

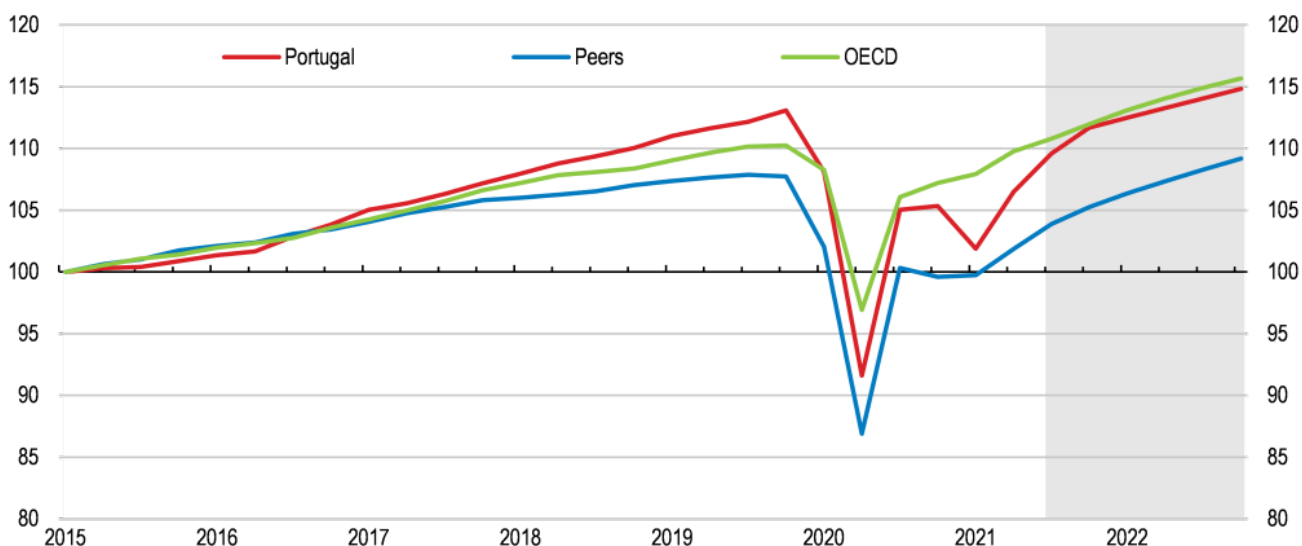
# Portugal: Policy action for a strong and sustainable recovery

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Like most countries around the world, the COVID-19 pandemic hit Portugal severely, taking a heavy toll on the economy. GDP declined by 8.4% in 2020 compared to 4.7% on average in the OECD. With the lifting of restrictions, activity has rebounded strongly and the latest OECD forecasts project GDP will reach its pre-crisis level in 2022 (Figure 1). Policy support and the impressive success of the vaccination campaign, with Portugal having the highest vaccination rate in the OECD end-2021, has been decisive for the recovery.

**Figure 1. The pandemic severely hit the economy**

Gross Domestic Product, Index 2015Q1 = 100



Note: Peers refer to the weighted average of Greece, Italy and Spain.

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

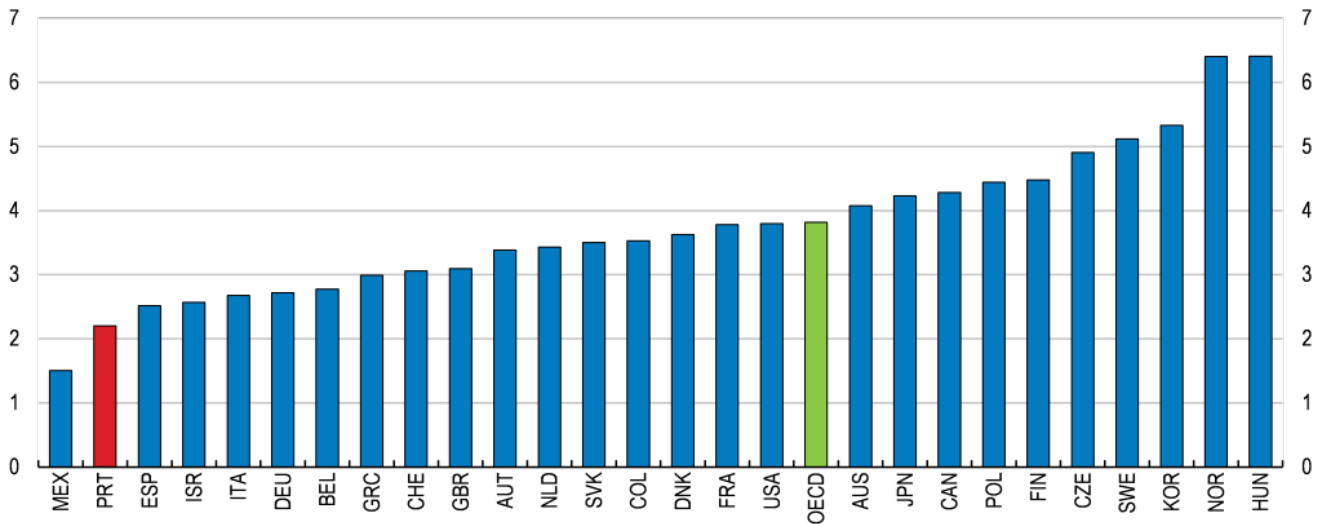
At the same time, Portugal is still facing important challenges. The economic outlook remains fraught with uncertainties, such as the emergence of new virus variants, or the rise in inflation reflecting higher energy prices and supply bottlenecks. Productivity was only three-quarters of the OECD average in 2019, and productivity gains were 20% below the OECD average over the past ten years, limiting improvement in living standards. The crisis has accelerated the already rapid pace of the digital and green transitions. Portugal is no doubt ready to embrace these transformations, but more is needed to do so successfully.

The 2021 OECD Economic Survey of Portugal presents key actions on how to sustain the recovery and lift Portugal's economic potential in these uncertain times.

Firstly, agile fiscal and financial policies are necessary to address persistent macroeconomic vulnerabilities. Portugal entered this crisis in a much better shape than before the Global Financial Crisis, but macroeconomic imbalances remained large. Portugal's fiscal space should be restored by reducing the public debt ratio, which is among the highest in the OECD. A credible fiscal consolidation strategy – including the containment of age-related costs – should be implemented once the recovery is firmly established. Rapid and effective absorption of EU funds will help. Portugal will receive a total of EUR 61 billion over 2021-2027, supporting public investment from current low level (Figure 2).

### **Figure 2. Public investment has been low**

Public investment, Per cent of GDP, 2020 or latest available



Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database).

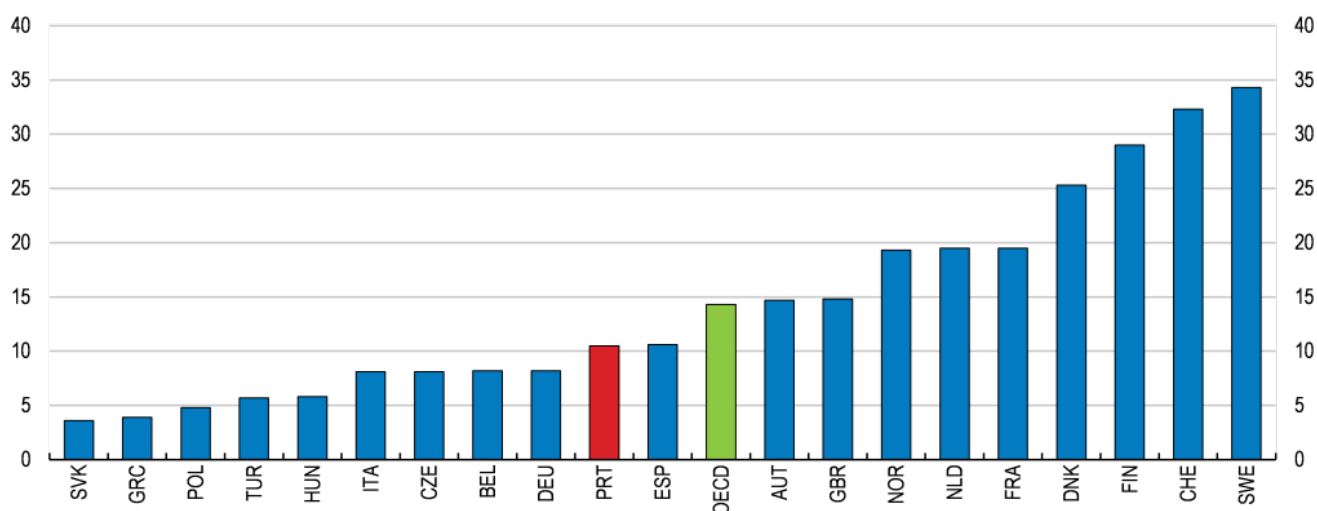
Secondly, policies should ensure that the recovery is more sustainable and benefit all. Youth, women and people with low skills were hardest hit by the pandemic. Almost one fourth of the active 15-24 year olds were looking for a job in September, twice the OECD average. Public employment services need to be reinforced to better adapt to the changing needs of the labour market, provide individualised support and expand training programmes. Portugal is at the forefront of many environmental policies, as reflected by its high share of renewable energy, for example. However, more efforts are needed to reduce water abstraction and become a carbon-neutral economy by 2050. Policy action must combine investments with incentives to reduce environmental damages and compensation measures for low-income households.

Thirdly, Portugal could get more from the digital transition. Portugal can build on its impressive development of digital government and its start-up ecosystem to help spur the digital transition more widely, as the least educated segments of the population and smaller firms lag behind in the adoption of digital technologies. Equipping the population and firms with adequate skills is a prerequisite for digitalisation. The government plans to further increase resources for schools and teachers, including regular in-service training on ICT use, are welcome and should be

accelerated. Participation in adult education is low (Figure 3) and needs to expand. Introducing a personal training account for adults, with more generous vouchers for low-skilled workers should be considered. Finally, raising competition in the telecommunication sector by facilitating consumer mobility can increase the quality and the affordability of broadband services throughout the country.

### Figure 3. Few adults participate in training

Participation in education and training, Last 4 weeks, % of 25-64 year-olds, 2019



Source: OECD (2020) Education at a Glance Database; Eurostat (2020).

### Further reading

OECD (2021), OECD Economic Outlook, Volume 2021 Issue 2: Preliminary version, OECD Publishing, Paris, <https://doi.org/10.1787/66c5ac2c-en>.

OECD (2021) OECD Economic Surveys: Portugal 2021, OECD Publishing, Paris, <https://doi.org/10.1787/13b842d6-en>.