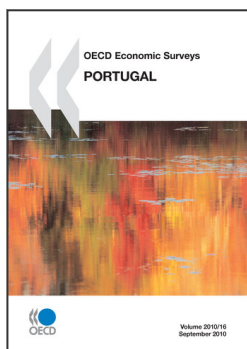


Executive summary

Portugal has made significant progress in modernising its economy over recent years. However, the already weak potential growth is likely to have been hit by the global crisis. Besides, widening sovereign spreads, if persistent, may put the economic recovery at risk. In these circumstances, the immediate challenge is to foster investor confidence by rapidly consolidating the public finances. The next challenge is to achieve a sustained reduction in the large external deficit. More fundamentally, Portugal needs to pursue policies to move to more dynamic and sustainable growth, which would help fiscal consolidation and narrow the large income gap with wealthier OECD countries.

- **Credible fiscal consolidation is the key to restoring investor confidence.** The authorities' decision to frontload consolidation was appropriate and it is essential that the consolidation measures continue to be implemented swiftly. In this context, adopting a comprehensive medium-term expenditure framework supported by an expenditure rule would enhance the sustainability, and hence the credibility, of the fiscal adjustment. Nonetheless, as the required consolidation is sizeable, the government should stand ready to raise taxes further, focusing on those that are the least distorting to growth, such as consumption (VAT) and property taxes. Broadening the tax base should also help consolidation while reducing economic distortions.
- **The sizeable current account deficit needs to be progressively reduced.** Notwithstanding the ongoing policies to reduce energy dependence, a sustained correction of the external imbalance depends crucially on restoring competitiveness through improved productivity and rebalancing growth from consumption to exports. On the financing side, reliance on domestic savings, both public and private, must be enhanced. The adjustment can be speeded up by keeping public sector wages at bay to encourage economy-wide wage restraint and shifting taxation from employers' social security contributions to consumption (and property) taxes.
- **Labour market dualism should be reduced.** The authorities need to combat the segmentation of the Portuguese economy, which is reflected in a two-tier labour market where flexibility is essentially achieved at the margin. The authorities should further reduce employment protection legislation on regular contracts. Pursuing labour market reform should reduce the risk that the cyclical increase in unemployment and reduction in the labour force become structural. To foster labour supply while providing appropriate income support during unemployment spells, Portugal should revise the architecture of unemployment benefits (UB): UB duration and replacement rates should not be related to age and benefits should be a decreasing function of unemployment duration for all workers.
- **Further structural reforms are necessary to restore productivity growth.** The business environment needs to be further enhanced, with tax system simplification as one of the priorities, and the authorities should help develop transport infrastructure, while basing projects on transparent and careful cost-benefit analysis. Above all, ongoing efforts to upgrade the competencies and skills of the population should be consolidated. Better educational outcomes cannot be achieved without raising the equity of educational opportunities, which would help to close the educational gap while also reducing socioeconomic disadvantages. As the scale of the Portuguese training programmes has expanded, efforts should focus on evaluation tools, even more in the context of tight budget constraints. Portugal should reduce high rates of school-year repetition and further strengthen monitoring mechanisms of those at risk of dropping out.



From:
OECD Economic Surveys: Portugal 2010

Access the complete publication at:
https://doi.org/10.1787/eco_surveys-prt-2010-en

Please cite this chapter as:

OECD (2010), "Executive summary", in *OECD Economic Surveys: Portugal 2010*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_surveys-prt-2010-2-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.