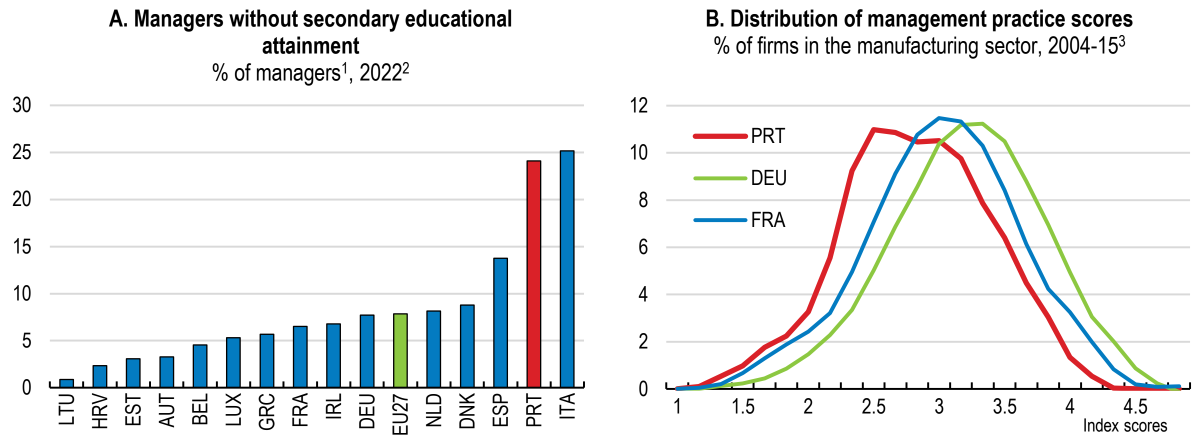
The weak macroeconomic environment also calls for strengthening the capacity of insolvency systems to absorb the potential coming stream of businesses in difficulties, enable the highest possible number of viable businesses to restructure successfully and contain the associated credit losses. While the average time needed to resolve civil and commercial cases in Portugal has continued to decline and is now close to the EU average (EC, 2022[100]), the estimated duration of insolvency proceedings remains well above the OECD average and the efficiency of administrative and tax courts could improve (OECD, 2021[1]; Bank of Portugal, 2022[11]). As recommended by the OECD (2020[101]), the Recovery and Resilience Plan foresees the creation of digital platforms to dematerialise judicial processes and reduce the administrative burden. It also proposes to undertake a review of the insolvency framework. Further steps could include the full rolling out of specialised courts, as currently 6 out of 23 jurisdictional units do not have specialised courts (Pereira and Wemans, 2022[102]). The use of out-of-court procedures should also be further encouraged to prevent court congestion and fasten procedures. Despite new procedures since 2019 and a temporary pandemic specific regime, their take-up remains low overall. Establishing a unique judicial portal for businesses that provides legal information and advice can increase awareness of available options for restructuring (OECD, 2020[101]). However, there has been significant progress on the implementation of the insolvency regime in 2022, notably to speed up the ranking of creditors affected by the recovery plan and the launch of a public tender for the future system (STEPI+), which will allow for a fully electronic handling of insolvencies.

Another factor holding back productivity growth may be a lack of skills, particularly management skills. Portugal has one of the highest proportions of managers without a secondary diploma and managerial practices in medium-sized and large firms appear to be lagging behind those in other countries (Figure 1.24). As in other OECD countries, these shortcomings have consequences for the allocation of resources, the ability to find appropriate staff, the adoption of new technologies and the development of skills (Baltrunaite, Bovini and Mocetti, 2021[103]). Surveys of management quality and organisational practices among industrial firms show that Portugal is significantly behind in adopting successful organisational delegation practices (Panel B; (Eurofound and Cedefop, 2020[104])).

Weak management practices have repercussions for almost all relevant aspects of firm productivity, as evidenced in firm surveys (Alexandre, Cruz and Portela, 2021[105]; INE, 2018[106]). For example, Portuguese firms with less structured managerial practices make less use of ICT tools and the education of the managers of small firms is positive correlated with greater resilience in the face of recessions, both in terms of value added and employment. This evidence highlights the need for improving human resources management practices and work-based training, especially for managerial positions.

Portugal's active labour market policies include management training programmes, some of which have been successful at raising employment, productivity and exports (Martins, 2021[107]). Public expenditure on training was 0.16% of GDP in 2020. However, frictions in information sharing appear to prevent small firms from accessing relevant active labour market policies (Custodio, Hansman and Mendes, 2021[108]). Public employment services could therefore increasingly target its efforts at small and medium-sized enterprises, notably by raising awareness about their employment services. Moreover, addressing the current high costs of recruiting staff, for example by developing free targeted recruitment services for SMEs, could lead to increasing job offers (Algan, Crepon and Glover, 2020[109]). More ambitiously, the establishment of local one-stop shops including public employment services for businesses combining training, recruitment and human resources services would provide better guidance to businesses in search of information and support.

Figure 1.24. Management skills have room for improvement



1. Share of managers with less than primary, primary and lower secondary educational attainments.
2. Or latest available year.
3. Firms with more than 50 employees. Scores are a measure of management practices across 5 key areas of management: operations management, performance monitoring, target setting, leadership management and talent management. Scores are scaled from 1 (worst practice) to 5 (best practice).
Source: Eurostat (2023), Education and training (database); Bloom, N.;et al. (2021), "World Management Survey - Manufacturing", https://doi.org/10.7910/DVN/OY6CBK.

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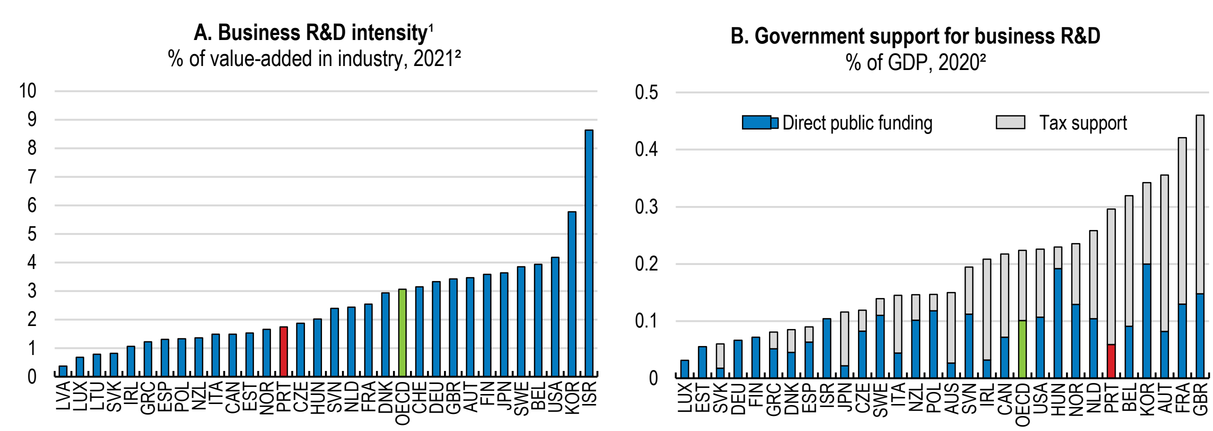
Stimulating technology diffusion and innovation

Stimulating innovation and the development and adoption of digital technologies will be vital to stimulate productivity. Portugal lags behind in R&D investment and the take-up of digital technologies compared to other OECD countries (OECD, 2021[1]; EC, 2022[60]). The growing support to business R&D over the past decade from 0.1% of GDP in 2008 to 0.3% of GDP in 2020 has not yet translated into a significant improvement in Portugal's innovation performance (Figure 1.25). Wider diffusion of these technologies is also likely to have beneficial consequences for Portuguese exports (Aghion, Bunel and Antonin, 2020[110]).

Figure 1.25. Business R&D intensity is relatively low, despite growing policy support



1. R&D investment, excluding real estate activities, public administration and defence, compulsory social security and education, human health and social work activities, and activities of households as employers. 2. Or latest available year.
Source: OECD (2023), R&D Tax Incentives Database; OECD (2023), Main Science and Technology Indicators Database.

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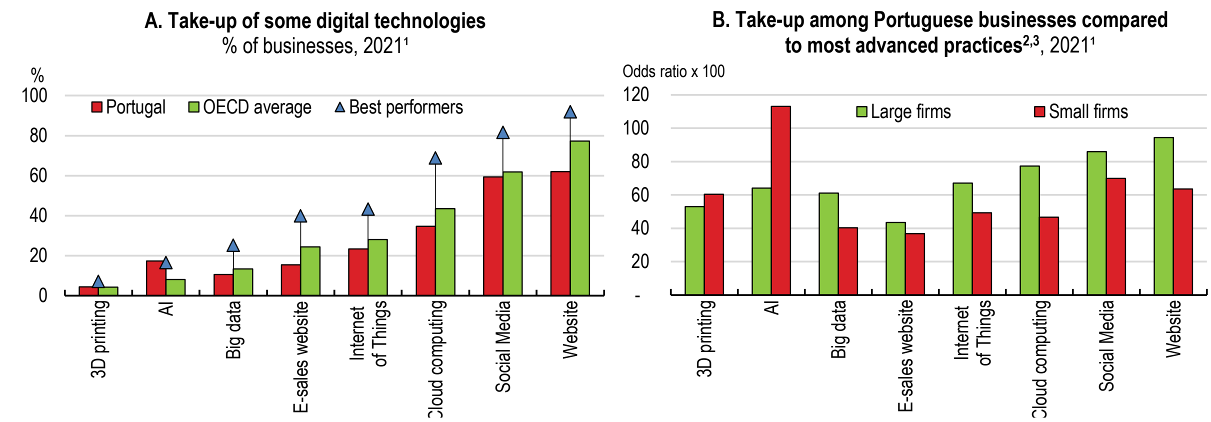
To foster innovative activities, the government offers generous tax credits to business R&D expenditures and a preferential tax treatment to small firms. This is welcome since small firms are more responsive to tax incentives than larger firms (OECD, 2020[111]). Unused tax credits can be carried forward over eight years, which is particularly important for young innovative firms, that often are unprofitable and do not pay corporate income tax in the first years. In line with past OECD recommendations, the government could consider allowing unused tax credits to be indefinitely carried forward like in Belgium, Italy and the United Kingdom (OECD, 2019[38]). Other options to strengthen support include allowing cash refunds for loss making firms, like in Australia, Canada and France, or reductions from withholding payroll taxes for labour inputs related to R&D. The benefits of such a reform should be weighed up against the associated fiscal cost and its impact regularly monitored ex-post.

In contrast to the strong tax incentives, and despite increases since 2016, direct public support to business R&D remains low by OECD standards (OECD, 2021[1]). In 2019, direct public support was close to 0.04% of GDP (17% of the total Portuguese public support for business R&D), while the OECD average stood at 0.08% of GDP (40% of total public support for business R&D). Direct funding seems particularly important for encouraging basic research (OECD, 2020[111]). Moreover, compared to tax credits, R&D grants are in principle better suited for young and innovative firms, as these firms often lack the financial capacity on which banks often base their decisions to award R&D loans. Furthermore, direct support can be targeted to innovative activities with a high potential for knowledge spillovers. Increasing the share of direct government funds within R&D support would also allow for the maximisation of synergies between different funding sources, including the Portugal-Europe R&I Network (PERIN), and the development of performance-based funding.

Basic research and public-private links are also crucial for the innovation process. The public R&D budget credits have stagnated at a low level since 2010, and a targeted rise in funding allocated to public research would help. Portugal scores below the EU average for public-private scientific co-publications as a percentage of total publications (EC, 2022[60]). Research policy in Portugal has tended to favour academically-oriented research and researchers are not always equipped to engage in co-operative research and innovation activities with business and the public sector (OECD, 2022[112]). The CoLAB scheme targeted at industrial partners could be complemented with structured, formal collaboration between enterprises with little prior R&D experience and polytechnics that tend to focus more on professional knowledge (OECD, 2019[113]). Links between research and industry would also be strengthened by widely circulating toolboxes for public/private partnership agreements and identifying the national major centres of expertise.

Moreover, the broader diffusion of digital technologies could also enhance the efficiency of business processes. Portuguese firms, notably smaller ones, lag behind in adopting information and communication technologies, especially those that are well-suited to small firms, such as cloud computing (Figure 1.26). Though Portugal’s communication infrastructure is well developed with fast and ultrafast broadband connectivity in most areas, in small businesses, a lack of training among managers and employees and poor knowledge of support mechanisms act as a barrier to the take-up of digital technologies (see above). Lowering the high and rapidly increasing costs of broadband and telecommunications use would also ease access for smaller firms (ANACOM, 2022[114]). As recommended in past Surveys, reducing switching costs and lock-in periods for consumers, as well as providing information on the quality of services could spur competition (OECD, 2021[1]). In addition, public support could increase its focus on subsidising the cost of cloud computing and other efficiency-enhancing technologies. The Recovery and Resilience Plan foresees EUR 650 million to support small and medium-sized enterprises and their workers through digital skills training and financial incentives to adopt digital technologies. Combining financial support and technical follow-up could encourage the take-up of digital innovation, as experienced in Germany, Finland and Italy (OECD, 2021[115]).

Figure 1.26. The diffusion of digital technologies is uneven



1. Or latest available year.
2. Average of the five countries where take-up rates for small or large firms are the highest.
3. Small businesses have between 10 and 50 employees, and large businesses have more than 250 employees.
Source: OECD calculations using OECD (2023) ICT Access and Use by Businesses (database).

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Table 1.9. Past OECD recommendations to boost productivity

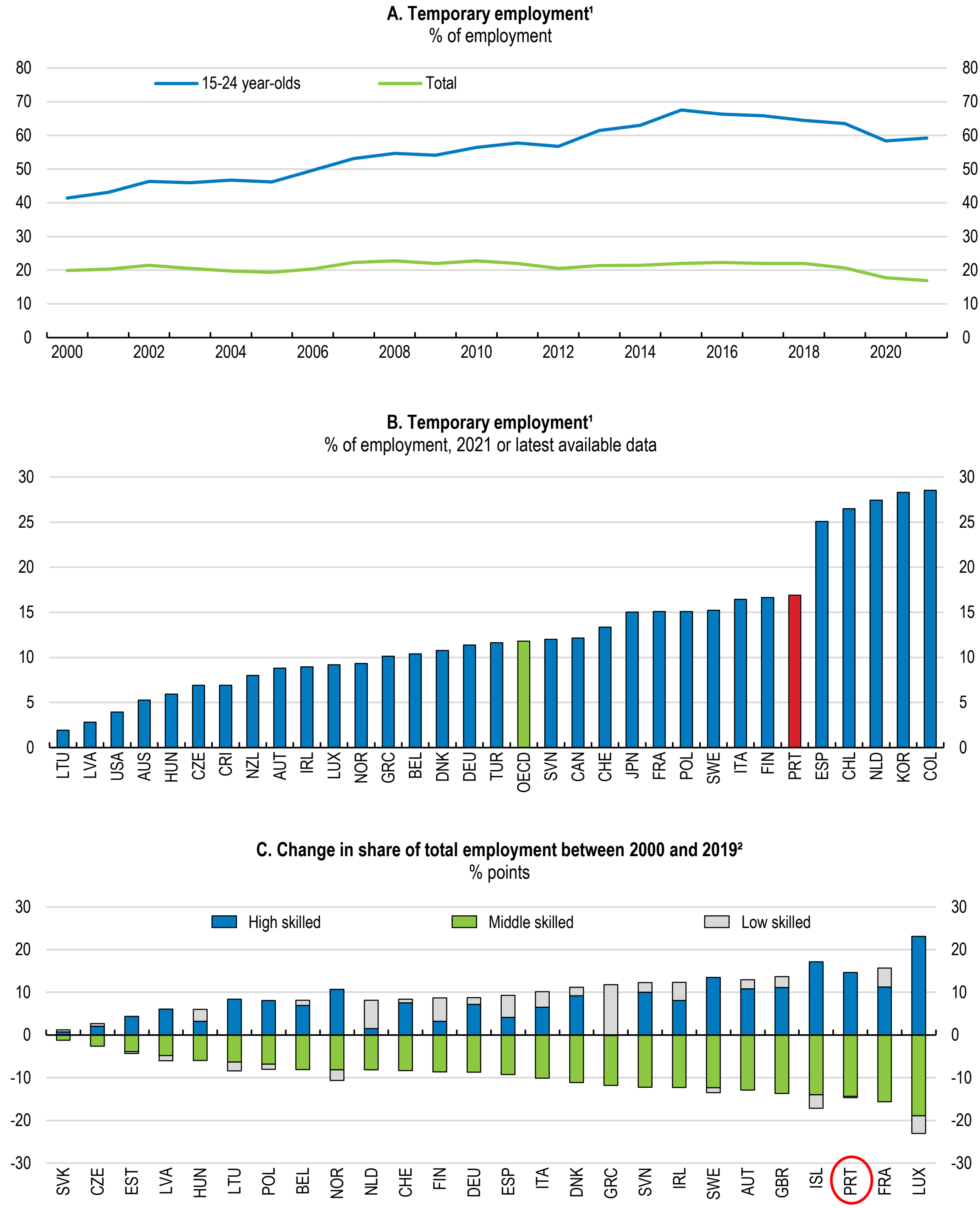
Recommendations in past surveys	Actions taken since 2021
Remove constraints to consumer mobility across telecommunication providers, for example by restricting the use of loyalty clauses in contracts and providing clearer information on the quality of services.	No action taken.
Accelerate and expand the provision of adequate digital resources to schools and teachers, including regular in-service training on ICT use.	The Recovery and Resilience Plan foresees investments of EUR 666 million for the modernisation of vocational education and training institutions.
Consider introducing a personal training account for adults, with more generous vouchers for low-skilled workers.	An online tool where qualifications and skills obtained are registered has been improved.
Expand the coverage of programmes for small companies to acquire digital training, advisory services and information on security and privacy after a thorough evaluation of their impact.	The Recovery and Resilience Plan foresees investments of EUR 650 million to boost the digitalisation of small companies through training and support to adopt digital technologies.

Enhancing employment and job quality

The labour market has continued to improve over recent years. Participation and employment rates reached historical highs in 2022, including for women (Figure 1.4, Panel A), whose employment rate was around 7 percentage points higher than the OECD average at the end of 2022. The labour market showed resilience at the onset of pandemic and job retention schemes helped to preserve jobs and limit the increase in unemployment in 2020 and 2021 (OECD, 2021[1]). Over 2021, the unemployment rate fell below pre-pandemic levels and in 2022, it had declined to its lowest rate in over two decades, although it started increasing in late 2022, alongside slowing growth. The unemployment rate for young people has declined substantially from its 2013 peak (Figure 1.4, Panel B), alongside increasing rates of tertiary attainment for 25-34-year-olds, which have risen from around 13% in 2000 to almost 48% in 2021. However, the increase in the unemployment rate over 2020 was significantly larger for young people and the unemployment rate only declined to pre-pandemic levels during 2022.

Despite these improvements, labour-market disparities and segmentation between those with permanent and those with temporary contracts continues, limiting job opportunities, particularly for young people. The incidence of temporary contracts has declined, but remains high relative to OECD countries, with around 17% of those employed and 59% of employed 15-24-year-olds on temporary contracts (Figure 1.27, Panels A and B). Disparities also risk growing between high and low-skilled workers. In the past two decades, labour demand has been stronger amongst high-skilled workers, boosting their share of employment (Panel C).

Figure 1.27 Labour-market disparities remain high



1. Refers to dependent employment only.

2. The panel shows the percentage point change in employment shares by skill intensity between 2000Q4 and 2019Q4. High-skilled occupations include jobs classified under the ISCO-88 major groups: legislators, senior officials, and managers, professionals, and technicians and associate professionals. Middle-skilled occupations include clerks, craft and related trades workers, and plant and machine operators and assemblers. Low-skilled occupations include service workers and shop and market sales workers, and elementary occupations.

Source: OECD Labour Force Statistics (database); calculations based on Eurostat, Employment by occupation and economic activity (database); Eurostat, Education and Training (database).

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This trend highlights the importance of lifelong learning to support the reallocation of labour, particularly as on average Portuguese adults have relatively low education levels, with only around 60% having completed at least upper secondary education in 2021. Though qualification levels of young adults and recent graduates have improved rapidly in recent years (OECD, 2022[116]), young people continue to struggle to enter the labour market and obtain good-quality jobs, with the employment rate of recent graduates lower than the European average.

Many employers prefer more flexible temporary contracts rather than regular permanent work contracts (OECD, 2017[117]; 2020[118]). According to OECD indicators, in 2019 the cumulated duration of successive standard fixed-term contracts could not legally exceed 37.5 months on average, while this has fallen to 18 months in France and 24 months in Italy following reforms in 2017 and 2014, respectively. Reducing firms' ability to use temporary contracts and increasing their costs, as detailed in the Decent Work Agenda, should help to reduce their use (Box 1.7). At the same time, the conditions for individual dismissals of workers on permanent contracts have remained relatively stringent. In particular, compensations for dismissals deemed without a fair cause rank amongst the highest in the OECD and there is a high probability that reinstatement is granted to the worker by courts (OECD, 2020[118]). Lowering the costs of using permanent contracts could be aided by reducing compensation for dismissals, for example by limiting the number of monthly wages that can be granted (20 months) to the level of the French compensation scale after the 2017 reforms (around 12 months). The probability of reinstatement through the judicial system could also be reduced by making the receipt of (ordinary) severance pay conditional on individuals renouncing their right to litigation (OECD, 2017[117]). Easing the procedural requirements for dismissal, which remain high, would also help to narrow the gap with temporary contracts, where no such requirements are set.

Labour market disparities between men and women remain significant, although they appear relatively contained in international comparison (OECD, 2023[119]). In the third quarter of 2022, the employment rate for women was more than 7 percentage points higher than the OECD average but remained five percentage points below the employment rate of males. Portugal's gender-wage gap was also in line with the OECD average in 2020 (OECD, 2023[119]) and it declined further in 2021 according to administrative data (GEP, 2022[120]). The mandatory reporting of gender-disaggregated pay information for companies with more than 50 employees has improved transparency and made a difference, in part linked to the mandatory follow-ups on the causes and possible remedies to gender gaps. A public awareness campaign and award schemes to promote best practices across companies have supported these policy efforts (OECD, 2021[121]). Yet, further efforts are needed to improve access to good-quality childcare (see above), and women remain underrepresented in positions with higher qualifications and higher pay.

Strengthening skills

Vocational and higher education could do more to support young people in acquiring skills that are in demand and that would allow them to transition more easily into high-quality jobs while ensuring that Portugal has the necessary skills to enable the move towards a more carbon-neutral economy. While graduates generally have good job prospects, there are mismatches between the higher education system's supply of graduate skills and labour market demands (OECD, 2022[122]). Reforms under the RRP are planned to modernise vocational education and training (VET) programmes based on estimates of future skill and labour market needs. Planned investments in VET facilities across secondary schools with professional courses, vocational schools and professional training centres of the public employment service, valued at EUR 710 million, should help to ensure that the facilities are well-equipped for this updated programme. In addition, prospective students often struggle to find information on the academic requirements and labour market prospects of programmes. The *InfoCursos* web portal provides numerous data (DGEEC, 2022[123]), but is not well known. It has been complemented by additional web portals on training offers, access to which has improved over recent years. Greater guidance in secondary schools, such as further developing the *InfoCursos* web portal with information on programmes, labour market outcomes and typical career pathways, could help to inform student choices (OECD, 2022[122]). Planned reforms to better distribute the offering of VET programmes across regions are also expected to help ensure equal opportunities to training.

Low levels of cooperation and mobility between industry and higher education limit the alignment of graduates' skills and industry demand in Portugal (Suleman and Laranjeiro, 2018[124]). Higher education institutions could be more active in seeking input from employers to guide student choice and updating curricula could also help. Institutions could also provide greater incentives, rewards, and support structures for academic staff to better engage with the private sector. The planned grants for the implementation of joint programmes between higher education institutions, firms and other stakeholders for new postgraduate schools, programmes and alliances could be one step to help to foster greater networks.

Upskilling and reskilling workers who are already in the labour market is another key challenge for both employment and productivity, and vocational and higher education institutions could play a greater role in this context. Alongside strong political willingness to foster the upskilling of the adult population (OECD, 2021[1]), the participation of adults aged over 25 in learning increased from 10.5%, below the EU average in 2019, to 12.9%, above average in 2021 (Eurostat, 2022[125]), yet continued participation and a stronger focus on quality could further boost current low education levels. In the Recovery and Resilience Programme, the planned design of additional VET programmes that focus on adult literacy and the upscaling of the National Plan for Adult Literacy, including more projects and financial support for equipment, staff and participants, worth EUR 225 million should help to support lifelong learning. Higher education institutions could also offer more diversified and flexible study opportunities and design more programmes that meet current and future skill needs (OECD, 2022[122]). Developing a quality label to verify core, common certification standards and centralising all the relevant information about certification processes, as in Austria, could help employers and employees to better assess training providers (OECD, 2021[126]).

Public policies could support higher education institutions to upscale existing innovations in teaching and learning through a national centre or network, mimicking the success of Ireland's National Forum for the Enhancement of Teaching and Learning in Higher Education (OECD, 2022[122]). In particular, this could help to meet the needs of a more diverse group of learners. Developing study guidance for learners who seek upskilling and reskilling opportunities in higher education through an online platform and counselling services could improve the intermediation between higher education institutions and those looking for opportunities to upskill or reskill. Online career guidance portals are most useful when they provide tailored information and advice, with those seeking reskilling opportunities potentially more interested in learning about shorter education and training programmes that are close to home and in flexible formats (OECD, 2022[112]).

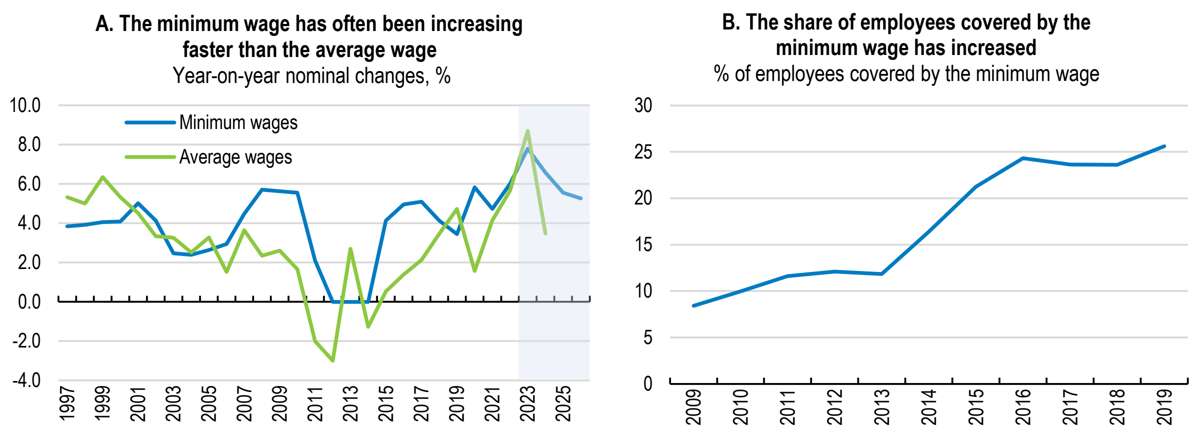
Migration and integration policies could also help to address skill shortages and alleviate pressures from ageing. Over recent years, net migration flows have been positive. The inflow of foreign-born populations has increased since 2013, mostly driven by new immigrants from Brazil and the United Kingdom, with the share of foreign-born residents reaching 6.8% of the population in January 2022 (Eurostat, 223[127]). At the same time, some Portuguese graduates, notably health professionals and ICT specialists, have strong incentives to emigrate to other EU countries. Some steps have been taken towards easing the administrative burden faced by arriving foreign talent (OECD, 2022[128]). Moreover, new rules recognising foreign qualifications simplify the return of emigrants who obtained an education abroad, while facilitating the entry of foreign talent into Portugal (Oliveira, 2022[129]; OECD, 2022[128]). The challenge for the government is to step up efforts to improve the efficiency of the immigration authority and facilitate the hiring of foreign talent (OECD, 2023[130]).

Improving labour market outcomes

Recent policy measures, including increases in the minimum wage and fiscal incentives for firms to raise their average wages, have tried to more actively shape wage developments in a deliberate attempt to increase the wage share of GDP to the EU average (Box 1.7). Since 2015, productivity growth has increased slightly and past minimum wage increases have not coincided with aggregate employment losses. At the same time, policies that mandate wage increases can have potentially negative consequences on the labour market, disproportionately impacting young people and other more vulnerable workers. Such policies should carefully consider both the economic and social effects of wage adjustments, including on those who may lose their jobs, and minimise any potential negative effects on employment, which could increase income inequality, even if wage inequality declines.

At the lower end, wages are shaped by Portugal's minimum wage. According to negotiations between the government and social partners, the minimum wage will increase from EUR 760 in 2023 to EUR 900 in 2026 (Figure 1.28, Panel A and Box 1.7). This follows several years during which the minimum wage has grown at a faster pace than average wages and over the last decade the share of workers earning the minimum wage has risen (Figure 1.28, Panel B).

Figure 1.28. The minimum wage has often been increasing faster than the average wage



Source: OECD Economic Outlook: Statistics and Projections (database); Database on Minimum Wages and Statistics Portugal (2020), Earnings and working hours survey.

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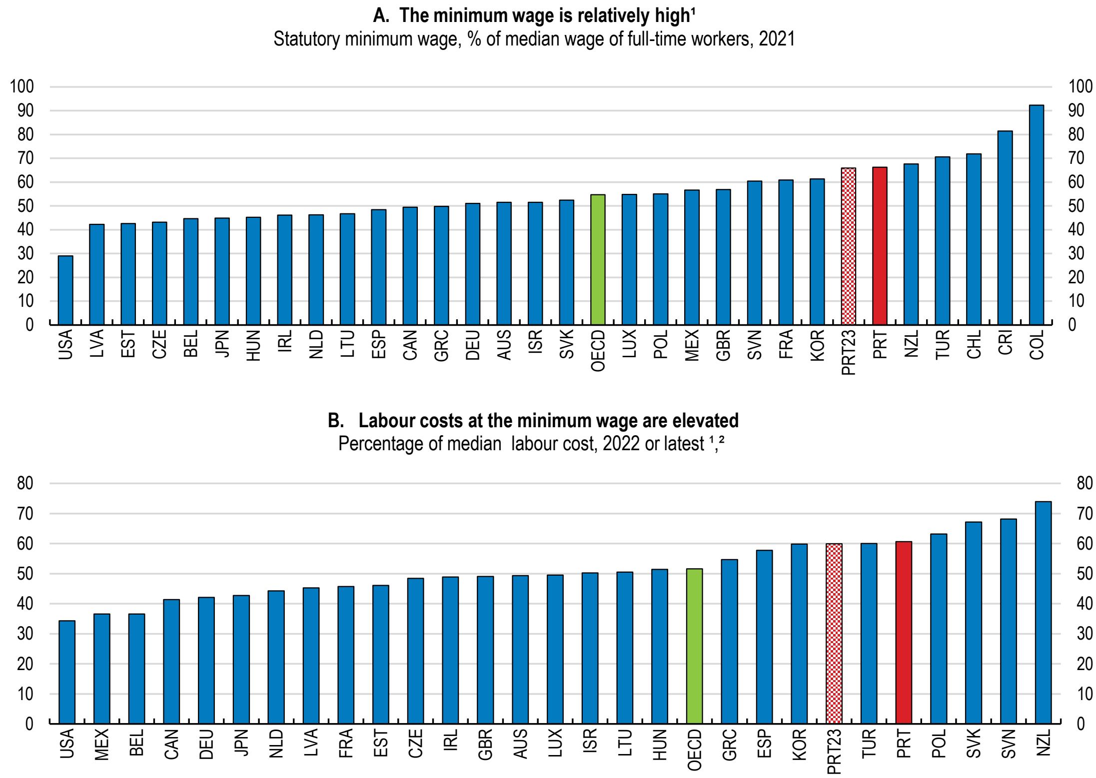
Minimum wages can be an important tool to protect the standard of living of low-paid workers, but they also risk disincentivising the hiring of low-skill workers, some of which may effectively be priced out of the labour market. At around 66% of the median wage in 2023, Portugal's minimum wage is high relative to the ratio of around 55% on average across OECD countries (Figure 1.29, Panel A). At the level set in most OECD countries, minimum wage increases, even large ones, have had positive effects on low incomes but no or limited negative effects on employment (Dube, 2019[131]). Yet, the available evidence for Portugal is more mixed. For example, minimum wage increases over 2014-17 were associated with declining employment (Alexandre et al., 2022[132]). Given that SMEs employed around 72% of the labour force in 2019 in Portugal and typically have low profit margins, and that around one quarter of employees earn the minimum wage, attention should be paid to ensuring that increases in labour costs do not deter employers from hiring low-wage workers (Neumark, 2018[133]) or encourage them to use more precarious forms of employment, such as temporary contracts. Indeed, these potential negative effects risk being amplified by the current unfavourable macroeconomic context (OECD, 2022[134]). A thorough analysis and regular evaluation of this policy would help to minimise these risks. This could be completed by a revision of the process of setting minimum wages to include a permanent and independent Commission, mandated to evaluate its potential impact and publish recommendations. As labour costs at the minimum wage are elevated (Figure 1.29, Panel B), the authorities could consider reducing employer social security contributions for low-wage workers if needed to mitigate the impact of the minimum wage increases on labour costs.

Figure 1.29. The planned minimum wage increases will put pressures on labour costs



1. The OECD estimate assumes that the median wage increases in line with the average gross wage projected over 2022-24.
2. The OECD simulations are based on the Tax-Ben model and take into account the Portuguese tax and transfer system of 2021. Labour cost is calculated as the gross minimum wage + employer social security contributions and payroll taxes, including any other mandatory payments to private insurance for health, retirement pensions, etc. Results refer to a single person without children aged 40 and working full-time and full year. Social assistance and housing benefits are available if the relevant eligibility and income conditions are met. Housing benefits are calculated assuming private market rent plus other relevant charges amounting to 20% of the national average wage. Data for 2021 is shown for Greece, Israel, Netherlands, Poland, Portugal and the United States.
Source: OECD Economic Outlook: Statistics and Projections (database); OECD Employment database; OECD Tax-Benefit Model ("TaxBEN") version 2.5.0.

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Collective bargaining agreements negotiated between trade unions and employer organisations are extended under mild criteria to non-participatory firms in the sector (OECD, 2023[135]; 2019[136]). As a result, collective agreements covered 76.6% of workers in 2020 (Centro de Relações Laborais, 2022[137]). However, employer organisations and trade unions are often not representative of the sector to which the agreement is to be extended, as their coverage of SMEs is typically low, and so is union density. Though, in principle, the granting of an extension must consider its effects on labour costs and the reduction in inequality and in-work poverty, the process could be improved (Naumann, 2018[138]). Some ways to help ensure that the effects on all firms are taken into account would be to gradually introduce stricter transparent criteria for trade and employers' representativeness in the sector of the extension (OECD, 2019[136]) or have an independent body tasked to assess the potential effects of an extension, such as in Finland, France and Germany (OECD, 2017[117]). Otherwise, automatic extensions could adversely impact employment by not considering the economic and financial constraints of small firms.

Box 1.7. Recent labour market reforms

Medium-term agreement for the improvement on incomes, wages and competitiveness

In October 2022, the Government and social partners signed the medium-term agreement for the improvement on incomes, wages and competitiveness (Governo da República Portuguesa, 2022[139]). The key goals of the agreement are to boost the share of wages in GDP from 45.3% in 2019 to at least 48.3% by 2026, in line with the European average and to raise productivity growth to 2% by 2026.

Measures outlined in the Agreement to achieve these goals include:

- Defining the increases in the minimum wage at EUR 760 in 2023, EUR 810 in 2024, EUR 855 in 2025 and EUR 900 in 2026.
- Increasing fiscal incentives for firms. One measure includes increasing tax deductions by 50% of the increase in wage costs for firms that increase average wages by at least 5.1% in 2023, 4.8% in 2024, 4.7% in 2025 and 4.6% in 2026, have collective bargaining agreements less than three years old and reduce the salary range of employees. Another includes fiscal incentives for increases in R&D expenditure and/or on-the-job training.
- Attracting and retaining young workers. This includes increasing the annual benefit of the Youth Personal Income Tax, supporting permanent contracts for salaries over EUR 1320 and extending the Return Programme to encourage young people to return from abroad.
- Supporting workers through non-wage measures. This includes updating income tax brackets to ensure the neutrality of wage increases, improving incentives to return to the labour market and increasing overtime pay.
- Simplifying administrative costs by altering the tax system and simplifying bureaucratic processes.

Decent Work Agenda

The Decent Work Agenda follows the 2019 labour-market reforms, continuing to reduce labour market segmentation and the share of precarious jobs, extending parents' and caregivers' rights and the reconciliation of work with family life, improving participation in collective bargaining and updating the legal framework for platform workers (Governo da Républico Portuguesa, 2021[140]). The Agenda Measures include:

- Limiting the successive use of temporary contracts, increasing compensation in the event of termination and reinforcing the responsibilities around the use of temporary contracts.
- Defining the sharing of parental leave between mothers and fathers.
- Granting support and incentives to companies with recently concluded or revised collective agreements.
- Presuming the existence of an employment contract for work developed in digital platforms to help increase the labour rights and access to social protection of platform workers.

Source: Governo da República Portuguesa (2021[140]), *Principais medidas da Agenda do Trabalho Digno e de Valorização dos Jovens no Mercado de Trabalho;* Governo da República Portuguesa (2022[139]), *Acordo de médio prazo para a melhoria dos rendimentos, dos salários e da competitividade.*

Table 1.10. Past OECD recommendations on labour markets

Recommendations in past surveys	Actions taken since 2021
Increase resources allocated to public employment services to provide individualised support and to reach out to jobseekers, especially the younger ones.	Staff numbers in the public employment service have increased. The Sustainable Employment Commitment plans to increase incentives for firms to hire young people on permanent contracts.
Lower contribution-history thresholds for unemployment benefits. Consider opening unemployment assistance to all registered Jobseekers.	During the pandemic, workers with insufficient contributions were temporarily able to apply.
Develop a general monitoring framework for all training providers.	No action taken.

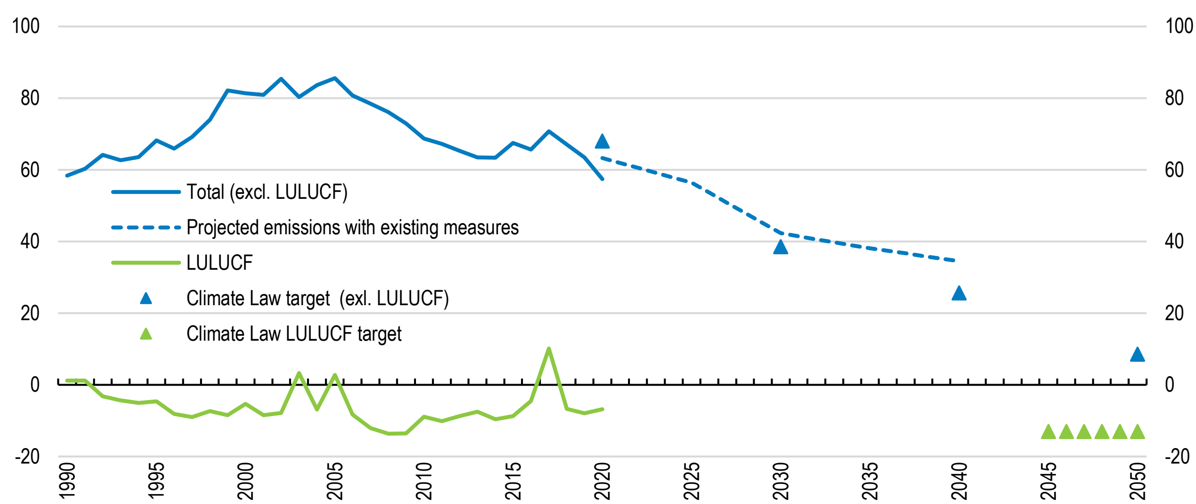
Supporting the transition towards a green and sustainable economy

Reducing further greenhouse gas emissions and adapting to climate change

Portugal has cut its total GHG emissions by one third during 2005-20, placing the country in the top third of European OECD countries in terms of reductions over this period (Figure 1.30) (OECD, 2023[141]). Portugal has enshrined carbon neutrality in national law in the form of its 2021 Climate Framework Law, which mandates reducing total emissions from 2005 levels by at least 55% by 2030 and 90% by 2050 as well as enhancing carbon sequestration, in line with EU carbon-neutrality objectives. The welcome shift from oil and coal to natural gas and renewable sources in energy production was a major factor behind past achievements.

Figure 1.30. Meeting ambitious 2030 and 2050 GHG targets requires well-defined additional policies

Historic and projected GHG emissions, Mt CO_2 equivalent



Note: LULUCF: land use, land-use change and forestry.
Source: EA (2021), Greenhouse Gas Projections Data Viewer – December.

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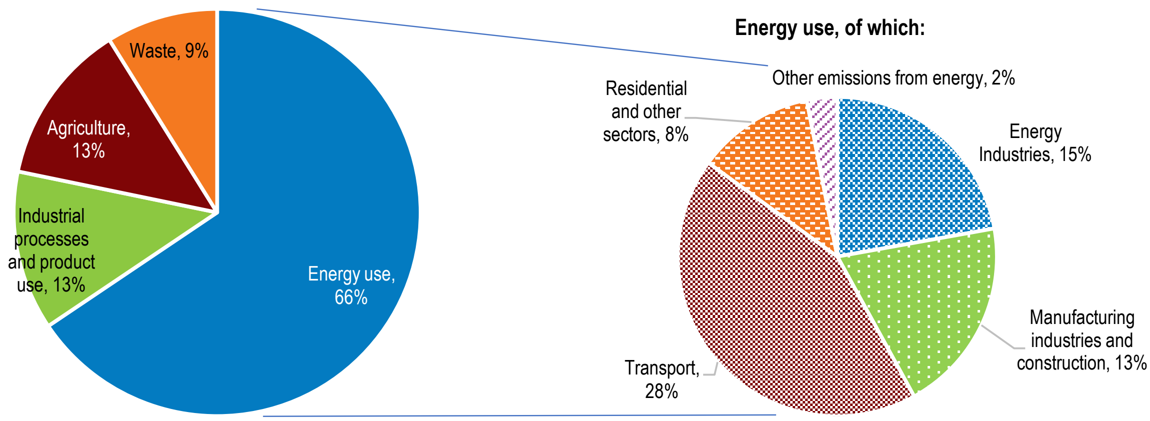
However, to meet the ambitious 2050 targets, national projections indicate that additional policies will be needed. All measures under the promising Climate Framework Law should be fully implemented and the 2023 revision of the National Energy and Climate Plan should clarify and elaborate the envisaged measures to reach the 2030 and 2050 targets. The share of renewable energy sources is now higher than in most European countries (Eurostat, 2022[142]) and well above the OECD average (Figure 1.32, Panel B). In 2021, renewables generated 58% of electricity, largely hydro (39%) and wind (41%) and made up 43% of energy consumption for heating and cooling, mostly from biomass and heat pumps. Portugal also closed its last two coal power plants in 2021, two years ahead of schedule. While 67% of emissions are generated from energy use (Figure 1.31), further emission reductions will have to rely on broader decarbonisation efforts and the current plans provide limited details on the additional policies to be implemented (OECD, 2023[141]).

Figure 1.31. Emissions by sector

GHG emissions by source sector, %, 2021



Source: OECD Greenhouse gas emissions (database).

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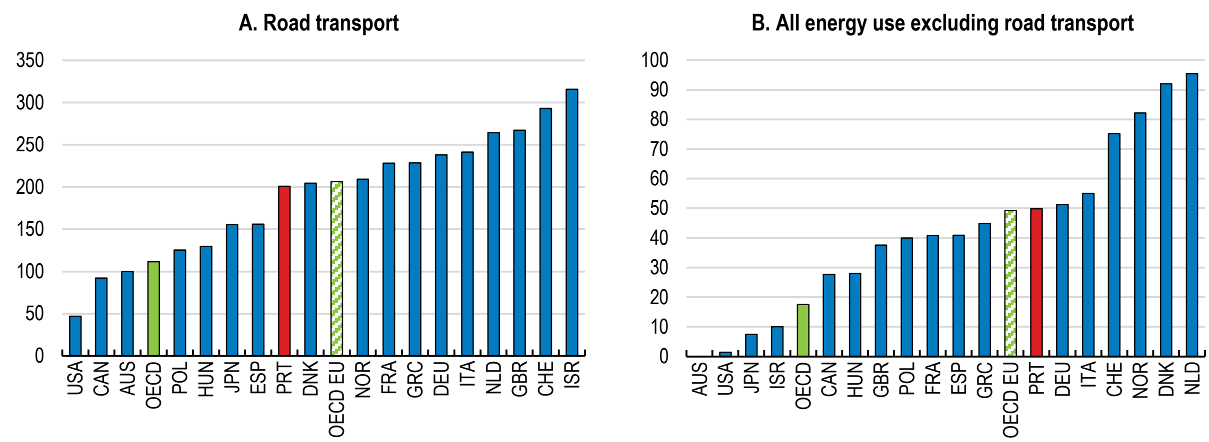
As part of a broader policy mix, pricing instruments, accompanied by temporary and targeted measures to help households and firms adjust, could be key levers in Portugal's strategy to mitigate carbon emissions (D'Arcangelo et al., 2022[143]). Channelling some of the potential revenues from carbon taxes back to households can help to cushion losses, particularly for low-income households (Immervoll et al., 2023[144]). Portugal prices carbon emissions in three ways: energy taxes, the EU Emissions Trading Scheme (ETS) and the carbon tax, introduced in 2014. Portugal's average effective carbon rate increased by a third over 2018-21, mainly due to higher EU ETS permit prices. With an average effective carbon rate of EUR 74 per tonne of CO2, in 2021, it ranked in the middle of other OECD European countries (OECD, 2022[145]). The average effective carbon price is above the OECD average and around the OECD EU average in both road transport and all sectors excluding road transport (Figure 1.32). However, carbon prices vary by sectors and fuels meaning that effective carbon rates do not provide a consistent price across the economy (OECD, 2023[141]) and not all are aligned with the social cost of carbon. In 2018, Portugal started to gradually phase out some fuel and carbon tax exemptions, but it suspended the increase in the carbon tax at the end of 2021. Support for fossil fuel consumption through tax expenditures still represented 0.3% of GDP in 2021, excluding the temporary energy support measures (see above). The 2021 Climate Law provides for their phase-out by 2030. In addition, the December-2022 agreement on the EU ETS envisages stricter trading rules, an extended industry coverage (in particular to transport and buildings) and the gradual phase-out the exceptions made to emission-intensive industries.

Adjustments to vehicle taxation and road pricing could help to lower GHG emissions from road transport and improve air quality. Closing the tax gap between diesel and petrol, removing the preferential circulation tax treatment for older vehicles and introducing a NOx component in vehicle taxes, as was recently done by Ireland (OECD, 2021[146]), would help to increase the share of cleaner vehicles (OECD, 2023[141]). The shift to taxes based on road use would also help to offset the decline in fuel tax revenue as the use of electric vehicles becomes more widespread. Portugal has an electronic toll system operating on the motorway network for all vehicles. Toll prices vary according to the distance travelled, the height and number of axles of the vehicle but not their emissions. Improving communication and transparency regarding the use of environmental taxes would help to increase their social acceptance (D'Arcangelo et al., 2022[143]). Progress in improving environmental taxation should be regularly assessed, for example through annual reports, as a step towards broader "Green Budgets" (Marinheiro, Sousa and Pinheiro, 2022[147]).

Figure 1.32. Carbon tax rates vary across sectors

Average net effective carbon tax[1], EUR per tCO2, 2021



1. The net effective carbon rate is the net effect of fuel excise taxes, carbon taxes, permit prices and fuel subsidies.
Source: OECD Net Effective Carbon Rates (database).

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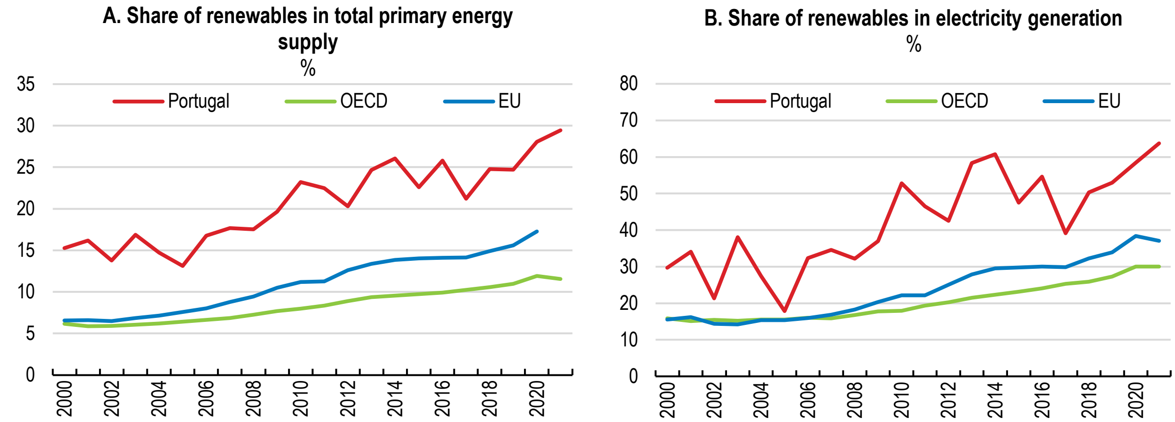
Portugal is also reducing transport emissions by extending public transport networks and banning the most polluting vehicles. Public transport is being expanded under the Recovery and Resilience Plan, including extending the Lisbon and Porto metro networks, constructing a light rail system, creating a bus rapid transit system and the purchase of zero-emission buses. However, there are risks that implementation delays continue. Lisbon introduced a low-emission zone in 2011 banning the most polluting vehicles from the city centre during working hours. Yet this has not reduced NOx and PM2.5 concentrations significantly, suggesting the need for stricter standards and stronger enforcement (Santos, Gómez-Losada and Pires, 2019[148]). The political acceptability of vehicle taxation and road pricing policies and the effectiveness of investments in public transport networks can significantly increase if coupled with policies that encourage walking, cycling or using public transport (OECD, 2021[149]; 2022[150]). These policies could include road space reallocation, the mainstreaming of on-demand shared services, and communicating the benefits of transitioning towards sustainable transport systems (OECD, 2021[149]).

While 58% of electricity was produced from renewable sources and renewables accounted for close to a third of primary energy supply in 2021 (Figure 1.33), accelerating the further development of renewable energy and the diversification of energy sources will support a sustainable and stable energy system and reduce import dependency. The large hydropower production capacity is sensitive to climate conditions, which may emerge as a significant risk to the Portuguese electricity sector over the coming decade (IEA, 2021[151]). Portugal plans an increase in pumped storage hydropower to support the development of intermittent sources, such as wind or solar, but also a stable capacity of non-pumped hydropower. Renewable energy electricity generation projects with a capacity greater than 1 MW must be granted a network capacity reserve title (TRC), which can be subject to auctions. Providing a clear agenda for PV auctions, with transparent procedures and bidding options that are advertised well in advance, would help to provide certainty and attract investors as well as lower deployment costs (IEA, 2021[151]; OECD, 2023[141]). While the NECP notes that Portugal has significant wind generation potential to be explored, it does not specify which policies will support increasing onshore wind capacity in line with the 2030 target (IEA, 2021[151]). Additionally, opening the auction processes to all renewable technologies could help to further diversify sources of renewable energy in a cost-efficient way (IEA, 2021[151]; OECD, 2023[141]).

Figure 1.33. The renewable energy share has increased



Note: Total primary energy supply is energy production, plus energy imports, minus energy exports.
Source: OECD Green Growth Indicators Database.

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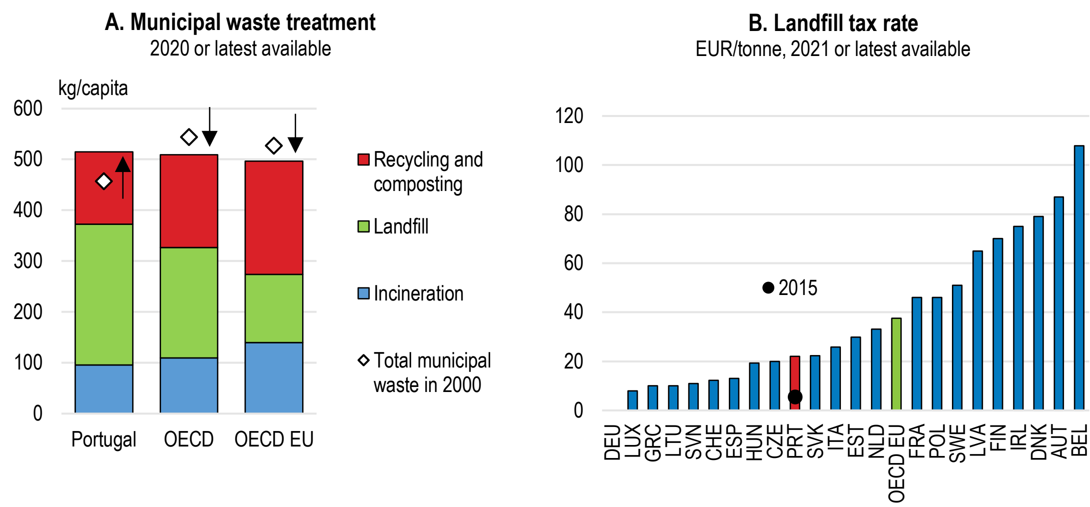
Boosting energy efficiency, notably in the building sector, would cut energy use while supporting vulnerable households. About 20% of the population are unable to adequately heat their homes in winter and 36% are unable to adequately cool their homes in summer. While Portugal has implemented various policies co-financed by EU funds, the take-up of some instruments is very low and past renovations have failed to deliver significant energy savings (Zangheri et al., 2021[152]). The dispersion of actors, including workers, banks and local administrations, hinders progress (OECD, 2023[141]). A broad reform agenda including regulations, grants and loans to support deep renovation projects could help to address these issues and should also include reforms to some existing schemes (OECD, 2023[141]). Developing local contact points to provide financial and technical support and bringing actors together, such as banks and local administration agencies, as in Germany, could facilitate the process. Portugal could also consider expanding the existing regulatory requirements of energy efficiency to the numerous homeowners over a sufficient timeline, as in Brussels or France, as they currently only apply when selling, renting or renovating a property (OECD, 2023[18]).

Improving waste and water management

Greenhouse gas (GHG) emissions from waste management accounted for 8% of total GHG emissions in 2019 (Figure 1.31). In 2020, Portugal generated more municipal waste per capita than the OECD European average (Figure 1.34, Panel A). Landfilling rates are high, at 54% compared to 27% for the OECD European average, and the rate of circular material use, defined as the share of used material resources from recycled waste, is low, at 2.2% compared to 12.8% in the EU (Eurostat, 2021[153]). At the same time, incentives for reducing waste are insufficient. Landfill tax rates at EUR 22 per tonne in 2021 were only around half of the OECD EU average and will remain below this OECD EU average, despite planned increases to EUR 35 by 2025 (Figure 1.34, Panel B), as stressed in the previous OECD Economic Survey (Table 1.11). Waste charges for households are low and the use of pay-as-you-throw systems are limited (ERSAR, 2022[154]). In 2020, three-quarters of municipalities did not fully recover the costs of waste service provision through tariffs charged to consumers, with waste charges usually linked to water consumption (ERSAR, 2022[154]).

Aligning charges to the amounts of waste collected would encourage behavioural changes (OECD, 2023[141]). Recovering the costs of waste management services is also a prerequisite for financing the sector, as increasing waste treatment capacity and upgrading installations will require about EUR 335 million by 2030 (APA, 2021[155]). Though indexing waste charges to the amounts of waste collected will become mandatory in 2026, there is a need to speed up the implementation of local cost accounting systems for waste management.

Figure 1.34. Waste per capita is above the EU average and incentives for reduction are insufficient



Source: OECD Green Growth Indicators Database; and Confederation of European Waste-to-Energy Plants (CEWEP).

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While Portugal has relatively low water stress at the national level (OECD, 2022[156]), water scarcity is of serious concern in some areas, such as in the Sado and Mira rivers in the Alentejo region and the Algarve River basins and policies could better regulate water demand. Freshwater abstractions per capita are higher than the EU average. In the last 20 years, water availability decreased by about 20% and is expected to fall by a further 10-25% by 2100 (Proença de Oliveira, 2022[157]). Agriculture is the largest user of freshwater, with agricultural abstractions increasing by around 25% since the mid-2010s, particularly in the southern regions (OECD, 2023[141]). Irrigated areas increased by the same order of magnitude. Without policies regulating water demand, investments focusing on the efficiency of irrigation can increase water consumption or accelerate groundwater depletion. The ease of licensing new water abstractions in water-stressed areas, the limited capacity to monitor and fine illegal abstractions and low water abstraction charges for non-potable uses do not encourage water saving and reuse (National Water Council, 2021[158]).

Water pricing that allows for the full recovery of costs will help to finance significant investment needs. The new National Strategic Plan for Water Supply and Wastewater and Rainwater Management (PENSAARP 2030) estimates that around EUR 5.5 billion (2.3% of 2022 GDP) will be needed to maintain water supply, wastewater and rainwater management by 2030, half of which for the maintenance of existing assets to ensure their long-run sustainability (MAAC, 2022[159]). Achieving these maintenance levels would be a significant increase from current levels. In 2020, at least half of municipalities did not recover the costs of water supply services and for 14% of municipalities, data were lacking. For wastewater services, at least two-thirds did not recover costs, with data lacking for 11% (ERSAR, 2022[154]). There is scope to improve the ability of municipalities to assess the costs of wastewater services and increase tariffs, particularly where they provide the service directly (ERSAR, 2022[154]). Achieving full cost recovery will also require better reflecting environmental and resource costs. For example, although rates vary with water scarcity, water abstraction chargers are reduced for irrigation.

Table 1.11. Past OECD recommendations on environmental policies

Recommendations in past surveys	Actions taken since 2021
Accelerate investment in electric mobility and public Transportation, as envisaged in the Recovery and Resilience Plan.	Portugal plans to spend EUR 967 million on public transport in its Recovery and Resilience Plan by 2026.
Once the recovery is firmly established, progressively increase the coverage of the carbon tax, while financially supporting the population in adjusting to greener usages.	The 2022 and 2023 Budget Laws froze the carbon tax rate at its 2021 level.
Ensure the municipalities meet their recycling targets. In the medium term, further increase the landfill tax.	The authorities plan to increase the landfill tax rate to reach EUR 35/tonne in 2025, below the 2021 OECD European average.
Provide the regulatory authority with the necessary tools to impose water tariffs to avoid underpricing.	No action taken.
Increase investment in water infrastructure further and strengthen technical support to municipalities on how to design and implement infrastructure projects, using EU funds.	The investment strategy in the new National Strategic Plan for Water Supply and Wastewater and Rainwater Management involves an estimated increase in water infrastructure of EUR 5.5 billion.

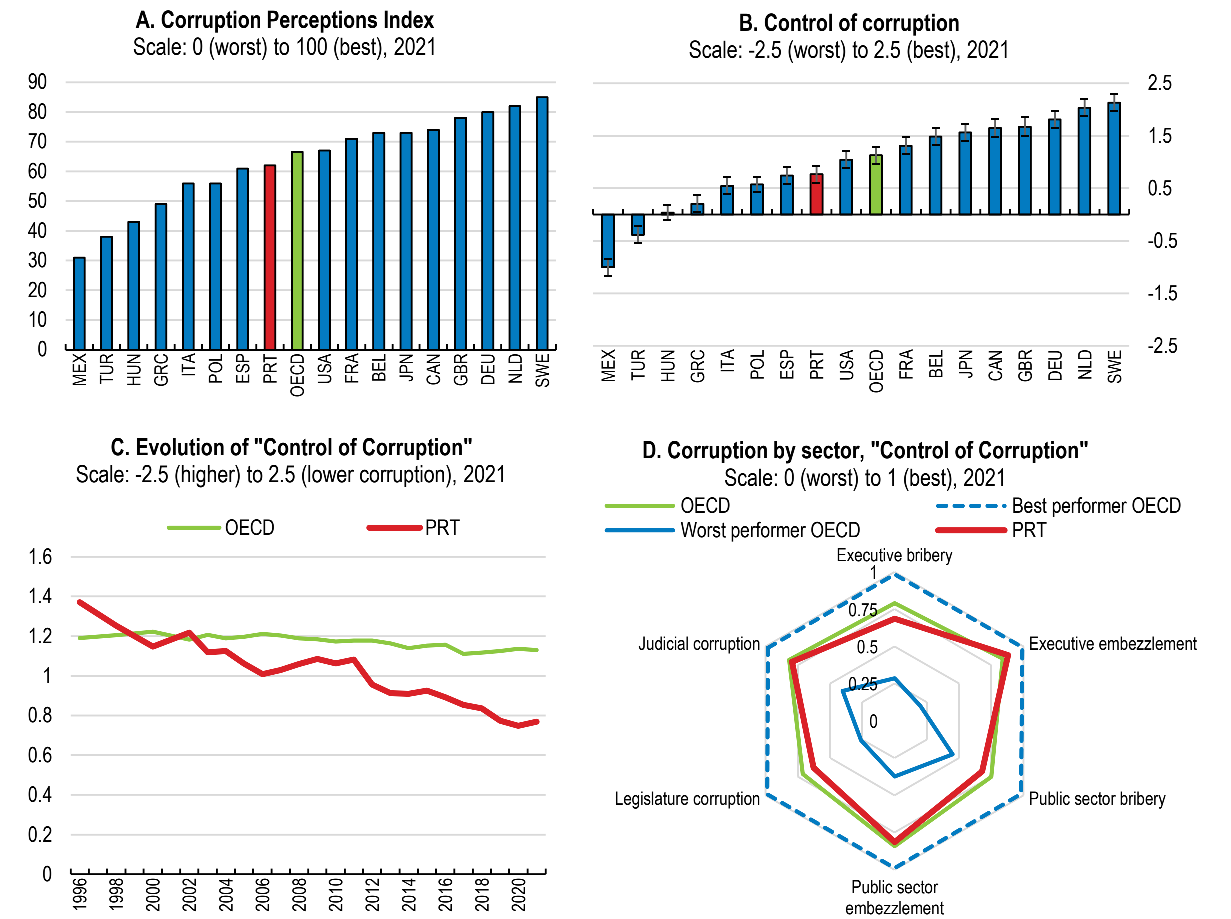
Continuing efforts to reduce corruption

Continuing the efforts to control corruption is important to improve the business environment. Corruption distorts competition, damages investor confidence and diverts the use of public resources from the public interest, besides fostering a sense of mistrust towards public institutions. Transparency International’s Corruption Perceptions Index and the World Bank’s Corruption Control Indicator placed Portugal below the median of OECD countries in 2021 and 2022 (Figure 1.35). A recent survey suggests that 55% of Portuguese firms considered corruption a problem when doing business, above the EU average of 34% (Eurobarometer, 2022[160]). Moreover, business and citizens tend to have low confidence that the police or prosecutors will deal effectively with corruption (Eurobarometer, 2022[160]; 2022[161]).

Progress in the implementation of the national anti-corruption strategy for 2020-24, which aims to improve the levels of prevention, detection and prosecution of corruption, is welcome (OECD, 2021[1]; EC, 2022[162]; FATF, 2022[163]). Overall, the OECD Public Integrity Indicators show that Portugal’s strategic framework has a broad coverage and was elaborated in a relatively participative way, but weaknesses remain in terms of adequacy of implementation structures and evaluation practices (OECD, 2023[164]). The strategy notably foresees measures temporarily banning people who perpetrated crimes of corruption from exercising certain political positions, imposing the adoption of compliance programmes on some entities, extending time limitations for sanctioning some corruption-related crimes and enhancing incentives to provide information on economic crimes. Over the past two years, the transposition of EU regulation to protect whistle-blowers was approved in Parliament, the National Mechanism Against Corruption (MENAC) and the General Regime for the Prevention of Corruption (RGPC) were enacted and an electronic platform for the reporting of MPs’ conflict of interests was launched in September 2022 (Table 1.12). The MENAC also launched a first corruption prevention campaign in early 2023.

Going forward, Portugal should continue strengthening the prosecution mechanism and the capacity of the judicial system to address domestic and foreign corruption cases (Figure 1.36). Portugal has never detected a foreign bribery case through reporting of public officials or auditors’ reports, and detection through suspicious transaction reports and tax authorities is low (FATF, 2022[163]). In the past, the lack of resources for investigation and prosecution of corruption-related offences has been identified as a concern (EC, 2022[162]). In 2022, an increasing number of judges, prosecutors and criminal investigators, as well as experts in economic, financial and other areas were allocated to the courts and to the criminal police. Specialised training for prosecutors should continue to be strengthened. In addition, the Financial Action Task Force (FATF) (2022[163]) still identifies the need to enhance the detection of foreign bribery through Portugal’s financial intelligence unit (Unidade de Informação Financeira) and self-reporting by companies, and to ensure that relevant investigations of foreign bribery are pursued thoroughly and proactively. The statutory fines applicable to legal persons for foreign bribery should also be reviewed to ensure that they are effective, proportionate and dissuasive (FATF, 2022[163]).

Figure 1.35. Corruption is perceived as a challenge

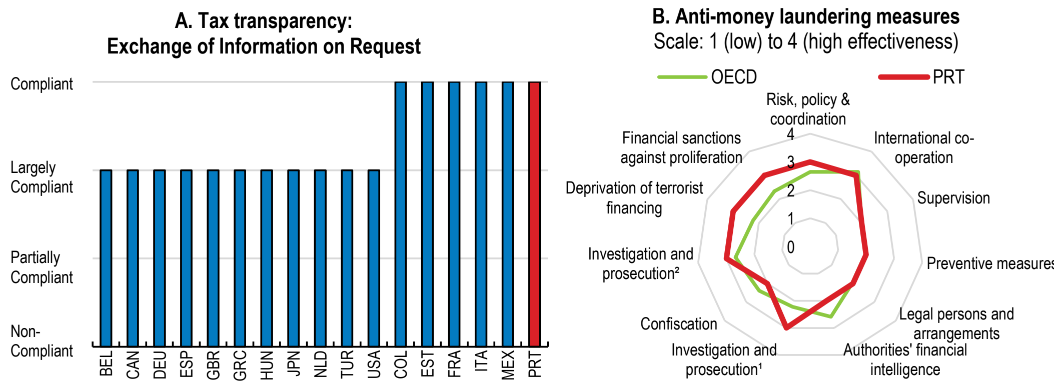


Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project.
Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Project, V-Dem Dataset v12.

StatLink https://stat.link/bifx8d

Further measures to improve the accountability and integrity of senior public officials could also help. In particular, the effective prevention and management of conflict of interest should be made stricter, as there have been repeated reports of engagement of high-ranking public officials in the private sector, especially practicing law, while holding office due to the non-exclusive nature of their mandate (Lisi et al., 2022[165]; GRECO, 2022[166]). The Authority for Transparency, which is responsible for assessing compliance by holders of political and high public offices with rules on declarations of interest and assets, is not yet functioning (EC, 2022[162]; GRECO, 2022[166]), but its board of directors has been nominated in January 2023. The introduction of a one-year pilot project of legislative footprint on lobbying during the legislative process is another step forward to ensure transparency in the decision-making process. Such a tool should detail the stakeholders who sought to influence the legislative bills or were consulted in their development. It should further show what inputs into the particular legislative process were submitted and what steps were taken to ensure inclusiveness of stakeholders in the development of the legislation. The legislative footprint should be complemented by a broader mechanism to ensure the transparency of all lobbying activities, in which interest groups would disclose their activities and certain categories of public officials (ministers, members of cabinet, appointed advisors, members of Parliament) would disclose their meetings with interest groups. Rules and codes of conduct on how Members of Parliament engage with lobbyists and other third parties who seek to influence the legislative process should be introduced (OECD, 2021[1]; OECD, 2021[167]).

Figure 1.36. Anti-money laundering efforts need to strengthen further



Note: Panel A summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows first round results; a second round is ongoing. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution¹" refers to money laundering. "Investigation and prosecution²" refers to terrorist financing.
Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

StatLink https://stat.link/h82edy

Table 1.12. Past OECD recommendations on Anti-Corruption Policies

Recommendations in past surveys	Actions taken since 2021
Continue to enhance the capacity of the Public Prosecution Office to address economic and financial crime, including corruption. Public prosecutors should continue to undertake specialised training in this area.	Prosecutors undertook specialised training in 2021-22, but significant efforts are still needed.
Establish an electronic register of interests for all government members and senior civil servants that is regularly updated.	An electronic platform for the reporting of MPs' conflict of interests was launched in September 2022.
Introduce codes of conduct on how to engage with lobbyists including a lobbying register.	A one-year pilot project of legislative footprint on lobbying during the legislative process was introduced in November 2021.

Main findings and policy recommendations of the Key Policy Insights Chapter

MAIN FINDINGS	RECOMMENDATIONS (key ones in bold)
Improving macroeconomic policy and fiscal policies	
The fiscal stance is estimated to have been broadly neutral in 2022 as the unwinding of COVID-19-related measures was offset by support to households and firms in the face of high inflation. Although some fiscal support to households and firms has been extended in 2023 , fiscal policy is set to tighten.	**Tighten the fiscal policy stance, including through increasingly targeting fiscal support towards the most vulnerable households and gradually phasing out energy support measures.**
Public debt has been on a declining trend for years and is now below its 2019 level. In light of mounting ageing costs, however, the current debt level remains high, while investments in health, education and infrastructure have been low.	**Continue to lower public debt, by developing a medium-term strategy to improve the structure and efficiency of public spending.**
Social expenditures have increased rapidly over the years, in contrast to investment in infrastructure, education and health. Heterogenous accounting standards across public entities do not allow for assessing the effectiveness of some policies.	**Carry out systematic, regular spending reviews, including in the health sector, to rationalise public expenditures and improve their efficiency.** **Roll out new accounting standards and develop performance budgeting.**
Pension expenditure is high and, despite a link between the standard retirement age and life expectancy, population ageing will put additional pressure on the pension system in the coming decades.	Establish an automatic link between the minimum retirement age and rising life expectancy, similar to the current indexation of the standard retirement age.
The Recovery and Resilience Plan will provide sizeable investment funding but its size and speed are likely to present implementation challenges for the public administration.	Continue to develop administrative capacities to accelerate processes and streamline the public procurement system while ensuring transparency and accountability to prevent risks of fraud.
Numerous tax expenditures reduce public revenues and in some cases the evidence of their effectiveness is weak.	**Reduce tax expenditures, notably those that do not target low-income households or substantially raise compliance costs.**
A large share of outstanding credit is subject to variable interest rates and rising interest rates are reducing households' and firms' debt-servicing abilities. The authorities eased the conditions for mortgage restructuring and introduced interest rate subsidies for low-income households.	**Closely monitor the quality of bank credit and the impact of the measures to reduce debt service costs for low-income households.**
The social safety net is fragmented and some programmes have low benefit take-up. The government plans to streamline social benefits.	**Consolidate the different support programmes for low-income households and simplify eligibility conditions, while considering an overall increase in the level and coverage of minimum income benefits.** **Permanently expand social protection to non-standard workers.**
Difficulties in access to childcare at an early age can be a challenge for low-income households and may hold back female labour participation.	Continue todevelop additional good-quality childcare services for low-income households and neighbourhoods.
Boosting employment and productivity	
The use of temporary labour contracts remains high and they are often used for relatively long periods, while costly legal processes add to the cost of hiring on permanent contracts.	**Enhance the balance of protection across contract types by continuing efforts to promote the use of permanent contracts and reducing the cost of dismissals.**
The minimum wage as a share of the median wage is among the highest in the OECD, and planned increases will further add to labour costs.	**Closely monitor the effects of the minimum wage on employment.** **Reduce employer social security contribution for low-wage workers to mitigate the impact of labour cost increases.**
Upskilling and reskilling will be key to continue to boost workers' skills and productivity.	**Better align the supply and demand of skills to current and future labour market needs, while improving counselling to guide students' study choices and adults' reskilling and upskilling decisions.**
A large share of small firms has weak management and human resources.	**Strengthen active labour market policies targeting smaller firms, such as pre-screening programmes for job vacancies by public employment agencies.**
Competitive pressures are weak in some sectors. The Recovery and Resilience Plan foresees a review of regulations that remain high in some key professions, such as legal services.	**Lower entry barriers, by streamlining regulations, prioritising professional services and the retail sector.** Further expand the use of Regulatory Impact Assessments for new regulations and undertake sectoral reviews of existing policies and their competition impact.
Portuguese firms, notably smaller ones, lag behind in terms of adoption of information and communication technologies.	Combine financial support and technical follow-up when rolling out digitalisation programmes.
Direct public support to business R&D is low. Tax incentives are generous, but do not reach young innovative firms.	Reconsider the balance between R&D grants and tax credits and expand direct support.

Boosting employment and productivity	
Broadband costs and switching costs across operators are high.	Review the lock-in periods for consumers and develop information on quality of broadband packages.
The national anti-corruption strategy has made significant progress, but indicators point to further room for improvement.	**Continue efforts to prevent and fight corruption and introduce a permanent lobbying registry.**
Lobby activities and potential conflict of interest among members of parliament are not monitored systematically. Rules and codes of conduct on how Members of Parliament engage with lobbyists and other third parties who seek to influence the legislative process have not been introduced.	Introduce codes of conduct on how to engage with lobbyists and other third parties who seek to influence the legislative process, with effective enforcement through the planned Authority for Transparency.
Despite significant progress in insolvency procedures, courts have a large backlog in insolvency cases.	Encourage the use of out-of-court insolvency procedures.
Supporting the transition towards a green and sustainable economy	
Details on the additional policies needed to meet ambitious climate targets are limited. The 2021 Climate Framework Law has not yet been implemented.	Swiftly implement the Framework Climate Law. Clarify the measures envisaged to achieve the 2030 goals, quantify their mitigation impact and specify how they will be financed.
Responding to rising energy prices, the government froze planned carbon tax increases at the end of 2021. Carbon prices vary across sectors and fuels.	**Gradually increase environmental taxes for sectors outside of the EU Emissions Trading System (ETS), including excise taxes on fuels, while protecting low-income households.**
The building stock is in poor condition. Current policies to boost energy efficiency are complex and not fit for purpose.	**Accelerate the retrofitting and renovation of buildings, using a mix of regulation, grants and loans.**

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2 Improving health outcomes

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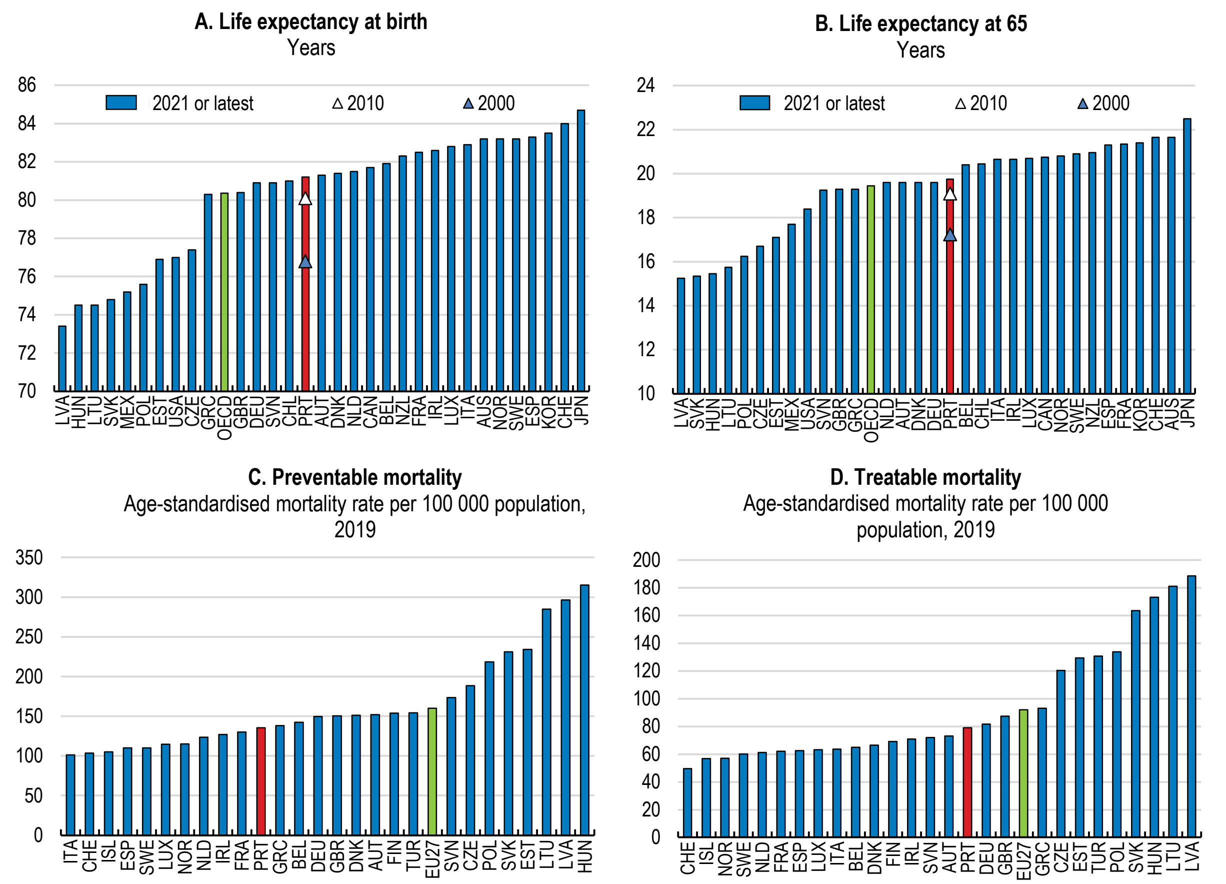
Health outcomes have improved substantially during recent decades and life expectancy is high compared with other OECD countries. Overall, the universal National Health Service offers good quality-care and has delivered high vaccination rates, while public spending remains contained. However, challenges related to staff shortages and heavy pressures on staff, long waiting lists in the public sector and high out-of-pocket expenditures have been building and were further compounded by the COVID-19 pandemic. This partly reflects a system that remains strongly based on hospital care and has suffered from underinvestment in the years following the global financial crisis. In addition, obesity, a lack of physical activity and high alcohol consumption are weighing on long-term health outcomes, while the ageing of the population will increasingly require more and different healthcare services. The government has initiated a wide-ranging reform agenda through the Recovery and Resilience Plan and the 2022 reform of the National Health Service, with the aim of enhancing the integration of primary, community and hospital care. Reforms will need to address the generally weak budgeting and accountability practices, building on improved information systems and regular evaluations to ensure more efficient spending. Reforming primary care should remain a priority to scale up efficient prevention programmes, promote cost-efficient choices by care providers, improve access for low-income households and limit avoidable hospitalisations.

Portugal's health system has performed well, but is facing challenges

Health in Portugal has improved substantially over the past four decades. Life expectancy, the most frequently-used measure of health outcomes, has increased considerably, up by 10 years since 1980, and stands one year above the OECD average (Figure 2.1, Panels A and B). The national health system in Portugal provides universal access to good-quality care for all residents through the National Health Service and has many strengths: preventable and treatable mortality are low (Figure 2.1, Panels C and D) and routine and COVID-19 vaccination rates are among the highest in the OECD (OECD/EU, 2022[1]).

Figure 2.1. Health outcomes are strong in international comparison



Note: Preventable mortality is defined as deaths that can be mainly avoided through public health and primary interventions. Treatable mortality is defined as deaths that can be mainly avoided through health care interventions, including screening and treatment. Both indicators refer to premature mortality (under age 75).
Source: OECD (2023), Health Statistics database; Eurostat (2023), Treatable and preventable mortality (database).

StatLink https://stat.link/sktr9u

Overall, the quality of care delivered by Portugal's health system is good, but there is scope for improvement in specific areas. While deaths related to preventable and treatable causes are below the OECD average, Portugal lags behind other European countries, such as Italy, Spain and France, suggesting that more could be done to save lives by reducing risk factors for leading causes of death, such as the prevention of cancer and cardiovascular diseases. Avoidable hospital admission rates for asthma, chronic obstructive pulmonary disease (COPD) and diabetes are amongst the lowest in the OECD. Hospital admission rates for diabetes have steadily decreased over the last decade in Portugal and are now less than half of the OECD average. During the COVID-19 outbreaks, the health system proved fairly resilient, and was able to adjust the capacity of beds and medical staff through exceptional measures.

However, many hospital procedures were postponed and staff working conditions deteriorated further, adding to already-existing backlogs, waiting lists and dissatisfaction among healthcare workers, which continue to remain elevated (Box 2.1).

Box 2.1. The health system's response to the COVID-19 pandemic

As in most countries, the pandemic took a significant toll on health, lives and livelihoods. The government response included containment measures to limit the spread of the virus and substantial additional funding to the health system, which allowed a temporary expansion of human resources, and hospital and testing capacity (OECD/EOHSP, 2021[2]). Good public and private laboratory capacity and a successful vaccination campaign have also significantly contributed to lower the COVID-19 burden (ECDC, 2022[3]).

Yet, the peak of the outbreak put the Portuguese health system, notably hospitals, under severe strain. At the onset of the pandemic, both the number of beds per population and of intensive care unit (ICU) beds were relatively low (OECD/EU, 2022[1]). The government had to mobilise additional hospital capacity and equipment in March 2020, notably by shifting capacity from planned and elective procedures, and to take additional extraordinary measures a year later. As a result, Portugal nearly doubled its ICU capacity – from 587 beds in March 2020 to 1 015 beds by March 2021. Though the use of interregional patient transfers and requests (of mostly non-ICU) beds in the private sector also relieved some pressures, hospitals in some regions were regularly overwhelmed.

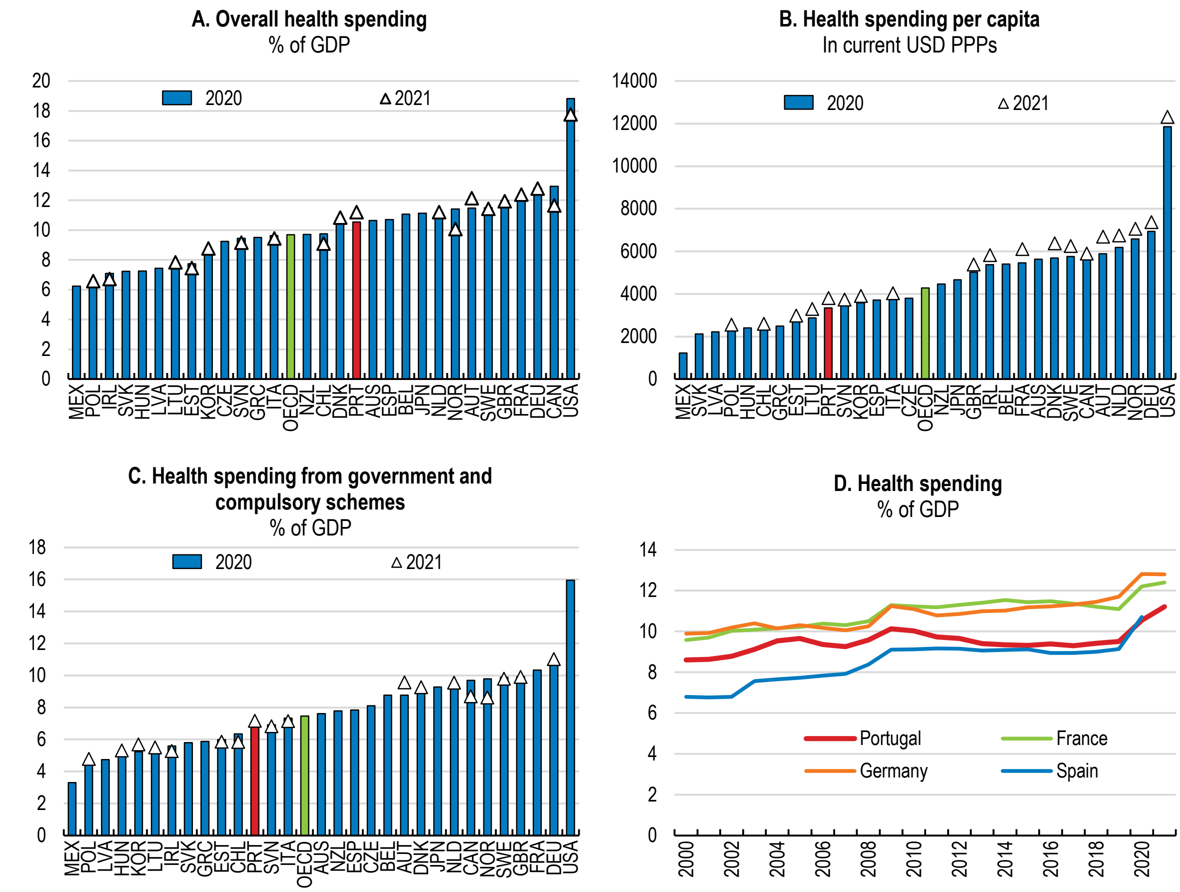
The pandemic led to significant health service disruptions. In 2020, Portugal was among the most affected European countries for elective surgeries, cancer related surgeries and chronic care (OECD/EU, 2022[1]).

Source: OECD/EOHSP (2021[2]), Portugal: Country Health Profile 2021, State of Health in the EU, OECD Publishing, Paris/European Observatory on Health Systems and Policies, Brussels; OECD/EU (2022[1]), Health at a Glance: Europe 2022: State of Health in the EU Cycle, OECD Publishing, Paris; ECDC (2022[3]), Data on testing for COVID-19 by week and country, European Centre for Disease Prevention and Control.

Public and private current expenditures on healthcare have been increasing in 2020-22, but this increase started from a comparatively low base. Health expenditures only returned to their 2009 share of GDP in 2021 following a persistent decline since the 2011 economic crisis (Figure 2.2). Spending on health, including public and private expenditures, was around 9.5% of GDP in 2019 and 11.2% in 2021, which is higher than the OECD average. However, on a per-capita basis, yearly spending was around USD 3,350, lower than the OECD average (Panel B) and public expenditures through the Portuguese National Health Service (NHS) accounted for only 6.8% of GDP in 2021 (Panel C). At the same time, there is sizeable potential for achieving cost-efficiency gains.

Rapid population ageing is one of the major upcoming challenges for Portugal's health system. Despite a good performance on life-expectancy at birth, healthy life years at 65, which count the number of years spent free of activity limitations, are below the European average (OECD/EU, 2022[1]). Over the coming years, the health system will face rising care burdens and financial pressure as population ageing continues. The share of people over 80 years old, who are the largest per capita recipients of health and long-term care, will increase strongly (Figure 2.3). Population ageing will add to the already-increasing burden of chronic and degenerative diseases as well as multi-morbidity, which will gradually become more prominent.

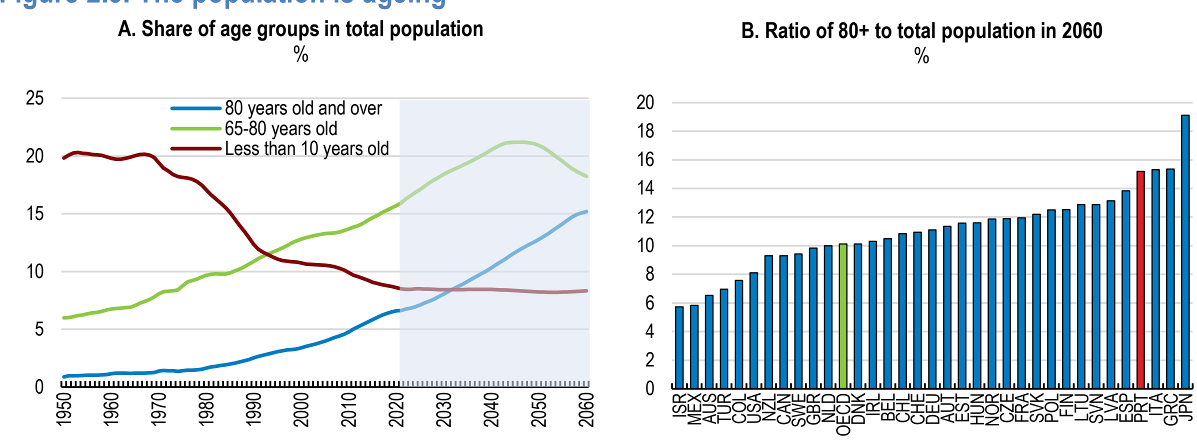
Figure 2.2. Health spending has increased



Source: OECD Health Statistics (database).

StatLink https://stat.link/fe2qgi

Figure 2.3. The population is ageing



Note: Panel B shows the projected population aged 80 years old and over divided by the total population.
Source: OECD, Historical Population Data and Projections database (1950-2060).

StatLink https://stat.link/kszu6b

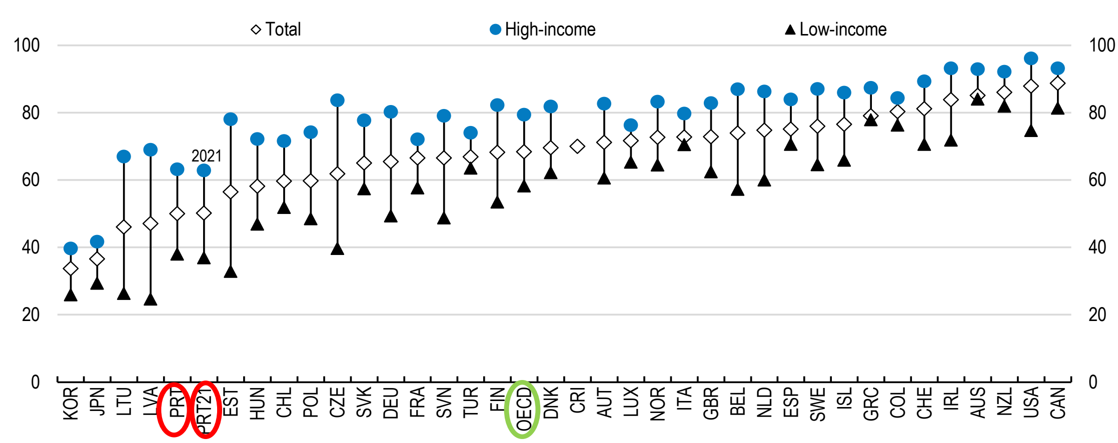
Projections suggest that these developments will require significant increases in the number of health workers and in public health expenditures until 2060 (Box 2.2), while the current shortages of some health workers, notably nurses, and limited hospital capacity have already lead to high waiting times for surgeries and care and rising unmet medical needs. The COVID-19 pandemic has further aggravated these long-standing challenges.

Social and geographical disparities in health outcomes are significant, despite good aggregate outcomes. Only 38% of those in the lowest income quintile reported being in good health in 2019, compared with 63% of those in the highest (Figure 2.4). Men are more likely to rate themselves in good health (56%) than women (47%) (OECD, 2022[4]). Compared to adults with the lowest level of formal education, those with a tertiary education have significantly lower occurrence of cardiovascular and cerebrovascular diseases, diabetes, hypertension, chronic renal disease and obesity (Perelman, 2022[5]). Health disparities in terms of obesity and mental health also appear correlated to education (Campos-Matos, Russo and Perelman, 2016[6]), while preventable death rates across municipalities are significantly correlated with local poverty rates (Costa and Santana, 2021[7]) and rural and low-density areas tend to display lower health outcomes (Girotti-Sperandio and Pereira-Montrezor, 2017[8]).

Health disparities across socio-economic and geographic groups are partly explained by different lifestyles and the design of the health system. The distribution of health resources, including facilities and health professionals, is unequal across regions and results in shortages of specialists in some areas (OECD/EOHSP, 2017[9]; OECD, 2023[10]). Differences in access to healthcare services across regions and neighbourhoods are related to high out-of-pocket expenditures for some households and care services, heterogeneous medical practices, notably among hospitals, and the low focus on prevention. For example, municipalities in low-density or border areas tend to have higher weaker geographical access to their reference hospitals (Costa, Tenedório and Santana, 2020[11]), while access to emergency services appears weaker in Lisbon's poorer neighbourhoods (Silva and Padeiro, 2020[12]). Out-of-pocket payments for healthcare as a share of total health expenditure in Portugal (28.6%) are twice above the European average and amongst the highest in the OECD, which can limit access to healthcare and result in high private healthcare spending for some households, particularly low-income groups (OECD, 2021[13]; 2022[4]).

Figure 2.4. Self-reported health status is low and varies across income groups

Share of the population aged 15 and over with good/very good health, 2019



Note: Results for Australia, Canada, Colombia, New Zealand and the United States are not directly comparable due to methodological differences in the survey questionnaire, resulting in a bias towards a more positive self-assessment. Cultural factors affect cross-country variations.

Source: OECD, Health Statistics database (based on EU-SILC data for Portugal and most EU countries); and Eurostat, Self-perceived health statistics.

StatLink https://stat.link/gd7iwo

Portugal's NHS has been a backbone of strong health outcomes, but its financial management has been a longstanding challenge. The increasing expenditure in the NHS since 2015 has been driven by a pick-up of public wages and rising costs of medicines and medical devices, putting increasing pressure on hospitals' budgets (EC, 2021[14]). Combined with weaknesses in planning, costing and management control, hospital budgets have been repeatedly insufficient. As a result, public hospitals have accumulated sizeable arrears over each yearly budget, which have been repeatedly addressed by extraordinary transfers from the central government. In addition, growth in public capital spending on health has been particularly subdued since 2011, in line with a more general trend across government functions. Between 2011 and 2020, nominal capital spending increased by only 1.4% per year, compared to 9% on average between 2001 to 2010. Recent measures have started to address some of these issues, with the full payment of hospitals' arrears at the end of 2022 and the increase in the health budget for 2023, while Portugal's Recovery and Resilience Plan (RRP) foresees the implementation of a strengthened cost-accounting system.

Box 2.2. Projections point to significant future health and long-term care spending needs

Future health and long-term care needs are sizeable and challenging, but they are also highly uncertain, as illustrated by the large differences in projected outlays under different sets of assumptions (Table 2.1).

Table 2.1. Projected increase in public health spending in Portugal

Change in percentage points of GDP

	Healthcare 2019-40	Health and long-term care 2019-40	Healthcare 2019-60	Health and long-term care 2019-60
European Commission, 2021				
Reference scenario	1.2	1.4	1.7	2.2
Risk scenario	1.6	2.8	2.7	7.5
OECD, 2019[1]		2.3		3.6

1. Updated with the November 2022 projections. Source: EC (2021), The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070); Guillemette, Y. and D. Turner (2021), "The long game: Fiscal outlooks to 2060 underline need for structural reform", *OECD Economic Policy Papers*, No. 29, OECD Publishing, Paris.

In addition to demographic and economic trends, health and long-term care spending needs will depend on:

- The quality of additional years of life, i.e. the fraction of life expectancy gains that will be spent in good health. This will depend notably on medical progress, appropriate and equal access to good quality health care, and changes in preventive practices and lifestyles. OECD projections assume fully healthy ageing, while the European Commission assumes only "half healthy" ageing in its "reference" scenario.
- The effect of technological progress on the cost of healthcare services, both in terms of lowering the price of existing services and creating new potentially costly services. The latter effect has been dominant over the past few decades, contributing to higher spending.
- The income elasticity of healthcare demand, i.e. by how much rising incomes will increase healthcare spending. There is no consensus in the literature on the size of this effect. OECD projections assume an elasticity of 0.8, while the European Commission assumes 1.05 on average over the projection period, after controlling for other spending drivers.
- The development of wages in the healthcare sector relative to other sectors. Wages in service sectors tend to grow as fast as in the rest of the economy despite slower productivity gains, leading to relative price increases for services, including healthcare (the so-called Baumol effect).
- Societal changes, such as the evolving willingness of family members to provide informal long-term care for relatives.
- The pace of reforms, such as changes to the follow-up of long-term diseases and payments to healthcare providers that would contain expenditure growth, as in the OECD cost-containment scenario.

The health sector has seen significant reforms, notably through the RRP (Box 2.4) and the 2022 Health law, which initiated structural changes to the National Health Service (Box 2.3). Ensuring the effective implementation of this demanding legislative and administrative reform agenda will be key to improve health outcomes and the efficiency of health expenditures. This will imply, among others, moving towards a better integrated primary, community and long-term care system. Against this background, this chapter reviews the current framework surrounding the healthcare system and health providers before focusing on some specific aspects. The main findings are:

The Portuguese system produces good aggregate health results, but with significant disparities and increasingly binding funding constraints. The current budgeting practices and past under-investment hinder the effective use of funding. At the same time, capacity shortages create disparities in access to care and coverage. More efficient budgeting practices and human resources management would help to address elevated waiting lists and staff shortages.

Ageing and rising chronic diseases make strengthening primary care and prevention an ever more urgent priority. Stepping up the ongoing efforts to increase prevention and co-ordination among care providers would promote healthier lifestyles and improve medium-term health outcomes. Beyond the healthcare system, re-organising long-term care will be crucial (OECD/EOHSP, 2021[2]).

Meeting the changing needs of the population and addressing the short-run shortages of health workers in the National Health Service will require a comprehensive review of payment systems, management practices and working conditions in primary care and public hospitals. Some regulations and payment arrangements could further encourage appropriate care and the development of efficient multi-disciplinary group practices.

An overview of the Portuguese health system

The Portuguese National Health Service (NHS), established in 1979, is a tax-funded health system, governed by the public sector (OECD/EOHSP, 2021[2]; EOHSP, 2017[15]). The NHS provides universal health coverage through publicly-provided primary and specialised hospital care, and contracts with private and social sector entities on a supplementary and temporary basis. Its creation was in line with the principle of every citizen's right to health, embodied in the new 1976 democratic constitution. The NHS coexists with two other health assistance mechanisms: the health subsystems and private voluntary health insurance (VHI) schemes, where citizens receive extra coverage either contracted through their employer or on an individual basis.

In Portugal, healthcare services are delivered by a combination of public and private providers (OECD, 2015[16]). The network of NHS primary care providers, such as primary care centres and primary healthcare clusters, are public entities under the Ministry of Health. , The hospital sector contains a mix of publicly and privately-owned facilities (OECD, 2015[16]). While remaining under the jurisdiction of the Ministry of Health, the majority of NHS hospitals as well as hospital centres and local health units are run as public enterprises, a model in which the government retains ultimate ownership but gives some autonomy to managers of hospitals and local health units. Doctors and nurses employed by the NHS in both primary and hospital care are salaried government employees. The private sector commonly provides dental consultations, diagnostic services, haemodialysis and rehabilitation. Long-term care is mainly provided by social sector entities, under contracts with the NHS.

The responsibility for planning and allocating health resources is highly centralised (EOHSP, 2017[15]). The Ministry of Health is responsible for developing health policy and overseeing and evaluating its implementation, including most planning and regulation, and coordinating the provision of health care (EOHSP, 2017[15]). It also finances public healthcare services, and is responsible for the regulation, auditing and inspection of private healthcare providers.

Table 2.2. Selected institutions under the jurisdiction of the Portuguese Ministry of Health

Direct administration	Indirect administration	Public Enterprise Sector	Independent advisors
Directorate-General of Health (DGS)	Central Administration of the Health System (ACSS)	Shared Services of the Ministry of Health (SPMS)	National Health Council
	Executive Directorate of the NHS (DE-SNS)	Public Enterprise Hospitals, Local Health Units and Hospital Centres	Health Regulatory Agency
	National Authority on Drugs and Health Products (INFARMED)		
	Hospitals belonging to the Public Administrative Sector		
	Primary healthcare centres and local primary healthcare clusters		

Source: EOSHP (2017[15]) and OECD (2015[16]).

The Ministry of Health includes several institutions under its direct and indirect administration. Some institutions under direct administration include the Directorate-General of Health (*Direcção-Geral da Saúde*, DGS), which plans, regulates, directs, coordinates and supervises all health promotion, disease prevention and healthcare activities, institutions and services. Others under indirect administration include the Central Administration of the Health System (*Administração Central do Sistema de Saúde*, ACSS), which manages financial and human resources, facilities and equipment and systems and information technology of the NHS, alongside the Executive Directorate of the NHS (*Direção Executiva do Serviço Nacional de Saúde, DE-SNS*). The National Authority on Drugs and Health Products (*Autoridade Nacional do Medicamento e Produtos de Saúde,* INFARMED) regulates the pharmaceuticals and health products sector. In 2022, the ACSS took on the role of managing agreements with healthcare providers and private and social sector entities, previously under the responsibility of five regional health administrations (Box 2.3). As reforms are implemented, they should be rigorously evaluated to ensure value for money, including through a formal spending review of all health spending.

The Shared Service of the Ministry of Health (*Serviços Partilhados do Ministério da Saúde*, SPMS) is a public enterprise responsible for providing the information systems, according to the priorities defined by the ACSS and the Executive Directorate. In addition, the National Health Council, a consultative, independent body for the Ministry of Health, is responsible for providing recommendations and advice on the implementation of health policies, and the Health Regulatory Agency independently regulates the healthcare sector, including the private sector.

Other ministries also play a role in the healthcare sector. The Ministry of Finance approves staffing and investment budgets for the NHS, while the Ministry of Labour, Solidarity and Social Security is responsible for social and disability benefits and the provision of some long-term care. The Ministry of Science, Technology and Higher Education is responsible for the education of undergraduate medical, nursing and allied health professionals, such as physiotherapy and radiology and for academic degrees (EOHSP, 2017[15]). However, specialised postgraduate medical training is the joint responsibility of the Portuguese Medical Association (*Ordem dos Médicos*) and the Ministry of Health.

Local governments have a limited role in providing healthcare. In 2018, several competencies were transferred to municipalities, including planning, management and investment in new primary healthcare units; management and maintenance of existing primary healthcare infrastructure; management of operational assistants in primary care centres; and participation in health programmes that promote community health, healthy lifestyles and healthy ageing (OECD/EOHSP, 2021[2]).

Box 2.3. Recent and ongoing reforms in the management of the NHS

In late 2022, the government altered the status, management and task structure of the NHS by establishing an Executive Directorate to coordinate the healthcare response of NHS health units (Decree-Law No. 52/2022 of 4 August 2022 and Decree-Law No. 61/2022, of 23 September 2022; (EOHSP, 2022[17])). The Executive Directorate is a public institute under a special regime, with its own legal personality and endowed with administrative and financial autonomy. While under the supervision of government, it is not subject to the management power of the Ministry of Health.

The Executive Directorate is to issue regulations, guidelines, directives and generic and specific instructions to NHS establishments and services. It is also to take over the management of the National Network of Integrated Continuous Care (RNCCI) and National Network of Palliative Care (RNCP) from the ACSS. The Executive Directorate will also have the power to propose the appointment and removal of the management of health units.

The institute is headed by the Executive Director, who is the highest governing agent in terms of representation and management responsibility of the NHS and will have decision-making powers over the integration of care provision, network functioning and referral, access to healthcare and patient rights and governance and innovation. The Executive Directorate also includes a Management Council, to aid the Executive Director, a Strategic Council, comprised of the President of the Central Administration of the Health System (ACSS) and the President of the Shared Services of the Ministry of Health as well as a management assembly and supervisory bodies (Decree-Law No.61/2022, of 23 September 2022; (EOHSP, 2022[17])). It can also have regional units.

The creation of the Executive Directorate will result in flow-on changes to roles within the Ministry of Health. In particular, the ACSS and the local primary healthcare clusters (ACeS) are planned to take on the previous role of the Regional Health Administrations in managing agreements with healthcare providers and private and social sector entities (Box 2.5). The ACSS continues to plan and manage the financial resources of the Ministry of Health but will work with the Executive Directorate to prepare multi-year budgets and investment plans.

The 2022 reforms follow other recent reforms to tackle the challenges facing the healthcare sector. In early 2020, the government implemented the Plan to Improve NHS Responsiveness reform to address persistent budget imbalances, long waiting lists, increasing struggles for hospitals to hire healthcare workers and the need for greater investment in the NHS (EOHSP, 2020[18]). To address these issues, the Plan reinforced the 2019 and 2020 Health Budgets, approved a multi-annual investment programme, established a framework to recruit 8 400 new health workers between 2020 and 2021 and reinforced the autonomy to recruit healthcare workers in NHS hospitals. To promote better management the government allocated EUR 100 million to performance management schemes in NHS hospitals, providing incentives to both professionals and institutions.

The 2019 Health Basic Law aimed for a deeper separation of public and private sectors. It reinforced the requirement of public management of NHS units. While contracts with private and social sector entities can exist, these can be only on a supplementary and temporary basis (EOHSP, 2022[17]). The Law also established the waiving of user charges for primary healthcare and other care prescribed within the NHS. Previously, the use of most services, including emergency care, general practitioner (GP) visits and specialist consultations, incurred flat-rate user charges.

Source: EOHSP (2020[18]), Portugal - Health Systems in Transition, Country Update: The Portuguese Government approves a Plan to improve NHS responsiveness, European Observatory on Health Systems and Policies); EOHSP (2022[17]) , Portugal - Health Systems in Transition, Country Update: The SNS Executive Directorate is created, European Observatory on Health Systems and Policies; Decree-Law No.61/2022, of 23 September 2022.

Box 2.4. Reforms and investments in the NHS under the EU Recovery and Resilience Plan (RRP)

The Recovery and Resilience Plan (RRP) includes three reforms and nine investment projects in the NHS, valued at EUR 1.4 billion, to be completed by 2026 (EC, 2022[19]; Ministério do Planeamento, 2021[20]). The RRP addresses Country-Specific Recommendations (CSR) from the European Commission, including strengthening overall expenditure control, cost efficiency, and adequate budgeting, with a focus on a durable reduction of arrears in hospitals (CSR 1 2019) as well as strengthening the resilience of the health system and ensuring equal access to quality health and long-term care (CSR 1 2020; (EC, 2021[14])). Notable reforms and investments include:

Reinforcing the core role of primary healthcare services. Reforms and investments include deepening the capacity for screening, creating more proactive primary care centres with expanded areas of intervention, improving the geographical distribution of primary care providers, supporting community-based responses and enhancing the skills of the health workforce. Portugal will complete these reforms by end 2023 and the EUR 466 million of investments by mid-2026.

Completing the reform of the governance model of public hospitals to increase efficiency in hospitals by reforming their organisation and internal management, reconfiguring the hospital network, improving articulation with other elements of the NHS and involving health professionals in the management of public hospitals. Portugal is to complete the reforms by end 2025.

Addressing bottlenecks hampering the digital health transition and digital hospital, including a lack of hardware and software available for healthcare workers, strengthening the standardisation of information systems in the NHS and improving user experience and access to data. The EUR 300 million investments and EUR 15 million in Madeira will be completed by end 2024, while the EUR 30 million investments in Azores will be completed by 2025Q3.

Upscaling mental health services, addressing a model centered around hospitalisation and the lack of a nation-wide network of services (EUR 88 million) and investing in the National Network of Integrated Continuous Care (*Rede Nacional de Cuidados Continuados Integrados* – RNCCI) and National Network of Palliative Care (RNCP) (EUR 205 million).

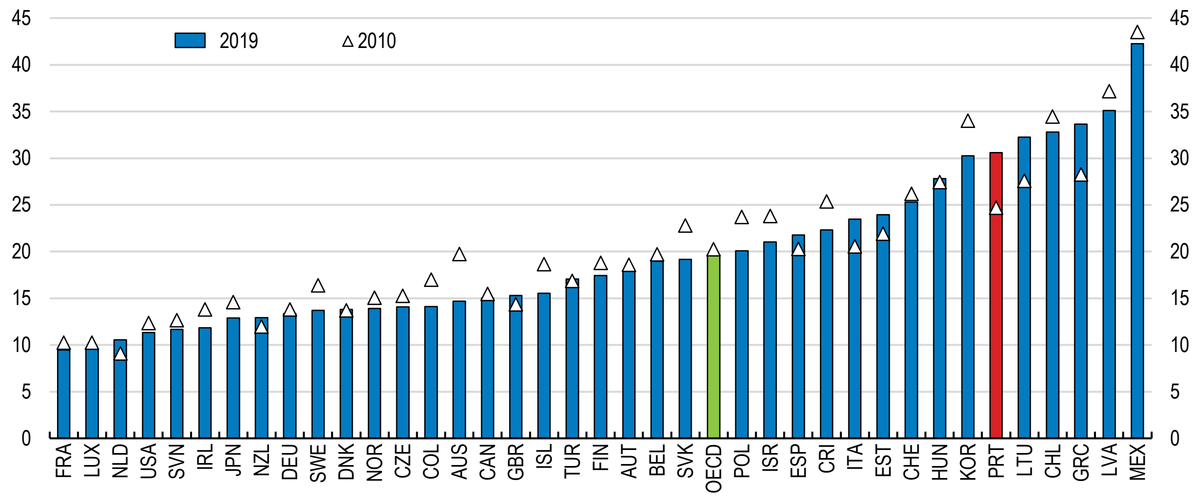
Source: EC (2021[14]), Analysis of the recovery and resilience plan of Portugal, Commission Staff Working Document; EC (2022[19]), Portugal's recovery and resilience plan, https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/portugals-recovery-and-resilience-plan_en; Ministério do Planeamento (2021[20]), PRR – Recuperar Portugal, Construindo o future.

The Ministry of Finance provides the Ministry of Health with an annual budget for total NHS expenditure based on historical spending and proposed plans (see below). From this NHS budget, public hospitals are allocated global budgets based on negotiated contracts signed with the Ministry of Health and the Ministry of Finance. These contracts include plans for activity as well as staff numbers and investment. Public primary care providers are allocated budgets based on contracts on activity, performance, staff numbers and investment.

The NHS offerss a broad benefit package, covering the costs for services including general practitioner (GP) visits and outpatient specialist care in the public sector, as well as other services prescribed by NHS doctors, such as pharmaceutical products. User fees remain for the use of emergency rooms when not referred from within the NHS. While coverage is broad, Portugal has one of the highest shares of out-of-pocket (OOP) payments in the OECD, accounting for around 29% of total health expenditure in 2021, compared to around 18% on average across the OECD (Figure 2.5). OOP payments apply to some services typically provided by private providers, such as dental care, and to costs incurred by patients who opt out from NHS-provided services, notably those who benefit from some coverage of private providers' costs through voluntary health insurance. While OOP payments were limited to 11% of inpatient curative and rehabilitative care expenditures in 2020, public coverage was particularly limited for outpatient medical care, medical goods and long-term care. Financial hardship associated with OOP payments for households, as measured by the incidence of catastrophic spending on health, is well above the OECD average. In 2015, close to 11% of households had to spend more than 40% of their remaining income on healthcare after deducting spending on basic needs (OECD, 2021[13]).

Figure 2.5. Out-of-pocket healthcare payments are high

As a share of current expenditure on health, 2019 and 2010



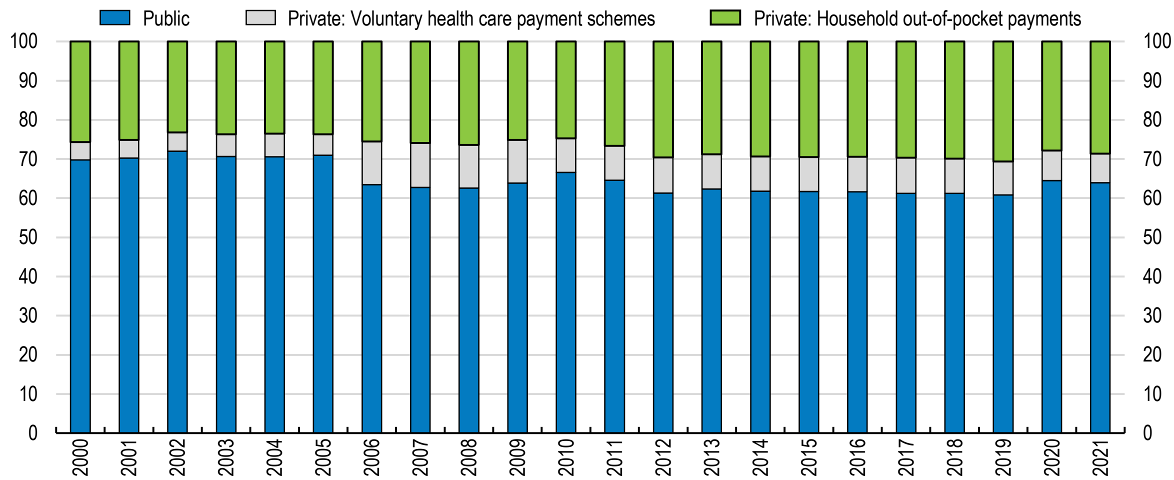
Source: OECD, Health Indicators database.

StatLink https://stat.link/5lahgj

Voluntary health insurance and OOP payments play a significant role in financing health care (Figure 2.6). The two special health assistance mechanisms that coexist with the NHS, the health subsystems and private voluntary health insurance (VHI) schemes, provide comprehensive or partial coverage for particular professions or sectors, such as the schemes for civil servants and the banking sector, and are financed through employee contributions. Health subsystems only accounted for around 3% of current health expenditures in 2020 (INE, 2022[21]), though they generally provide better access to private providers than the NHS. The ADSE (*Assistência à Doença dos Servidores do Estado*) is the largest scheme, covering over 1.3 million public servants and their dependents. The VHI have a supplementary role to the NHS and the health subsystems. Buyers of voluntary private health insurance benefit from better access to several health services through private providers, notably private hospital treatment and ambulatory consultations. While more than 3.3 million individuals (around 32% of the population) were covered by voluntary individual or group private health insurance in 2021 (ASF, 2021[22]), spending only accounted for around 6% of current health expenditures in 2020 (INE, 2022[21]).

Figure 2.6. Private sources of healthcare financing play a significant role

Current expenditure on health by main source of financing, %



Source: OECD, Health Indicators database.

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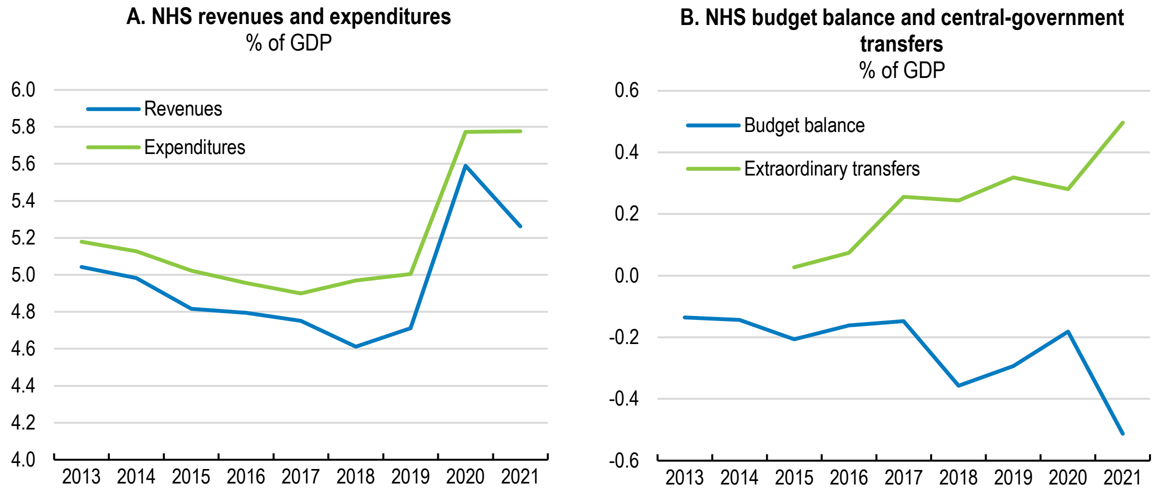
Strengthening governance and budgeting

One of the principal challenges of the NHS relates to its budgeting processes, whose shortcomings have had serious implications for managing expenditures, ensuring the accountability of health providers and determining and achieving cost-efficient expenditures, both in the short and the longer run. The NHS budget has been repeatedly set below the cost of providing health services, leading to persistent deficits (Figure 2.7). This has made it impossible for the NHS to comply with the budgetary limits approved by Parliament (CFP, 2022[23]) and has led to the NHS's frail economic and financial situation (Tribunal de Contas, 2022[24]). The Ministry of Finance provides the Ministry of Health an annual budget for the administration of the NHS during the preparation of the State Budget. In 2021, 96% of the NHS budget was allocated from the State Budget, complemented by a small share of earmarked revenues (CFP, 2022[23]). In 2019, more than two-thirds of NHS public enterprise hospitals were highly undercapitalised and over half had negative equity (Tribunal de Contas, 2022[25]). The unachievable budgets have meant that it has been difficult for management to identify and manage key spending priorities. Incentive mechanisms to meet budgeted expenditure have also been lacking, with the Ministry of Finance historically providing additional necessary funding in the form of extraordinary transfers. Aiming at addressing budget challenges, budgeted health spending has been increased by 7.8% for 2023 compared to spending executed in 2022, and 10.5% compared to the initial 2022 health budget (Governo da República Portuguesa, 2022[26]).

Beyond the inadequate size of the NHS budget, annual budgeting procedures also have scope for improvement to help better allocate spending in line with health goals and evaluate spending efficiency. Currently, authorities cannot determine the cost of single hospital procedures due to the lack of an accounting management system at the hospital level, even though this is a requirement in legislation. A new system will be put in place by the end of March 2024 as part of the EU's Recovery and Resilience Plan (RRP), which will allow for the accurate calculation of healthcare costs. In the past, planning, strategy and budget documents and contracts between the Ministry of Health and healthcare providers have often been completed in the middle of the year to which they relate, or even later, limiting their usefulness yet using administrative resources for extended periods (Barros, 2022[27]). This delay has lead to significant payment arrears that end up spreading hospitals' fragile financial situation to their providers.

Figure 2.7. NHS revenues have failed to keep up with increasing expenditures



Note: Extraordinary transfers from the central government to the NHS in the form of capital payments are not included in NHS revenues.
Source: CFP (2022) using data from ACSS (2023).

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Improving the budget process would allow management to more effectively allocate and monitor spending. Establishing some form of coordination mechanism between the Ministries of Finance and Health would be crucial for this, as Portugal is one of only three OECD countries with no formal or informal mechanism for this purpose (OECD, 2015[28]). Additionally, ensuring that the Ministry of Finance has the analytical capacity to assess the policies proposed by the Ministry of Health, which has previously been identified as a challenge, as in many OECD countries, will help to assess policy proposals (OECD, 2015[28]). The inclusion of some form of automatic budget adjustment mechanism for major cost drivers, as in Israel, could also help to simplify the annual budgeting process and improve coordination between the two ministries (Box 2.5). Expanding the budget from an annual to a multi-annual budget aligned with strategic and medium-term health priorities could aid in planning and meeting health objectives.

Given that budgets have provided little actual guidance on expected expenditures, they have failed to provide a reference point for the effective monitoring of spending over the year, and deviations from budgeted expenditures have risen in recent years (CFP, 2022[23]). The significant delays in the settlement of some contracts also hinder the ability to provide incentives for better management practices. The effectiveness of existing governance mechanisms, which aim to promote accountability and transparency, have been undermined by some flaws in implementation (Tribunal de Contas, 2022[24]). For example, management contracts outlining goals and targets have been of limited use when signed late or not at all. Acknowledging these challenges, in 2022 the government reformed procedures around the finalisation of management contracts to ensure the signing of contracts no later than three months following the appointment of the hospital board. Better monitoring the activity of NHS providers will also depend on collecting a wider range of performance indicators (Tribunal de Contas, 2022[24]). Accurate reference points would allow for more effective monitoring of health budgets through monthly expenditure reporting and mid-year budget reviews. An early warning system for overspending resulting in corrective mechanisms, such as those used in Belgium and France (Box 2.5), could help to reduce persistent deficits (OECD, forthcoming[29]).

The weaknesses of the health budget have hindered a transparent end-of-year reporting on its execution. Audits are fundamental to accountability and can yield useful findings on performance and value-for-money to inform future budget allocations (OECD, forthcoming[30]). The Court of Auditors, which has been auditing the NHS accounts since 2015, has reported material misstatements in the consolidated financial statements of the NHS that affect the true and fair view of the NHS' financial position and performance

(Tribunal de Contas, 2022[25]). Moreover, they noted that members of supervisory bodies are often appointed with a delay and statutory audits of accounts of NHS entities are often not performed within the legal deadline, which precludes the effective control of the financial and asset management of NHS entities. The delayed settlement of contracts with NHS health providers has often meant that external audit reports are issued with qualified opinions due to a limitation of scope (Tribunal de Contas, 2022[25]), limiting the quality and robustness of the audit process. The Portuguese Fiscal Council (*Conselho das Finanças Públicas*) has also provided a useful independent analysis on the economic and financial performance and sustainability of the NHS since 2013, and annually since 2020, highlighting the financial limitations of the NHS.

Box 2.5. Examples of effective management of health expenditure in OECD countries

In Israel, the annual budget for health expenditure is based on an automatic adjustment mechanism according to demographic and technological developments and a price index. A specialised committee is responsible of the inclusion of new technologies into the health basket, linking the results of health technology assessment to the budget impact. The price index reflects changes in the price of inputs in the health sector, notably wages. The use of a set formula to determine the health budget has simplified the scope of negotiations between health and finance ministries. In addition, it guarantees a minimum annual increase in the health budget and provides some visibility over future funding levels.

In Belgium, a process known as permanent audit, monitors and controls health expenditure by monitoring all health insurance reimbursements. Reports are published monthly, quarterly, and half-yearly detailing the evolution of expenditure and volumes of healthcare usage. In response to the monitoring reports, the Minister of Social Affairs as well as the National Institute for Health and Disability Insurance can propose corrective measures at any time to prevent an overrun of the budgetary objectives.

In France, several monitoring and corrective mechanisms ensure compliance with an annual target for health expenditure, known as the 'Objectif national de dépenses d'assurance maladie', or ONDAM. An 'Alert Committee' signals to key stakeholders if health expenditure risks exceeding the ONDAM by more than 0.5%. In addition, to limit the risks of exceeding the ONDAM, tools to correct the price of healthcare have been gradually put in place. Since the introduction of these measures, France has been better able to control health expenditure growth and prevent annual health expenditure exceeding its target.

Source: OECD (forthcoming[30]), "Effective management of health expenditure"; and OECD (forthcoming[29]), "Applying good budgeting practices to health".

The weaknesses in the budgeting process have also limited the review and evaluation of health policies, reducing incentives to complete reforms in the absence of clear evidence on how much they help to achieve medium-term health objectives. Indeed, many reforms remain in the process of completion, such as those of Family Health Units (*Unidades de Saúde Familiar*, USF). Shortcomings have also limited the analysis for adopting new health policies to improve the health of the nation, which will increase in importance as demographic factors evolve, such as the ageing population and increase in chronic diseases. Integrating regular reviews of health expenditure in the budgeting process, such as those carried out in the United Kingdom every 2-4 years, could help to formalise the evaluation process.

Improving the provision of healthcare

Despite overall good health outcomes, structural reforms in Portugal's health sector would help to accommodate pressures from an ageing population and the rising prevalence of chronic diseases, while lowering disparities in access to care. Recent OECD cross-country evidence suggests that both supply-side aspects, such as payments to health practitioners and regulations, as well as demand-side features, such as gatekeeping and cost-sharing, can play a key role in regulating healthcare expenditures (de la Maisonneuve et al., 2016[31]). Well-trained general practitioners (GPs) and specialists, evenly distributed across the country, are also crucial to ensure an adequate supply of outpatient care and co-ordination with hospitals and other primary-care providers (OECD, 2016[32]; 2020[33]).

Strengthening primary care

Primary care, which is mostly performed by the public sector, functions as the central pillar of the NHS. Before the 2022 reform, the five regional health administrations were responsible for strategic management of population health, supervision of NHS hospitals, direct management of public primary care centres and providers, and the implementation of national health policy objectives, with further decentralisation since 2018 (Box 2.6). Primary care is provided through a network of 55 local primary healthcare clusters (ACeS), which, until 2022, contracted with the regional health authorities and agglomerate various public primary care centres (OECD/EOHSP, 2021[2]; Nunes and Ferreira, 2022[34]).

Box 2.6. Ongoing reforms of the decentralisation of the public primary care system

The 2018 reform

In 2018, several competencies were transferred to municipalities, including planning, management and investment in new local primary care centres; management and maintenance of existing primary healthcare infrastructure; management of allied professionals in primary care centres; and participation in health programmes that promote community health, healthy lifestyles and healthy ageing. The reform appears to have improved access to healthcare for people suffering from chronic conditions, and enlarged coverage of services such as mental health, nutrition and oral health (OECD/EOHSP, 2021[2]; Ministry of Health, 2019[35]).

The 2022 reforms and the Recovery and Resilience Plan

The 2022 reform of the NHS (Box 2.3) foresees that the Central Administration of the Health System (ACSS) and the local primary healthcare clusters (ACeS), which are to receive additional autonomy, will be responsible for contracting the provision of primary healthcare. The five regional health authorities will remain responsible for the approval of these strategic plans and for the planning of resources dedicated to coordination and some public prevention programmes.

The 2022 law also creates local health committees (*Sistemas Locais de Saúde*), formed by groups of health establishments and other public institutions in the areas of social security, civil protection, education and municipalities. These local committees will elaborate strategic plans and annual plans are approved by the Regional Health Administrations.

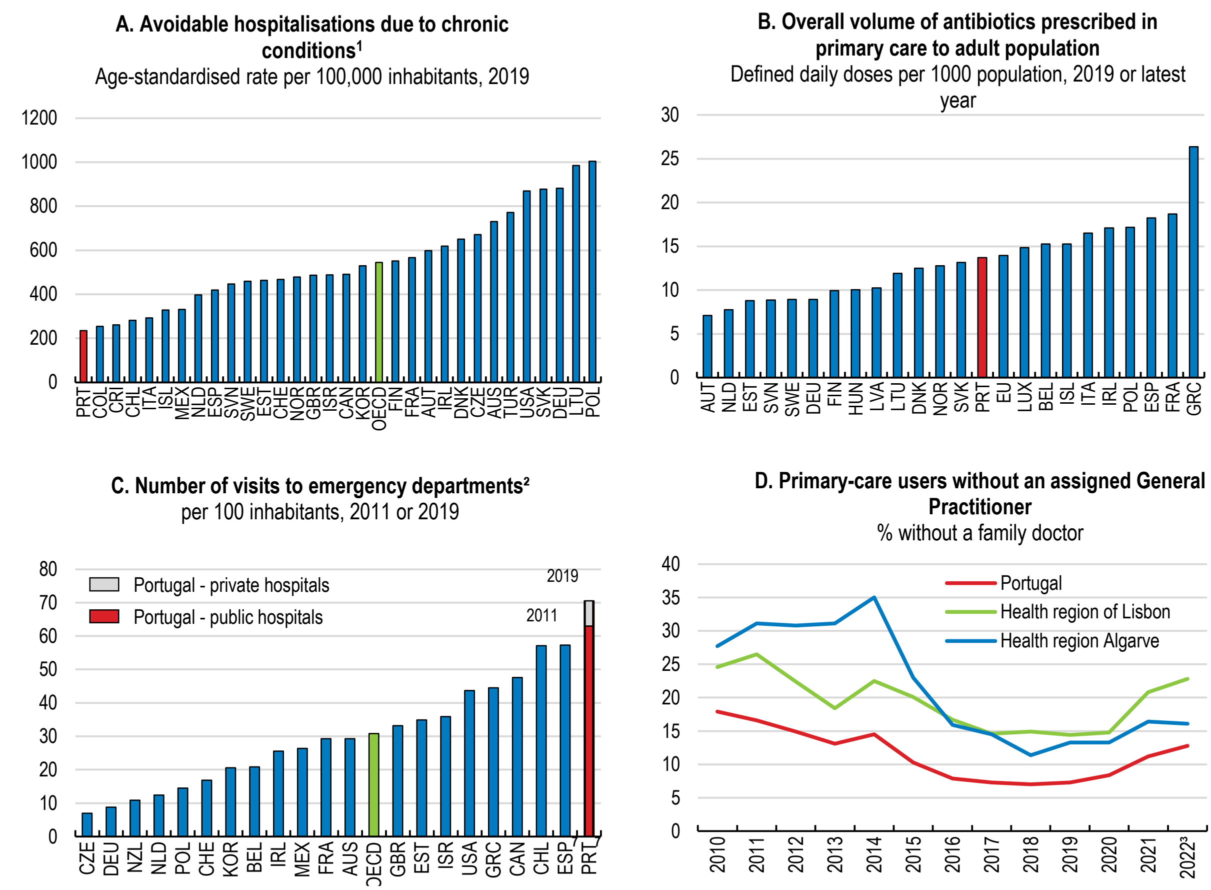
In addition, the Recovery and Resilience Plan (RRP) foresees the full implementation of the 2018 reform in some municipalities to make them responsible for Local Health Strategies.

Source: OECD/EOSHP (2021[2]), Portugal: Country Health Profile 2021, State of Health in the EU, OECD Publishing, Paris/European Observatory on Health Systems and Policies, Brussels; Ministry of Health (2019[35]), Coordenação Nacional para a Reforma do Serviço Nacional de Saúde, Área de Cuidados de Saúde Primários: 2015-2019.

The Portuguese primary care system is generally perceived as well-performing (OECD, 2015[16]). However, some outcomes are mixed, despite the launch of well-designed national action plans. On the one hand, primary care is expected to serve as the first point of contact for people in health systems and to provide continuous and coordinated care over time, notably for people suffering from chronic diseases. Portugal's hospital admission rates for asthma, COPD, congestive heart failure and diabetes are the lowest in the OECD (Figure 2.8, Panel A; (OECD/EOHSP, 2021[2])). The use of antibiotics, which has been validated as a marker of quality in primary care given the rising public health concern caused by antimicrobial resistance (OECD, 2021[13]), also appears below the EU average (Panel B). On the other hand, the use of hospital emergency departments is high, reflecting in part the failure to organise sufficient round-the-clock outpatient services in primary care and the misuse of the hospital care system by patients (Panel C;

(Berchet, 2015[36])). The lack of available primary care services is reflected in the number of NHS users not registered with a GP, which lower the quality of patient follow-up (Panel D) and is associated with more frequent complaints about access to services at the regional level (ERS, 2022[37]). Moreover, hospital spending has been rising faster than total health spending, with a declining share of public spending on ambulatory care, while spending on prevention programmes is lagging (Table 2.3).

Figure 2.8. Selected indicators of primary care and co-ordination among health-care providers



1. Data refer to 2019 or the nearest available year. Chronic conditions include asthma, COPD, congestive heart failure and diabetes.
2. Data refer to 2011, except for Portugal. Due to different definition and identification of emergency care services caution is needed when comparing OECD countries (Berchet, 2015). Portugal emergency visits were updated based on INE (2022).
3. The data for 2022 refer to January-October.
Source: ACSS (2022), Relatório Anual de Acesso a Cuidados de Saúde nos Estabelecimentos do SNS e Entidades Convencionadas de 2021, Administração Central do Sistema de Saúde ; Berchet, C. (2015), "Emergency Care Services:Trends, Drivers and Interventions to Manage the Demand", OECD HealthWorking Papers, No. 83, OECD Publishing; INE (2022), Estatísticas da Saúde – 2020, Instituto Nacional de Estatística; and OECD calculations.

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Reforming primary care would help to address inefficiencies. For example, hospital emergency departments tend to be used for routine needs, which could be dealt with by a GP. Around 41% of emergency visits in Portugal and up to 49% in some regions could be avoided (CNS, 2022[38]). Some targeted interventions to high users of emergency departments have managed to reduce visits by around 50% (Pereira et al., 2001[39]; Gonçalves et al., 2022[40]). Within the RRP 2022 primary care reform, a new typology of emergency episodes in hospital emergency services aims at referring some episodes to primary care services and the measure appears promising. Despite the availability of a 24/7 clinical triage call centre (SNS 24), emergency departments tend to be perceived as "one-stop shops", where a full range of diagnostic tests can be obtained in a few hours (EOHSP, 2017[15]). In addition, up until user charges for primary care and for services prescribed within the NHS were waived in 2020, low-income populations may have bypassed primary care in favour of emergency services because hospitals were more likely to waive co-payments than local primary care centres.

Table 2.3. Evolution of current health spending

% of GDP unless otherwhise stated

	2000	2005	2010	2019	2020	2021
Current health expenditures	8.6	9.7	10	9.5	10.5	11.2
- Public expenditures	6	6.8	7	6.1	7	7.4
- Private expenditures	2.6	2.8	3	3.5	3.5	3.8
. Out-of-pocket payments	2.2	2.3	2.5	2.9	2.9	3.2
Expenditures by providers						
- Hospitals	3.3	3.7	3.9	4.0	4.6	n/a
. Public hospitals	2.8	3.1	3.2	2.9	3.5	n/a
. Private hospitals[1]	0.4	0.6	0.7	1.1	1.0	n/a
- Ambulatory care	2.0	2.4	2.6	2.5	2.5	n/a
. Public providers	0.9	0.9	0.9	0.7	0.8	n/a
. Private providers	1.2	1.5	1.7	1.8	1.7	n/a
- Ancillary services[2]	0.4	0.5	0.5	0.4	0.5	n/a
- Pharmacies	1.8	2.1	1.9	1.4	1.6	n/a
- Other providers of medical goods[3]	0.4	0.4	0.4	0.4	0.4	n/a
- Long-term care facilities	0.1	0.1	0.1	0.2	0.2	n/a
- Management costs	0.2	0.2	0.2	0.2	0.2	n/a
Expenditures of hospitals (% of total)	38.1	38.0	38.8	42.0	43.4	n/a
Of which public expenditures (% of total)	33.0	32.3	31.6	30.5	33.6	n/a
Expenditures of ambulatory care (% of total)	23.7	24.8	25.9	25.9	23.6	n/a
Of which public expenditures (% of total)	10.2	9.7	8.5	7.0	7.2	n/a
Expenditures on prevention (% of total)[4]	2.5	2.3	2.1	1.8	1.9	n/a

Note: 1. Private hospitals include hospitals with Public-Private Partnership Agreement (PPP). 2. Patient transportation and emergency rescue, medical and diagnostic laboratories and other services. 3. Hearing aids, vision products, orthopaedic prostheses, and other small equipment. 4. Includes only spending for organised prevention programmes.
Source: INE (2022), Conta Satélite da Saúde e Contas Nacionais; OECD (2023), Health statistics database.

Strengthening investment and staffing in primary care centres is needed to transform them into “one-stop shops” with ancillary diagnostic and therapeutic service capacity and some specialised care providers. This would help avoid frequent referrals to hospital outpatient and emergency care services. Indeed, GPs act as gatekeepers to specialist visits and are also expected to support the integration of care. The RRP foresees a EUR 466 million investment in primary care centres to provide basic ancillary diagnostic and therapeutic service capacity by 2026 (Box 2.4; (Ministério do Planeamento, 2021[20])).

Beyond the significant planned investments, there is a need to reform the management and structure of local primary care centres, as planned for 2023 in the RRP (Box 2.7). In October 2022, around 1.3 million citizens did not have an assigned General Practitioner (GP), which represents 12.8% of total users in the local primary care centres, and Portuguese GPs spend a large amount of time on non-medical tasks (Granja, Ponte and Cavadas, 2014[41]). The inability to register with a GP is a growing concern, notably in the Health Region of Lisbon and the Southern Health Region of Algarve (Figure 2.14, Panel D; (ACSS, 2022[42])), and translates into long waiting times, high dissatisfaction regarding healthcare access in these regions and higher unnecessary emergency visits (EOHSP, 2017[15]; ERS, 2022[37]; Saraiva, 2019[43]). Currently, one type of organisational structure, the family health units (USF), have much higher ratios of patients per doctor and are generally seen as more efficient (Box 2.7; (CNSP, 2018[44])). Yet only teams interested in evolving into USFs participate in this model (OECD, 2016[45]), while the transition between the two types of USF needs the approval by the Ministry of Health and is limited by yearly quotas fixed by the Ministries of Finance and Health. Further encouraging the convergence towards the USF model and abolishing the yearly quotas for the transformation of existing primary care centres in "USF model B" that benefit from a different payment scheme (Box 2.7) would be positive steps.

Box 2.7. The planned reforms of primary care centres

The current structure of primary care centres

Public primary care centres are clustered into local primary healthcare clusters (ACeS, *Agrupamentos de Centros de Saúde).* Each ACeS is mainly composed of family health units (USF) created by the 2005 reform of primary care, as well as traditional primary care centers (UCSP) (Table 2.3). At the same time, shared resource units (URAP) in each ACeS provide dedicated support and include social workers, psychologists, physiotherapists and some dental health technicians. Yet, dental consultations, diagnostic services, haemodialysis and rehabilitation are most commonly provided by the private sector.

The main models of primary care centres have various levels of autonomy and organisational structures (OECD, 2016[45]). The family health units (USF) have some level of autonomy, and participative management and add-on payments for additional services. They are classified in models A and B, based on the way they are organised and on their pay-for-performance (P4P) schemes. Professionals in USF-B receive a monetary incentive for performance, in particular, GPs. In USF-A individual payments are restricted to salaries, but the monitoring of health outcomes results in financial incentives for the team. The traditional primary care centres (UCSP) tend to have vertical hierarchies and a low level of autonomy: their GPs, nurses, and administrative staff are paid fixed salaries.

Table 2.4. A snapshot of primary care centres

	Number 2022	2010-22 change	Share of users[1], 2022	Number of GPs, 2022	Users per GPs, 2022[1]
Family Health Units (USF)	604	117%	66.7%	4016	1703
Model A	290	79%	27.5%	1738	1790
Model B	314	168%	39.2%	2278	1637
Traditional primary care centres (UCSP)	320	-38%	33.3%	1969	1434

1. Registered users.
Source: USF-AN (2022), 7x7 Medidas para os Cuidados de Saúde Primários - Uma Equipa de Saúde Familiar para Todos, USF-AN 2022/202, Associação Nacional das Unidades de Saúde Familiar.

This heterogeneous structure has been challenging access to care and the convergence of quality across primary care services. In principle, patients have the right to choose between traditional primary care centres and USF. Nonetheless, USF quickly attain the maximum number of patients, leaving no vacancies for new patients to enrol (OECD, 2016[45]). As part of its Recovery and Resilience Plan – RRP – Portugal foresees significant changes to primary care services through additional investments and structural reforms, notably to standardise the primary care models (EC, 2021[14]; Ministério do Planeamento, 2021[20]).

Planned investments

Portugal is to invest EUR 466 million in primary health care services by mid-2026 through its Recovery and Resilience Plan. The foreseen investments include the building of 100 new primary care centres and the refurbishments of existing buildings (EUR 300 million); deepening the capacity for screening and diagnostic services; creating more proactive primary care centres with expanded areas of intervention; correcting local disparities in terms of health equipment; supporting community-based responses and enhancing the skills of the health workforce.

Planned structural reforms

By the end of 2023, Portugal's RRP aims at (i) broadening the responsibilities and scope of intervention of the local primary healthcare clusters (ACeS); (ii) reviewing the organisation and functioning of the health centres and the related incentive schemes; (iii) developing a risk stratification instrument to support clinical governance in the ACeS; and (iv) further decentralising health responsibilities to 201 municipalities. Moreover, the 2023 National Programme for Access to Oral Health foresees the installation of new dental offices and professionals in primary health care centres.

Source: OECD (2016[45]), Better Ways to Pay for Healthcare, OECD Health Policy Studies, OECD Publishing, Paris; Ministerio do Planeamento (2021[20]), PRR – Recuperar Portugal, Construindo o Futuro, Lisboa; EC (2021[14]), Analysis of the recovery and resilience plan of Portugal, European Commission.

The convergence of management structures among local primary care centres should progress alongside efforts to increase quality, a review of incentive schemes and improvements in access to care. Despite the absence of an ex-post evaluation of its impact on health outcomes, Portugal's P4P scheme, which amounts to around 30% of the concerned GPs' incomes, is generally seen as having had a positive impact (OECD, 2016[45]; EOHSP, 2017[15]; Monteiro et al., 2017[46]). Yet, some financial incentives are not promoting efficiency at the level of each primary care centre. Moreover, the number of indicators used for financial incentives is limited, though a broader range of indicators of access, activity and quality is monitored. For example, in "USF model B", overseeing the training of interns increases these remunerations by around EUR 520 net per month in contrast to other primary care models where GPs are compensated with a reduction in hours, further aggravating difficulties in accessing primary care. Additionally, incentives do not include actual health outcomes and the follow-up of disadvantaged patients (Tribunal de Contas, 2016[47]; Perelman, Miraldo and Russo, 2020[48]), while low-income households are less likely to consult physicians for prevention purposes and to perform screening procedures. The use of geographic and socioeconomic characteristics, as in the United Kingdom or in France, could allow to adjust the payments of the GPs according to their efforts and their population specific needs (Maricoto and Nogueira, 2021[49]).

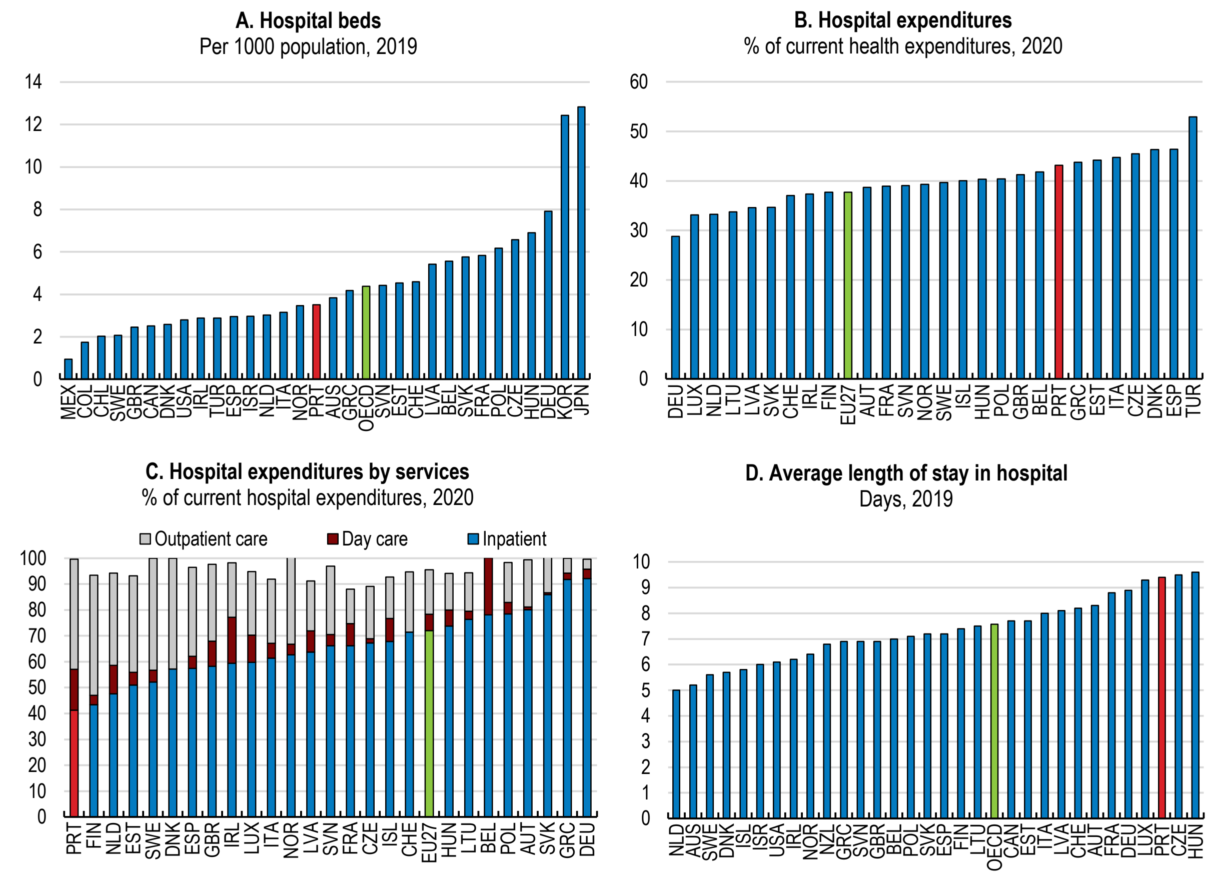
A review of the incentive scheme in primary care could also raise the quality of care. In Portugal, there are no clinical standards to guarantee the adequacy of prescriptions from primary health centres (Tribunal de Contas, 2014[50]). The systematic use of agreed protocols, to be followed by GPs and other actors to decide whether specific tests are required and how to access them, would help rationalise the use of existing diagnostic facilities, limit the risk of excessive take up and support effective planning. A stronger focus on prevention in primary-care centres should be encouraged by dedicating permanent resources, as well as the provision of better data on how much is being spent in preventive care (see below). The implementation of prevention programmes could also be included in the GPs' P4P targets, as in Germany or France.

Optimising hospital management and services

Improving hospital management could generate significant efficiency gains and help to reduce waiting times for some elective surgeries. In 2021, the hospital sector was divided between 52 public hospital care providers (including hospitals, hospital centres, one public-private partnership and local health units) and 128 private ones, but public hospitals still accounted for above 70% of hospital expenditures in 2019 despite the growing use of private ones. The number of hospital beds per inhabitant is below the OECD average and has been decreasing for decades, partly linked to the greater uptake of day surgery (OECD/EOHSP, 2021[2]). Before the pandemic, the number of intensive care unit (ICU) beds was also lower than in most western European countries. Yet, to manage the surge in demand, Portugal nearly doubled its ICU capacity in 2021 (Box 2.1, (OECD/EOHSP, 2021[2])). In Portugal, as in other OECD countries, hospitals play a large role for inpatient care services through accident and emergency departments or specialist outpatient units, but they tend to play a larger role for outpatient care, such as consultations or light exams with a doctor without being admitted to the hospital (Figure 2.9). Hospital expenditures have risen quickly to reach 43% of current health spending (4.6% of GDP) in 2020

(Table 2.2), (INE, 2022[21])), while the average length of stay, an indicator of efficiency in health service delivery and care co-ordination, is relatively long.

Figure 2.9. The hospital sector plays a key role



Source: OECD, Health Statistics database; and OECD, Health at a Glance 2022.

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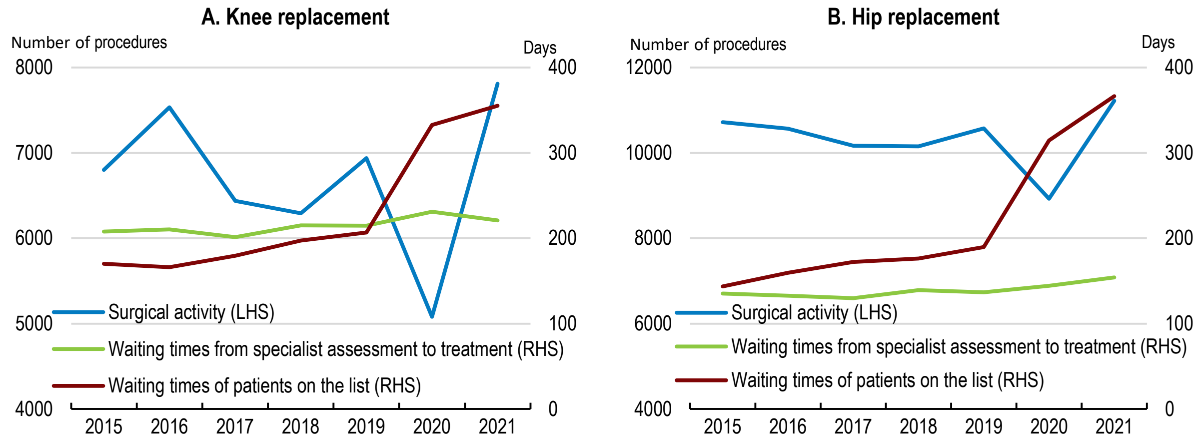
In the short term, the postponement of many elective surgery procedures during the COVID-19 outbreak, is likely to result in further increases in waiting times until the backlog of patients is addressed. Maximum waiting times are regularly exceeded (Tribunal de Contas, 2020[51]). In 2021, the rebound in surgical activities did not prevent waiting times from increasing further (Figure 2.10). Since November 2021, additional payments have targeted surgery procedures, which have longer waiting lists and for which waiting times go beyond the waiting time guarantees (Ministry of Health, 2021[52]).

Strengthening management practices and accountability in public hospitals is crucial to raise their efficiency. The existing financing model has recurrently underfinanced public hospitals, creating a pressing need for ensuring cost control, accountability and efficiency gains. Moreover, the performance budgeting framework is only partly implemented (see above and Box 2.8; (Tribunal de Contas, 2022[25])). Because budget overruns are covered by supplementary allocations, the activity-based system creates limited incentives to encourage cost-containment or efficient practices (EOHSP, 2017[15]). Moreover, the wage bill amounts to 60% of public hospital spending, but managers have little impact on hiring decisions and the careers and wages of public servants and doctors. The current plan to improve hospital performance management is welcome. It aims to reinforce the intermediate management of NHS hospitals, with internal contracts tied to performance incentives and tighter accountability rules for hospital administrations, including general efficiency considerations (EOHSP, 2020[18]). This would help to define and follow up on objectives, alongside with more autonomy to meet objectives and make decisions.

Figure 2.10. Waiting times for some surgical activities are historically high



Source: OECD/EU (2022), Health at a Glance: Europe 2022: State of Health in the EU Cycle, OECD Publishing, Paris.

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Box 2.8. The use of diagnosis-related groups for the financing of public hospitals in Portugal

Public hospitals are funded through global budgets, with some role for a diagnosis-related groups (DRG)-based payment system, which allocates funding according to the expected number of stays, patient pathologies and tariffs. The DRG component accounts for nearly 50% of hospitals' financing, while the remaining revenue comes from fee-for services (for outpatient visits), bundled payments (for some chronic conditions), fees (for emergency visits) and some quality-based payments (OECD, 2015[16]). The DRGs are used to set the budget given to the hospital, but they do not define a payment episode by episode. In principle, the DRG-based tariffs cover the full costs of treatment for a patient in a particular DRG.

Source: OECD (2015[16]), OECD reviews of health care quality: Portugal 2015, OECD Publishing, Paris.

Strengthening human resource management and hospital autonomy could improve patient care and working conditions. The rigidity in staff management has led to a rise in the costly use of consultant contracts from independent service providers, potentially worsening patient outcomes and working conditions. In addition, the governance of university hospitals is complicated by the different affiliations of staff to universities, other public and private hospitals and the lack of coordination among them (see below). At the same time, public managers have little autonomy regarding investment decisions, which may be an obstacle to an effective implementation of the contract system, as this hinders the restructuring of public hospitals and the potential to realise efficiency gains. The ongoing reform of the hospital management system, which will ensure the nomination of hospital management boards by the new "CEO" of the NHS, appears as a positive step to limit the risks of political interventions.

Ensuring more integrated care

Effectively integrated care services will be critical to provide high-quality healthcare for the growing number of patients with chronic conditions and multi-morbidity. This will require successful coordination across different care providers (Barrenho et al., 2022[53]). Portugal has long initiated processes to support integrated care. Since 1999, the roll-out of eight local health units (*Unidades Locais de Saúde*, ULS) has promoted the vertical integration of different levels of healthcare, with the joint management of hospitals and primary healthcare units in some geographical areas covering around 12% of the population. Yet, the results of the existing local health units appear mixed (Gonçalves et al., 2011[54]; ERS, 2015[55]; Gonçalves, 2015[56]; Lopes et al., 2017[57]; OECD, 2015[16]; Cruz et al., 2022[58]) and coordination among providers is not optimal and has been identified as hindering the strategy for dimentia (Balsinha et al., 2020[59]; Barrenho et al., 2022[53]).

Further innovations in organisation structure could help to improve coordination among providers and address shortages. In recent years, Portugal has adopted a number of organisational changes that increased the involvement of primary care, including the use of digital consultations or tele-expertise between primary health care teams and specialists, and the establishment of mobile health clinics (OECD/EOHSP, 2021[2]). The new Portuguese governance structure introduced in 2022 should ensure that the four new local health units (ULS) planned in 2023 and the new units to be established under the planned generalisation of the ULS model have an adequate degree of autonomy to fine tune service delivery, as well as the organisation of their operations, based on the specific needs of their patients. It will also need to strengthen further coordination of care delivery beyond the local health units, by establishing effective new care networks and defining responsibilities to primary care providers for providing well-coordinated care. For example, though most physicians work in group practices, the development of structures for out-of-hours consultations with local non-hospital doctors and other health professionals could offer better geographic coverage, around-the-clock availability and continuity in the course of treatment. The adoption of new service platforms like intermediate care could build on the existing network of local health centres, as well as a larger roll out of the existing mobile health clinics and hybrid models of care (face-to-face and telemedicine).

Such structural changes will need to be supported by a review of the payment schemes of GPs and other providers to promote the delivery of integrated care services. Since 2009, the existing local health units have been financed through a mixed model including an adjusted capitation, pay for performance, and service level agreements, which take into account patient flow to and from their geographical area (OECD, 2015[16]). Yet, payments for performance account for around 10% of their budgets, of which 2% are directed towards avoidable hospital admissions (ACSS, 2022[60]; OECD, 2017[61]). In 2023, the planned creation of the four new local health units will include the analysis of the clinical and financial impacts of this form of organisation, aiming at ensuring an effective integration of care. More generally, a review of payment systems should aim to reward more multidisciplinary care, notably for patients suffering from chronic conditions who rely more on coordinated care between different providers. This could build on the framework of Norway's "Distriktsmedisinsk senters", where payments encourage a discussion between hospitals and primary care providers about issues, such as the management of patients discharged to the community, ways to avoid unnecessary hospitalisation, the organisation of follow-up and post-acute care (Box 2.9, (OECD, 2017[61]; 2014[62])).

Box 2.9. Integrated care models in Norway

A *distriktsmedisinsk senter* (also called *Sykestue*) is an intermediate care facility, halfway between hospital and primary care, where people are admitted for a few days and cared for by primary care practitioners working closely with hospital specialists. Some facilities only provide specialist care, while others provide a shared model of care between primary and secondary settings (OECD, 2017[61]). These institutions are often co-located with other municipal health services (EOHSP, 2020[63]).

The development of the shared model of care took place in the 1980s, and it was more broadly rolled out in rural parts of the country from 2012. This encouraged experimentation with and diffusion of such facilities to provide high-quality health care more conveniently, particularly for the elderly, and vulnerable populations that find it difficult to travel long distances.

Source: OECD (2017[61]), Caring for Quality in Health: Lessons Learnt from 15 Reviews of Health Care Quality, OECD Reviews of Health Care Quality, OECD Publishing, Paris; EOSHP (2020[63]), Norway Health system review, European Observatory on Health Systems and Policies.

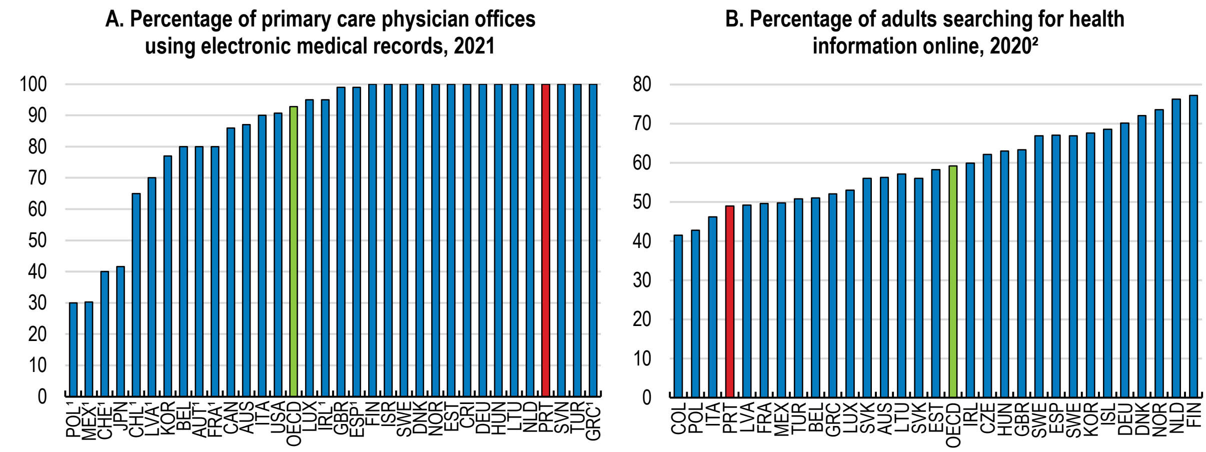
Revising legislation to make better use of the skills of health professionals could also ease such changes. The training and qualifications of nurses and allied health professions currently encompass wide-ranging and substantial knowledge, but their role in the health system has not changed and the health system remains centred on physicians (EOHSP, 2017[15]). Family Nurses created in 2014, which are in charge of promoting healthy lifestyles and prevention, covered 85% of all patients accessing care through the public system in 2021 (ACSS, 2022[42]) and are a positive step. Yet, the responsibilities assigned to Portuguese nurses also falls short of some other OECD countries, despite their rigorous four-year, university-level training. For example, family nurses remain legally unable to prescribe medicines, although this could significantly relieve doctors. Midwives, qualified nurses who have undertaken an 18-month specialisation, have a more limited role than in other European countries. In 2016, the Portuguese Court of Auditors recommended a greater role for nursing care centred on a family nurse to free some of the duties of doctors (Tribunal de Contas, 2016[47]). Implementing this recommendation could help to address shortages of healthcare workers in a cost-effective manner.

More generally, reallocating tasks to better harness the skills of pharmacists, nutritionists, and nurses, whilst remunerating these professions, accordingly, could help to improve both patient outcomes and the efficient use of the health workforce. Professional bodies still play a strong role in task allocation. Portugal could make better use of health professional bodies to help develop regulation and standards and adjust to a rapidly changing environment. In addition, the initial education and lifelong learning of health professionals could include more joint training and practices among GPs, specialists, nurses and pharmacists to improve coordination over the medium term.

Portugal is a frontrunner in the uptake of digital technologies in healthcare services (OECD, 2021[64]), but the fragmentation of health data hinders comprehensive care, individual patient empowerment and the use of health data for health system improvement (Figure 2.11). Key national health data remain fragmented across providers and standardised electronic medical records ensuring their interoperability have not been widely disseminated (OECD, 2022[65]), leading to low or inefficient use of electronic health records (Tavares and Oliveira, 2017[66]). OECD estimates point at yearly investment needs worth 0.3% of GDP (Morgan and James, 2022[67]). The welcome investments planned under the RRP notably include new hardware and software for health workers, the standardisation of the public information systems and better access to data by the end of 2024 and 2025Q3 in the Azores (see above). This should build on the OECD guidance on Health Data Governance (OECD, 2017[68]; OECD, 2022[65]) and the establishment of a national health data governance framework to develop integrated health information. This would notably help the development of integrated digital platforms for the scheduling and management of consultations, ancillary diagnostic and therapeutic services, hospital admissions and surgical interventions, as, planned through the "SNS Portal", which aims to provide registered users with access to their medical records, as well as online prescriptions and appointments.

Beyond information sharing, digital healthcare technologies could improve the quality and efficiency of care. As e-prescribing is the norm in Portugal, there is significant potential to use additional Artificial Intelligence (AI) tools to diffuse good practices and make greater use of these data. For example, some initiatives promote the use of generics and biosimilars, such as the app "*Farmácias Portuguesas*" while the "*Sifarma Clínico*" software allows for the following-up and monitoring of volunteer patients in community pharmacies (PGEU, 2021[69]) or the "ePatient" software in public hospitals (OECD, 2021[64]). Yet a broader use of statistical tools will require new legislation to increase access to data (OECD, 2022[65]). Allowing a safe and broader access to health data could build on the experience of other OECD countries. For example, the French government announced the creation of a Health Data Hub in 2019, with an expanded set of information and enhanced regulated access to the datasets. The first selected projects included public institutions, start-ups and larger firms (MSS, 2019[70]).

Figure 2.11. E-prescription is widely developed



1. Most recent year is 2016 (data not included in the 2021 OECD average).
2. The most recent data point for Poland is 2018, and for Switzerland, Mexico and France is 2019; the earliest data point for Mexico is 2015.
Source: OECD (2022), Health at a Glance database.

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The cooperation between public and private providers should also be strengthened and better monitored to ensure more equal access and better efficiency. The relationship between the NHS and private providers remains overall limited and often based on one-off contracts, while competition appears weak for some contracted services (Barros, 2017[71]; AdC, 2022[72]). Three PPP hospitals that were widely seen as successful have been transferred back to the public sector. According to the Court of Auditors, their performance in terms of quality, effectiveness and access indicators was in line with the average comparable publicly managed hospitals, but the PPP hospitals had lower operational costs (Tribunal de Contas, 2021[73]). Moreover, in areas where access to private services is relatively easy, private providers allow high- and middle-income patients with voluntary or some specific public insurance schemes to jump the queue in the public system, creating perverse incentives for doctors working in both the public and private parts of the system. A first step is to fully ensure the interoperability of information systems to improve transparency. Indeed, private hospitals and other providers that run a large share of blood tests and imagery tend to have their own information systems, which were integrated into national patient records at the end of 2022.

Enhancing access to healthcare professionals and their work conditions

Shortages of staff like doctors and nurses hamper access to quality healthcare for some types of care in the NHS and in some geographic regions. Shortages particularly affect access to general practitioners (GPs) working for the NHS. At the same time, Portugal is facing a wave of retiring doctors in the coming years, particularly GPs as well as some specialists. There is also significant scope to increase the use of nurses. These challenges are more pronounced in some regions than in others but will ultimately require increasing remuneration and improving working conditions and training opportunities for doctors and nurses to increase the attractiveness of working for the NHS, which are priorities in the reforms currently underway (Box 2.3, Box 2.4 and Box 2.7).

Opportunities for skill progression in the NHS have been held back by a lack of investment in technology and innovation over the past decade, limiting the number of healthcare professionals who work with the latest technology. Increased investment in equipment, facilities and IT tools under the government's Recovery and Resilience Plan will help to address previous low investment (Box 2.4). The NHS could also provide more financial and time resources for continuous training, which would boost skill levels and career progression.

Improving the supply of general practitioners and specialists

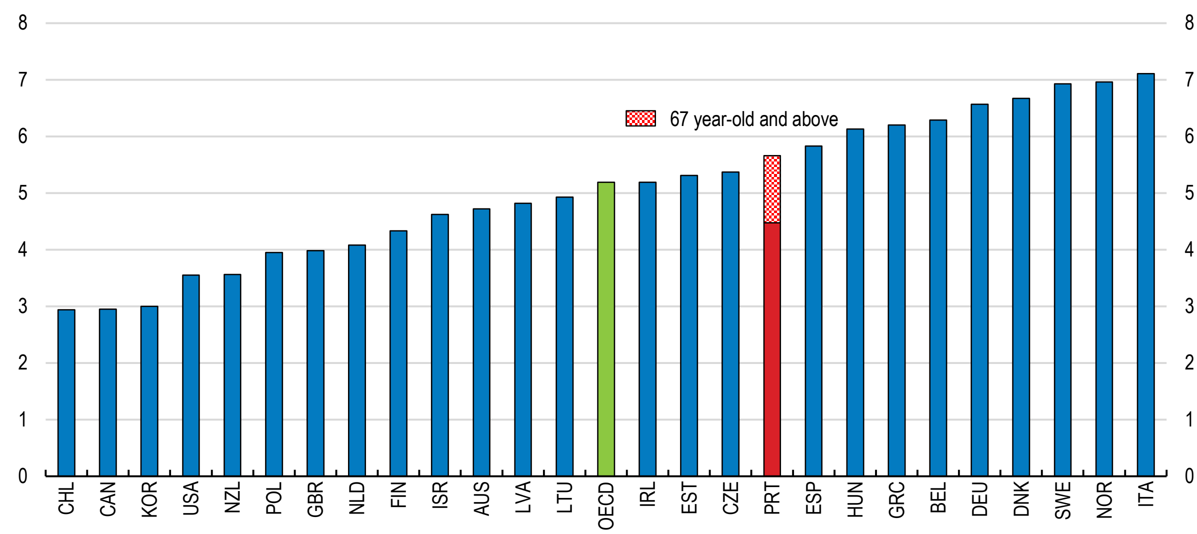
The number of registered doctors per capita in Portugal is around the OECD average, in part supported by an increasing number of medical graduates over the past decade (Figure 2.12 and Figure 2.13). While most OECD countries compile data on both registered and practicing doctors, in Portugal there are only data on registered doctors. Registration is a legal requirement but does not imply active practice in the country. When excluding doctors aged 67 and over, perhaps a better approximation of the number of doctors potentially practicing, the share of registered doctors per 1000 population falls from 5.7 to 4.5.

While the number of registered doctors is around the OECD average, there is an uneven age profile of doctors. Around 25% of registered working-age doctors are aged between 55 and 66 (Figure 2.14). However, as doctors over 55 are exempt from emergency work in the NHS, this age profile is creating shortages in emergency services that would not occur with a more even age distribution (Pereira da Silva et al., 2022[74]). The share is particularly elevated for some specialties. For example, 46% of obstetricians and gynecologists working in NHS hospitals were over the age of 55 in 2020 (Pereira da Silva et al., 2022[74]).

This uneven age profile of doctors is also leading to a forthcoming wave of retirements. Around one in three registered working-age GPs and one in five registered working-age non-GP specialists are currently aged between 61 and 66 and close to the 2023 legal retirement age of 66 years and 4 months (Figure 2.14). This cohort is followed by a small group of doctors currently aged between 55 to 60 and as such, the number of retirements will ease. These large fluctuations are partly due to a decline in medical graduates between the revolution in 1974 and the establishment of the NHS in 1979.

Figure 2.12. The number of registered doctors in Portugal is around the OECD average

Registered doctors, per 1 000 population, 2021 or latest available



Note: Registered doctors represent the number of physicians registered with Medical Associations, practising and not practising medicine. In Portugal, it does not include physicians with a declared residence abroad, nor dentists, stomatologists or dental and maxillofacial surgeons. OECD is the simple average of the 32 OECD countries for which data are available.
Source: OECD Health Statistics 2022 database, data provided by the Portuguese Medical Association, and OECD calculations.

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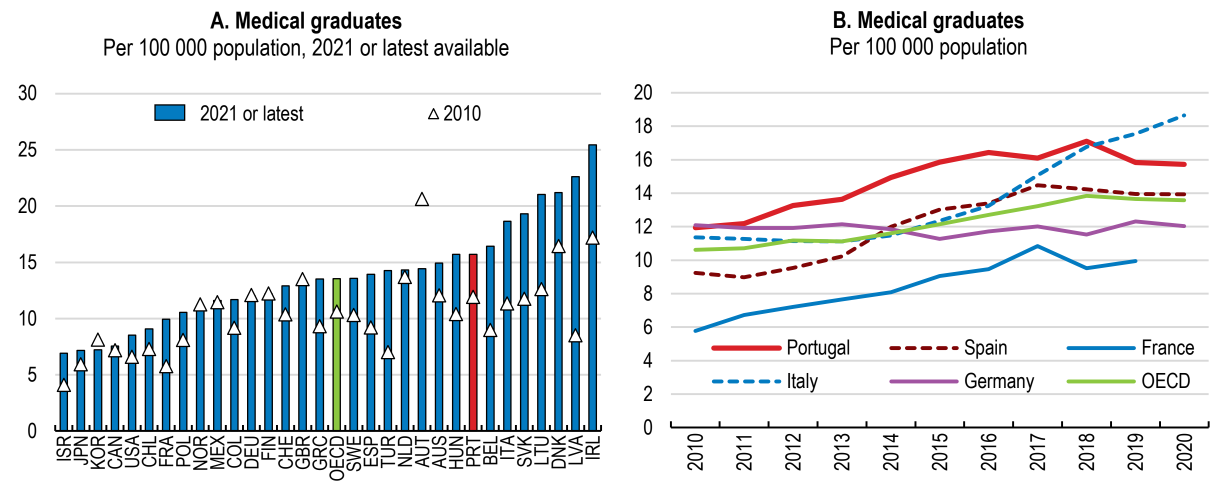
Figure 2.13. The number of medical graduates has increased over the past decade



Note: Medical graduates are students who have completed basic medical education in a given year. It excludes graduates in pharmacy, dentistry/stomatology, public health and epidemiology, as well as individuals who have completed post-graduate studies or training in medicine. OECD is the simple average of 36 OECD countries for which data are available and not equal to zero. Data for Costa Rica are not available and Luxembourg has zero medical graduates. Data in most countries include foreign students who can account for a large number of medical graduates in some countries (e.g. Ireland, Slovak Republic and Hungary).

Source: OECD Health Statistics Database.

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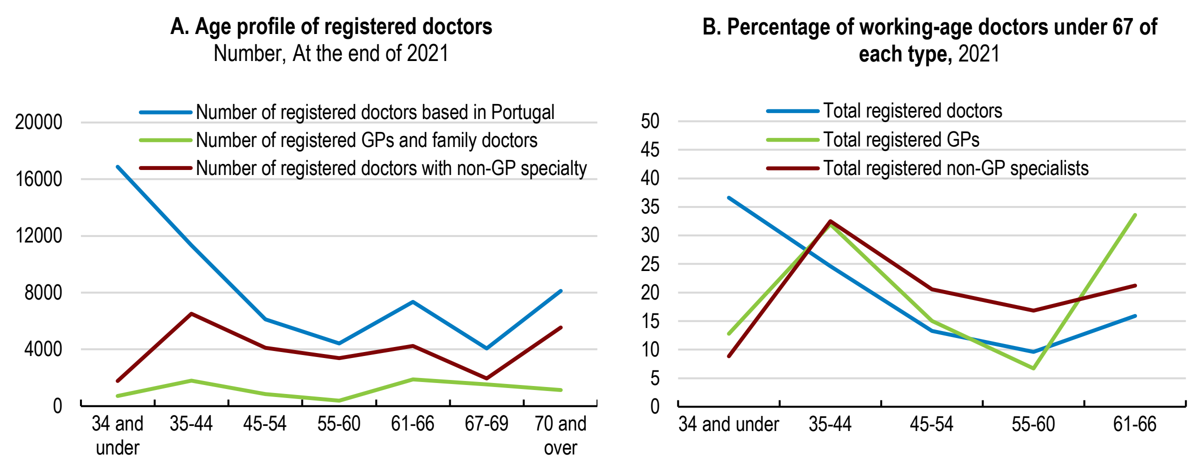
Figure 2.14. A large share of doctors is over the age of 55



Note: Registered doctors does not include physicians with a declared residence abroad, nor dentists, stomatologists or dental and maxillofacial surgeons. However, GPs with a declared residence abroad may be included in the number of GPs due to data limitations. There is a possibility of a double counting of specialties if doctors register with more than specialty. Working-age doctors refers to doctors aged under 67 years.

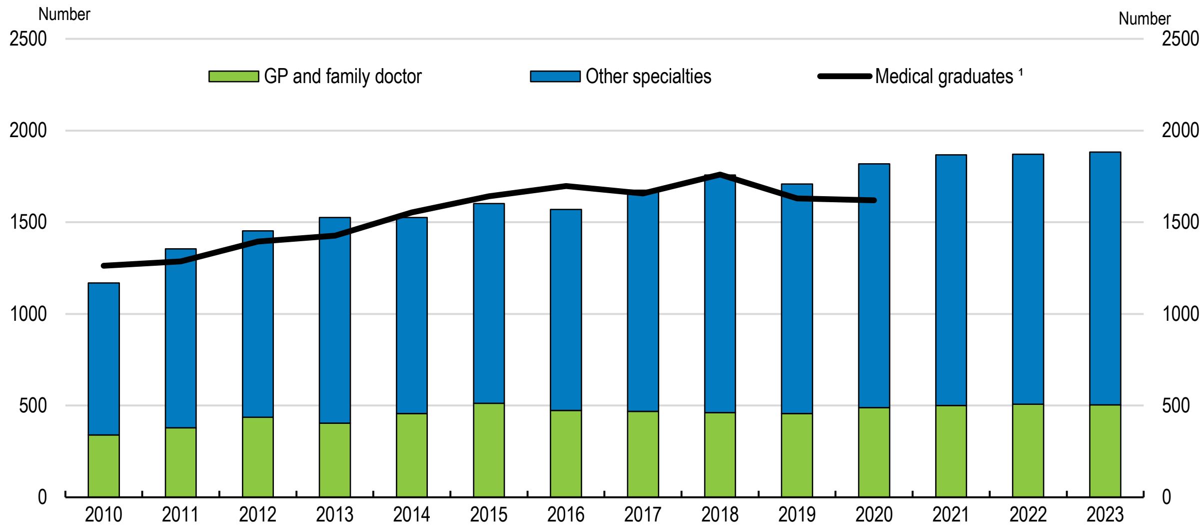
Source: Data provided by the Portugal Medical Association, OECD calculations.

StatLink https://stat.link/nims8v

The number of specialist training positions has continued to increase over the past decade, although the new cohorts of graduating GP or specialist doctors will not be sufficient to replace the forthcoming retirements and address the current shortages (Figure 2.15). For example, around 460 GPs should complete their training in 2023, given the four-year programme, reaching 500 per year by 2025. This compares to the around 370 GPs who on average will reach retirement age over the coming years, given the number currently aged between 61-66. The number of GP and specialist residency positions was greater than the number of medical graduates in 2019 and 2020; however, the number of positions has plateaued since 2021.

Figure 2.15. The number of postgraduate residency positions increased over the past decade

Postgraduate residency placements, number



1. Medical graduates are students who have completed basic medical education in a given year. It excludes graduates in pharmacy, dentistry/stomatology, public health and epidemiology, as well as individuals who have completed post-graduate studies or training in medicine.
Source: ACSS and OECD Health Statistics database.

StatLink https://stat.link/rse5qp

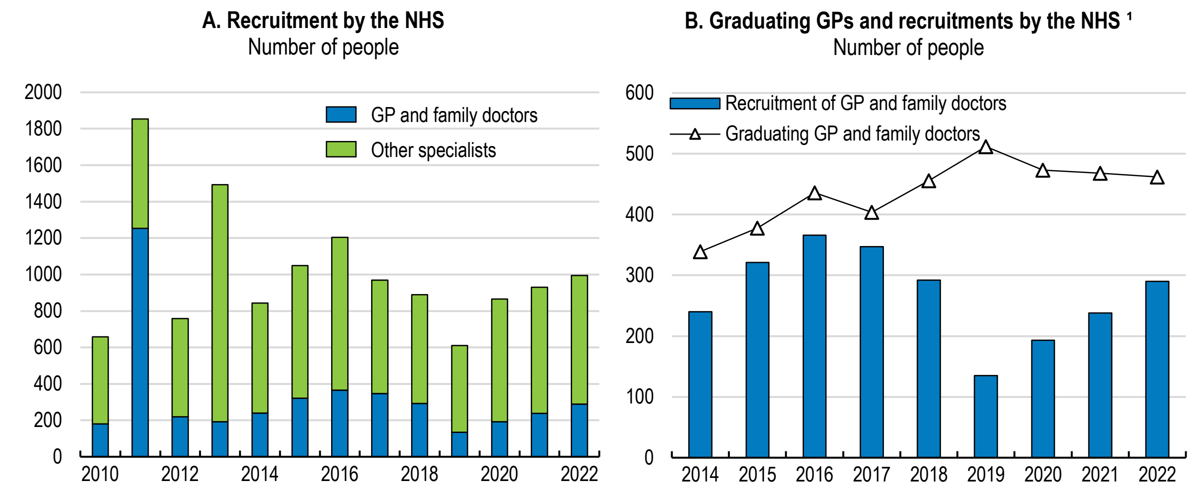
A more analytical and independent approach to determining the number of postgraduate medical placements could help to make the allocation process more focused on the projected supply and demand of doctors. The number of specialist training positions offered each year is jointly determined by the ACSS and the Portuguese Medical Association. The Medical Association is responsible for certifying the capacity of each institution to receive residents for postgraduate medical training, which helps to ensure a high-quality programme (EOHSP, 2017[15]). The performance of this task by an independent government agency could provide a more robust and impartial view. Additionally, if this agency were better placed to determine the scope to increase institutions' training capacity, this could help to more quickly adjust the offered number of training positions to meet projected demand.

While the number of registered doctors is around the OECD average, within the NHS there is a lack of GPs, which is limiting access to primary care and there are shortages of some medical specialists. In October 2022, over 1.3 million or 12.8% of users registered with the NHS were not registered with a GP, which limits the quality of patient follow up (Figure 2.14, Panel D). Around 770 GPs would be needed to fill this gap, assuming each GP could take on the average number of registered users in USFs in 2022 (Table 2.3). The National Register of Users (RNU) is currently being updated, which will provide more accurate information on shortages and health needs. Since even before the pandemic, waitlists for some specialties have been high (see above).

Access to a GP is particularly limited in some regions. While in the Northern region only 2% of users are not registered with a GP, this share increases to 23% in the Lisbon and Tagus Valley region. Regional GP shortages can add to other challenges, such lengthy travel distances for some rural populations to reach their nearest GP (OECD, 2015[16]). As the population has become increasingly concentrated around Lisbon and Porto and the more densely populated coastal areas, inland areas, which have a more elderly population, have become more scarcely populated. These long travel distances can be a particular challenge for frail elderly citizens. In some regions transport services are available and primary care providers in a mobile practice visit villages without a local GP and access to digital consultations has increased (see above). Medical and nurse-provided home care are also more common in less densely populated areas.

The NHS has been struggling to address the shortage of doctors through increasing recruitment. The government has been posting more vacancies than recent graduates since 2018 to attract doctors working outside of the NHS. For example, in the first, and largest, recruitment competition in 2022, the government announced 1636 vacancies for 1220 newly trained GPs and specialists (ACSS, 2022[42]; Público, 2022[75]). In addition, a simplified selection procedure with a view of recruiting 731 practitioners was launched in December 2021 and the 2022 agreement with Portuguese-speaking countries aims to attract migrant caregivers. Nevertheless, the recruitment of GPs and specialist doctors has been relatively low since 2017 (Figure 2.16, Panel A). The government has also struggled to attract recently qualified GPs, with a growing gap between the number of GPs completing their training and those accepting positions in the NHS (Figure 2.16, Panel B).

Figure 2.16. The recruitment of doctors by the NHS is around its historical average

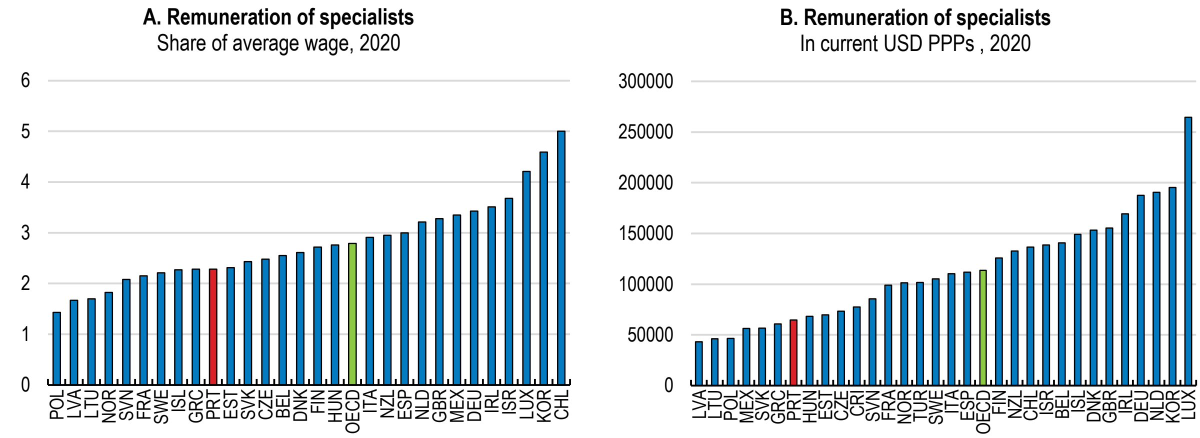


Note: 1. The number of graduating GP and family doctors is proxied by the number of GP and family doctor specialist residency placements lagged by four years, the duration of the programme. It does not take into account any dropouts from the programme, which are usually very few.
Source: ACSS.

StatLink https://stat.link/u3tnx0

Disadvantageous working conditions in the NHS, including low pay and few training opportunities, are making it more attractive for doctors to work in the private sector or abroad. Remuneration for an NHS specialist doctor was 2.3 times the average wage in 2020, compared to 2.8 in the average OECD country (Figure 2.17, Panel A). International comparisons of nominal salaries adjusted for differences in purchasing power are even less favourable (Figure 2.17, Panel B). Between 2010 and 2021, real remuneration in euros fell by 21% for specialists and 28% for GPs (OECD, 2022[4]). Salary progression in line with experience is very gradual, limiting increases in remuneration and recognition for the completion of additional training. Remuneration is rarely linked to performance, reducing incentives for high performance. Increasing remuneration towards the OECD average and providing opportunities for regular increases, in line with performance and skill progression, would provide greater financial incentives to work for the NHS and better reward high performance.

Figure 2.17. The remuneration of specialist NHS doctors is below the OECD average



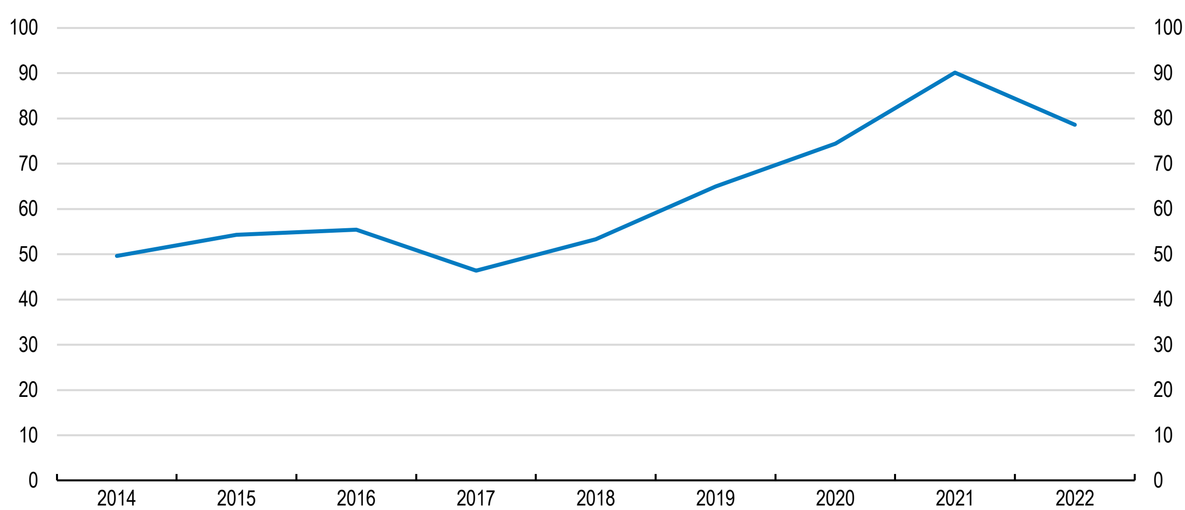
Note: Data refers to salaried specialists only.
Source: OECD Health Statistics Database.

StatLink https://stat.link/clz0oi

Reviewing the wage-setting mechanisms across types of primary care centres (see above) and improving working conditions in the NHS by reducing overtime hours and increasing the flexibility of work could help to attract and retain doctors. In the NHS, doctors work 40 hours per week and can work an additional 12 hours providing emergency services (with increased remuneration). The use of overtime hours has increased in recent years (Figure 2.18). Facilities with particularly elevated shortages and overtime hours will likely particularly struggle to attract staff, perpetuating a vicious circle. However, reducing overtime hours may temporarily reduce the provision of healthcare until shortages are addressed. Expanding flexibility around time schedules, part-time work and increased opportunities to manage work alongside personal and family commitments would increase the attractiveness of working for the NHS, although it could temporarily aggravate shortages. Increased flexibility could help to support working parents, and particularly women, who made up almost 60% of Portuguese registered doctors in 2021 (INE, 2022[76]).

Figure 2.18. Overtime hours have increased rapidly

Annual overtime hours per worker



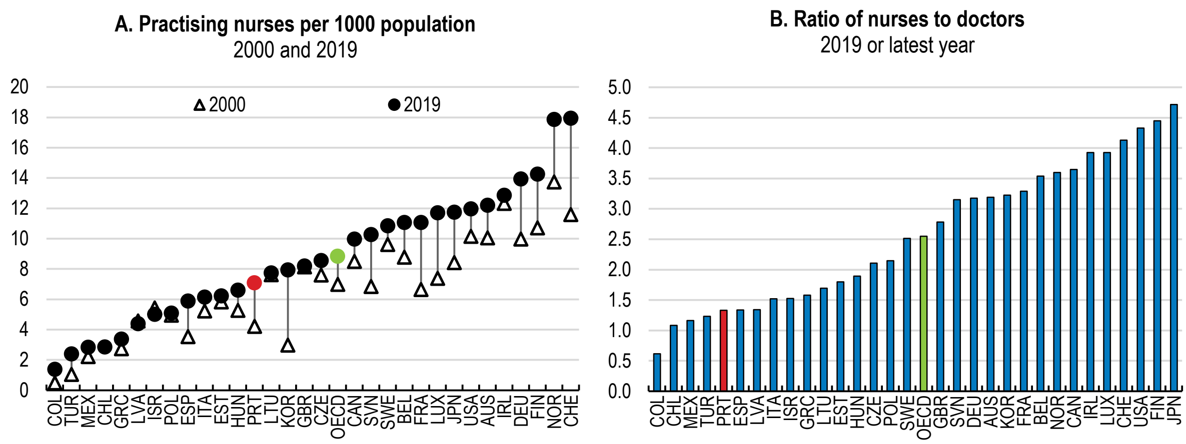
Note: Includes daytime and night-time overtime hours for all NHS workers.
Source: SNS.

StatLink https://stat.link/57ljgc

Addressing the shortages of nurses

The Portuguese healthcare system relies on fewer nurses than the OECD average (Figure 2.19). Since a wide use of nurses tends to have a positive impact on the quality of care in OECD countries (Amiri and Solankallio-Vahteri, 2019[77]), increasing their number in Portugal could have a beneficial effect for health outcomes. Portugal trains relatively few nurses, only around half as many as the average OECD country (Figure 2.20). In addition, 19% of Portuguese-born nurses emigrate (Socha-Dietrich and Dumont, 2021[78]), often citing better salaries and benefits and job and career opportunities as the main reasons (EOHSP, 2017[15]).

Figure 2.19. The use of nurses is low



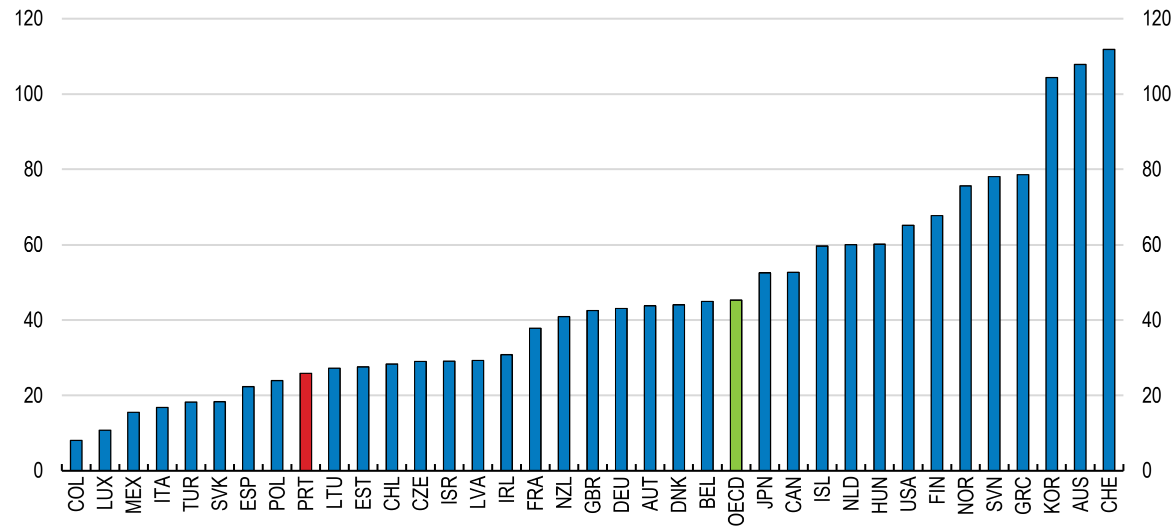
Note: The ratio of nurses per doctor in Portugal is underestimated as the number of doctors (the denominator) relates to all registered doctors, which is larger than the number of doctors actually practising.
Source: OECD Health at a Glance 2021.

StatLink https://stat.link/acq6ze

Nurses in Portugal receive around the average wage, as opposed to 1.2 times the average wage in the average OECD country (Figure 2.21, Panel A). When adjusted for purchasing power, Portuguese nurses receive only around 60% of the OECD average remuneration (Figure 2.21, Panel B). Increasing nurses' remuneration could boost the attractiveness of the profession. In Portugal, non-remuneration factors, such as additional financial and time support for training, are limited. Across OECD countries there has been widespread awareness by governments and citizens that nursing staff deserve better recognition for their skills and responsibilities (Morgan and James, 2022[67]). The work schedule for parents can be challenging. As for doctors, increasing flexibility around time schedules, part-time work and managing work alongside personal and family commitments could help to improve the attractiveness of the nursing profession, particularly for women, who made up over 80% of nurses in 2021 (INE, 2022[79]).

Figure 2.20. The number of nursing graduates relative to population is only around half of the OECD average

Nursing graduates, per 100 000 population, 2020 or latest available



Source: OECD Health Statistics 2022.

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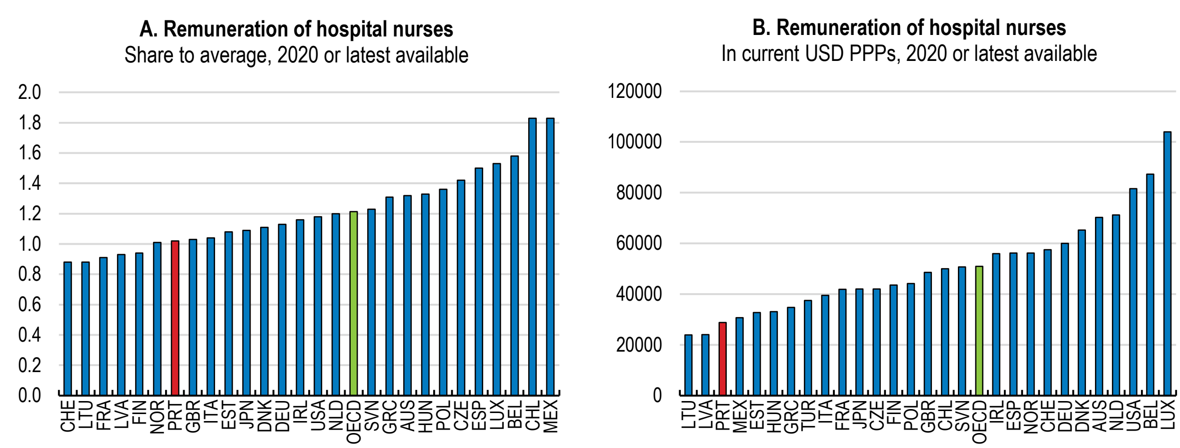
Figure 2.21. The remuneration of nurses is low



Source: OECD Health Statistics 2021.

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Reducing geographical disparities

To help address regional shortages, in 2015 the government introduced additional incentives for taking up vacancy positions in deprived areas, as identified yearly by the Ministries of Health and Finance. Since 2017 these incentives include an additional EUR 1112 gross per month over six years, with no repayment obligation if the doctor leaves the position before the end of the contract, 15 days per year for training and a preferential arrangement to find a workplace for a potential spouse (Público, 2017[80]). Between 2017 and 2020, the government filled 505 of the 652 positions (Público, 2021[81]). Taking stock of the relative attractiveness of each component could help to maximise the effectiveness of this scheme whilst minimising its cost. This could include a close look at competing alternatives to boost incomes whilst maintaining geographical flexibility, such as combining work in an urban environment with overtime work in a private hospital.

Improving the geographical distribution of postgraduate training, increasing the use of financial and non-financial incentives, ensuring equal opportunities for career progression across regions and supporting regional work conditions could further help to address regional shortages. As doctors tend to stay where they undertake their postgraduate training, improving the uneven distribution of postgraduate training positions could help to address regional shortages. Placements in medical courses and/or financial incentives in exchange for working in certain geographical areas after graduation, as in Australia, France and Germany, could also help (Box 2.10). Providing doctors in underserved areas with greater financial and non-financial support, as in France or the Czech Republic (Box 2.10) or the opportunity to relocate after a certain time period could reduce relocation costs. Some doctors fear slower career progression or a stigma attached to working in more rural or smaller hospitals (OECD, 2021[13]; OECD, 2021[82]) and the availability and quality of equipment and facilities varies. Supporting equal career progression, such as formally establishing regular opportunities to engage with larger health providers or extending the use of secondments could reduce concerns while supporting skill development and knowledge sharing. The freeze on establishing new USF of model B, particularly in the Lisbon and Tagus Valley region, has also created uncertainty around future work conditions and remuneration. A clear commitment to the future of primary care models would reduce doctor's concerns.

Box 2.10. Examples of policies to improve the geographic distribution of doctors

In Australia, the 10-year Stronger Rural Health Strategy launched in 2018/19 aims to meet the current and future health workforce challenges in rural and remote areas. This Strategy comprises numerous initiatives under the three themes of teaching, training, and recruiting and retaining (Department of Health and Aged Care, 2021[83]). Teaching initiatives include establishing rural medical school programmes and increasing rural placements for health students so that more medical students can study in their communities. Training initiatives include additional educational support for junior doctors working and training in rural primary care settings. Recruiting and retaining initiatives include incentives for doctors to work in rural locations, strengthening the role of nurses and the Bonded Medical Program that provides a place in a medical course in exchange for working in specific geographical areas after graduation.

In France, the government has launched a series of measures over the past 15 years to address concerns about "medical deserts". One measure includes offering financial support for doctors to set up their practices in underserved areas and tax breaks. Another measure where medical students and residents receive a monthly stipend during their education and training in exchange for a commitment to practise for an equivalent period in designated underserved areas after graduation has been particularly successful (OECD/EOHSP, 2021[84]). Students in general practice are required to undertake at least six months of their last year of postgraduate training in ambulatory care settings, including medically underserved areas.

In the Czech Republic, the Ministry of Health announced a new support programme for GPs working in underserved areas in 2020. The programme is open to all GPs who are planning or have recently started to provide services in a designated underserved area. It provides funding to GP practices to cover personnel and technical equipment costs up to a ceiling. Health insurance funds also pay more for GP services provided in some underserved areas (OECD/EOHSP, 2021[85]).

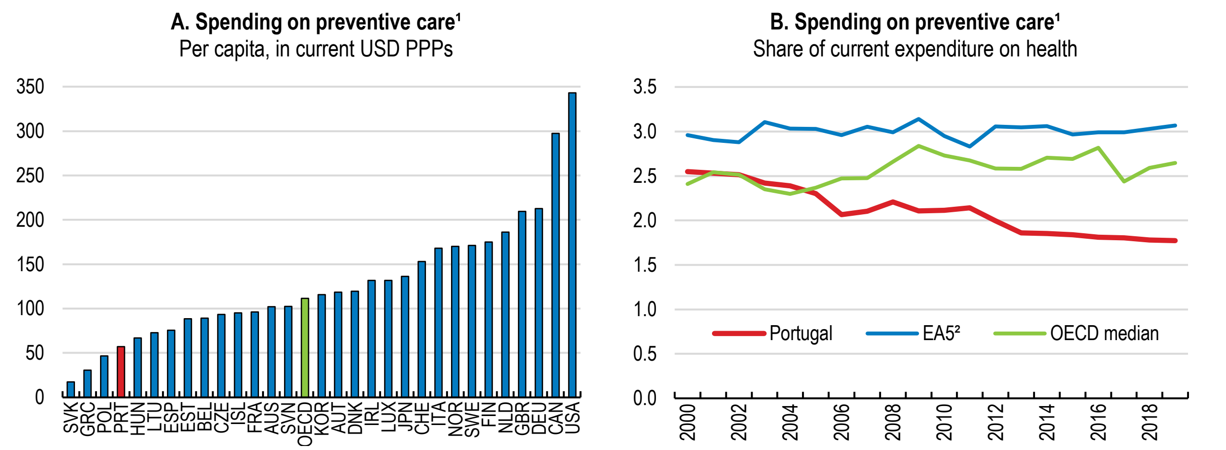
In Germany, a number of measures have aimed to increase the number of doctors working in rural areas, including granting places to medical students who commit to practise as GPs in rural areas on graduation (EOHSP, 2020[86]).

Source: Department of Health and Aged Care (2021[83]), Stronger Rural Health Strategy; EOHSP (2020[86]), "Germany: Health system review", Health Systems in Transition, Vol. 22/6, pp. i–273; OECD/EOHSP (2021[84]), France: Country Health Profile 2021, State of Health in the EU, OECD Publishing, Paris/European Observatory on Health Systems and Policies, Brussels; and OECD/EOHSP (2021[85]), Czech Republic: Country Health Profile 2021, State of Health in the EU, OECD Publishing, Paris/European Observatory on Health Systems and Policies, Brussels.

Investing in prevention and healthier lifestyles

Around 30% of all deaths in Portugal in 2019 can be attributed to behavioural risk factors, including tobacco smoking (12%), dietary risks (11%), alcohol consumption (6%) and low physical activity (3%) (OECD/EOHSP, 2021[2]). Reducing behavioural risks would improve health outcomes, allow significant long-term savings on health expenditure and could help to reduce social disparities. The Directorate-General for Health has 12 priority health programmes and 10 health programmes to improve prevention and promote healthy lifestyles (DGS, 2015[87]), but the programmes have not benefited from medium-term funding. For example, the 2008 Mental Health Programme was never fully implemented (CNS, 2022[88]). Before the pandemic, spending on organised prevention programmes was low and declining (Figure 2.22; (Gmeinder, Morgan and Mueller, 2017[89])). Yet, routine vaccination rates are high, notably for children, and the screening campaign for breast cancer achieves high rates, despite its disruption during the COVID-19 pandemic and weaker screening rates for cervical cancers (OECD, 2021[13]; 2023[10]); (Figure 2.23). The Ministry of Health is forming an Agency for Health Promotion in 2023 to reorganise health promotion. Ensuring more stable funding for promotion and prevention programmes would help and should go together with regular reviews to ensure their effectiveness.

Figure 2.22. Spending on prevention programmes is low



1. Includes only spending for organised prevention programmes. This differs however from global spending on prevention in Portugal and other OECD countries.
2. EA5 is the unweighted average of France, Germany, Italy, the Netherlands and Spain.
Source: OECD (2022), OECD Health Statistics Database.

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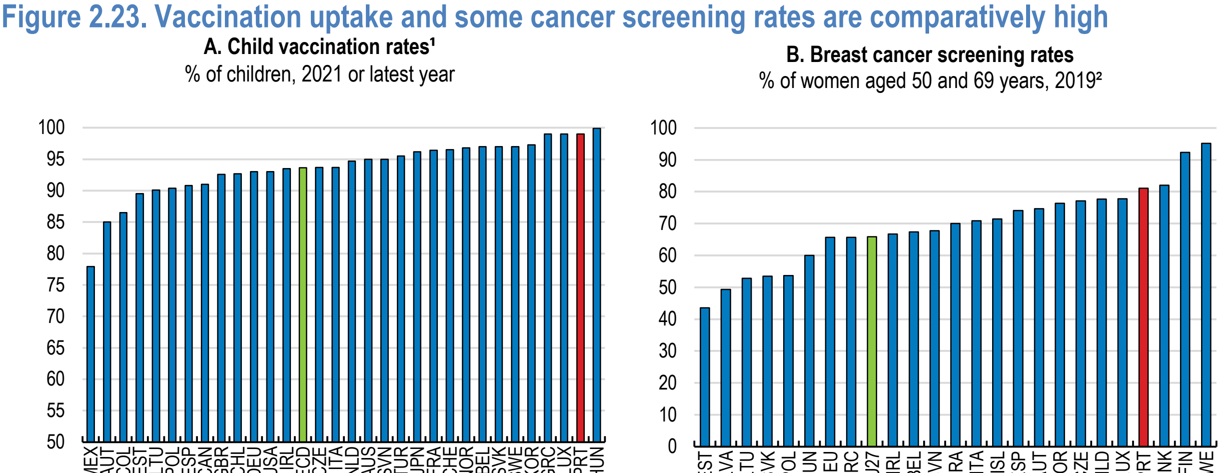
Figure 2.23. Vaccination uptake and some cancer screening rates are comparatively high



Note: 1. Against diphtheria, tetanus and pertussis. 2. Percentage of women aged 50 to 69 years who reported receiving a mammogram in the past two years.
Source: OECD, Health Statistics database; and Eurostat (2022), European Health Interview Survey (EHIS) survey.

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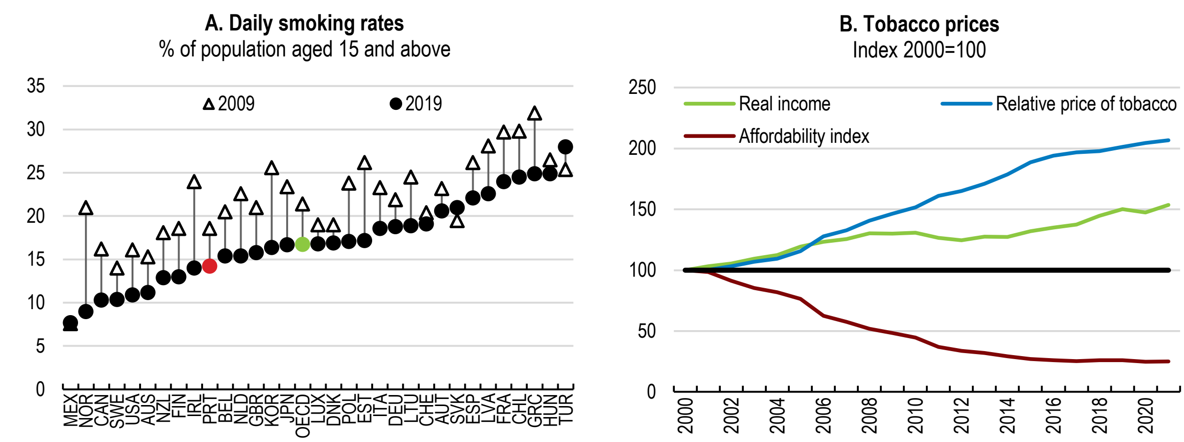
Reducing risks from smoking, alcohol and obesity

Curbing further tobacco consumption

Smoking is a major contributor to mortality. Although the decline in smoking rates achieved to date will reduce future mortality, further falls would continue to boost health outcomes. In 2019, 11.7% of deaths were attributed to smoking, 18.6% for males and 4.7% for females (DGS, 2020[90]). In 2019, 14% of the population smoked, down from 24% in 2009, one of the largest declines across the OECD (Figure 2.24, Panel A). Uptake of e-cigarettes by adults has been limited, with only 0.9% citing daily use in 2019 (Eurostat, 2022[91]). Smoking daily is over twice as prevalent in men (20%) than women (9%) (OECD, 2022[4]), and smoking more than 20 cigarettes a day has become over six times as prevalent in men (6%) than women (1%) (Eurostat, 2022[91]). The take-up of cigarettes among 15–16-year-olds was also below the average of European countries in 2019 (ESPAD Group, 2020[92]). Nevertheless, in addition to the European Commission's ban on flavoured heated tobacco products, banning flavoured e-cigarettes, as in the Netherlands, could reduce the attractiveness of e-cigarettes to young people.

Figure 2.24. The affordability of smoking has plateaued since 2017



Note: An affordability index value below 100 indicates tobacco is less affordable.
Source: OECD, Health Statistics database; Eurostat.

StatLink https://stat.link/6zsn84

While the decline in smoking rates followed continued policy efforts, additional measures, including the full implementation of measures in the WHO Framework Convention on Tobacco Control and the European Directives, as in the national strategy, would help to further reduce smoking rates. The National Programme for the Prevention and Control of Smoking, initiated in 2012, imposed a ban on advertising, promotion and sponsorship and has increased taxes on tobacco products. The share of GDP per capita required to purchase 100 packs of the most sold brand of cigarettes was around 2.3% in 2020, around the average of OECD countries (WHO, 2021[93]). Nevertheless, increases in the value of tobacco taxes on cigarettes since 2017 have been insufficient to further lower the affordability of smoking and excise taxes should increase (Figure 2.24, Panel B).

Welcome current measures include strengthening intensive support consultations for smoking cessation and improving training on smoking prevention and treatment for health professionals (DGS, 2022[94]). Ensuring that these prevention efforts are accompanied by sufficient financial resources and clinical guidelines will help ensure their successful implementation (OECD, 2015[16]). Considering allocating additional resources for publicly-funded nicotine-replacement therapy could help to boost the effectiveness of cessation programmes. Continuing to increase the share of smoke-free environments with dedicated funds for their enforcement should also help to reduce smoking rates, with smoking rooms continuing to be allowed in establishments over 100m². Awareness around the risks of smoking could be boosted through additional advertising campaigns, particularly given the lack of a mass media campaign since 2018.

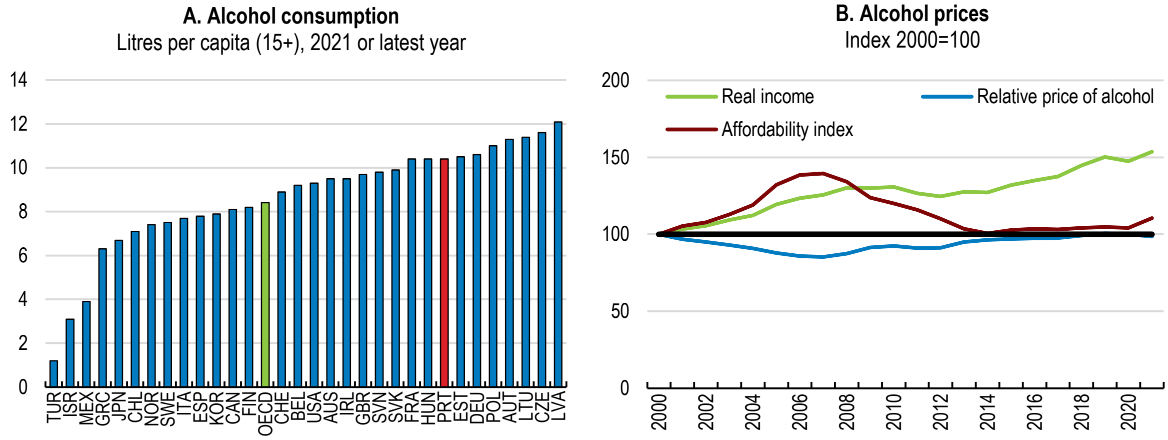
Preventing alcohol addictions

The consumption of alcohol in Portugal had been steadily declining since the 1970s, before stabilising in 2014 (OECD, 2022[4]). Nonetheless, in 2019, the average Portuguese adult consumed 10.4 litres of pure alcohol per year, roughly equivalent to just over 2 bottles of wine or just under 4 litres of beer per week, an amount among the highest in the OECD (Figure 2.25, Panel A). Alcohol consumption is associated with a considerable health and economic burden. About 6% of deaths in Portugal were attributed to alcohol consumption in 2019 (OECD/EOHSP, 2021[84]). The consumption of alcohol above one standard drink per day for women and 1.5 for men is estimated to be associated with diseases accounting for 2.3% of total health expenditure in Portugal on average over 2020-50 (OECD, 2021[95]). Diseases associated with this level of alcohol use are estimated to lower Portuguese GDP by 1.9% over 2020-50 (OECD, 2021[95]). Although affected by considerable limitations and uncertainties, these estimates suggest significant scope and economic benefits for scaling up efforts aimed at reducing alcohol consumption and its damaging consequences.

Strengthening pricing policies targeting cheap alcohol to protect heavy drinkers and young people and an effective ban on alcohol advertising could help to further decrease alcohol consumption (OECD, 2015[16]; 2021[95]). There is strong evidence to support the negative relationship between alcohol prices and its consumption, particularly for low-income groups and heavy drinkers (OECD, 2021[95]). As increases in alcohol prices failed to keep up with increases in incomes, the affordability of alcohol has remained roughly unchanged since 2000 (Figure 2.25, Panel B). Adjusting price increases to inflation could ensure that the impact of alcohol excise taxes do not decrease over time (OECD, 2021[95]). For example, in Australia, excise taxes for beer and spirits are indexed to inflation and adjusted twice a year. Setting up a minimum unit price for alcohol, which sets a floor for the cost per unit of alcohol, would raise the prices of the cheapest drinks and likely reduce alcohol-attributable mortality in Portugal, as shown by the impact of its introduction in Australia, Canada, Scotland and Wales (OECD, 2021[95]; WHO, 2022[96]).

An effective ban on alcohol advertising could also help to reduce alcohol consumption, while strengthening drink-driving policies would help to reduce excessive consumption and the negative consequences. Currently, advertising on alcohol is currently only subject to some restrictions, although the National Strategy to Combat Cancer (2021-2030) proposes bringing these restrictions and tax policies for alcohol in line with current tobacco policies. In addition, strengthening the regulation of advertising on social media and new media could help to protect children and young people, who are frequent users of social media (OECD, 2021[95]). Some measures are in place to reduce the negative effects of alcohol use. For example, since 2012, Portugal's 100% Cool campaign aims at enhancing the profile of designated drivers and promote responsible driving. In 2015 85% of the target population were aware of the campaign (Drinks Initiatives, 2019[97]). Upscaling action to tackle drink-driving would help to reduce road traffic accidents (OECD, 2021[95]). Training servers on how to prevent, identify and manage intoxicated drinkers, as for instance in Germany and Spain, could also help to reduce excessive consumption.

Figure 2.25. Alcohol consumption is high and affordability has plateaued



Note: An alcohol affordability value above 100 indicates that alcohol is more affordable.
Source: OECD, Health Statistics database; Eurostat.

StatLink https://stat.link/alrtin

Reducing the risks of unhealthy diets

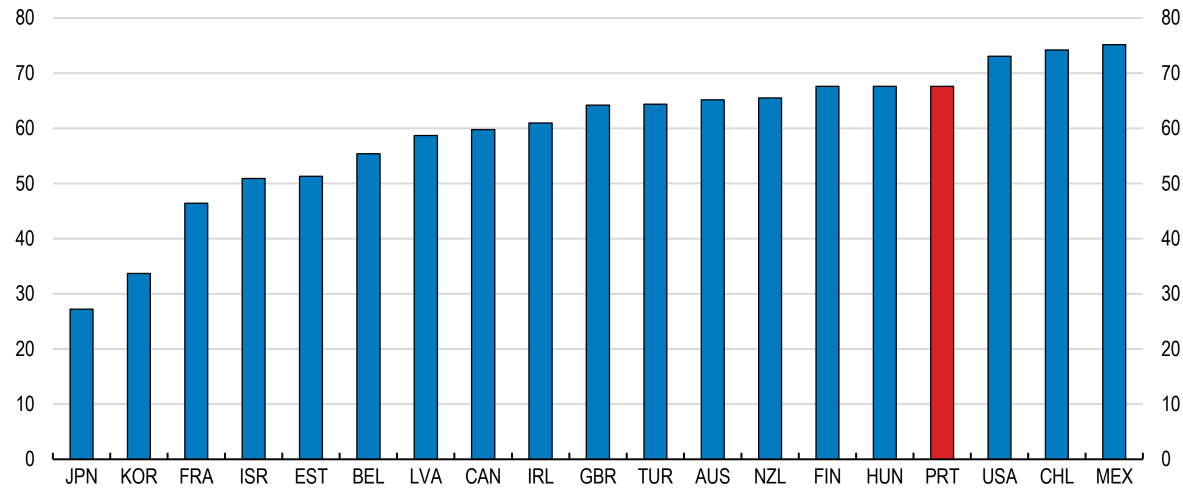
Overweight and obesity is a growing concern in Portugal. In 2015, 67.6% of the adult population were overweight or obese (Figure 2.26), among the highest across OECD countries with available data. Overweight and obesity rates are slightly higher for men (70.3%) than women (65.2%) (OECD, 2022[4]). Further reinforcing this concern is that overweight and obesity are starting at a young age, with almost 30% of 6–8-year-olds overweight or obese in 2019 (DGS, 2022[98]).

Being overweight worsens health, education and labour market outcomes, hinders economic productivity and growth and increases health expenditures (OECD, 2019[99]), putting further pressures on tight government budgets. Overweight and its related diseases is estimated to reduce life expectancy by 2.2 years in Portugal and account for around 10% of total healthcare spending between 2020 and 2050 (OECD, 2019[99]). Adults with at least one chronic disease associated with being overweight are 8% less likely to be employed the following year and when they are, are up to 3.4% more likely to be absent or less productive (OECD, 2019[99]). When children with overweight grow up, they tend to show lower school attainment (OECD, 2019[99]). Overall, overweight is estimated to reduce GDP by 3% in Portugal on average over the next 30 years (OECD, 2019[99]).

A poor diet for some and a lack of physical exercise are major contributors to the high overweight and obesity rate in Portugal. On average, fruit and vegetable consumption is above the OECD average and WHO daily recommended consumption and average sugar intake is below the OECD average (Figure 2.27). However, 56% of adults, 78% of adolescents and 72% of children do not consume the recommended amount of fruit and vegetables and sugar overconsumption remains particularly high in children and adolescents (DGS, 2022[98]). A high intake of salt and red meat and a low intake of whole grains also contribute to a loss in healthy life years (DGS, 2022[98]). In addition, physical activity rates are low for both adults and young people. In 2019, 65% of adults indicated they never engaged in any type of physical exercise (DGS, 2022[100]). Only 43.1 % of adolescents reported that they undertook physical activity in more than three out of the past seven days and 18.5% responded that they never undertake any physical activity at all (de Matos, M. and Equipa Aventura Social, 2018[101]).

Figure 2.26. Around two-thirds of adults are overweight or obese

Overweight or obese population, % of total population, 2019 or latest year available



Note: The overweight and obesity rate is only available for the above countries.
Source: OECD Health Statistics Database.

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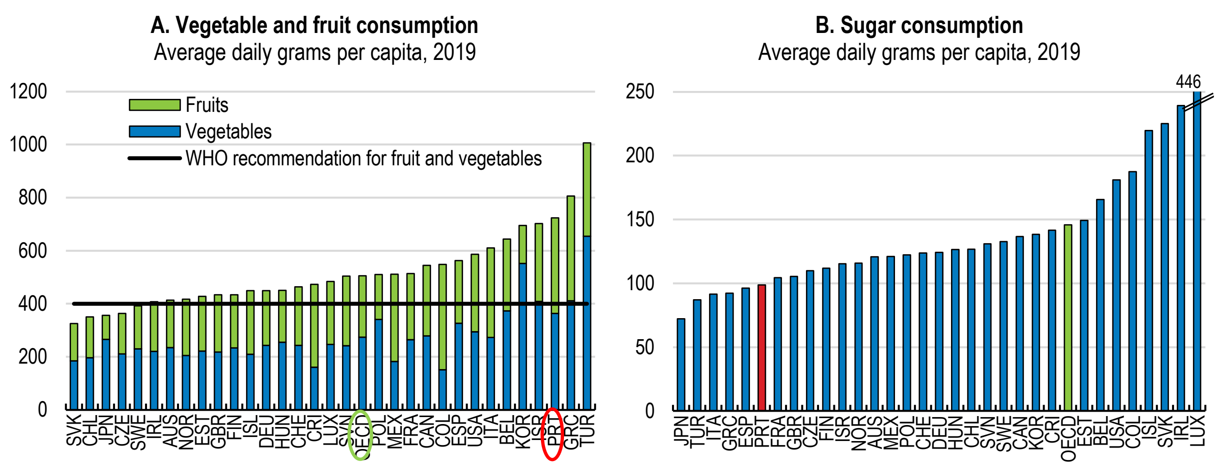
Figure 2.27. Diets are healthier than in many OECD countries



Source: OECD Health Statistics.

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Tackling the economic and social burden of obesity is a policy priority in Portugal. National priority programmes promote healthy eating (PNPAS) and physical activity (PNPAF). Portugal has also implemented several welcome measures to promote healthy lifestyles, including taxes on highly calorific food and soft drinks, advertising restrictions on unhealthy food products for children, reformulating processed food and beverages to make them healthier, limits on the amount of salt and the prescription of physical activity (OECD/EOHSP, 2021[2]; OECD, 2022[102]). In addition, the 2022-2030 National Programme for the Promotion of Healthy Eating, currently under consultation, also foresees welcome measures, such as school interventions and multidisciplinary primary care responses, while the Recovery and Resilience Plan includes additional spending to promote physical activity. Measures targeted at young people could support more healthy eating habits, including eating more fruits and vegetables and reducing sugar consumption, with dietary practices formed early in life tending to leave a lasting imprint (Murimi et al., 2018[103]). Portugal banned the sale of unhealthy foods in schools in 2021. Measures in other countries include Slovenia's "Kids to kids" programme, which teaches primary school pupils to prepare healthy meals (Kuhnapato.si, 2019[104]). At the same time, the National Programme for the Promotion of Physical Activity focuses on national mass media campaigns and physical activity counselling in healthcare accompanied by guidelines and training for health professionals. This comprehensive agenda will require careful implementation and management to reach its range of objectives, as the current package needs significant funding and training of health professionals (OECD, 2022[102]).

Addressing mental health issues

The COVID-19 pandemic exacerbated many risk factors associated with poor mental health and weakened many protective factors, leading to an unprecedented worsening of mental health in the first two years of the pandemic. Data from Eurofound's e-survey indicate that in spring 2022, 60% of adults could be considered at risk of depression in Portugal, above the average of EU countries (OECD/EU, 2022[1]). Spending on mental health is low as a share of total health expenditure in Portugal and unmet mental healthcare needs were particularly high before the pandemic (OECD, 2021[105]).

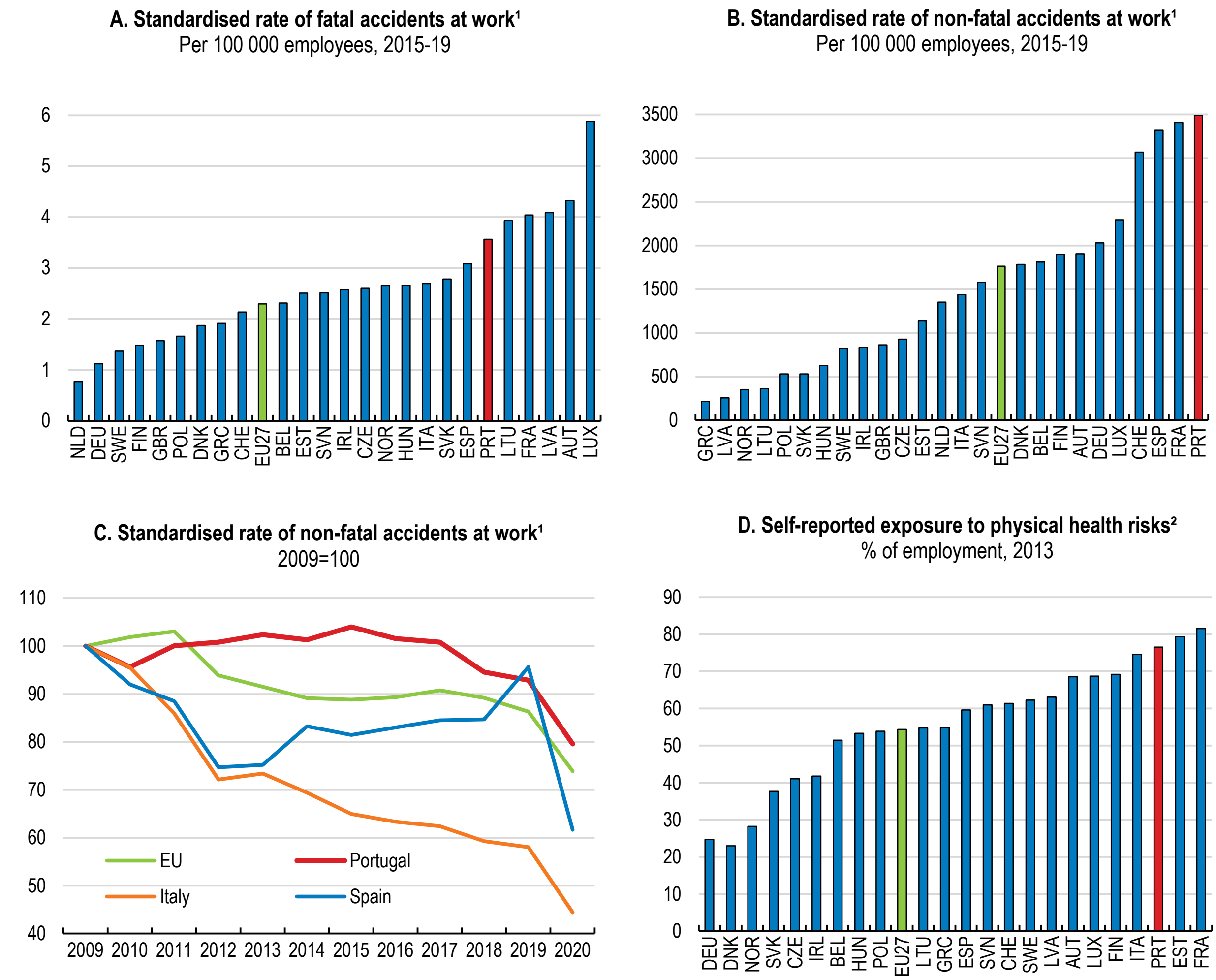
The reforms and investments under the RRP are planned to help upscale mental health services, addressing a model centered around hospitalisation and the lack of a nation-wide network of services, yet its success will require careful planning, implementation and monitoring. The reforms and investments worth EUR 88 million aim to improve mental healthcare services, deinstitutionalising patients and increasing the availability of treatment in the community as well as across the country. Measures include reviewing the Mental Health Law and Mental Health Decree-Law, adding 500 places in the National Network of Integrated Continued Care (RNCCI), adding four inpatient units in general hospitals to eliminate acute accommodation in psychiatric hospitals and forming 40 community multi-disciplinary mental health teams that can go to people's homes.

A thorough monitoring of this change in approach will help to address any bottlenecks in reaching its intended goals. Ensuring the sufficient numbers of health workers and that they receive the necessary training will also support success and help to maintain worker motivation. Over the coming years the newly created Mental Health Observatory will provide greater resources and information on research and clinical trials and more aggregated data on mental health. In 2021, 85% of mental health professionals and researchers noted information shortcomings (Mental Health Observatory, 2021[106]).

Reducing workplace risks

Compared with other European countries, declarations of accidents at work are relatively frequent, even after controlling for differences in industry structure (Figure 2.28, Panels A and B). Accidents at work have decreased steadily, albeit at a slower rate than in other European countries and self-reported exposure to physical health risks is high (Panels C and D). Progress has varied across firms, and the frequency of accidents remains high in many SMEs, notably micro firms (Monjardino T. et al., 2016[107]; GEP-MTSSS, 2022[108]). At the same time, official data show that the prevalence of musculo-skeletal disorders and psychological problems was high before the pandemic (IPSUP, 2021[109]).

Figure 2.28. Occupational risks are relatively high



1. Declarations of accidents at work are corrected for industry structure. The standardised incidence rate assumes that economic sectors in each country have the same relative size in terms of reference populations as the sectors at the EU level.
2. Data only available for 2007, 2013, and 2020.
Source: Eurostat (2022), Accidents at work and other work-related health problems.

StatLink https://stat.link/3601jl

Better targeting and monitoring of prevention programmes could lower occupational risks. In Portugal, all companies have to subscribe to private insurance contracts for work-related and commuting accidents and organise Occupational Safety and Health (OSH) services. Occupational diseases are covered by a public insurance scheme. The variation in private insurance premiums provides some incentives for health promotion. However, a prevention culture is perceived as lagging (Figure 2.29; (EASHW, 2022[110])). Small firms implement few preventive measures and rely mostly on external OSH services (Monjardino T. et al., 2016[107]). Moreover, training hours in safety and health are often mainly motivated by compliance with legal requirements, which questions the value and relevance of the training (Franklin, P. et al, 2021[111]; OECD, 2018[112]). The national 2015-20 Occupational Health Plan has taken some positive steps by targeting prevention for SMEs, notably through information campaigns, but resource constraints have delayed its implementation (ACT, 2015[113]; 2016[114]; DGS, 2022[115]). Preventive actions could be encouraged by ensuring access to high-quality OSH services for SMEs, encouraging private insurers' prevention measures, as in Germany, or through subsidies, as in France (Box 2.11; (OECD, 2022[116])).

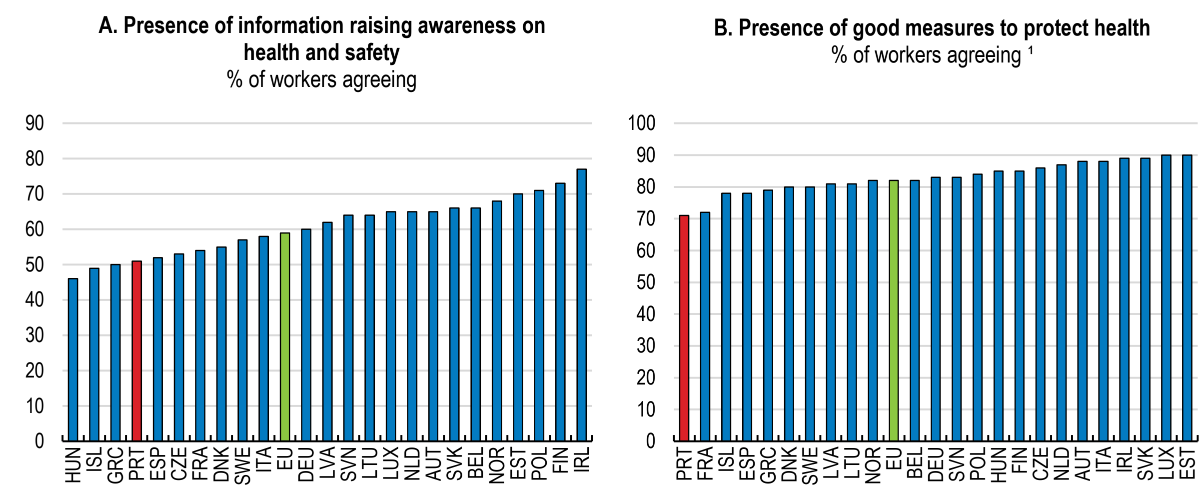
Box 2.11. Measures against work-related accidents in Germany and France

In Germany, prevention of work-related accidents and health hazards is embedded as the key objective of accident insurance institutions by government regulation. The 2015 Prevention Act requires health insurance funds to spend a minimum amount per insured person on prevention. The introduction of this act coincided with a more than three-fold increase in expenditure per insured person on workplace health promotion between 2015 and 2019 by health insurance funds (Gerlinger, 2021[117]). Health insurance funds have been required to spend a minimum of EUR 7 (USD 8.28) per insured person per year on prevention measures, of which at least EUR 2 (USD 2.37) have to be spent on workplace measures (OECD, 2022[116]). Insurance institutions typically offer prizes, awards and recognition of high-performing companies, as well as services, such as counselling and training, and even subsidies for employers implementing prevention measures to fulfil their obligations.

In France, public accident insurance has subsidies for SMEs with fewer than 50 employees that are investing in equipment or actions to avoid work-related accidents. SMEs with fewer than 200 employees in France can also apply for a prevention contract. Under this contract employers are able to receive an advance on expenditure relating to preventing accidents and ill-health, which is converted into a grant if employers meet the agreed objectives.

Source: OECD (2022[116]), Promoting Health and Well-being at Work: Policy and Practices, OECD Health Policy Studies, OECD Publishing, Paris; Gerlinger, T. (2021[117]), Prevention Act [Präventionsgesetz], Federal Centre for Health Education (BZgA).

Figure 2.29. Safety and health standards in the workplace are perceived as lagging



Note: 1. Workers agreeing or strongly agreeing.
Source: EASHW (2022), OSH Pulse - Occupational safety and health in post-pandemic workplaces - Flash Eurobarometer, European Agency for Safety and Health at Work.

StatLink https://stat.link/cehrw2

Ensuring sufficient resources for the Authority for Working Conditions (ACT) and its preventive actions would also be welcome (OECD, 2017[118]). In 2019, inspections were relatively infrequent in Portuguese establishments (EAHSW, 2022[119]). Portugal increased hiring of labour inspectors and inspection activity substantially over 2020-21, but the preventive and information activities of the ACT have been affected by the pandemic and remain on a declining trend (ACT, 2022[120]). Strengthening preventive action could help to develop primary prevention in the workplace, as was the case for the 2015-20 occupational health plan, and reduce modifiable risk factors, such as physical inactivity and poor nutrition. Indeed, evidence suggests that workplace health promotion programmes can improve work ability and reduce sickness absences. For example, workplace health promotion programmes to address sedentary behaviours and promote physical activity at work have been shown to be cost effective (OECD, 2019[99]; 2022[116]).

Working conditions, such as flexible working time and job quality, will increasingly need to adapt to older workers (OECD, 2020[121]; 2022[122]). Research shows that older workers in modified working conditions are more likely to work longer and be more productive (Göbel and Zwick, 2013[123]). Currently, working conditions appear a key barrier to old-age employment (Naumann, 2013[124]). The share of older workers who work part-time is well below the EU average and the right to request part-time hours is restricted to employees with care responsibilities. In principle, the Portuguese pension system allows flexible retirement and the combination of part-time activity with a partial pension (OECD, 2017[125]). Difficulties also extend to people with chronic health conditions, whose number is sizeable in Portugal. In 2019, 41% aged 16 and over reported having at least one chronic condition – a higher proportion than the EU average. Extending the right to request part-time or flexible working hours to all employees in companies of a certain size, as in the Netherlands and the United Kingdom, would provide workers with greater bargaining power and reduce the risk of discrimination against certain groups (OECD, 2016[126]).

Lowering air pollution

Air pollution, and fine particle matter ($PM_{2.5}$) in particular, is associated with an increased risk of cardiovascular diseases as well as cancer, respiratory infections and chronic obstructive pulmonary disease (OECD, 2017[127]). People are less exposed to air pollution in Portugal than in other OECD countries. Nevertheless, nitrogen dioxide (NO_2) and $PM_{2.5}$ is estimated to cause more than 5 000 deaths per year in Portugal and ozone exposure to cause 140 deaths (Brito, Bernardo and Gonçalves, 2022[128]).

Emissions of major air pollutants have decreased as a result of the shift in the electricity mix towards renewables and away from coal, the implementation of desulphurisation systems in large energy plants and stricter vehicle emissions standards (APA, 2022[129]). Portugal achieved its 2020 targets set by the EU Directive on the reduction of national emissions of certain atmospheric pollutants, except for ammonia (NH_3) whose emissions have grown with the number of poultry (OECD, 2023[130]). There remain concerns around concentrations of NO_2, particulate matter in urban areas and tropospheric ozone in rural areas. Lisbon, Porto and Braga persistently exceed the annual NO_2 limit value, mostly due to diesel-vehicle emissions. Lisbon introduced a low-emission zone in 2011 banning the most polluting vehicles from the city centre during working hours. Yet this has not reduced NOx and PM2.5 concentrations significantly, suggesting the need for stricter standards and stronger enforcement (Santos, Gómez-Losada and Pires, 2019[131]).

Portugal needs to clarify how it will ensure compliance with its 2030 targets in the National Air Pollution Programme. The share of diesel vehicles has been steadily increasing, approaching 60% of passenger cars in 2020, one of the highest shares in the European Union, with adverse effects on local air pollution. In November 2021, the European Commission announced that it would refer Portugal to the Court of Justice of the European Union over consistently and persistently exceeding the annual NO_2 limit (EC, 2021[132]). Portugal is taking policy action to reduce carbon emissions and air pollution, yet measures can be further refined (Chapter 1).

Table 2.5. Recommendations to improve health outcomes

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Improving governance and budgeting	
The budget for the National Health Service has repeatedly been set below the cost of providing health services, hindering incentives for efficiency gains and the accountability healthcare providers.	**Produce multi-annual budgets for the National Health Service, balancing medium-term health priorities with available fiscal space.**
The Recovery and Resilience Plan as well as the 2022 reform of the National Health Service aim at improving the focus on primary care and prevention in the Portuguese healthcare system.	Implement the reforms to improve budgeting practices and rebalance healthcare delivery across primary, community and long-term care and hospitals. Improve value for money in health spending through a repeated use of spending reviews.
The lack of a credible budget hinders the ability to monitor compliance, while a lack of adequate performance indicators prevents a better tracking of outcomes.	Collect a wider range of performance indicators to monitor health outcomes. Design corrective mechanisms to avoid over-execution of the health budget.
Improving primary care	
Emergency rooms are overused due to difficulties in accessing general practitioners, driving up costs without better outcomes.	**Ensure that every patient is registered to a dedicated general practitioner.**
A shortage of doctors working for the NHS, especially in certain regions, is hampering access to healthcare and push patients to the private sector with high out-of-pocket expenditures.	Improve working conditions for healthcare professionals, including through performance-based financial incentives and by addressing high overtime, the lack of career progression and inflexible work schedules.
Some financial incentives for primary care centres and general practitioners are not well aligned with efficiency improvements. The financing models of primary care centres are heterogeneous and, though a broad range of indicators of quality and access are monitored, the number of indicators used for financial incentives is limited.	Adjust the payment scheme for primary care centres to increase rewards for access and quality. Standardise the financing models of primary care centres. Review the incentive payment schemes for public general practitioners to better reward the coverage of disadvantaged populations and prevention.
Strengthening the coordination among care providers	
Despite the development of some integrated care delivery services and the planned roll-out of local health units, the coordination between hospitals and primary care providers can be improved.	**Move towards integrated care delivery between hospitals and primary care providers.** Define clear responsibilities and financing mechanisms for the provision of integrated care services. Develop payments linked to the quality and outcomes of multidisciplinary care and chronic disease management.
Portugal is a frontrunner in health digitalisation, but the use of health data appears tightly constrained and electronic health records remain fragmented. The Recovery and Resilience Plan foresees significant investment to raise health digitalisation.	Prioritise reforms to develop harmonised electronic health records and integrated data system to ease co-ordination among health professionals. Develop a safe but broader access to health data.
Nurses' responsibilities face strict legal limits. Many nurses emigrate for better remuneration and conditions.	Expand the reliance on nurses in primary healthcare and allow them to perform some tasks currently reserved for doctors.
The coordination among health professional reveals shortcomings and professional bodies still play a role in the task allocation	Develop a common complementary training platform for doctors, nurses and pharmacists to improve the co-ordination between healthcare professionals. Focus the role of professional bodies on developing regulations and standards.
Modernising hospital management and services	
Portuguese public hospitals have been regularly underfunded and the existing performance budgeting framework is only partly implemented.	Fully implement the ongoing reform of the hospital management system. Ensure budgets are aligned with the cost of providing health services alongside strong monitoring.
Investing in prevention and adopting healthier lifestyles	
Spending on prevention has been historically low and funding for prevention programmes has been volatile.	Ensure more stable funding for prevention programmes, as well as their regular reviews.
Smoking remains a major contributor to mortality yet not all WHO and European directives have been implemented. Alcohol consumption and obesity rates are among the highest in the OECD.	Continue increasing the share of smoke-free environments. Increase excise taxes on alcohol and tobacco to reduce consumption incentives and consider introducing minimum pricing for alcoholic beverages. Ensure sufficient financial and clinical resources for programmes encouraging healthy eating and exercise.
Occupational accidents are high and prevention is partly lacking in small and medium sized enterprises (SMEs).	Ease access to high-quality occupational health and safety services for SMEs. Ensure sufficient resources for the Authority for Working Conditions (ACT).

Working conditions, such as the low take-up of flexible working-time, are not adapted to an ageing workforce.	Consider extending the right to request part-time or flexible working hours to all employees.
Fine particle matter and nitrogen dioxide levels contribute to excess mortality.	Close the tax gap between diesel and petrol vehicles and introduce a NOx component in vehicle taxes. Remove the preferential circulation tax treatment for older vehicles.

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The Portuguese economy has rebounded strongly from the COVID-19 crisis. Though high inflation and weak global economic conditions have slowed growth in 2022, renewed fiscal support helped to cushion the impact. Public debt relative to GDP has declined below its 2019 level, but rapid population ageing and strong investment needs are increasing fiscal pressures. Potential growth and productivity gains have declined and skill shortages have emerged. Implementing the ambitious Recovery and Resilience Plan and ensuring fiscal sustainability through more efficient spending and a strengthened fiscal framework are key to a sustained recovery. Streamlining complex administrative processes as part of the public sector's digitalisation efforts and reviewing regulations in professional services and retail trade can improve productivity. In addition, investment in the green transition should continue to reduce greenhouse gas emissions and strengthen climate resilience, in line with Portugal's goal of carbon neutrality. At the same time, while life expectancy is high, the health sector is suffering from staff shortages, underinvestment and long waiting lists. Moving towards a more integrated system of primary, community and hospital care could improve the quality of care and value for money. Reforming primary care would also help to improve access for low-income households and limit avoidable hospitalisations.

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