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COVER NOTE

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COMMISSION STAFF WORKING DOCUMENT

2025 Country Report - Portugal

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Portugal

{COM(2025) 222 final}

European Commission

Portugal

2025 Country Report

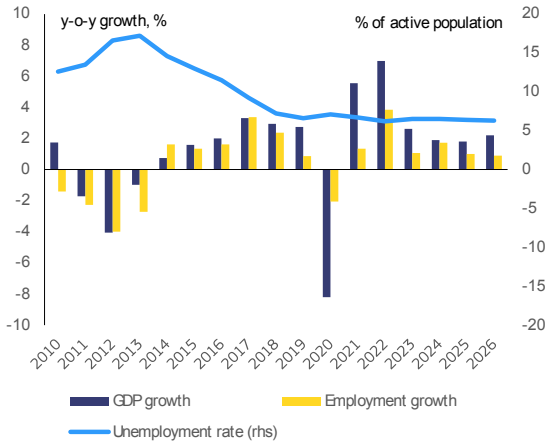
ECONOMIC DEVELOPMENTS AND KEY POLICY CHALLENGES

Domestic demand supports economic growth

Portugal's economy remains resilient as domestic demand increases. Portugal's GDP growth slowed from 2.6% in 2023 to 1.9% in 2024. However, the growth rate picked up again towards the end of the year, thanks to a very strong rebound in private consumption. Sustained, though somewhat decreasing, growth in foreign tourism also supported the economy. Since 2022, Portugal has consistently outperformed the EU average growth. Portugal's GDP growth is forecast at 1.8% in 2025 and 2.2% in 2026, also above the expected EU average. Domestic demand is projected to remain the main growth driver as households' consumption is boosted by employment and income growth while investments are benefiting from the projected peak within the recovery and resilience plan cycle. In the longer term, a key challenge for Portugal will be to increase business capacity to scale up and innovate, and to increase productivity growth across all regions (see Section 2).

The labour market continues to improve, helped by migration flows. Portugal's unemployment rate remained unchanged from 2023 to 2024, at 6.5% (see Social Scoreboard in Annex 13). Employment rose by 1.2% during the year, implying a slight improvement in labour productivity in terms of GDP per employee. The labour force expanded by 1.1%, helped by increasingly positive net migration flows. In contrast, the natural population change and internal migration are undermining regional competitiveness. In 2013-2022, the population aged 20-64 decreased faster than the EU average, particularly in Centro, Alentejo and Madeira, leading to a shrinking workforce in these regions. Youth unemployment (15-24 years) remained high at 21.6% in 2024, up from 20.5% in 2023, which was substantially above the EU average and particularly high in Madeira and the Azores. Portugal continued to report relatively low job vacancy rates, as well as consistent signs of labour shortages in some sectors, notably construction, healthcare and education, which point to certain skills mismatches that hinder the country's competitiveness.

Graph 1.1: **Real GDP growth and selected labour market indicators**



Estimates for 2025 and 2026 are from the European Commission's Spring 2025 forecast.
Source: European Commission

Inflation is slowing down despite sticky prices in services. Inflation moved broadly in line with the EU average, decreasing

Box 1

UN Sustainable Development Goals (SDGs)

Portugal is improving in most SDGs related to environmental sustainability (SDGs 2, 7, 9, 13 and 14), but is away from the EU average on sustainable cities and communities (SDG 11), due, for instance, to the rates for recycling of municipal waste and circular material use that are lower than the EU average.

Progress is being made in several SDGs related to fairness (especially SDGs 4, 5, 7 and 8). However, Portugal is moving away from the targets for some other SDGs related to fairness (SDGs 3 and 10) because, for instance, many health and well-being indicators worsened. Although significant progress has been made, Portugal remains well below the EU average on industry, innovation and infrastructure (SDG 9) due to the low research and innovation output (see Annex 15).

from 5.3% in 2023 to 2.7% in 2024. However, inflation in the services sector was 4.5%, mainly due to a continuous rise in the prices of tourism-related services, particularly accommodation. Inflation is projected to slow down further to 2.1% in 2025 and 2.0% in 2026, and continues to be mainly driven by services, as both domestic demand and foreign tourism are set to keep pressure on prices.

The macroeconomic situation is improving. In June 2024, the European Commission concluded that Portugal was no longer experiencing macroeconomic imbalances, and the economy was less vulnerable to shocks than before. Portugal's private and public indebtedness continues to decrease. Price and cost-competitiveness developments remain contained. By contrast, house prices continue to rise very strongly, and the estimated overvaluation has increased. This is not threatening macroeconomic stability, due to declining household indebtedness and the appropriate financial sector regulations, but it is a significant challenge in terms of housing affordability and social policies.

Public finances are supported by windfall revenues

Portugal's budget balance maintains a surplus amid growing expenditure. In 2024, the budget balance remained at a surplus, equal to 0.7% of GDP, 0.5 percentage points of GDP below the 2023 level. Revenues continued to grow, benefiting from windfall tax revenues from the corporate income tax, and increased social security contributions. Increased public wages and social transfers, particularly those related to pensions, pushed up expenditure. This was partly compensated by postponed public investment. The budget balance is expected to shrink further in 2025 and 2026. Public debt reached 94.9% of GDP in 2024, 3 percentage points less than in 2023. It is forecast to further decline in 2025 and 2026, thanks to primary budget surpluses and growth in GDP not adjusted for inflation.

Fiscal policy measures are expected to increase net expenditure. In 2024, net expenditure([1]) in Portugal grew by 12.0%

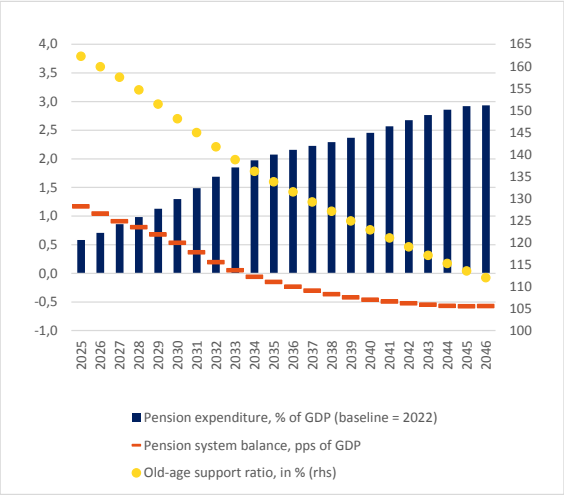
([1]) Net expenditure is defined in Article 2(2) of Regulation (EU) 2024/1263 as government

(see Annex 1). This is mainly driven by the increase in expenditure, on the back of higher public wages and social transfers, and the estimated impact of revenue-decreasing fiscal policy measures, as the reduction in the personal income tax rates. In 2025, net expenditure is forecast by the Commission to grow by 6.1%, which is above the maximum growth rate recommended by the Council([2]). This reflects the impact of fiscal policy measures that increase public wages and pensions, and that reduce revenues from direct taxation, as the broadening of the youth personal income tax scheme. The cumulative growth rate of net expenditure in 2024 and 2025 taken together is projected at 18.8%, which is above the maximum rate recommended by the Council.

Rising pension expenditure challenges fiscal sustainability

Population ageing is a continuous challenge for Portugal's pension and tax systems. Population ageing, alongside a shrinking working-age population, puts the sustainability of Portugal's pay-as-you-go pension system under pressure (Graph 1.2; and Annex 1). While pension costs are estimated to increase by three percentage points of GDP by 2046 compared to 2022, there will be fewer contributors supporting this expenditure. While in 2025 there are nearly two contributors per pensioner, it is estimated that in 2046 there will only be around one contributor. This will create deficits within the pension system balance, challenging medium-term fiscal sustainability. Portugal will have to resort to state budget transfers and the Portuguese reserve fund for public pension schemes ([3]) to offset the deficit. Ageing is also expected to have an impact on the tax system. With a lower number of working-age people, revenues from labour taxation could decrease (see Annex 2).

Graph 1.2:**Pension system sustainability (2025-2046)**



(1) The pension-expenditure-to-GDP ratio is the annual difference with 2022 data, which was 12% of GDP. The pension system balance is the difference between contributions and gross pension expenditure. The old-age support ratio is the number of contributors per 100 pensioners in the public pension system.
Source: 2024 Ageing Report (EC/EPC) and own calculations.

expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-off and other temporary measures.

([2]) Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Portugal (OJ C, C/2025/641, 10.2.2025, ELI: http://data.europa.eu/eli/C/2025/641/oj).

([3]) *Fundo de Estabilização Financeira da Segurança Social*. At the cut-off date of the Country Report, this reserve fund – benefiting from the 2023 budget surplus and positive economic performance – stood at EUR 40 billion (14% of GDP), covering two years of public pensions.

The tax system remains complex, hindering competitiveness

Widespread tax expenditures continue to create sizeable revenue losses. Portugal's tax system has more than 500 tax expenditures, such as tax incentives, exemptions and deductions. Tax expenditures represented a loss in revenue of around 6% of GDP in 2023 ([4]). While tax expenditures can be effective in achieving policy objectives, their widespread use contributes to the tax system's complexity. If not compensated by other mechanisms, tax expenditures could contribute to income inequality (see Annex 2). As part of the Portuguese recovery and resilience plan, a new tax policy unit on tax expenditures (U-TAX) was set up in February 2024. In 2025, it will produce an assessment of existing tax expenditures to streamline them. As an additional source of lost revenue, Portugal's outstanding tax arrears relative to GDP remain one of the highest in the EU.

The corporate income tax system is complex and does not favour firms' growth. The corporate income tax rate in Portugal is composed of a state tax and municipal surtaxes. The state tax depends on the amount of each firm's taxable profits. On top of that, municipalities can set a surtax of up to 1.5%. As a result, the statutory rate of the corporate income tax can vary from 12.5% to 30.5%, depending on a firm's size and location. This design makes the tax system complex ([5]). It could also disincentivise firms from scaling up, hindering greater economies of scale and associated efficiency gains (see Annex 2). At the same time, it increases the scope for profit shifting within the country.

Fossil fuels are subsidised, with both fiscal and environmental implications. Petrol and diesel prices in Portugal are close to the EU average. Excise duty on fuel and energy products, the carbon tax and value added tax account for more than half of the final price of diesel and petrol. The total tax rate on these products is in line with the EU average. Portugal has a significant number of fossil fuel subsidies without a planned phase out date before 2030 and those include, in particular, ([6]) reduced excise duty on petrol and diesel, and exemptions for the use of diesel in public transport or by freight companies (see Section 3).

([4]) Tax and Customs Authority, 2023 Report on Tax Expenditures, June 2024.

([5]) Portugal ranks 22 out of the 27 Member States in the Tax Complexity Index.

([6]) European Commission own calculations. The denominator is based on volumes disclosed by the Portuguese authorities via 2025 national energy and climate progress reporting. For all Member States, it includes public research and development expenditures for fossil fuels as reported by the International Energy Agency (energy technology research, development and demonstration budgets) and excludes, for methodological consistency, excise tax exemption on kerosene consumed in intra-EU-27 air traffic.

Box 2:

Barriers to private and public investment

The investment rate of Portuguese non-financial corporations increased from 21.8% in 2014 to 26.7% in 2023, well above the EU-27 average of 22.8%. Despite this positive development, **several factors still hinder the capacity of Portuguese firms to invest, innovate and increase their productivity (see Section 2).** In particular, Portuguese firms still report several barriers to investment:

- **Shortages of skilled staff.** Some 86% of firms report shortfalls in skilled workers as an obstacle to investment, well above the EU-27 average of 77%. Portugal may benefit from reducing skills' mismatches and bridging the gap between skills supplied and skills demanded (see Section 4).
- **Business regulation.** Despite the progress made in shortening and streamlining business procedures and regulations, 83% of firms still report business regulation as a barrier to investment. Factors such as lengthy licensing and industrial permitting procedures, compounded by discrepancies in the implementation of regulations across regions and municipalities, negatively impact firms' investment decisions.
- **High operating costs and uncertainty.** Most companies (81%) report high energy costs as a major obstacle to investment and this, together with the higher financing costs experienced in recent years, reduced firms' investment capacity. At the same time, rapidly changing international conditions increased businesses' uncertainty, and over 88% of firms report this as an obstacle to investment, as seen in Annex 4.
- **Portugal's public investment management has improved, but there are still barriers to its efficiency.** The Portuguese national investment programme provides guidance for public investment allocation over a 10-year period (see Annex 1). It outlines three high-level strategic objectives, based on the framework of the EU Partnership Agreement with Portugal ('*Portugal 2030*'). The plan covers all available funding sources (such as EU funds, national funding and the private sector) and takes account of all users such as public authorities, state-owned enterprises and private operators (Belu Manescu C., 2024).

These challenges also act as a bottleneck to the implementation of EU funds. The implementation of Portugal's RRP is well underway but faces considerable obstacles linked to the above challenges. At present, Portugal has fulfilled 33% of the milestones and targets in its RRP.

It remains important to accelerate the implementation of cohesion policy programmes. The mid-term review offers opportunities to speed up progress and better address EU strategic priorities related to competitiveness, defence, housing, water resilience and the energy transition.

While Portugal has signalled interest in leveraging the Strategic Technologies for Europe Platform under cohesion policy, Portugal can further support the development or manufacturing of critical technologies in the areas of digital and deep tech, clean and resource efficient technologies, and biotechnologies.

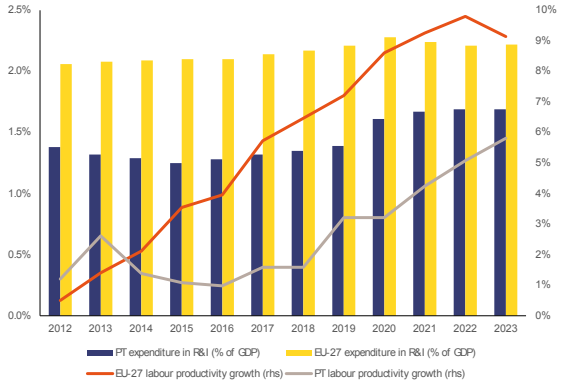
INNOVATION, BUSINESS ENVIRONMENT AND PRODUCTIVITY

Fostering productivity by strengthening businesses' ability to innovate and grow

Portugal continues to improve its competitiveness, but its productivity levels remain well below those of its EU peers. Portugal has experienced strong output growth over the past years (see Section 1), supported by structural changes and increases in productivity. Major structural reforms implemented since the financial crisis have helped improve the country's fiscal sustainability, streamline administrative processes and regulation for businesses, increase the efficiency of the judicial and financial sector, and support innovation, reducing the competitiveness gap between Portugal and other EU countries. Between 2019 and 2023, productivity per hour worked increased by 4.5%, compared to 2.7% at EU level and only 2% in the euro area. However, despite these improvements, in 2023 Portugal's labour productivity levels were still only 80.5% of the EU average.

Several structural factors explain Portugal's productivity lag compared to the EU average. These factors include (i) Portugal's business fabric being dominated by small and medium-sized enterprises with limited growth or innovation potential; (ii) the country's relatively high reliance on labour-intensive sectors, such as tourism; and (iii) structural barriers to firms' capacity to scale up and innovate. The remaining regulatory and administrative barriers are also a detriment to the country's productivity growth potential and competitiveness. These challenges to productivity growth could be addressed by incentivising firms to innovate, easing their access to finance for scaling up, reducing excessive business regulation and making the justice system more effective.

Graph 2.1:**Labour productivity growth and R&D expenditure in Portugal and the EU (2012-2023)**



(1) Labour productivity growth and R&D expenditure in Portugal and the EU (2012-2023).
Source: Eurostat and own calculations.

Despite the progress made over the past years, Portugal still classifies as a moderate innovator. Expenditure on R&D increased from 1.3% of GDP in 2017 to 1.7% in 2023. However, this remains well below the 2023 EU average of 2.22%. The increase in R&D levels in Portugal was driven by higher expenditure from the private sector, equating to 1.1% of GDP in 2023. The proportion of public R&D expenditure, on the other hand, has stagnated, remaining close to 0.6% of GDP since 2017, also due to a large increase in Portugal's the nominal GDP in Portugal (see Annex 3). Innovation investments continue

to be concentrated in a few regions, with modest improvements in high-technology exports and new-to-market innovation sales (See Annex 17).

Several structural factors hinder Portugal's capacity to innovate. The Portuguese business landscape is characterised by a large proportion of small and medium-sized enterprises with limited innovation potential. Historically, both entrepreneurship and the capacity of firms to undertake disruptive innovation have been low, and these features were exacerbated in the aftermath of the financial crisis. Over the past decade, the country has also faced difficulties in retaining and valuing its young skilled workers. In this respect, Portugal has high rates of youth unemployment, and a significant proportion of its young workers are overqualified. Because of these issues, many well-qualified young people leave the country looking for better opportunities abroad. In addition, low cooperation between businesses and research institutions is not conducive to productivity-enhancing research and innovation.

Important policies and programmes are in place to increase the country's capacity to innovate. A wide set of policies introduced in recent years has significantly improved the country's innovation capacity. Large incentive schemes have been put in place to support research and innovation in strategic sectors. The largest of these, the mobilising and green agendas developed under the recovery and resilience plan, are providing EUR 2.9 billion of support for the creation of innovative products, processes or services by consortia between businesses and academia. Tax incentive schemes also play a significant role in supporting innovation, with the main one (SifiDe) granting EUR 947 million of tax relief to firms' R&D activities in 2022. To support the creation of innovative firms, a wider range of measures, such as a one-stop-shop for start-ups promoted by Startup Portugal, several start-up vouchers and a start-up visa scheme, as well as fiscal incentives, are also in place to foster the creation of start-ups and venture firms in strategic areas.

Business dynamism has been rising, but start-ups and venture firms continue to face funding difficulties. There has been strong growth in the number of new businesses in Portugal in recent years (second highest growth in the EU over the last five years). The number of start-ups in Portugal increased considerably, from 3 700 in 2022 to over 4 700 in 2024. This thriving business environment has been prompted by several programmes to incentivise the creation of start-ups and simplify their operations. However, start-ups and venture firms still have difficulties in accessing financing and, at a later stage, scaling up. A number of funds and programmes, such as the Deep Tech fund and Venture Capital fund, have been set up to support young firms and the creation of innovative companies, but their effectiveness will be visible only over time.

More could be done to improve businesses' capacity to innovate and scale up. Over the past ten years, Portugal's capacity to innovate has increased, the workforce has become more educated and the business environment has turned more dynamic. However, further progress is warranted to boost research and innovation and catch up with the country's EU peers. In particular, several administrative barriers still hinder the scale-up of firms (e.g. long industrial licensing and permitting processes, tax disincentives to scale up and financing constraints). Major benefits can be unlocked by removing them, especially for sectors with

high growth and innovation potential (see Annex 4). It would be beneficial to continue increasing private investment in R&D and stepping up cooperation between firms and academia, also beyond the finalisation of the main investments under the recovery and resilience plan due in 2026 (see Annex 3).

Improving access to finance for start-ups and firms' scale up

The Portuguese credit market is well developed, supported by a sound banking sector, but its capital market lags behind those of its EU peers. The Portuguese banking sector recorded very good profitability over 2023 and 2024, with improved capitalisation levels. Portuguese firms, especially SMEs, rely heavily on Portuguese banks and on a mature credit market for their external financing. However, their demand for loans has been stagnating due to, among other reasons, higher lending interest rates and greater reliance on internal funding. The demand for loans started growing again only in the second half of 2024. Portugal's capital markets, on the other hand, are underdeveloped compared to those of its EU peers. A large proportion of households' savings is held as short-term bank deposits, limiting capital investments and the availability of equity financing for local corporations (see Annex 5).

There is not enough venture capital and private equity. Local venture capital and private equity markets remain shallow, with venture capital representing only 0.02% of GDP compared to an EU average of 0.08% in 2023. This funding is concentrated on start-ups, but only a small proportion is allocated to later development phases (9.4% in Portugal, compared to 48.7% in the EU). This hinders the scale-up of Portuguese companies, the most successful of which often relocate abroad to access more developed capital markets and larger equity investments. Large financial instruments have been set up, in the recovery and resilience plan and beyond, to support equity investments in venture firms. However, the bulk of these investments are expected to take place in 2025 and 2026.

Improving financial literacy and enhancing the development of capital markets could remove some of the existing barriers to investment. Low financial literacy levels, coupled with a high concentration of savings in banks' deposits, lead to an inefficient allocation of financial resources. More productive investments could be achieved by improving the population's financial literacy and awareness of investment options. Portugal also has a low proportion of households' savings held in pension or insurance funds, which limits the available financing for venture capital and private equity firms.

Reducing administrative and regulatory barriers for businesses

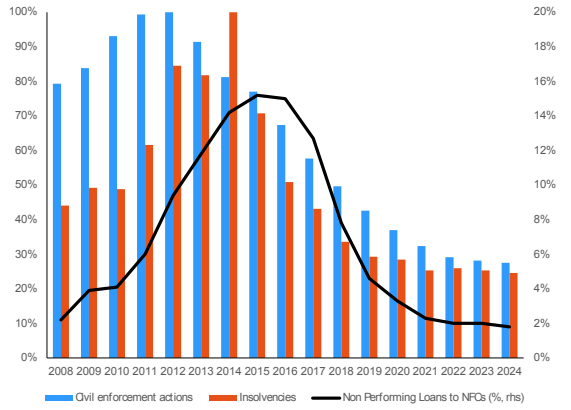
Portuguese firms report administrative and regulatory burden as a major barrier to investments. In the 2024 European Investment Bank Investment Survey, 48.8% of Portuguese firms reported business regulation as a key barrier to investment, compared to 32% of EU firms. The assessment of the OECD product market regulation indicators for 2023 and 2024 classifies Portugal as the ninth worst performer out of 38 OECD countries. Long licensing and permitting procedures remain a major issue. Despite the progress made in shortening and streamlining these processes, local authorities face difficulties in implementing the new procedures and

practices differ significantly across regions and municipalities. There are also barriers are caused by strict requirements to access regulated professions, as well as outstanding barriers to the retail distribution sector. Late payments remain widespread in the country, especially in the autonomous regions, despite significant improvements made in reducing average durations in recent years (see Annex 4).

Portugal's digital infrastructure is well developed, but businesses are late to adopt some advanced digital technologies. Portugal's internet coverage and capacity are above the EU average. Digital public services are also widely available to businesses. Nevertheless, firms are late to adopt some key digital technologies (see Annexes 3 and 6). In 2023, cloud computing had been adopted by only 32.3% of enterprises (38.9% at EU level) and, in 2024, artificial intelligence by 8.6% of enterprises, well below the EU average of 13.5%. The Portuguese information and communication technology sector is expanding extremely rapidly. Between 2021 and 2023 its turnover increased by 27.8% and the number of workers in the sector surged by 24.8%. However, there is a need for further development to catch up with other EU countries, and the number of graduates in computing remains relatively low (0.2% of the population aged 24-35, vs 0.36% at EU level).

The regulatory framework could benefit from a more extensive use of policy evaluations and increased transparency of stakeholder involvement. Portugal introduced ex ante impact assessments for new regulations, as well as instruments for the testing and experiment of new technologies, such as the 'Technological Free Zones'. However, the use of ex post assessments remains significantly below the EU average. Progress could be made in introducing ex post regulatory impact assessments, to better quantify the impact of new regulations or policies, as well as to gauge the accuracy of the ex ante evaluations. Transparency in the involvement of stakeholders in regulatory processes could also be improved, especially concerning the regulation of interest groups. Progress could be made by introducing a clear regulatory framework for lobbying activities, including the creation of a register of interest representatives.

Graph 2.2: **Pending cases in Portuguese courts of first instance and share of non-performing loans to non-financial corporations (2008-2024)**



(1) Pending civil enforcement actions and insolvencies in courts of first instance are reported as a percentage of their peak value (i.e. 1.25 million in 2012 for civil enforcement actions; 4 842 in 2014 for insolvencies). Non-performing loans are reported as the share of domestic banks' outstanding loans to non-financial corporations.
Source: *Direção-Geral da Política de Justiça* (*Estatísticas da Justiça*), Bank of Portugal Statistics (BPStat) and own calculations.

Bottlenecks in the judicial system affect the business environment. Portuguese courts have made significant headway in reducing their backlogs of cases. For example, pending civil executive actions in courts of first instance declined from 1.25 million in 2012 to 0.35 million in 2024. Despite positive developments, courts still face backlogs and proceedings take a long time (267 days for first-instance civil and commercial cases in 2023). The delays are

exacerbated by the many instances and the length of appeals, with cases in second-instance courts lasting on average over 1 200 days, as of 2023 (see Annex 6). The judicial system also faces difficulties in hiring and retaining sufficient staff, especially court clerks for administrative and tax courts. It would be beneficial to increase the attractiveness of such jobs, especially in areas with high costs of living. In this respect, the introduction of transfer allowances or remote-working arrangements could be explored.

DECARBONISATION, ENERGY AFFORDABILITY AND SUSTAINABILITY

Addressing a complex regulatory framework for renewables

Portugal's share of renewables in electricity generation is the second highest in the EU. In 2024, 87.7% of the electricity generated in Portugal came from renewable sources, up by 11 percentage points compared with 2023, and well above the 47.4% at EU level. Hydropower and wind accounted for three quarters of the total electricity generated from renewable sources (42% and 33%, respectively). Solar was the renewable source that increased the most, on a yearly basis, by 36%. Despite this progress, the share of fossil fuels in Portugal's energy mix in 2023 remained considerable, with oil accounting for 47.2% and natural gas for 16.8%, while renewables and biofuels reached only 31.4%.

Portugal's renewable energy ambitions are hindered by a complex and lengthy permitting process. The complexity of the legislation governing the country's spatial planning at national, regional and local levels complicates the renewables permitting process. Moreover, the lack of clear and standardised assessment criteria leads to different authorities interpreting the legislation in different ways, resulting in complex and time-consuming processes. For instance, the implementation of Simplex Ambiental – an amendment to the legislation aimed at simplifying environmental-related permitting procedures – has revealed potential loopholes in assessments and the application of deadlines. Specifically, for renewables projects, such as solar energy, the impact assessments are often undertaken in a fragmented manner, failing to account for the cumulative effects on the surrounding territories.

Energy communities are facing implementation bottlenecks. The permitting process for collective self-consumption and for renewable energy community projects is also slow. Public entities face difficulties in becoming members of energy communities due to mandatory requirements, such as permitting authorisation and public procurement, which delay the process. At present, 400 of 500 registered collective self-consumption installations have obtained an operating licence, and just one in ten registered energy communities has secured an operating licence. Giving preferential status to energy community projects in tenders and priority access to the grid would unlock the potential of renewable energy communities and collective self-consumption.

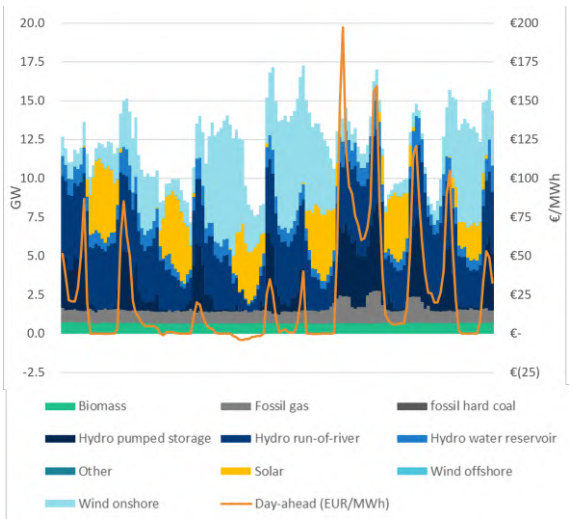
Tackling insufficient resources and skills gaps among public authorities

Insufficient resources and technical issues with digital platforms cause significant delays in the response of permitting entities. Portugal's public authorities lack the tools, such as key performance indicators and open databases, to continuously monitor the

implementation of legislation and track the progress of renewable energy plants, including their potential environmental impact. The multiple entities that need to be consulted during the permitting process, without a single point of contact, has also created delays. The responsible entities often lack the necessary skills to evaluate renewables projects. In addition, inadequate communication and conflict-resolution channels between promoters, public authorities and local communities further slow down permitting decisions. The planned digital one-stop shop for renewables projects, which is supposed to be finalised by 2026, is facing delays.

Fostering long-term contracts to provide more stability to electricity markets

Graph 3.1: **Electricity generation per energy source and day-ahead electricity price in Portugal (28.03.2025 - 02.04.2025)**



(1) The above snapshot of a recent week is provided as a graphic demonstration of the volatility of Portugal's electricity market.
Source: ENTSO-E and OMIE (REN).

High volatility in the Iberian electricity market demonstrates the need for fossil-free flexibility solutions such as energy storage and demand-side response to balance the electricity grid and incentivise investment in renewables. Wholesale electricity prices were highly volatile in 2024, fluctuating between EUR 0 and EUR 157 per megawatt-hour ([7])([8]). This volatility, which is still present in the market (Graph 3.1), creates uncertainty and makes it harder for renewable energy projects to secure funding. Currently, energy storage solutions are currently limited, and Portugal lacks a stable support framework for renewable energy projects. To address price fluctuations, further developing risk-based instruments, such as power purchase agreements and contracts for difference, should be made. Promoting storage and demand-side response would reduce the risk of curtailments and ensure to safeguard the balance of the electricity grid.

Shortcomings in the electricity grids

The national grid capacity is facing limitations, making it difficult to connect new renewable energy projects. This happens particularly in areas that have seen a significant surge in renewable energy projects, like Sines. Reinforcements and new transmission lines are under construction or expected to be commissioned soon. The permitting procedure for energy infrastructure remains complex and lengthy: on average it takes 36 months and is subject to both environmental and sector-specific legislation (see Annex 8). Furthermore, a significant part of the grid – approximately 20 GW of RES capacity to be installed – is

([7]) In 2024, there were 1 887 hours when renewable energy met all of Portugal's electricity needs. There were even periods when there was so much excess renewable energy that prices dropped to zero.

([8]) OMIE.

currently reserved for project agreements ([9]) that have not yet been connected. Although these projects are strategically important, they are blocking capacity that could be used by other developers, thereby causing prolonged connection queues. To mitigate this issue, effective monitoring mechanism to ensure that these projects do not unnecessarily block the grid would be beneficial, allowing for more efficient use of existing capacity and facilitating the connection of new projects.

The lack of transparency around available distribution grid capacity and expansion plans makes it difficult for developers to plan and invest in new projects. Without clear information from grid operators on grid capacity and future expansion and modernisation plans per sub-station in an accessible open platform, developers cannot be certain about the viability of their projects, because it is unclear when access to the grid will be possible. Reinforcing the distribution grids and improving planning and optimisation would be beneficial. For example, further fostering hybrid projects (combining multiple renewable energy sources and storage technologies in a single connection point) could help maximise grid efficiency, beyond the increase of almost 300 MW of power already achieved through these means. At present, promoters do not have a centralised platform to monitor their projects' progress. This issue is expected to be addressed by the upcoming digital one-stop shop, which will include a user-friendly portal for developers to access the information and tools they need.

Portugal's regulatory framework hinders the development of flexible resources. Portugal has so far prioritised reverse hydro storage, with 3.6 GW installed, and most of its potential is already exploited. Battery storage, on the other hand, could be further increased. Certain flexibility resources, such as demand-side response, storage and aggregators, are still facing regulatory restrictions in the provision of ancillary services. The recent EUR 100 million tender to add 500 MW of battery energy storage, where the manifestation of interest exceeded more than 1 GW, is expected to drive growth for large-scale battery storage. On the other hand, the energy storage market for customers, like homes and businesses, still faces expensive battery systems and a lack of clear regulations. Portugal plans to draft a comprehensive storage strategy by 2026. While Portugal foresees a total storage capacity in 2030 around 5.9GW ([10]), there is still lack of clarity on future actions and support for storage projects([11]).

Providing incentives to spur private investment in energy efficiency and address energy poverty

Energy efficiency improvements have slowed down in recent years, despite the supporting measures in both the recovery and resilience plan and cohesion policy programmes. Energy efficiency could be improved significantly in Portugal, especially in the residential building sector, where more than three quarters of the building stock has an

([9]) For larger-scale electricity generation projects (above 1 MVA), a prior allocation of injection capacity in the electrical grid is required. This grants the holder the right to use the grid injection point with the allocated capacity for the duration of the corresponding operating licence (*Títulos de Reserva de Capacidade*).

([10]) Final National Energy and Climate Plan, 2025

([11]) Currently, Portugal only has in place a regulatory sandbox dedicated to energy for the improvement on regulatory framework regarding energy projects – Decree-Law No 15/2022

energy performance of category C or lower. In 2023, primary energy consumption decreased by 0.3%, marginally contributing to the 11% reduction target to be reached by 2030 ([12]). Portugal estimates EUR 110 billion of investment needs in residential buildings and EUR 33 billion in non-residential buildings up to 2050. While both the recovery and resilience plan and cohesion policy programmes include substantial renovation measures, the incentive schemes are mostly grant based, as outlined in Annex 8. Private investment in this area is still scarce and the lack of financing schemes to leverage private investment is a major impediment for energy efficiency renovations, leading to a significant investment gap.

Portugal's high levels of energy poverty persists and there is a need for a radical policy shift on energy efficiency to prioritise holistic building renovations. Around 17.5% of the population struggles to adequately heat their homes. Despite efforts to improve the situation, the current rate of progress (0.54% reduction in discomfort hours in 2023), is not sufficient to meet the 2030 target (26% by 2030) ([13]). Energy efficiency measures are often fragmented and focus on individual solutions rather than addressing the building as a whole, which would have a greater impact on improving thermal comfort. Portugal is planning to launch a pilot project programme (*Bairros Sustentáveis*) that will target buildings and homes in energy poverty in the two metropolitan areas of Lisbon and Porto, with the goal of addressing energy poverty.

([12]) The indicator of primary energy consumption of the entire building sector had a reduction of 6.5% in relation to the baseline year (2019).

([13]) National strategy report.

Developing a sustainable industrial sector in Portugal

The decarbonisation of Portugal's industry can support the sector's competitiveness. The production of energy-intensive industries in Portugal has declined by an average of 3.7% since 2021, with the chemicals sector being a major contributor to this decrease, its production having plummeted by 47.5% over the same period. Simplified permitting procedures, dedicated support for decarbonisation, and initiatives to improve the circularity of raw materials would help create the necessary conditions for these industries to thrive (see Annex 7). Furthermore, Portugal is in a privileged position in the EU, due to its high potential for the extraction of critical and strategic minerals, such as copper, tungsten, feldspar and lithium. This also presents business opportunities in areas such as battery manufacturing, with potential positive spillovers to decrease divergences across regions. Portugal has launched an action plan to develop the extraction and use of sustainable raw materials. Involving local communities better would ensure that these projects were implemented more effectively.

Portugal's manufacturing capacity across all net-zero technologies remains modest but with significant development potential. Portugal's largest industrial net-zero sectors are solar power and wind ([14]). The country also has significant manufacturing potential for electrolysers, as Portugal accounts for 8-9% of the EU's total capacity. However, these projects still need to be implemented and a solid regulatory framework for renewable

([14]) European Commission Report, *The net-zero manufacturing industry landscape across Member States*, January 2025.

gases is vital for the sector's development. To support the development of net-zero technologies, Portugal has set up two incentive schemes to encourage investments in their production. But the permitting procedures for these technologies remain the same as those for other industrial processes and are hindered by several bottlenecks (see Section 2).

Accelerating decarbonisation of transport

Investment is needed in charging infrastructure to support the growth of electric mobility in Portugal. Investment in electric charging infrastructure has been impaired by a regulatory framework characterised by confusing pricing mechanisms, leading to complex billing, underinvestment and higher costs for consumers. The proposed new framework for electric charging infrastructure aims to liberalise the market and boost transparency in charging services. By reducing intermediaries and ensuring clear invoicing, this model seeks to simplify the current complex pricing mechanisms. It also introduces ad hoc charging with EU-wide payment methods, and it allows alternative energy supply methods, fostering a more competitive and user-friendly environment. However, rural areas must receive adequate investment to develop the required charging infrastructure.

Fossil fuel subsidies remain a significant impediment to Portugal achieving its goals for decarbonising transport. Portugal has a substantial amount of relevant fossil fuel subsidies without a planned phase-out before 2030, equivalent to 0.69% of Portugal's GDP, above the EU weighted average of 0.49%. Scaling down and phasing out these subsidies is in line with EU commitments and can give the government greater flexibility for its spending choices. Fossil fuel subsidies that do not address energy poverty in a targeted way, that do not respond to genuine energy security concerns, that hinder electrification and that are not essential for industrial competitiveness could be considered for priority phase-out. The following fossil fuel subsidies are particularly damaging from an economic and environmental perspective: tax reductions and exemptions for diesel used by freight companies, railway locomotives and public transport. For instance, freight companies receive tax reductions for diesel, allowing them to reimburse the difference between domestic and minimum taxation levels, while public transport vehicles and railway locomotives enjoy exemptions from the fuel excise tax. Such measures perpetuate reliance on fossil fuels and disincentivise the shift to electric vehicles and other sustainable solutions. Nevertheless, it is noted that, in Portugal, the combination of national energy and carbon taxes and EU emissions trading creates above-EU-average disincentives for fossil fuel use in the industrial and electricity sectors (see Annex 8).

Key infrastructure projects are poised to transform Portugal's transportation landscape, but close monitoring is needed to ensure timely delivery. Lisbon's new airport, designed to accommodate 40 to 45 million passengers a year, offers a significant opportunity to incorporate sustainable practices, including a railway link to the city centre. High-speed rail projects further demonstrate a commitment to cleaner transport alternatives, efficiently connecting urban centres and reducing the carbon footprint. The Lisbon-Madrid cross-border high-speed line, in particular, is crucial for linking Portugal to the rest of Europe. Timely progress on this project, along with its adaptation to the European standard

nominal track gauge of 1 435 mm, which will link Lisbon to the rest of the continent, could significantly boost Portugal's competitiveness and resilience. Upgrading and expanding railway infrastructure will promote sustainable mobility, bridge regional disparities and foster social cohesion, ultimately driving economic competitiveness and growth across the country. However, the delays in implementing the Ferrovia 2020 plan and the National Investment Programme 2030 require these plans should be monitored closely to ensure timely delivery. Improving rail infrastructure, decarbonising transport, and personal mobility are paramount, particularly in Portugal's metropolitan areas, which face significant challenges in air quality and traffic congestion (see Annex 7).

Climate adaptation and preparedness

Portugal is one of the Member States most affected by climate change. Portugal is particularly vulnerable to heatwaves, droughts and wildfires, which are set to intensify due to climate change. Natural hazards are also expected to become more frequent and extreme.

Portugal has already undertaken a comprehensive analysis of the impacts of climate change through its national roadmap for adaptation 2100 study. This study evaluates regional and national impacts under different climate scenarios until the end of the century. It also highlights key phenomena that affect livelihoods and economic development and should serve as the foundation for the 2025 review of the country's national adaptation strategy. Given that many adaptation measures are local, it is essential to implement them in line with the national strategy to maximise their impact. At the same time, it would be beneficial to better incorporate climate adaptation into sector-specific policies, especially in areas like agriculture, energy, housing, spatial planning and infrastructure development. One example is the special arrangements for small-scale biomass power plants in high-risk fire areas, aimed at addressing forest fire management and renewable energy production. These installations are encouraged to reduce fire risks by using forest residues and promoting sustainable energy generation. Addressing the adverse effects of climate change – such as floods, coastal erosion, desertification, droughts, heatwaves and forest fires – remains imperative. Effectively managing these risks will not only mitigate their impact but also strengthen Portugal's water resilience, which is an increasingly vital issue in the face of climate change. Cohesion funds provide around EUR 680 million and, together with a wide range of measures under the recovery and resilience plan, have been helping to boost Portugal's resilience to the effects of climate change.

Tackling water management inefficiencies

Portugal is among the most drought-affected countries in the EU. Despite some progress made in recent years and the announcement of a national water strategy (*Água que Une*) in early March 2025, it would be beneficial if water management were made more efficient and the measures in the strategy implemented quickly. Over the past 20 years, available freshwater has decreased by 20-30% in most river basins. The frequency and severity of droughts is forecast to increase significantly in Portugal due to climate change. For example, the 2022 drought

affected more than 43% of Portugal's total area. Water demand in certain areas already exceeds available water resources and the pressure is likely to increase in the coming years. Effective water management in Portugal is essential for ensuring agricultural productivity, energy production, climate change adaptation and infrastructure resilience, while also supporting the tourism and industrial sectors. With the implementation of its national long-term strategy, Portugal needs to strike the right balance between water use and preserving the health of its ecosystems. At the same time, the country would benefit from better planning for long-term climate risks, to ensure that its water management can adapt to future changes in climate, such as droughts or other extreme weather patterns.

Streamlining the water governance structure would improve coordination at regional and local level, generate economies of scale and boost overall efficiency. Increasing water retention in the landscape and effecting long-term changes in economic practices would be beneficial. Improving wastewater management, reducing leaks in water pipelines, strengthening monitoring, restoring the natural sponge function of the landscape and minimising groundwater extraction would help address water scarcity. Rehabilitating wetlands and rivers (including floodplains) and implementing other nature-based solutions can also help tackle the lack of water. Water pricing does not reflect the scarcity of the resource. Addressing this could be an effective demand-side tool but water pricing must be designed carefully to take account of social vulnerabilities.

Addressing ineffective waste management and gaps in the circular economy

Portugal is far below the EU average on circular economy and waste management indicators. Portugal's circular material use rate was 2.8% in 2023, well below the EU average of 11.8%. Portugal is at high risk of missing the EU target of recycling 55% of municipal waste by 2025 (in 2023 it was 30.1%). Portugal is also behind on the EU target to recycle 50% of plastic packaging waste by 2025 (37.3% in 2022).

Despite progress, Portugal needs to do more to improve waste management and develop the potential of the circular economy. As mandated by the National Waste Management Plan 2030, approved by the government in 2023, the strategic plan for municipal waste and the strategic plan for non-urban waste were adopted in 2023. Municipal action plans for municipal waste set out strategies to comply with national targets. Of the around 300 municipal action plans, 54 have received conditional approval from the Portuguese Environment Agency (APA) and the Regulatory Authority for Water and Waste Services (ERSAR), while 7 municipalities have yet to submit their action plans. To implement the objectives set out in Portugal's National Waste Management Plan 2030, a range of reforms have been introduced in recent years. Progress has been achieved through initiatives and regulatory measures such as the development of a deposit-refund system (expected to be fully operational by 2026), increased contributions from extended producer responsibility (EPR) schemes for packaging, the expansion of EPR to cover additional product categories, and higher fees for landfill use and incineration. By

2030, a pay-as-you-throw system will replace flat-rate waste tariffs with charges based on the actual amount of waste generated by each household. While Portugal has made notable progress regarding the regulatory framework, substantial investments will still be needed at both national and municipal levels to ensure full implementation. The total capital investment required for Portugal to meet the 2035 recycling targets for municipal and packaging waste is estimated at EUR 911 million ([15]). Portugal's recovery and resilience plan includes funding to strengthen and improve waste collection, sorting and treatment capacity. Portugal has not yet updated its national circular economy action plan. In 2025, Portugal presented a new action plan for the waste sector, titled 'TERRA – Efficient Transformation of Waste into Environmental Resources'. The action plan identifies the investments needed by 2030, while also highlighting the importance of implementing the updated Circular Economy Action Plan. and measures, missing a chance to bring into in line with the EU circular economy action plan 2020 and advance its circular economy objectives.

([15]) European Commission, Study on investment needs in the waste sector and on the financing of municipal waste management in Member States.

SKILLS, QUALITY JOBS AND SOCIAL FAIRNESS

Addressing skills mismatches, labour shortages and youth unemployment for a competitive future

Unemployment levels remain low but labour shortages persist. While the unemployment rate in Portugal remains low (6.5% in 2024), the country faces labour shortages which persist in some sectors (see Annex 10). This does not help Portugal's low productivity and hampers improvements in the country's competitiveness. As reported in late 2023 ([16]), six in every ten Portuguese employers have struggled to find workers with the right skills in the previous 24 months, especially those with specific vocational education and training and tertiary qualifications. Employers identify this as the most challenging issue faced by companies in many sectors such as construction, information and communication technology, healthcare and renewable energy. In addition, it was predicted that the demand for high-skilled labour would increase significantly in the short to medium term (2020-35) ([17]), due to the increase of fast-growing sectors such as, for instance, information and communication technology and renewable energy.

Skills mismatches aggravate Portugal's sectoral labour shortages and fuel structurally high youth unemployment. The skills supply (particularly regarding higher education) does not appear to match market needs. The development of the necessary skills is also threatened by the following: i) declining adult participation in lifelong learning (from 38% in 2016 to 33.4% in 2022), drifting away from the 2030 national target of 60%; (ii) an increased proportion of underperformers in maths, science and reading in school; and (iii) more young people leaving school and training early (see Annex 12). Together, these three factors further contribute to the population not having the right skills for an evolving economy. The mismatches also increase high youth unemployment, hindering social cohesion. Existing vacancies often fail to align with the skills of available young workers and the young unemployed (see Annex 10). A large proportion of unemployed young people have low skill levels, which makes them less able to compete in a labour market that is increasingly dominated by a more educated workforce. Although fewer highly skilled young people are unemployed, four in ten have little chance of finding work ([18]).

The lack of a proper skills anticipation mechanism has a negative impact on career choices and labour market matching. The lack of a reliable forecast of future market needs, to inform students of career prospects and to adapt the higher education offer to labour market needs, results in many qualified young people

([16]) Flash Eurobarometer.

([17]) Portugal- 2023 Skills forecast | European Centre for the Development of Vocational Training.

([18]) Jovens à procura de emprego inscritos no IEFP: Características, trajetórias e colocações

remaining unemployed for a long time or simply seeking better opportunities abroad. The proportion of migrant youth registered as unemployed has also increased significantly from 2022 to 2023 and nearly half of migrant workers with higher education are overqualified for the jobs they occupy. This further aggravates skills mismatches and destabilises labour market dynamics.

Portugal has successfully addressed overall segmentation of the labour market. It restricted the use of fixed-term and temporary work agency contracts, compared with the OECD average ([19]). Despite these improvements, young people still face precarious employment conditions, which determine their career possibilities, further education pathways and chances of starting an independent life.

By focusing on education, skills development and labour market integration, public policies could reduce skills mismatches and boost Portugal's competitiveness. Portugal's recovery and resilience plan is supporting the creation of tertiary education options and the participation of people in courses and programmes for adult learning. However, further incentives could get more people and businesses engaged in lifelong training for upskilling and reskilling. It would be easier to include young people in the labour market and tackle youth unemployment if concrete and sustainable partnership-based reforms were made, alongside agreements between decision makers, social partners and stakeholders. More policy efforts could help integrate migrant youth into the labour market. This would promote social cohesion and help mitigate the ageing of the Portuguese workforce and labour shortages.

([19]) OECD Data Explorer.

Public sector labour shortages could have a negative impact on the quality of public services. First, in the national health service, the country faces a heavy emigration of nurses (e.g., in 2023, 60% of the graduates that registered in the professional association of nurses intended to emigrate([20]) and between 2020 and 2024 only about half of the positions opened to recruit doctors were filled (see Annex 14). Although Portugal has a high prevalence of mental health disorders with an impact on the well-being of its population and consequently significant productivity losses ([21]), the national health service does not have enough professionals to provide accessible mental health care. Second, there are too few teachers and the gap is expected to get worse in the near future. This is due to several factors, including the fact there are fewer new teachers graduating and that half of current teachers are over 50 years old, with only a small fraction under the age of 30 ([22]). The career's lack of attractiveness is one of the reasons why fewer people want to become teachers. Third, the tax authorities are facing a similar situation, with more than half of their employees expected to retire in the coming years. Lastly, Portugal's justice system also has too few court clerks, who are essential for it to operate properly.

Portugal would benefit from closing these public sector labour shortages. It would be beneficial to simplify recruitment procedures to enable the timely recruitment of the necessary staff, and to continue promoting the attractiveness of public sector careers for the profiles where

([20]) 60% dos enfermeiros portugueses pediram declaração para emigrar em 2023 - CNN Portugal

([21]) https://www.oecd.org/en/publications/portugal-country-health-profile-2023_069af7b1-en.html.

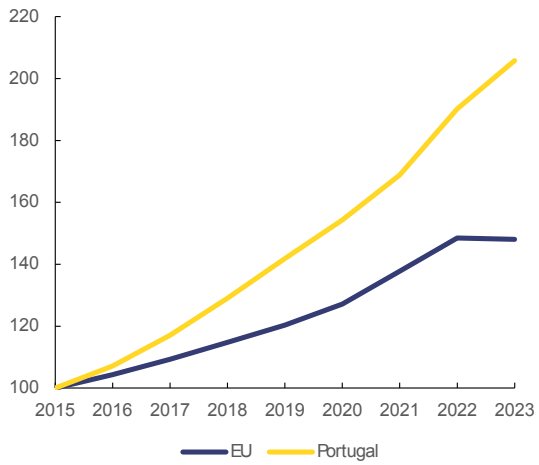
([22]) Estado da Educação 2023 - Conselho Nacional de Educação.

shortages are most severe, following efforts of recent years. Furthermore, to tackle teacher shortages, the number of people choosing to study teaching would need to increase. This could be done by improving career prospects for the profession and by promoting this professional path among students before university. In addition, providing more flexible working conditions could be explored as a way of encouraging young people to join the profession and of incentivising teachers to work in less populated areas.

Tackling housing affordability and accessibility

Higher housing demand in large cities and popular tourism areas aggravates shortages of affordable housing and undermines social cohesion. Among the more affected groups are young people, low- and middle-income families and disadvantaged persons. They face rising rental prices and are unable to buy property due to high interest rates and housing prices. Between 2015 and 2023, housing prices in Portugal increased by 105.8% (compared with 48.1% in the EU) ([23]). High housing prices relative to income contribute to the fact that Portuguese young people leave their parents' home later than EU average. Middle-income families find it increasingly difficult to save up for and purchase homes, increasing their risk of falling into poverty (see Annex 11). This impacts on labour availability and negatively affects competitiveness, since higher housing costs limit the possibilities of businesses and public bodies to attract and retain qualified workers. In addition, higher housing costs weigh on households' budgets, savings and their capacity to invest.

Graph 4.1: **House price index (2015=100)**



Source: Eurostat

The current social and affordable housing stock is insufficient to meet demand. Despite efforts under the Portuguese recovery and resilience plan and cohesion policy, along with other government investments expected to increase the housing stock by 2030, there is not enough social and affordable housing (see Annex 11). Affordable housing shortages and rising rental prices have also increased homelessness, which has put additional pressure on social services. A higher proportion of people struggle to keep their homes adequately warm in Portugal than the EU average (see Annex 11). Measures and investments for housing and buildings to be financed under the European Social Climate Fund can target the most vulnerable groups and help cushion the impact of the green transition's costs on these groups.

Portugal could benefit from further action to alleviate housing cost pressures on households, particularly by increasing affordable and social housing stock, including in the Azores and Madeira. A

([23]) Housing in Europe – 2023 edition - Interactive publications - Eurostat

comprehensive review of existing housing policies and their efficiency would help identify what is working and where shortcomings remain. Bringing vacant dwellings back onto the market, together with renovating those not ready to be immediately inhabited, could help increase the supply of affordable housing, especially in constrained areas. Linked to the previous section, promoting more efficient public transport and improving the public transport network would make it easier for people to commute from suburban and rural areas, increase the attractiveness of other areas and reduce pressure on major urban centres.

Social pressures go beyond housing affordability, with poverty levels persisting due to the limited effectiveness of the social protection system. Compared to the EU average, Portugal has a lower percentage of the population in severe material and social deprivation (4.3%, against 6.4% in the EU) ([24]), and at risk of poverty and social exclusion (19.7%, against 21% in the EU) ([25]). However, social benefits (excluding pensions) have limited effectiveness in reducing poverty, and high housing costs add pressure to the 2030 poverty reduction target under the European pillar of social rights action plan. The efficiency of the social benefits system is undermined by overlapping benefits targeting the same objective. The single social benefit reform included in the Portuguese recovery and resilience plan still needs to be implemented but is then expected to improve the current situation. At the same time, workers with non-standard contracts, such as very short-term or hourly contracts, do not have access to some social benefits, including benefits related to unemployment and occupational illness. In addition, the adequacy of the minimum income scheme is still limited (see Annex 11).

([24]) Living conditions in Europe - material deprivation and economic strain - Statistics Explained.

([25]) Living conditions in Europe - poverty and social exclusion - Statistics Explained.

Preparedness for a rapidly ageing population

A rapidly ageing population threatens the sustainability of the pensions system and requires improved long-term care solutions. Almost a quarter of the Portuguese population is aged 65 or over, which could impact the sustainability of the pensions system (see Section 1 for an analysis of the impact of ageing on public finances sustainability). At the same time, there is a need to improve long-term care services to provide for the needs of older people. Portugal's per-capita public investment in long-term care is three times lower than the EU average and Portugal is below the EU average for the number of years of healthy life of its population. Access to home care remained at around half the EU average in 2022. Despite improvements, coverage rates in long-term care remain low across all regions, with even greater disparities in rural and remote areas, as well as in the Azores and Madeira. The number of carers has increased, but the size of the workforce is still insufficient to cope with the growing demand for care, resulting in a strong reliance on informal carers (see Annex 11). Implementing the action plan for the national strategy for long-term care would help meet the growing demand for services and address staff shortages. Portugal could also benefit from improving the coverage of the independent life support model (MAVI), a scheme co-financed by the European Social Fund Plus to promote the independent

living of people with disabilities and incapacity so that they can lead an independent, self-determined life.

KEY FINDINGS

To foster competitiveness, sustainability and social fairness, Portugal would benefit from:

- **accelerating the implementation of the RRP,** including the REPowerEU chapter; swiftly implementing cohesion policy, taking advantage of the opportunities under the mid-term review; and making optimal use of EU instruments, including InvestEU and STEP, to improve competitiveness;

- **taking action to mitigate the impact of ageing on the sustainability of the pension system** and the provision of long-term care;

- **fostering a business environment that is conducive to the growth of innovative and disruptive firms** by supporting investments in productivity-enhancing research and innovation, including net-zero technologies, promoting access to venture capital and private equity for firms, and removing barriers and disincentives to business expansion and scale-up;

- **simplifying administrative and regulatory barriers for businesses** by streamlining administrative and regulatory requirements, simplifying and shortening industrial permitting and licensing procedures, deploying evidence-based policy evaluations, improving and increasing transparency of stakeholders' involvement in policy making, further reducing late payments and further improving the efficiency of the justice system;

- **strengthening the capacity of the electricity transmission and distribution grid** by simplifying the grid's permitting framework, releasing unused capacity and increasing grid transparency to incentivise investments in the national network;

- **making further progress towards decarbonisation by fostering the deployment of renewables** by simplifying the licensing process and training staff in permitting procedures**,** and making the cost of renewable energy more stable and predictable;

- **taking concrete steps to phase out fossil fuel subsidies** and reducing reliance on fossil fuels particularly in the transport sector;

- **improving water governance to strengthen climate adaptation** by implementing a strategy for integrated and sustainable water management, improving monitoring, reducing leaks, tackling waste-water collection and treatment and water re-use;

- **tackling skill mismatches** by investing in skills development and lifelong learning and making them more relevant to the needs of the labour market, and by providing

young people with quality employment conditions;

- **addressing labour shortages in critical public sector areas**, including healthcare, education and the justice system, by simplifying recruitment procedures and promoting the attractiveness of these careers;

- **improving housing affordability and accessibility** by targeting vacant and derelict buildings in high-demand areas by addressing shortages of social and affordable housing and by promoting efficient public transport connections that improve the attractiveness of other territories and reduce the pressure in high demand areas.

ANNEXES

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ANNEX 1: FISCAL SURVEILLANCE AND DEBT SUSTAINABILITY

This Annex contains a series of tables relevant for the assessment of the fiscal situation in Portugal, including how Portugal is responding to Council recommendations issued under the reformed Economic Governance Framework.

The reformed framework, which entered into force on 30 April 2024([26]), aims to strengthen debt sustainability and promote sustainable and inclusive growth through growth-enhancing reforms and priority investments. The medium-term fiscal-structural plans (hereinafter, MTPs or plans) constitute the cornerstone of the framework, setting the budgetary commitment of Member States over the medium term. The latter is defined in terms of net expenditure growth, which is the single operational indicator for fiscal surveillance.

Portugal submitted its plan on 11 October 2024. The plan covers the period until 2028, presenting a fiscal adjustment over four years. On 21 January 2025, the Council adopted the Recommendation endorsing Portugal's plan.([27])

The assessment of the implementation of the Council Recommendation endorsing Portugal's plan is carried out on the basis of outturn data from Eurostat and the Commission Spring 2025 Forecast and taking into account the Annual Progress Report (APR), that Portugal submitted on 30 April 2025. Furthermore, given Portugal's request to activate the National Escape Clause ([28]) following the Commission Communication of 19 March 2025([29]), the assessment also considers, as appropriate, the projected increase in defence expenditure based on the Commission Spring 2025 Forecast.

The Annex is organised as follows. First, developments in **government deficit and debt** are presented based on the figures reported in Table A1.1. Then, the assessment of the **implementation of the Council Recommendation endorsing the plan** follows, based on the relevant figures presented in Tables A1.2 to A1.9, including data on defence expenditure.

The Annex also provides information on the cost of ageing and the national fiscal framework. Fiscal sustainability risks are discussed in the Debt Sustainability Monitor 2024.([30])

([26]) Regulation (EU) 2024/1263 of the European Parliament and of the Council (EU) on the effective coordination of economic policies and on multilateral budgetary surveillance, together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure, and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States are the core elements of the reformed EU economic governance framework.

([27]) OJ C, C/2025/641, 10.02.2025, ELI: http://data.europa.eu/eli/C/2025/641/oj

([28]) On 30 April 2025, Portugal requested to the Commission and to the Council the activation of the National Escape Clause. On this basis, the Commission adopted a Recommendation for a Council Recommendation allowing Portugal to deviate from, and exceed, the net expenditure path set by the Council COM(2025) 612.

([29]) Communication from the Commission accommodating increased defence expenditure within the Stability and Growth Pact of 19 March 2025, C(2025) 2000 final.

([30]) Commission (2025) 'Debt Sustainability Monitor 2024,' *European Economy-Institutional Papers* 306.

Developments in government deficit and debt

Portugal's government surplus amounted to 0.7% of GDP in 2024. Based on the Commission Spring 2025 Forecast, it is projected to decrease to 0.1% of GDP in 2025. The government debt-to-GDP ratio amounted to 94.9% at the end of 2024 and, according to the Commission, is projected to decrease to 91.7% end-2025. The debt ratio has declined by almost 40 pps. of GDP since its 2020 historical peak on the back of favourable interest-growth-rate differentials and primary surpluses.

Table A1.1: **General government balance and debt**

	Variables		2024	2025		2026	
			Outturn	APR	COM	APR	COM
1	General government balance	% GDP	0,7	0,3	0,1	n.a.	-0,6
2	General government gross debt	% GDP	94,9	91,5	91,7	n.a.	89,7

Source : Commission Spring 2025 Forecast (COM), Annual Progress Report (APR)

Developments in net expenditure

The net expenditure([31]) growth of Portugal in 2025 is forecast by the Commission([32]) to be above the recommended maximum, corresponding to a deviation of 0.4% of GDP. Considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also projected above the recommended maximum cumulative growth rate, corresponding to a deviation of 0.5% of GDP. According to Portugal's APR, the net expenditure growth, for both 2025 and cumulative for 2024 and 2025, is forecast to be above the recommended maximum. The differences are explained by the Commission's forecast of lower expenditure funded by transfers from the EU in 2025. Another driver of the differences is the higher negative impact of discretionary revenue measures estimated by the Commission forecast in 2024, particularly measures related to the personal income tax.

([31]) Net expenditure is defined in Article 2(2) of Regulation (EU) 2024/1263 as government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-off and other temporary measures.

([32]) Commission Spring 2025 Forecast, *European Economy-Institutional paper 318*, May 2025.

Table A1.2: **Net expenditure growth**

	Annual			Cumulative*		
	REC	APR	COM	REC	APR	COM
	Growth rates					
2024	n.a.	11,6%	12,0%	n.a.	n.a.	n.a.
2025	5,0%	3,4%	6,1%	17,4%	15,3%	18,8%
2026	5,1%	n.a.	6,3%	23,4%	n.a.	26,3%

* The cumulative growth rates in the APR are calculated by reference to the base year of 2023.
Source: Council Recommendation endorsing the national medium-term fiscal-structural plan of Portugal (Rec), Annual Progress Report (APR) and Commission's calculation based on Commission Spring 2025 Forecast (COM).

The assessment of the net expenditure growth and in particular the comparison with the recommended net expenditure path considers that Portugal has requested the activation of the national escape clause to facilitate transitioning to a higher level of defence expenditure. General government defence expenditure in Portugal remained stable at 0.8% of GDP between 2021 and 2023([33]). According to the Commission 2025 Spring Forecast, expenditure on defence is projected at 0.8% of GDP in 2024 and 2025. The projected cumulated deviation after taking into account the flexibility provided by the national escape clause for defence spending is below the threshold of 0.6% of GDP.

Table A1.3: **Net expenditure (outturn and forecast), annual and cumulated deviations vis-à-vis the recommendation**

	Variables		2023	2024	2025	2026
			Outturn	Outturn	COM	COM
1	Total expenditure	bn NAC	113,4	122,0	131,8	140,8
2	Interest expenditure	bn NAC	5,5	5,9	6,4	7,0
3	Cyclical unemployment expenditure	bn NAC	0,1	0,1	0,1	0,1
4	Expenditure funded by transfers from the EU	bn NAC	3,7	3,0	6,2	7,9
5	National co-financing of EU programmes	bn NAC	0,6	0,4	0,5	0,5
6	One-off expenditure (levels, excl. EU funded)	bn NAC	1,3	0,0	0,0	0,0
7=1-2-3-4-5-6	**Net nationally financed primary expenditure (before discretionary revenue measures, DRM)**	**bn NAC**	**102,1**	**112,6**	**118,5**	**125,4**
8	Change in net nationally financed primary expenditure (before DRM)	bn NAC		10,4	5,9	6,9
9	DRM (excl. one-off revenue, incremental impact)	bn NAC		-1,8	-0,9	-0,5
10=8-9	**Change in net nationally financed primary expenditure (after DRM)**	**bn NAC**		**12,3**	**6,8**	**7,4**
11	Outturn / forecast net expenditure growth	% change		12,02%	6,1%	6,3%
12	Recommended net expenditure growth*	% change		11,8%	5,0%	5,1%
13=(11-12) x 7	Annual deviation	bn NAC		0,2	1,2	1,4
14 (cumulated from 13)	Cumulated deviation	bn NAC		0,2	1,4	2,8
15=13/17	**Annual balance**	**% GDP**		**0,1**	**0,4**	**0,4**
16=14/17	**Cumulated balance**	**% GDP**		**0,1**	**0,5**	**0,9**
17	p.m. Nominal GDP	bn NAC	267,9	285,2	299,2	312,8

* The growth rate for 2024 is not a recommendation but serves to anchor the base, as the latest year with outturn data when setting the net expenditure path is year 2023.
Source: Commission Spring 2025 Forecast and Commission's calculation

([33]) Eurostat, government expenditure by classification of functions of government (COFOG).

Table A1.4: **Defence expenditure and the national escape clause**

			2021	2022	2023	2024	2025	2026
1	Total defence expenditure	%GDP	0,8	0,8	0,8	0,8	0,8	0,8
2	*of which: gross fixed capital formation*	%GDP	0,1	0,1	0,1	0,1	0,1	0,1
3	Flexibility from increases in defence expenditure	%GDP					0,0	0,0
4	**Cumulated balance after flexibility**	**% GDP**					**0,5**	**0,9**

Source: Eurostat (COFOG), Commission Spring 2025 Forecast and Commission's calculation

Table A1.5: **Macroeconomic developments and forecasts**

	Variables		2024	2025		2026	
			Outturn	APR	COM	APR	COM
1=7+8+9	**Real GDP**	**% change**	**1,9**	**2,4**	**1,8**	**n.a.**	**2,2**
2	Private consumption	% change	3,2	2,4	3,2	n.a.	2,8
3	Government consumption expenditure	% change	1,1	1,7	1,2	n.a.	1,2
4	Gross fixed capital formation	% change	3,0	4,4	3,5	n.a.	4,3
5	Exports of goods and services	% change	3,4	2,2	1,7	n.a.	2,8
6	Imports of goods and services	% change	4,9	2,8	4,3	n.a.	4,1
	Contributions to real GDP growth						
7	- Final domestic demand	pps	2,7	2,7	2,9	n.a.	2,8
8	- Change in inventories	pps	-0,1	0,0	0,0	n.a.	0,0
9	- Net exports	pps	-0,7	-0,3	-1,1	n.a.	-0,5
10	Output gap	% pot GDP	0,7	0,6	0,2	n.a.	0,4
11	Employment	% change	1,6	0,6	1,0	n.a.	0,9
12	Unemployment rate	%	6,5	6,4	6,4	n.a.	6,3
13	Labour productivity	% change	0,3	1,8	0,7	n.a.	1,3
14	HICP	% change	2,7	2,4	2,1	n.a.	2,0
15	GDP deflator	% change	4,4	2,7	3,1	n.a.	2,2
16	Compensation of employees per head	% change	8,0	4,9	4,9	n.a.	4,0
17	Net lending/borrowing vis-à-vis the rest of the world	% GDP	2,9	n.a.	2,4	n.a.	2,0

Source: Commission Spring 2025 Forecast (COM), Annual Progress Report (APR)

Table A1.6: **General government budgetary position**

	Variables (% GDP)	2024	2025		2026	
		Outturn	APR	COM	APR	COM
1=2+3+4+5	**Revenue**	**43,5**	**44,4**	**44,2**	**n.a.**	**44,4**
	of which:					
2	- Taxes on production and imports	14,6	14,6	14,7	n.a.	14,7
3	- Current taxes on income, wealth, etc.	10,3	9,7	9,9	n.a.	9,8
4	- Social contributions	12,6	12,7	12,7	n.a.	12,7
5	- Other (residual)	6,0	7,4	6,9	n.a.	7,3
8=9+16	**Expenditure**	**42,8**	**44,1**	**44,0**	**n.a.**	**45,0**
	of which:					
9	- Primary expenditure	40,7	41,9	41,9	n.a.	42,8
	of which:					
10	- Compensation of employees	10,6	10,7	10,8	n.a.	10,8
11	- Intermediate consumption	5,2	5,4	5,2	n.a.	5,2
12	- Social payments	18,2	17,9	18,2	n.a.	18,4
13	- Subsidies	0,8	0,6	0,6	n.a.	0,6
14	- Gross fixed capital formation	2,7	3,5	3,7	n.a.	4,2
15	- Other	3,2	3,8	3,4	n.a.	3,5
16	- Interest expenditure	2,1	2,2	2,1	n.a.	2,2
18=1-8	**General government balance**	**0,7**	**0,3**	**0,1**	**n.a.**	**-0,6**
19=1-9	**Primary balance**	**2,8**	**2,4**	**2,3**	**n.a.**	**1,7**
20	Cyclically adjusted balance	0,3	n.a.	0,0	n.a.	-0,8
21	One-offs	0,0	-0,1	0,0	n.a.	0,0
22=20-21	**Structural balance**	**0,3**	**0,1**	**0,0**	**n.a.**	**-0,8**
23=22+16	Structural primary balance	2,4	2,3	2,1	n.a.	1,4

Source: Commission Spring 2025 Forecast (COM), Annual Progress Report (APR)

Table A1.7: **Debt developments**

	Variables	2024	2025		2026	
		Outturn	APR	COM	APR	COM
1	**Gross debt ratio* (% of GDP)**	**94,9**	**91,5**	**91,7**	**n.a.**	**89,7**
2=3+4+8	Change in the ratio (pps. of GDP)	-2,8	-3,4	-3,2	n.a.	-2,1
	Contributions**					
3	**Primary balance**	**-2,8**	**-2,4**	**-2,3**	**n.a.**	**-1,7**
4=5+6+7	**'Snow-ball' effect**	**-3,9**	**-2,4**	**-2,3**	**n.a.**	**-1,7**
	of which:					
5	- Interest expenditure	2,1	2,2	2,1	n.a.	2,2
6	- Real growth effect	-1,8	-2,2	-1,6	n.a.	-2,0
7	- Inflation effect	-4,1	-2,4	-2,9	n.a.	-2,0
8	**'Stock-flow' adjustment**	**3,8**	**1,4**	**1,4**	**n.a.**	**1,3**

* End of period.

** The 'snow-ball' effect captures the impact of interest expenditure on accumulated general government debt, as well as the impact of real GDP growth and inflation on the general government debt-to-GDP ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting (including leads and lags in Recovery and Resilience Facility grant disbursements), accumulation of financial assets, and valuation and other residual effects.

Source: Commission Spring 2025 Forecast and Commission's calculation (COM), Annual Progress Report (APR)

Table A1.8: **RRF – Grants**

	Revenue from RRF grants (% of GDP)							
		2020	2021	2022	2023	2024	2025	2026
1	RRF grants as included in the revenue projections	n.a.	0,0	0,2	0,6	0,7	2,3	1,7
2	Cash disbursements of RRF grants from EU	n.a.	0,8	0,2	1,4	0,8	1,3	1,2

	Expenditure financed by RRF grants (% of GDP)							
		2020	2021	2022	2023	2024	2025	2026
3	Total current expenditure	0,0	0,0	0,1	0,1	0,2	0,8	0,6
4	Gross fixed capital formation	0,0	0,0	0,1	0,1	0,2	0,9	0,7
5	Capital transfers	0,0	0,0	0,0	0,3	0,3	0,5	0,4
6=4+5	Total capital expenditure	0,0	0,0	0,1	0,5	0,5	1,4	1,1

	Other costs financed by RRF grants (% of GDP)							
		2020	2021	2022	2023	2024	2025	2026
7	Reduction in tax revenue	0,0	0,0	0,0	0,0	0,0	0,0	0,0
8	Other costs with impact on revenue	0,0	0,0	0,0	0,0	0,0	0,0	0,0
9	Financial transactions	0,0	0,0	0,0	0,0	0,0	0,0	0,0

Source: Annual Progress Report

Table A1.9: **RRF - Loans**

	Cash flow from RRF loans projected in the Plan (% of GDP)							
		2020	2021	2022	2023	2024	2025	2026
1	Disbursements of RRF loans from EU	n.a.	0,2	0,2	0,3	0,4	0,4	0,6
2	Repayments of RRF loans to EU	n.a.	0,0	0,0	0,0	0,0	0,0	0,0

	Expenditure financed by RRF loans (% of GDP)							
		2020	2021	2022	2023	2024	2025	2026
3	Total current expenditure	0,0	0,0	0,0	0,0	0,0	0,0	0,0
4	Gross fixed capital formation	0,0	0,0	0,0	0,0	0,0	0,1	0,4
5	Capital transfers	0,0	0,0	0,0	0,0	0,1	0,2	0,5
6=4+5	Total capital expenditure	0,0	0,0	0,0	0,0	0,1	0,3	0,9

	Other costs financed by RRF loans (% of GDP)							
		2020	2021	2022	2023	2024	2025	2026
7	Reduction in tax revenue	0,0	0,0	0,0	0,0	0,0	0,0	0,0
8	Other costs with impact on revenue	0,0	0,0	0,0	0,0	0,0	0,0	0,0
9	Financial transactions	0,0	0,0	0,1	0,0	0,1	0,2	0,1

Source: Annual Progress Report

Cost of ageing

Total age-related spending in Portugal is projected to rise from a little over 23% of GDP in 2024 to about 26.5% in 2040, followed by a decline to just below 23% in 2070 (see Table A1.10**).** The small overall decline by 2070 is due to pension expenditure, with spending on long-term care and, especially, healthcare expected to rise.

Public pension spending is projected to increase in the medium term but to start declining steadily thereafter. Starting with a projected 12.7% of GDP in 2024, between 2024 and 2040, pension expenditure is expected to rise by 2 pps of GDP, peaking in 2046 at 2.5 pps above the current level. In the longer term, spending would fall again, though, with a projected decrease of 2.3 pps by 2070 compared to the 2024 level.

Public healthcare ([34]) expenditure is projected at 5.9% of GDP in 2024 (below the EU average of 6.6%) and is expected to increase by 0.8 pps by 2040 and by a further 0.5 pps by 2070. This increase in healthcare expenditure contributes significantly to fiscal risks. The Portuguese RRP includes reforms and investments that aim to improve the cost-effectiveness of the health system. For example, the new performance-based management contract template for managers in state-owned enterprises in the National Health System (NHS) aims to tackle persistent budgetary overspends. Also, a new referral mechanism has been set up to direct inappropriate or avoidable cases from emergency services in NHS hospitals to primary healthcare services.

Public expenditure on long-term care ([35]) is projected at 0.5% of GDP in 2024 (below the EU average of 1.7%) and is expected to increase by 0.3 pps of GDP by 2040 and by a further 0.1 pp of GDP by 2070.

Table A1.10: **Projected change in age-related expenditure in 2024-2040 and 2024-2070**

	age-related expenditure 2024 (% GDP)	change in 2024-2040 (pps GDP) due to: pensions	healthcare	long-term care	education	total	age-related expenditure 2040 (%GDP)	
PT	23.3	2.0	0.8	0.3	0.0	**3.1**	26.4	PT
EU	24.3	0.5	0.3	0.4	-0.3	**0.9**	25.2	EU

	age-related expenditure 2024 (% GDP)	change in 2024-2070 (pps GDP) due to: pensions	healthcare	long-term care	education	total	age-related expenditure 2070 (%GDP)	
PT	23.3	-2.3	1.3	0.4	0.1	**-0.4**	22.8	PT
EU	24.3	0.2	0.6	0.8	-0.4	**1.3**	25.6	EU

Source: 2024 Ageing Report (EC/EPC).

National fiscal framework

The Portuguese Public Finance Council (CFP) is a relatively well-resourced independent fiscal institution with a fairly wide mandate. The CFP has access to information governed by MoUs and pursues a communication strategy. While the funding level currently is sufficient, hiring decisions need to be pre-authorized by the Ministry of Finance whenever it leads to an increase in the total number of staff of the CFP, which is a provision restraining CFP autonomy.

The planning of public investment has recently improved, but good practices are still limited to a few sectors. The national investment programme provides guidance for public investment allocation over a 10-year period covering all financing sources (EU, national and others). Ongoing efforts to integrate this 10-year investment plan, which includes the EU Partnership Agreement with Portugal ('*Portugal 2030*'), into the medium-term budgetary framework are critical for its effectiveness. A common methodology for project assessment is currently only used for a limited number of sectors (e.g. public order and safety, agriculture). These sectors also benefit from central support for training on development and implementation of assessment methodologies, which could be shared with other sectors. Only a few sectors (e.g. tertiary education) benefit from an independent review of the quality and objectivity of assessments.

([34]) Key performance characteristics, recent reforms and investments are discussed in Annex 11 'Health and health systems'.

([35]) The quality and the accessibility of the long-term care system are covered in Annex 9 'Social policies'.

Table A1.11: **Fiscal Governance Database Indicators**

2023	Portugal	EU Average
Country Fiscal Rule Strength Index (C-FRSI)	17,40	14,52
Medium-Term Budgetary Framework Index (MTBFI)	0,72	0,73

The Country Fiscal Rule Strength Index (C-FRSI) shows the strength of national fiscal rules aggregated at the country level based on i) the legal base, ii) how binding the rule is, iii) monitoring bodies, iv) correction mechanisms, and v) resilience to shocks. The Medium-Term Budgetary Framework Index (MTBFI) shows the strength of the national MTBF based on i) coverage of the targets/ceilings included in the national medium-term fiscal plans; ii) connectedness between these targets/ceilings and the annual budgets; iii) involvement of the national parliament in the preparation of the plans; iv) involvement of independent fiscal institutions in their preparation; and v) their level of detail. A higher score is associated with higher rule and MTBF strength.

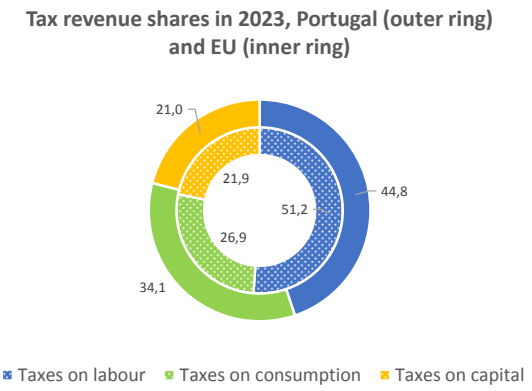
Source: Fiscal Governance Database

This annex provides an indicator-based overview of Portugal's tax system. It includes information on: (i) the tax mix; (ii) competitiveness and fairness aspects of the tax system; and (iii) tax collection and compliance.

The weight of consumption taxes in the Portuguese tax mix has decreased since the COVID-19 pandemic. In 2023, Portugal obtained 34.1% of its tax revenues from consumption taxes (Graph A2.1), 2.4 pps less than in 2019. This decrease is largely explained by government support measures in the context of the energy crisis, which have been gradually phased-out in the last two years. The relatively high VAT actionable policy gap (22.2% in 2022, 3.2 pps above the EU average) reflects the extended use of reduced rates and exemptions in the VAT system ([36]). Capital taxes amounted to 21.0% of total tax revenues, broadly stable compared with recent years. Conversely, the share of labour-tax revenues has increased significantly (rising from 42.8% of the total in 2019 to 44.8% in 2023), on the back of strong job creation. Despite this rapid increase in labour-tax revenues, when compared with the EU-27 average, labour-tax revenues in Portugal are still low when expressed as a share of GDP (16.0% of GDP, 4.0 pps below the EU average). Portugal has a comparatively low implicit tax rate on labour (30.5% in 2023, 6.5 pps below the EU average)([37]), reflecting the prominence of tax expenditures, including preferential regimes, in personal income taxation (see further below).

Revenues from environmental and property taxes are falling. Portugal's revenues from environmental taxes have decreased from the equivalent of 2.6% of GDP in 2019 to 2.0% in 2023. Despite this decrease, the share remains in line with the EU aggregate. Revenues from pollution and resources taxes are increasing (from 0.7% of total revenues from environmental taxes in 2019 to 1.9% in 2023) but remain comparatively low as a share of GDP. Property tax revenues decreased slightly between 2019 and 2023, falling from the equivalent of 2.2% of GDP to 2.1%, and are in line with the EU-27. However, revenues from recurrent immovable property taxes remain comparatively low (equivalent to 0.6% of GDP in 2023, against 0.9% in the EU-27).

Graph A2.1: **Tax revenue shares in 2023**



Source: Taxation Trends Data, DG TAXUD

The complexity of the corporate income tax (CIT) structure may be hampering Portugal's competitiveness. The CIT rate of a company in Portugal can vary from 12.5% (for legal recognised startups that invest in R&D activities) to 30.5% of its taxable income depending on its size and location. The latter rate is the second highest top rate of CIT in the EU-27, despite its recent reduction by one percentage point. This high variability is the result of the confluence of state and municipal surcharges, and it could be influencing businesses' decisions on location and growth while hindering economies of scale. Portugal has a comparatively high effective average CIT rate (23.9% in 2023, 5.0 pps above the EU-27 average). Portugal ranks 22 out of the 27 Member States in the tax complexity index ([38]), which suggests that there may be areas for improvement both in the structure of the tax

([36]) VAT Gap in the EU, 2024 Report. In 2022, the VAT policy gap remained stable, but its structure followed the pattern observed in many other countries, with an increasing VAT rate gap and a decreasing VAT exemption gap.

([37]) Implicit tax rate [tax_itr], Taxation Trends Data 2025.

([38]) Global MNC Tax Complexity Project. The 'tax complexity index' measures the complexity of a country's corporate income tax system as faced by multinational corporations.

Table A2.1: **Taxation indicators**

		Portugal					EU-27				
		2010	2021	2022	2023	2024	2010	2021	2022	2023	2024
Tax structure	Total taxes (including compulsory actual social contributions) (% of GDP)	30,4	35,1	35,9	35,7		37,8	40,2	39,7	39,0	
By tax base	Taxes on labour (% of GDP)	12,5	16,0	15,8	16,0		19,8	20,5	20,1	20,0	
	of which, social security contributions (SSC, % of GDP)	8,6	10,4	10,2	10,4		12,9	13,0	12,7	12,7	
	Taxes on consumption (% of GDP)	11,3	12,4	12,5	12,2		10,9	11,2	10,9	10,5	
	of which, value added taxes (VAT, % of GDP)	7,6	8,9	9,4	9,0		6,8	7,3	7,4	7,1	
	Taxes on capital (% of GDP)	6,5	6,7	7,6	7,5		7,1	8,5	8,7	8,5	
Some tax types	Personal income taxes (PIT, % of GDP)	5,4	6,9	6,9	6,9		8,6	9,6	9,4	9,3	
	Corporate income taxes (CIT, % of GDP)	2,7	2,4	3,3	3,4		2,2	2,9	3,2	3,2	
	Total property taxes (% of GDP)	1,7	2,3	2,3	2,1		1,9	2,2	2,1	1,9	
	Recurrent taxes on immovable property (% of GDP)	0,6	0,7	0,7	0,6		1,1	1,1	1,0	0,9	
	Environmental taxes (% of GDP)	2,4	2,3	1,9	2,0		2,5	2,4	2,1	2,0	
	Effective carbon rate in EUR per tonne of CO_2 equivalents	NA	85,7	NA	80,3		NA	86,0	NA	84,8	
Progressivity & fairness	Tax wedge at 50% of average wage (single person) (*)	28,1	28,1	28,1	29,8	29,7	33,9	31,8	31,5	31,5	31,8
	Tax wedge at 100% of average wage (single person) (*)	36,4	40,7	40,9	41,1	39,4	40,9	39,9	39,9	40,2	40,3
	Corporate income tax - effective average tax rates (1) (*)	28,4	23,9	23,9	23,9		21,3	19,3	19,1	18,9	
	Difference in Gini coefficient before and after taxes and cash social transfers (pensions excluded from social transfers) (2) (*)	8,4	8,4	8,3	8,0		8,6	8,2	7,9	7,7	
Tax administration & compliance	Outstanding tax arrears: total year-end tax debt (including debt considered not collectable) / total revenue (in %) (*)		45,6	41,8				35,5	32,6		
	VAT gap (% of VAT total tax liability, VTTL) (**)		4,1	1,3	2,4			6,6	7,0		

(1) Forward-looking effective tax rate (KPMG).
(2) A higher value indicates a stronger redistributive impact of taxation.
(*) EU-27 simple average.
(**) Forecast value for 2023. For more details on the VAT gap, see European Commission, Directorate-General for Taxation and Customs Union, VAT gap in the EU - 2024 report, https://data.europa.eu/doi/10.2778/2476549
For more data on tax revenues as well as the methodology applied, see the Data on Taxation webpage, https://ec.europa.eu/taxation_customs/taxation-1/economic-analysis-taxation/data-taxation_en.
Source: European Commission, OECD

regulations, and in the way that tax processes are carried out by the tax authorities.

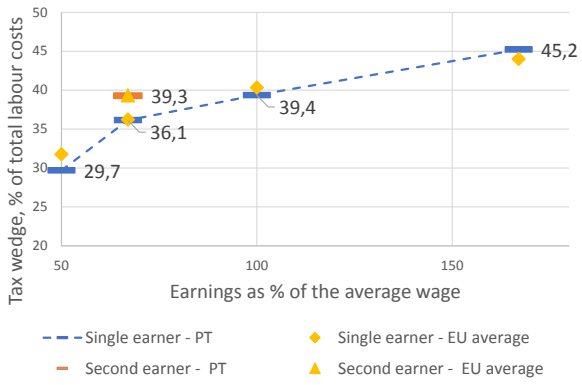
Portugal ranks high in public support for R&D on the back of very generous tax incentives. In 2021 (last available data), public support for R&D was the equivalent of 0.3% of GDP, well above the EU-27 average of 0.2% of GDP. This support was mainly indirect, with tax incentives contributing the equivalent of 0.3% of GDP and direct public financing of business R&D expenditure equivalent to 0.1% of GDP. Portugal's tax credit regime for R&D-related investments ('SIFIDE II') provides generous credits that lead to an implied tax-subsidy rate on R&D expenditures of 35%, the highest in the EU-27 and more than twice the EU-27 average (source: OECD). In addition, the country's revamped 'patent box' regime provides up to an 85% tax exemption (up from a 50% exemption in place until 2022) to income derived from the use of various forms of intellectual property. Despite both preferential schemes, total R&D expenditure in Portugal remains below the EU average.

Portugal's labour-tax rates are somewhat more progressive than the EU average. Graph A2.2 shows that the labour-tax wedge([39]) for Portugal in 2024 was slightly lower than the EU average at 67% and 100% of the average wage. Also, it was more pronouncedly lower than the EU average at 50% of average wage, while being higher than the EU average for high-income earners at 167% of the average wage. This means that the statutory rates were somewhat more progressive (i.e. increasing more at higher incomes) than for the EU average. Accordingly, Portugal's tax and benefit system helped reduce inequality (as measured by the difference in Gini coefficients before and after taxes and benefits, see Table A2.1) by slightly more than the EU average in 2023 (a reduction of 8.0 points in Portugal compared

([39]) The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer).

to a reduction of 7.7 points for the EU average). Despite this, Portugal remains one of the EU countries with the highest inequality after redistribution, as measured by the Gini index (see Annex 9 for further details). Second earners at a wage level of 67% of the average wage, whose spouses earn the average wage, were subject to a tax wedge that was practically equal to the EU average. The tax wedge for second earners in Portugal was clearly higher than the one for single people at the same wage level, but again this difference corresponded to the EU average difference.

Graph A2.2: **Tax wedge for single and second earners as a % of total labour costs, 2024**



(1) The second earner tax wedge assumes a first earner at 100% of the average wage and no children. For the methodology of the tax wedge for second earners, see OECD, 2016, Taxing Wages 2014-2015.
Source: European Commission

Portugal's ability to increase tax revenues is hindered by the proliferation of tax expenditures that are not always socially and economically effective. Tax revenues in Portugal expressed as a percentage of GDP have stabilised at nearly 36%, which is still more than 3 pps below the EU average (Table A2.1). Despite the substantial reduction of this gap during the last decade, the revenue raising-capacity of Portugal's tax system faces significant challenges due to rapid population ageing and the widespread use of tax expenditures. The projected shrinking of the labour force (by 10% between 2024 and 2038, according to the Commission's Ageing Report 2024) is expected to erode labour and consumption tax bases in the coming years. Moreover, pension spending is set to increase by 1.9 pps of GDP in the same period. Foregone revenues from tax expenditures were estimated at 6.4% of GDP in 2023 ([40]). The planned reform in the recovery and resilience plan to streamline tax expenditures could help to rationalise the tax system, make it more resilient, and increase tax receipts. A dedicated tax policy unit (U-TAX) in the Portuguese civil service has been working on this reform since February 2024.

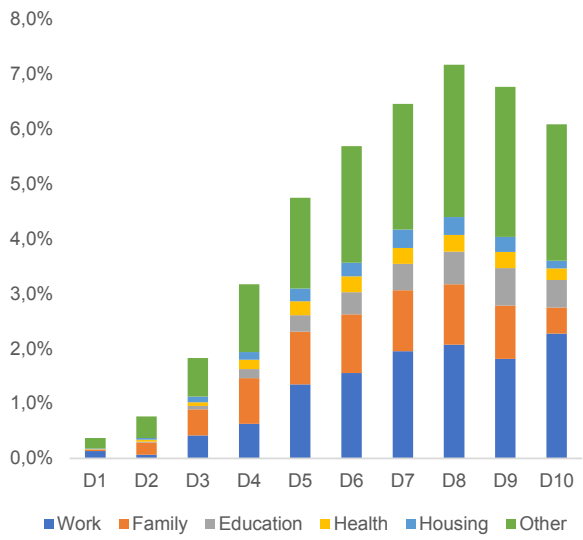
Portugal has two preferential tax regimes in the area of personal income tax (PIT) that have been recently amended. More restrictive rules apply to the 'inpatriate' regime (a scheme to encourage people to move to Portugal) since the 2024 state budget, with the aim of attracting entrepreneurs and high qualified workers correcting some of the distortions prompted by the previous inpatriate regime (including the former regime's side effects on the housing market). Meanwhile, the 2025 State budget has broadened the eligibility of the preferential regime for young workers '*IRS Jovem*'. In particular, it has extended its duration and age limit, and it has increased the income exemption limit that it confers. EUROMOD simulations conducted by the JRC show that this reform boosts disposable income by an average of 0.6%, with the highest gains concentrated in higher-income deciles.

Some tax expenditures in PIT disproportionately benefit higher-income households and increase income inequality. According to EUROMOD simulations conducted by the JRC, the five top deciles in the income distribution are estimated to experience an increase in their mean disposable income by more than 5% thanks to PIT tax expenditures (Graph A2.3) in force. By contrast, gains for the two lowest deciles from these tax expenditures are below 1%, although low-income taxpayers benefit from other measures that are not counted as tax

([40]) Global Tax Expenditure Database (GTED).

expenditures in this study but are rather considered to be part of the basic tax structure. ([41]) Work-related tax expenditures (tax allowances for employees and the self-employed) are the most regressive, followed by pensioner tax allowances and the general-household-expenses tax credit (the 'Other' category in Graph A2.3). This suggests the need to carry out a comprehensive evaluation of tax expenditures as part of the ongoing reform under the recovery and resilience plan.

Graph A2.3: **Percentage change in mean disposable income from PIT tax expenditures, by income decile (2023)**



Source: Estimations performed by the European Commission, Joint Research Centre, with the EUROMOD tax-benefit microsimulation model.
Note: Tax expenditures are categorised into six groups. The 'other' group includes tax expenditures not related to any of the other categories. The percentage change is calculated with a baseline without tax expenditures. The impact of the inpatriate regime, which is not included in the simulations due to technical constrains of EUROMOD, would likely have a significant impact on high income deciles, given the quantitative importance of this tax expenditure (above EUR 1.5 billion in 2023, equivalent of 8% of PIT revenue).

The VAT compliance gap in Portugal substantially improved in 2022 resulting in one of the lowest gaps in the EU. Portugal had an estimated VAT compliance gap of 1.3% of VAT total tax liability in 2022, approximately 3 pps less than in 2021. It was well-below the EU-27 average of 7.0% in 2022, which itself had slightly increased from an average of 6.6% in 2021.

The percentage of outstanding tax arrears in Portugal remains high. At 41.8%, outstanding tax arrears remained among the highest in the EU-27 at the end of 2022, despite a slight reduction from 45.6% in 2021. This rate is above the EU average of 32.6% and remains above the pre-COVID-19 values. In addition, the percentage of tax arrears that is still considered collectable at the end of the year is quite low (29.5.% in 2022). This is explained by

([41]) For a discussion of issues related to the definition of tax expenditures, and some estimations of tax expenditures for all EU Member States see Turrini, A. et al. (2024): "Tax Expenditures in the EU: Recent Trends and New Policy Challenges", European Commission, European Economy Discussion Paper 212. Results for Portugal presented in this Annex differ from those in the note, among other reasons, due to a partial (not full) inclusion of the social security contribution deduction as a work-related tax expenditure, thus allowing cross-country comparability of results.

several legal and procedural constraints, including the fact that 45% of the tax-enforcement processes are related to debts managed by external entities.

Despite recent improvements, the cost-of-tax-collection ratio in Portugal remains high. Despite having decreased significantly in recent years (from 1.1% in 2020 to 0.9% in 2022), Portugal's cost-of-tax-collection ratio remains slightly above the unweighted EU average (0.8%). Salary costs as a share of total tax-collection costs remained comparatively high while ICT operating costs as a share of total tax-collection costs remained low. Some improvements in this area could be made to bring Portugal into line with best practices across the EU, for example, by increasing the digitalisation of the tax administration and working with other Member States to collect unpaid fines.

The relatively old age of workers is an acute challenge for the tax administration. In early 2024, the average age of workers in Portugal's tax administration was one of the highest in the world. 53.0% of the administration's staff are older than 54 and only 8.2% is under 45, with an average age of 54.9. Only 0.8% of the staff have fewer than 5 years of service, and staff turnover is only 2.1% per year. The lack of replacement of workers and the expected retirement of half of all workers over the coming decade are a challenge to the effectiveness of the tax administration.

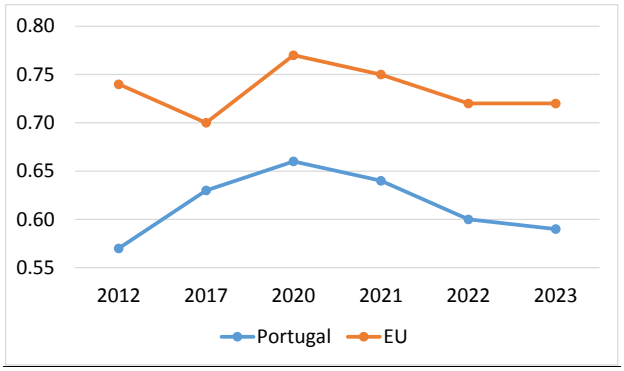
Portugal is rolling out a digital transformation strategy. Portugal is following a strategy for the digital transformation of its tax administration. The ongoing implementation of different measures as part of the recovery and resilience plan is expected to improve the performance of Portugal's tax administration. Taxpayers in Portugal spend less time and effort complying with their tax obligations than they used to thanks to e-filing of tax returns. All CIT, PIT and VAT returns are e-filed. If needed, taxpayers can go to public offices that provide help and in the case of PIT it is possible to use the tax returns pre-filled automatically by the tax authorities.

Portugal struggles to maximise its innovation potential despite growing private sector investment and public support for R&D activities. According to the European Innovation Scoreboard ([42]), Portugal remains a moderate innovator. Its research and innovation performance stood at 83.5% of the EU average in 2024, which is below the moderate innovators' average (84.8%). Portugal's total R&D intensity has been steadily increasing, reaching 1.69% in 2023, against the EU average of 2.24%. However, the country is still far from reaching its own target of 2.4% by 2025, set in its 2021-2030 public R&D investment programme ([43]). The growth in total R&D spending is driven by increasing private sector investment, while public expenditure has been stagnant, thus limiting improvements in the public science base. In addition, despite growing public support for business innovation, innovation output remains weak. Innovation performance is hindered by modest science-business linkages, and access to finance for innovative firms remains an issue. Moreover, due to the limited uptake of advanced digital technologies by enterprises overall, the potential benefits of these technologies to business processes remain unexploited.

Science for innovative ecosystem

Portugal has a strong public research base, but limited public investment holds back excellence. Public expenditure on R&D has been on a declining trend over the last decade and settled at 0.59% in 2023, below the EU average. This trend can be observed especially in the share of R&D investment in the Higher Education Sector as % of GDP, which, despite rates above the EU average for the past 15 years, has been decreasing since 2020. This affects the excellence of the Portuguese public research system, as evidenced by the decreasing share of the country's scientific publications within the top 10% most-cited publications worldwide (8.1% of total publications in 2021, against the EU average of 9.6%). In addition, despite progressive increase in the last decade, Portugal's international co-publications as a percentage of the total number of publications are at 53.2% in 2023, below the EU average of 55.9%. This suggests that there is still room to expand and strengthen international activities in the public research system.

Graph A3.1: **Public expenditure on R&D as a percentage of GDP**



Source: Eurostat

The Portuguese R&I system is characterised by significant differences in R&D investment among the seven Portuguese regions (see also Annex 17)**.** Three regions are emerging innovators (Algarve and the Autonomous regions of Azores and Madeira), three are moderate innovators (North, Centre and Alentejo), while Lisbon is the only 'moderate innovator +', with a performance very close to that of the EU average ([44]). Also,

([42]) 2024 edition of the European Innovation Scoreboard (EIS), Country profile: Portugal. The EIS provides a comparative analysis of innovation performance in EU countries, including the relative strengths and weaknesses of their national innovation systems (also compared to the EU average).

([43]) Adopted by Council of Ministers Resolution 186/2021.

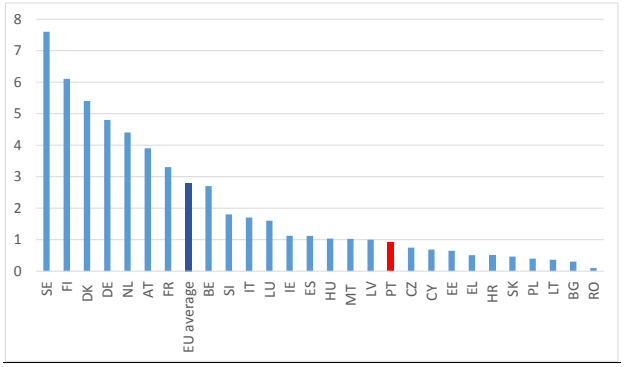
([44]) 2023 Regional Innovation Scoreboard, Country Profile: Portugal .

beneficiaries of the 'mobilising and green agendas for business innovation' measures under the recovery and resilience plan, aimed at developing new products, processes or services in relevant strategic areas, are mainly located in coastal areas in central and northern Portugal, i.e. areas where overall R&D expenditure is already higher ([45]). This suggests that innovation is likely to remain concentrated in those areas, possibly accentuating the difference in innovation performance among the regions.

Business innovation

The Portuguese economy is characterised by a predominance of micro and small companies with limited innovation capacity, but a promising start-up ecosystem is developing. Overall business R&D spending is increasing, growing from 0.63% of GDP in 2013 to 1.06% of GDP in 2023, but innovation output remains limited. Patenting activity, measured as patent applications filed under the Patent Cooperation Treaty per billion GDP, remains rather modest compared to the EU average (0.9 compared to 2.8 in 2022). Patents in the green sector, where numbers align with the EU average, are an exception. Internationalisation levels of Portuguese companies are also relatively weak, with a substantially lower proportion of medium-to-high and high-tech exports than the EU average ([46]). The size of the overall ICT sector is below the EU average (4.5% vs 5.5% in gross value added in 2021), and its R&D business expenditure amounts to 23.5% of total R&D expenditure ([47]). As regards the start-up ecosystem, on the other hand, Portugal's business birth rate is higher than the EU average ([48]), and seven unicorn companies ([49]) (start-ups valued at over USD 1 billion) have been founded in the country to date, although only one is currently headquartered in Portugal ([50]).

Graph A3.2: **Patent applications filed under the PCT per billion GPD (in PPS €) in 2022**



Source: Patstat

Portugal's public policy addresses R&I challenges by providing strong support for business innovation, primarily through tax incentives, but direct public support for business R&D is limited. The government provides increasing public support for business R&D, mainly in the form of R&D tax incentives. The proportion of GDP spent on public support for business expenditure on R&D more than doubled over the last decade, from 0.159% in 2013 to 0.487% in 2022. A specific patent box tax regime is in place, which aims to reduce taxation on income from intellectual property, such as copyright income from computer programs, patents, industrial models and drawings. Despite the strong R&D tax incentives, direct public support for business R&D remains low ([51]); it could be further explored as R&D grants tend to favour young

([45]) Marques Santos, A. and Conte, A., Applicants and beneficiaries of innovation-related actions under the Portuguese RRP, European Commission, 2023, JRC132061

([46]) Competitive industrial performance Index, World Bank Group

([47]) Eurostat, ICT sector size and R&D in ICT sector, all data from 2021.

([48]) 2024 European Innovation Scoreboard, Country profile: Portugal https://ec.europa.eu/assets/rtd/eis/2024/ec_rtd_eis-country-profile-pt.pdf.

([49]) Unicorns | Dealroom.co

([50]) Digital Decade Country Report - Portugal

([51]) OECD (2023), OECD Economic Surveys: Portugal 2023, OECD Publishing, Paris, https://doi.org/10.1787/2b8ee40a-en.

and innovative firms with limited financial capacity. As regards the creation of new companies, different initiatives are in place to foster the growth of start-ups and help them scale up. These include the reinforcement of Startup Portugal's ([52]) structure through its recovery and resilience plan (RRP) funds, which has allowed the creation and strengthening of new programmes and initiatives, specifically designed to better support and incentivise entrepreneurs and investors.

A broader diffusion of digital technologies could make business processes more effective and boost overall competitiveness. Portugal is slightly above the EU average in terms of basic digital intensity of SMEs. However, according to the OECD 2023 Economy Survey ([53]), Portuguese firms, notably smaller ones, lag behind in the use of information and communication technologies, especially those that are well-suited to small firms, such as cloud computing. Although Portugal's communication infrastructure is well developed with fast and ultrafast broadband connectivity in most areas (see also Annex 4), insufficient training of both managers and staff, together with poor knowledge of support mechanisms, act as a barrier to the adoption of digital technologies by small businesses. As regards the take-up of advanced digital technologies, 38.6% of enterprises use data analytics, which is above the EU average of 33.2%. Nevertheless, the country lags behind in other areas, with only a minority of enterprises (roughly a third) using cloud computing and a mere 8.6% harnessing artificial intelligence, falling short of the EU average in both cases.

Despite several ongoing initiatives and slight improvements, academia-business cooperation remains relatively weak. The proportion of public-private scientific co-publications remains below the EU average (6.4% compared to 7.7% in 2023), despite a steady increase over the past years. In addition, the proportion of public expenditure on R&D financed by businesses has been on a declining trend over the last years (representing 0.013% of GDP in 2023, compared to an EU average of 0.050%), indicating a low propensity of businesses to engage in research activities with public labs. The number of researchers employed by the private sector also remains modest ([54]), although it more than doubled in the past decade, a promising sign that the initiatives in place are giving some results. Portugal is dedicating significant resources to fostering knowledge valorisation through its recovery and resilience plan (RRP) (for example through measures such as the accreditation of new 'collaborative laboratories' (COLABs) ([55]) and 'mobilising and green agendas for business innovation ([56])). Also, in 2023 a PhD studentship in a non-academic environment was launched to encourage mobility of researchers from the public to the private sector.

Financing innovation

Venture capital financing in Portugal remains very low. In 2024 Portuguese start-ups raised EUR 886 million, 55% more than in 2023 ([57]). Despite this jump, the amount was significantly lower than in record years 2021 and 2022, when start-ups managed to raise EUR 1.6 billion and EUR 1.1 billion, respectively. The availability of funds for scaling up activities is limited overall. Venture capital as a

([52]) Startup Portugal is a non-profit organisation dedicated to promoting entrepreneurship and innovation in the country.

([53]) OECD (2023), OECD Economic Surveys: Portugal 2023, OECD Publishing, Paris, https://doi.org/10.1787/2b8ee40a-en.

([54]) 5.2 per thousand active population in 2022, compared to a EU average of 5.6.

([55]) Entities which bring together relevant partners from the public and the private sector.

([56]) Big consortia between companies, scientific and technological institutions.

([57]) TTR Database.

percentage of GDP is one of the lowest in Europe – reaching 0.018% in 2023, against the EU average of 0.078% – which is even lower than in previous years. This highlights a persistent financing gap for early-stage innovative firms in Portugal. In addition, there is a significant gap in the availability of funds between early-stage and later-stage start-ups. This gap which is significantly larger in Portugal than in other European countries and reflects a lack of later-stage financing options for start-ups looking to scale up ([58]).

Innovative talent

Portugal's productivity capacity is affected by a considerable brain drain, due in part to unattractive salary conditions. To address this, the government is taking steps to stabilise research careers and attract foreign entrepreneurs. Retaining talent is a key challenge and a priority for Portugal, and its education system manages to attract and form a high number of graduates also in science, technology, engineering and mathematics. The country has one of the highest numbers of new graduates in science and engineering per thousand population aged 24-35 (20.5 in 2022, compared to the EU average of 17.6). In contrast, the number of graduates in the field of computing is relatively modest compared to the EU average. Moreover, the public sector can count on a good number of researchers, as Portugal performs well in terms of public sector researchers per thousand active population (6.4 in 2023, against the EU average of 4.2). Specific programmes aimed at stabilising researcher careers and make them more attractive are in place. The Tenure programme, run by the Foundation for Science and Technology, supports the hiring of doctoral researchers for permanent positions in the national science and technology system. A 'start-up visa' programme is also in place as part of ongoing efforts to attract foreign investment. This programme welcomes foreign entrepreneurs who intend to develop projects capable of generating start-ups based on new ideas and business models ([59]). In addition, in 2025 Portugal initiated a new tax benefit which aims to attract foreign entrepreneurs and high qualified employees ([60]).

Entrepreneurship education is well integrated into the Portugal education system across all education levels. It constitutes a segment of citizenship education, which is a mandatory part of the school curriculum. Higher education institutions have also expanded their offer of entrepreneurship education through initiatives, incubators and by creating a greater connection to the business world. Nevertheless, to further improve entrepreneurship education in Portugal, a greater emphasis on practical, project-based learning, and the implementation of continuous monitoring of existing initiatives are needed.

([58]) OECD (2023), OECD Economic Surveys: Portugal 2023, OECD Publishing, Paris, https://doi.org/10.1787/2b8ee40a-en.

([59]) Startup Visa - Visa.

([60]) Regulation of the tax incentive scheme for scientific research and innovation, as provided for in Article 58-A of the Statute of Tax Benefits. Ordinance No. 352/2024/1

Table A3.1: **Key innovation indicators**

Portugal	2012	2017	2020	2021	2022	2023	2024	EU average (1)	USA
Headline indicator									
R&D intensity (gross domestic expenditure on R&D as % of GDP)	1.38	1.32	1.61	1.67	1.69	1.69	:	2.24	3.45
Science and innovative ecosystems									
Public expenditure on R&D as % of GDP	0.57	0.63	0.66	0.64	0.6	0.59	:	0.72	0.64
Scientific publications of the country within the top 10% most cited publications worldwide as % of total publications of the country	10.2	9.1	8.5	8.1	:	:	:	9.6	12.3
Researchers (FTEs) employed by public sector (Gov+HEI) per thousand active population	5.2	5.9	6.2	6.2	6.3	6.4	:	4.2	:
International co-publications as % of total number of publications	47	52.9	54.2	53.2	53.4	53.2	:	55.9	39.3
R&D investment & researchers employed in business									
Business enterprise expenditure on R&D (BERD) as % of GDP	0.68	0.67	0.92	0.99	1.05	1.06	:	1.49	2.7
Business enterprise expenditure on R&D (BERD) performed by SMEs as % of GDP	0.27	0.31	0.46	0.5	0.51	0.53	:	0.4	0.3
Researchers employed by business per thousand active population	2.4	3.1	4.5	5	5.3	5.5	:	5.7	:
Innovation outputs									
Patent applications filed under the Patent Cooperation Treaty per billion GDP (in PPS €)	0.7	1	1	1.1	0.9	:	:	2.8	:
Employment share of high-growth enterprises measured in employment (%)	12.57	23.07	:	:	:	:	:	12.51	:
Digitalisation of businesses									
SMEs with at least a basic level of digital intensity % SMEs (EU Digital Decade target by 2030: 90%)	:	:	:	:	70.37	:	74.26	72.91	:
Data analytics adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	:	38.56	:	33.17	:
Cloud adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	28.14	:	32.29	:	38.86	:
Artificial intelligence adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	7.2	:	7.86	8.63	13.48	:
Academia-business collaboration									
Public-private scientific co-publications as % of total number of publications	4.6	5.4	5.7	6	6.4	6.4	:	7.7	8.9
Public expenditure on R&D financed by business enterprise (national) as % of GDP	0.007	0.014	0.016	0.014	0.013	0.013	:	0.05	0.02
Public support for business innovation									
Total public sector support for BERD as % of GDP	0.144	0.174	0.435	0.396	0.487	:	:	0.204	0.251
R&D tax incentives: foregone revenues as % of GDP	0.087	0.122	0.354	0.296	0.387	:	:	0.102	0.141
BERD financed by the public sector (national and abroad) as % of GDP	0.057	0.052	0.081	0.100	0.100	0.120	:	0.100	0.110
Financing innovation									
Venture capital (market statistics) as % of GDP, total (calculated as a 3-year moving average)	0.007	0.016	0.018	0.021	0.023	0.018	:	0.078	:
Seed stage funding share (% of total venture capital)	4.7	10.9	17	17.9	26.9	27.2	:	7.3	:
Start-up stage funding share (as % of total venture capital)	81.2	81.9	70.7	73.7	63	63.4	:	44	:
Later stage funding share (as % of total venture capital)	14.1	7.2	12.4	8.3	10.1	9.4	:	48.7	:
Innovative talent									
New graduates in science and engineering per thousand population aged 25-34	17	18	19.5	20.8	20.5	:	:	17.6	:
Graduates in the field of computing per thousand population aged 25-34	1	1.3	2	2.1	2	:	:	3.6	:

(1) EU average for the last available year or the year with the highest number of country data.

Source: Eurostat, DG JRC, OECD, Science-Metrix (Scopus database), Invest Europe, European Innovation Scoreboard

Portugal has made progress in becoming more competitive and making business easier. However, challenges persist and the country has room to further improve its business environment. The focus lies on reducing administrative and regulatory burden, late payments, and barriers to entry and to competition for some regulated professions and the retail sector. Further trade integration in services, improving the governance of state-owned enterprises and reducing the duration of insolvency proceedings could also boost Portugal's competitiveness.

Economic framework conditions

Portugal's supply chains have recovered from the tensions in 2023 and are now more resilient than the EU average. Portugal experienced a significant improvement in material shortages in 2024 ([61]) as only 5.2% of Portuguese businesses have reported constraints, compared to 9.2% in 2023 and 16% in 2022. This puts Portugal in fourth place among its EU peers, as the EU-27 average for 2024 stood at 10%. This shows a clear recovery from the consequences of supply chain disruptions in previous years that were experienced not only in Portugal but across the EU.

Labour shortages are limited and continue to diminish. Portugal has continued to improve in 2024 with 9.5% of firms reporting labour supply constraints (10.9% in 2023, 11.5% in 2022), well below the EU average (20.2% in 2024). Similarly, Portugal's vacancy rates ([62]) continued along the path towards pre-2022 levels, recording a decline to a 1.7% vacancy rate in 2024, down from 2% in 2022. Moreover, Portugal's vacancy rate has always remained below the EU average (2.36% in 2024).

Digital infrastructure is solid and continuously improving, in line with the Digital Decade targets. Portugal has made considerable progress, especially on connectivity, and business awareness of cybersecurity is increasing. Fibre to the premises (FTTP) coverage stood at 92.3% in 2023, significantly higher than the EU average of 64%. FTTP coverage in rural areas also increased considerably, reaching 68.7% against an EU average of 53%. For mobile connections, overall 5G coverage increased to 98% (EU average, 89%). However, major challenges persist in improving basic and advanced skills across the population (see Annex 12). Meanwhile, SME use of digital tools lags behind the EU average (see Annex 3).

Cybersecurity awareness in businesses is increasing the resilience of digital infrastructure. The number of enterprises that experienced ICT security incidents leading to unavailability of ICT services due to attack from outside (e.g. ransomware attacks, denial of service attacks) slightly increased in Portugal, from 2.5% in 2022 to 3.1% in 2024. However, it remains below the EU average (3.4%). ICT security measures were deployed by 95.6% of enterprises (above the EU average of 92.8%) and 65.6% of enterprises made their employees aware of their obligations for ICT security related issues, again above the EU average (60%).

Portugal can benefit from improving its logistics infrastructure. The 2023 Logistics Performance Index (LPI) issued by the World Bank ([63]) ranked Portugal in 18th position among the EU-27 (38th worldwide). This almost places the country in the lowest third of EU countries. Its poorest scores are in international shipments (3.1 out of 5), customs (3.2), and tracking and tracing (3.2).

Portugal's infrastructure is an increasing obstacle for investment. In 2024, 17.4% of

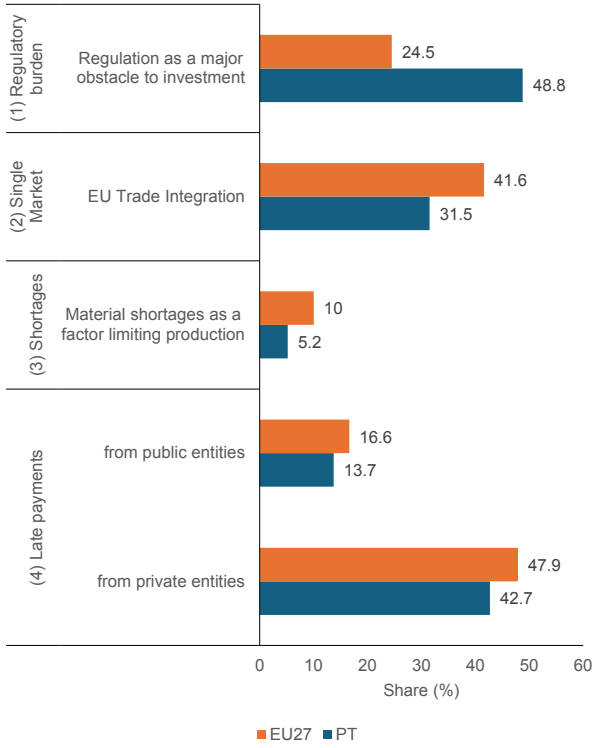
([61]) EC, ECFIN BCS.

([62]) EC, ECFIN BCS.

([63]) 2023 Logistics Performance Index (LPI) of the World Bank

Portuguese firms stated that transport infrastructure was a major obstacle for investment, an increase from 15.5% in 2023 that kept Portugal above the EU average (13.4%). Furthermore, looking at the five-year average, Portugal has worsened slightly over time (Portugal 15.5% vs EU average 14.4%) ([64]).

Graph A4.1: **Making Business Easier: selected indicators.**



Share of (1) enterprises, (2) average intra-EU exports and imports in GDP, (3) firms, (4) SMEs.
*Q4 data on trade integration is not yet available.
Sources: (1) EIB IS, (2) Eurostat, (3) ECFIN BCS, (4) SAFE survey.

Late payments are a prominent issue for Portuguese SMEs. Only 19.7% of Portuguese companies pay on time. The payment gap is over two weeks in both business-to-business (B2B) (14.64 days) and public administration-to-business (G2B) (15.01 days). Although in 2024 Portugal performed slightly better than the EU average, this situation has persisted over time. The five-year average for the B2B payment gap was 15.03 days compared to the 13.9-day EU average. For the G2B payment gap, the five-year average was 15.73 days, while for the EU-27 it was 14.61 days ([65])([66]).

Portugal's payment performance is amongst the worst in the EU ([67]). In July 2024, the European Court of Justice concluded that Portuguese public authorities have not complied with their obligations to pay on time in G2B transactions, thus infringing the Late Payment Directive ([68]). In B2B transactions, Portugal recorded some of the lowest rates of on-time payments in the EU: the best performing sector is wholesale with on-time payments reaching 21%, while transport and logistics are the lowest performers with barely 13% of payments made within the agreed contractual term. Portugal also has the largest difference in on-time payments between micro and large enterprises, where only 21% and 5% pay on time, respectively.

Portugal is a prime attractor of foreign direct investment (FDI) within the EU. Portugal ranked fourth in the EU with 248 projects ([69]) in 2022, an increase of 57% on 2019. Its main investors are Germany (14.5%), USA (14.1%) and France (10.1%), and 73.4% of total FDI projects in Portugal are from EU countries. The sectors attracting the most projects are software and IT services (40%), business and professional services (14%), and transportation manufacturers and suppliers (8%).

Regulatory and administrative barriers

The general regulatory framework has large room for improvement. According to the EIB Investment Survey ([70]), 48.8% of Portugal's

([64]) EIBIS 2024 - Portugal

([65]) Informa DB

([66]) Intrum and EC, ECFIN BCS.

([67]) EU Payment Observatory. Annual Report 2024

([68]) ECJ ruling in Case C-487/23

([69]) EY Attractiveness Survey Portugal 2023

([70]) EIBIS 2024 - Portugal

firms said regulations were a major obstacle to investment in 2024, a slight increase from 48.6% in 2023. This ranks Portugal fourth in the EU, well above the EU average (24.5%). Looking at the five-year average, Portugal has slowly deteriorated over time (Portugal 47.5% vs EU average 23.6%). Similarly, the level of regulation of professions is higher than the EU average.

Portugal is making some progress in bringing regulatory changes in to improve the business environment, but further progress would benefit the economy. Portugal has a score of 1.57 (out of 6) for the overall OECD PMR indicator ([71])([72]), meaning it performs worse than the average OECD economy (1.35), despite some progress since 2018. The performance could be improved by simplifying administrative requirements for starting new firms, as well as assessing the regulatory impact of new and existing laws on competition, and better involving stakeholders in the regulatory consultation process, while improving lobbying activities and interaction transparency. Further efforts can be made to ensure a level playing field between state-owned enterprises (SOEs) and private firms. Under component 18 of the RRP (recovery and resilience plan), the measure on the removal of barriers to licensing could also help improve Portugal's business environment. Portugal has carried out two key reforms to increase the efficiency of the administrative and tax courts. On digital markets, Portugal has introduced a law to regulate platform work to address the new challenges created by atypical labour relations (see Annex 10).

For many professions, regulatory barriers to entry and competition remain high in Portugal. There are 253 specific regulated professions in Portugal, ranking it seventh in the EU ([73]). Many professions present very high barriers to entry and to competition, such as civil engineers (2.5 in Portugal vs 1.39 EU average) and accountants (2.14 vs 0.74 EU average). In 2024, Portugal underwent some reforms to reduce regulatory barriers for some regulated professions related to construction, legal and accounting services ([74]). Given their recent introduction, the effects are yet to be reflected in Portugal's OECD PMR scores, which are expected to improve. According to the OECD STRI, Portugal (0.048) ranks in 2024 below the EU average (0.050) ([75]).

Portugal's retail sector also presents high barriers to entry and to competition. This is especially significant in retail distribution (score of 2.29 in Portugal vs 1.17 EU average ([76])) and the retail sale of medicines (3.38 vs 2.96 EU average). On the other hand, Portugal has a lower Retail Restrictiveness Indicator (1.51) than the EU median (1.70) ([77]).

Portugal has made significant progress in insolvency procedures, particularly by implementing new insolvency arrangements. However, there is a large backlog in insolvency cases in courts ([78]). The average time needed to resolve civil and commercial cases at first instance has increased (267 days in 2023), worsening from previous year's numbers (238 days in 2022) ([79]). Portugal's RRP includes plans to create digital platforms to digitalise judicial processes and reduce the administrative burden, as well as to review the insolvency arrangements overall (see Annex 6).

([71]) 2023 OECD Product Market Regulation (PMR) Report

([72]) Portugal country note

([73]) EC, Regulated Professions Database.

([74]) EC, Communication on updating the reform recommendations for regulation in professional services, COM(2021) 385. 9/7/2021; OECD, Product Market Regulation (PMR) indicators: How does Portugal compare? OECD, 2024; OECD Services Trade Restrictiveness Index (STRI) 2024 - Portugal

([75]) OECD Services Trade Restrictiveness Index (STRI) 2024 - Portugal

([76]) EU average (without Romania, due to lack of data).

([77]) EC, Retail restrictiveness indicator (2022).

([78]) OECD Economic Surveys: Portugal 2023

([79]) EC, 2025 EU Justice Scoreboard.

The estimated duration of insolvency proceedings remains well above the OECD average and the efficiency of administrative and tax courts could further improve. Further steps might include the full rolling out of specialised courts, as currently 6 out of 23 first instance courts do not have specialised chambers. The use of voluntary out-of-court procedures could also be further encouraged to prevent court congestion and speed up procedures. Despite new procedures since 2019 and temporary pandemic-specific arrangements, their take-up remains low overall, and it is essential to process administrative data to draw conclusions and adjust the regulations of each instrument ([80]). Portugal has significantly improved over time in the number of pending insolvency cases with 1 190 in the third quarter of 2024, coming down from 1 225 in the same period of 2023 and continuing a constant positive trend that dates back to 2014, when it had reached a peak of 4 842 pending insolvency cases in the aftermath of the 2008 Financial Crisis. ([81])

In 2024, Portugal had the fourth highest growth rate of business registrations in the EU, and the 12th highest number of bankruptcy declarations, which indicates a good business dynamism. With a 22.6% growth rate, Portugal had the fourth highest level of business registrations in 2024 in the EU, which has an overall average of 3%. Furthermore, looking at the five-year average, Portugal had the second highest growth rate in the EU at 10.6% (1.4%, EU-27) ([82]). The increase in business bankruptcy declarations in Portugal in 2024 stood at 5.6%, well below the EU average of 43.1%. Looking at the five-year average, Portugal's bankruptcy rate remained unchanged, while the EU average increased by 22.5% ([83]).

Single market

Portugal is well integrated in trade of goods in the single market, but it can still improve in trade of services. Portugal intra-EU imports and exports in goods stood at 24.8% of its GDP in 2023, while the EU average stood at 23.81%. 17.72% of Portuguese SMEs in the industrial sector exported goods to other EU Member States in 2022, while the EU average was 13.08%. In contrast, Portugal's intra-EU imports and exports in services represented 4.4% of its GDP in 2023, while the EU average was 7.57% ([84]).

The conformity of single market directive transposition and the SOLVIT ([85]) case resolution rate have somewhat improved. Portugal has continued to improve its conformity deficit in 2024. It had just 0.7% (vs the 0.9% EU average) of single market directives transposed incorrectly, while in 2023 it was 0.8%. The transposition deficit has increased to 1%, placing Portugal slightly above the EU average (0.8%). However, the duration of infringement proceedings is much shorter than the EU average. Portugal resolved 89.3% of SOLVIT cases it handled as lead centre in 2024 (vs EU average 84.9%), improving on its 2023 result (86.9%) ([86]). As of December 2024, Portugal has 27 pending infringement

([80]) Currently, there is no out-of-court available data to analyse the evolution of the instruments.

([81]) Destaque Estatístico Trimestral nº132, Janeiro 2025. Direçao-Geral da Politica de Justiça, República Portuguesa.

([82]) EC, ECFIN BCS. (Index 2021 = base 100).

([83]) EC, ECFIN BCS. (Index 2021 = base 100).

([84]) EC, ECFIN BCS.

([85]) SOLVIT is an online service aimed at helping citizens and businesses that believe their EU rights have been breached by public authorities in another EU country and have not (yet) taken their case to court. It is provided by the national administration in each EU country and in Iceland, Liechtenstein and Norway.

([86]) EC, ECFIN BCS.

proceedings, slightly above the EU average of 24. This ranks Portugal 16th in the EU ([87]).

Public procurement

Although public procurement indicators are better than the EU average (see table of indicators), competition in public procurement could be improved. According to the OECD PMR, Portugal is considered slightly less competition friendly than the EU average (0.67 vs 0.50 for the EU). However, the indicator value remained unchanged between 2018 and 2023.

Portugal has taken steps to promote sustainable procurement. Although a majority of awarded contracts were based on price criteria alone (72%), Portugal is advancing in transforming the decision process ([88]). As part of its RRP, in 2023 Portugal revised its national strategy for green public procurement, adding mandatory ecological criteria for the procurement of services and products (notably in the construction sector) that integrated sustainable bio-based products. Sustainable public procurement is a crucial approach for transforming public purchases in Portugal. Through the implementation of sustainable public procurement, the Portuguese government can reduce its environmental impact and foster innovation and competitiveness.

Socially responsible public procurement (SRPP) in Portugal usually focuses on gender equality, non-discrimination and promotion of dignified work. Cases of good SRPP practice are found at different administrative levels, although further awareness-raising campaigns and capacity buildings programmes would be beneficial. Additionally, encouraging broader support and participation of social economy entities in these processes would also be valuable.

([87]) EC, 2025 Single Market and Competitiveness Scoreboard.

([88]) EC. 2025 Single Market and Competitiveness Scoreboard

Table A4.1: **Making Business Easier: indicators.**

Portugal							
POLICY AREA	**INDICATOR NAME**	**2020**	**2021**	**2022**	**2023**	**2024**	**EU-27 average**
Investment climate							
Shortages	Material shortage, firms facing constraints, %[1]	4.8	7.9	15.8	9.2	5.2	10.0
	Labour shortage, firms facing constraints, %[1]	6.6	8.5	11.5	10.9	9.5	20.2
	Vacancy rate, vacant posts as a % of all available ones (vacant + occupied)[2]	0.9	1.4	2.0	1.8	1.7	2.3
Infrastructure	Transport infrastructure as an obstacle to investment, % of firms reporting it as a major obstacle[3]	11.2	16.0	17.3	15.5	17.4	13.4
	VHCN coverage, %[4]	-	90.5	93.0	94.2	-	78.8
	FTTP coverage, %[4]	-	87.6	90.8	92.3	-	64.0
	5G coverage, %[4]	-	0.0	70.1	98.1	-	89.3
Reduction of regulatory and administrative barriers							
Regulatory environment	Impact of regulation on long-term investment, % firms reporting business regulation as a major obstacle[3]	48.1	45.8	46.3	48.6	48.8	24.5
Late payments	Payment gap - corporates B2B, difference in days between offered and actual payment[5]	19.8	11.8	13.6	15.4	14.6	15.6
	Payment gap - public sector, difference in days between offered and actual payment[5]	24.5	11.9	10.4	16.8	15.0	15.1
	Share of SMEs experiencing late payments, %*[6] — from public or private entities in the last 6 months	41.6	38.1	41.8	37.3	-	-
	Share of SMEs experiencing late payments, %*[6] — from private entities in the previous or current quarter	-	-	-	-	42.7	47.9
	Share of SMEs experiencing late payments, %*[6] — from public entities in the previous or current quarter	-	-	-	-	13.7	16.6
Single Market							
Integration	EU trade integration, % (Average intra-EU imports + average intra EU exports)/GDP[2]	27.1	30.2	34.0	32.1	31.5	41.6
	EEA Services Trade Restrictiveness Index[7]	0.044	0.044	0.044	0.043	0.048	0.050
Compliance	Transposition deficit, % of all directives not transposed[8]	0.1	1.4	1.3	0.4	1.0	0.8
	Conformity deficit, % of all directives transposed incorrectly[8]	1.3	1.1	1.3	0.8	0.7	0.9
	SOLVIT, % resolution rate per country[8]	98.7	94.0	93.2	87.0	89.3	84.9
	Number of pending infringement proceedings[8]	37.0	28.0	32.0	25.0	27.0	24.4
Public procurement							
Competition and transparency in public procurement	Single bids, % of total contractors**[8]	24	20	24	21	38	-
	Direct awards, %**[8]	7	7	5	10	1	7.0

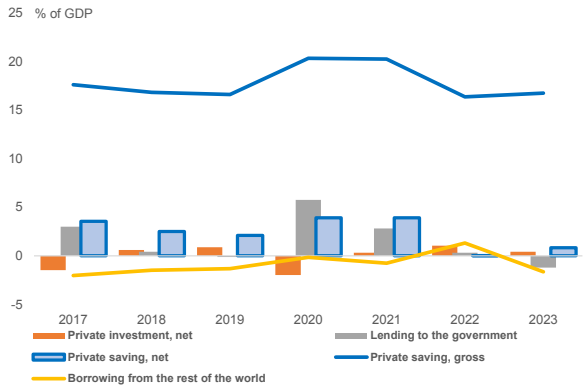
*Change in methodology in 2024: reporting late payments from public and private entities separately.
**The 2024 data on single bids is provisional and subject to revision. Please note that approximately 35% of the total data is currently missing, which may impact the accuracy and completeness of the information. Due to missing data, the EU average of direct awards data is calculated without Romania.
Source: (1) ECFIN BCS, (2) Eurostat, (3) EIB IS, (4) Digital Decade Country reports, (5) Intrum Payment Report, (6) SAFE survey, (7) OECD, (8) up to 2023: Single Market and Competitiveness Scoreboard, 2024: Public procurement data space (PPDS).

Portugal lacks abundant domestic savings and deep capital markets. While the country remains a net borrower from the rest of the world, its net international investment position (NIIP) has shifted significantly over the recent years. It moved from deep deficits towards a more balanced stance as borrowing from abroad declined, exports grew, and recapitalised banks managed to cut off some of their reliance on foreign funds. Local firms are mostly small with an overwhelming majority of micro-enterprises. Unsurprisingly, close to three quarters of firm's investment needs are financed from internal resources. External financing is dominated by owners' equity, bank loans. and, in the case of large firms, by credit from the rest of the world. Banks still play a pivotal role in financing Portuguese non-financial corporations (NFCs). Retail participation in capital markets is low, despite some progress being made. Listed shares jointly with bonds are equivalent to just 16.5% of Portugal's GDP. The investment policies of domestic institutional investors are quite conservative, and investment funds are heavily invested in real estate, with over 40% of assets under management (AUM) invested in this segment. Portugal continues to lag on innovation, hampered by limited capital market engagement, low financial literacy, high taxation, and structural barriers that impede the retention of high-growth companies.

Availability and use of domestic savings

Net savings are outpaced by domestic financing needs leading to a reliance on external borrowing. Over the past decade, the private savings ratio, net of fixed capital consumption, has averaged around 2.6% of GDP, surging to 3.9% in 2020 and 2021 as households bolstered reserves amid the Covid-induced uncertainty (graph A3.1). The net private investment ratio, a key gauge of the private sector's contribution to capital growth, has averaged a negative 0.9% of GDP with significant volatility around the pandemic period and a spike to 1% in 2022, reflecting a post-pandemic investment surge. Lending to the government has fluctuated significantly over 2017-2023, averaging 1.6% of GDP but soaring to 5.8% in 2020 driven by the fiscal stimulus during the pandemic. This imbalance has resulted in net borrowing from abroad averaging a negative 1.1% of GDP over 2014-2023. Consequently, domestic savings are predominantly channelled into local projects and foreign capital needs to step in only to fill an occasional financing gap.

Graph A5.1: **Net savings-investment balance**

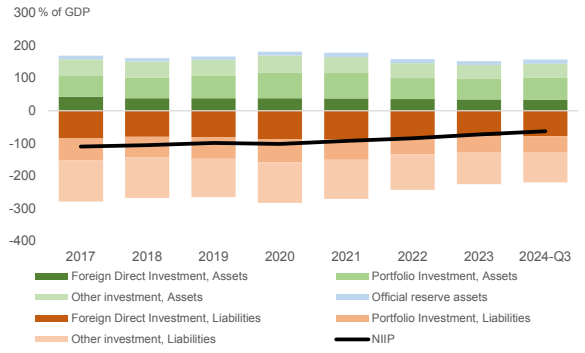


Source: AMECO

Portugal's economy remains a net debtor to the global financial system. Nevertheless, Portugal's NIIP despite remaining deeply negative is reflecting a gradual improvement. As of Q3 2024, total Portuguese assets held abroad including reserves reached 157.2% of GDP, while liabilities to foreigners stood at 219.9% of GDP, resulting in an NIIP of negative 62.7% of GDP (graph A3.2). Foreign direct investment liabilities, at close to 80% of GDP, significantly outpace assets at 34% of GDP, highlighting the country's dependence on foreign capital inflows. Portfolio investment liabilities, worth half the GDP, stood below the portfolio assets worth close to 67% of the GDP, while official reserve assets remain modest at just 13.4% of GDP. Other investment liabilities, at 91.1% of the GDP, dwarf assets (43% of GDP), contributing to the persistent NIIP deficit. This structure underscores the Portuguese

economy's extensive integration into international capital flows, primarily as a recipient of foreign investment. Though, when taking a step back, the country is clearly improving on its NIIP performance and is gradually becoming less dependent from the global financial flows.

Graph A5.2: **International investment position**

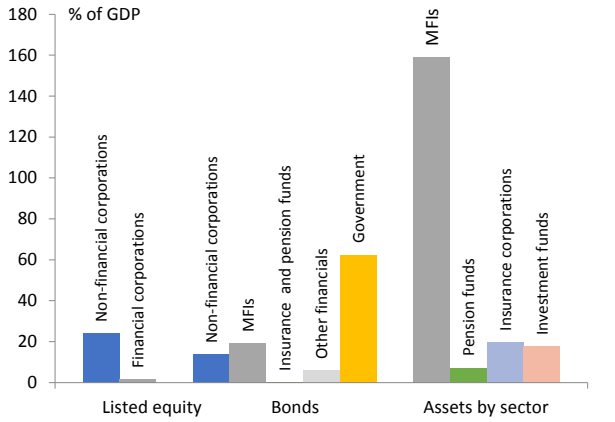


Source: ECB

Structure of the capital markets and size of the financial sector

The domestic capital market is modern but compact. The main stock exchange, Euronext Lisbon, is modest in size, with market capitalisation standing at approximately 24.4% of GDP, significantly below the EU average of 67.6%. Trading volumes are also limited, reflecting on the one hand the market's small scale, and on the other hand the low retail investors' participation. Non-financial corporations account for over 90% of this capitalisation, underscoring the market's role in supporting key sectors like local manufacturing. The outstanding volume of private sector debt securities stood at 40% of GDP in 2023, with monetary financial institutions (MFIs) contributing around half of the total. General government bonds have remained the most significant part of the fixed income market at 62.4% of GDP, bolstered by public investment in infrastructure and post-pandemic recovery.

Graph A5.3: **Capital markets and financial intermediaries**



Source: ECB, EIOPA, AMECO

The financial sector in Portugal remains heavily bank centric. With assets worth about 159.1% of GDP in 2023, the banking sector dwarfs all other parts of the local financial sector. Nevertheless, in relative size it is still far below EU's average of 247.2% of GDP. The banking system is characterised by a high degree of concentration, with a few large lenders dominating over 80% of the market. Foreign direct ownership, predominantly Spanish, stands at over a third of total banking sector assets. The insurance sector, with total assets reaching some 20% of GDP at end-2023, plays a growing role in non-bank intermediation and demonstrated recently robust growth data, with direct insurance production surging over 20% y/y in Q3 2024. Similarly, to the local banking sector, insurance market dynamics reveal a concentrated landscape. Pension funds and investment funds account respectively for 6.1% and 17.6% of GDP in 2023, supported by slowly increasing retail participation.

Resilience of the banking sector

The local banking system demonstrated remarkable resilience over the past decade. There are only a few traces of the sovereign debt crisis in the balance sheets of local banks. The sector is now boasting solid liquidity,

capital (CET1 ratio at 17.8% surpassing the EU average of 16.7% and reflecting a focus on high-quality capital), and good profitability metrics with an ROE of 13.8% in 2023 and over 16% in 2024. This stability ensures that Portuguese businesses continue to enjoy access to reliable and affordable bank loans. Major banks have successfully met EU-wide stress test requirements, demonstrating resilience despite the economic challenges of the past years. The aggregate Minimum Requirement for Own Funds and Eligible Liabilities (MREL) rate stood at 26.1% of risk-weighted assets by end-2023, exceeding regulatory thresholds and signalling preparedness for potential shocks. A local specificity is the sector's ongoing deleveraging effort that has been a long-term trend that started during the financial crisis.

Asset quality of Portuguese lenders has improved dramatically. The sector's aggregate NPL ratio dropped to 2.6% in Q4 2024 (from high teens back in 2016-2017), still above the EU average of 1.9%, but reflecting the substantial progress undertaken in reducing legacy financial crisis NPLs. Household NPLs stood at 2.5%, while non-financial corporation (NFC) NPLs were slightly higher at 4.9%. With nine out of ten mortgages at variable rates, rising interest rates have posed some risks, but asset quality has been preserved through an array of government and banking sector measures. The NPL coverage ratio rose to 55.7% in Q4 2024, exceeding the EU average of 42.6% by a large margin, indicating robust provisioning for potential losses. A notable feature is the sector's exposure to tourism-related lending, which has recovered post-pandemic.

Portuguese banks maintain robust liquidity profiles, underpinned by a solid funding base and a prudent strategy toward debt issuance. Local lenders exhibit low liquidity funding risk, with the aggregate liquidity coverage ratio (LCR) at around the 270% mark and the net stable funding ratio (NSFR) in the 130-140% bracket for most banks in 2024, both well above regulatory minimums. The loan-to-deposit ratio of 70.4% is far below the EU average of 93%, reflecting the economy's deleveraging effort over the past decade and the increase in deposits. Banks continue to hold in 2023 on average around 14% of their total assets in government debt, which is slightly above the EU average just shy of the 10% mark. Debt issuance has been modest, with banks issuing below EUR 5 bn in debt instruments both in 2023 and 2024, mostly to refinance maturing obligations and maintain MREL buffers.

Resilience of the non-bank financial intermediaries

Portugal's insurance sector is a growing component of non-bank financial intermediation. In the third quarter of 2024, the top three insurers occupied around 59.2% of the market share in premiums, whereas the top ten insurers took close to 90% of the market. The local insurers maintain overall solid solvency levels with coverage ratios for the solvency capital requirement (SCR) and the minimum capital requirement (MCR) in Q3 2024 at 219% and 579%, respectively. Both ratios substantially increased (by a respective 15 pp and 40 pp) when compared with end-2023 data. The sector is overall gaining traction. For instance, health insurance premia, have more than doubled over the past 12 years. Insurers have also increasingly diversified their investment portfolio searching for better yields, shifting toward equities and variable-income assets in recent years. The total assets of domestic insurers equalled a fifth of the Portuguese GDP in 2023 and grew by about 4.5% over the volatile period between 2020-2023.

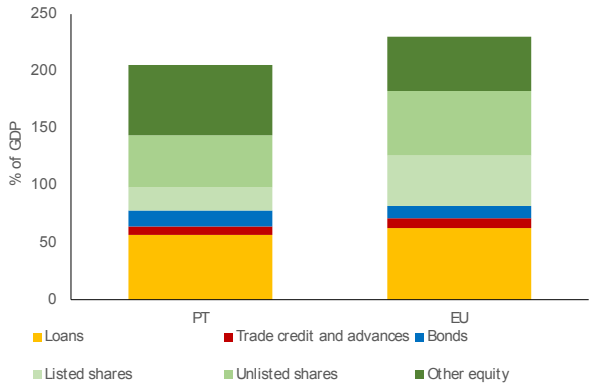
There are no material weaknesses in the insurance sector's risk profile. Portugal's insurance supervisor, in coordination with European Insurance and Occupational Pensions Authority (EIOPA), conducted stress tests in

2023 on some of the main insurers in the country confirming resilience to market and climate shocks. However, exposure to natural disaster risks continues to warrant close monitoring. According to the dashboard for the insurance protection gap for natural catastrophes published by EIOPA, Portugal has the sixth-worst protection gap in Europe. EIOPA's dashboard highlights Portugal's high wildfire risk and medium flood exposure, and a relatively low levels of insurance penetration across all risks, at 6.8% of GDP in 2023, below the EU average of 7.8%. This also implies possible systemic repercussions for Portugal in the event of an earthquake. Currently, merely 20% of Portugal's total housing stock is covered by seismic risk insurance. Enhancing financial literacy initiatives to increase insurance penetration remains therefore a critical priority in this regard.

Sources of business funding and the role of banks

Portuguese firms' financing structure differs from the European average. Bank loans remain the backbone of corporate funding in Portugal, totalling approximately 27.6% of all financing for domestic NFCs, which is slightly above the EU average of 27.2%. However, reliance on capital markets is notably lower, with listed shares and bonds accounting for 16.6% of corporate funding, compared to the EU average of almost 23.7%. This disparity highlights a significant reliance on owners' equity and traditional banking channels over market-based financing, which is not surprising given the predominance of small and micro-enterprises in Portugal. As a percentage of GDP, corporate funding in Portugal stands at around 205%, which is below the EU average of 230%. This lower level of overall corporate funding relative to GDP underscores some challenges Portuguese firms face in accessing diverse financing sources, potentially impacting their growth and innovation capabilities.

Graph A5.4: **Composition of NFC funding as % of GDP**



The sum of NFC liabilities only reflects the total for the NFC liabilities considered. Reference period 2023.
Source: Eurostat

Reliance on internally generated funding is key. According to the 2024 EIB Investment Survey, approximately 70% of Portuguese firms' investment needs are met through internal funding, a few percentage points higher than the EU average of 66%. This reliance on internal resources reflects, on the one hand, the small size of local firms, a feature that makes accessing external funding more difficult, and, on the other hand, a broader trend of financial conservatism, driven by historical challenges in accessing external finance. Despite this, a large majority (83%) of Portuguese firms reported that their investment activities over the past three years were adequate. While funding generally is not perceived to be an issue, there remains a potential funding gap for some SMEs and start-ups that may lack substantial internal reserves.

Corporate credit demand is showing some early signs of recovery. Corporate credit growth has been on a downward trajectory since early 2021, and began to recover gradually with modest positive growth observed from July 2024. In fact, the year-on-year growth of credit to NFCs was still in negative territory in the first half 2024 but showing signs of stabilisation as monetary conditions became more accommodative. Demand for corporate loans for long-term investments was strengthening in the fourth quarter of 2024, driven by improved economic

conditions and a more favourable interest rate environment. In parallel, the number of firms experiencing payment difficulties also slightly decreased (the non-performing loans (NPL) ratio in the corporate loans segment dropped by 10 basis points between end-2023 and mid-2024), reflecting better liquidity management and improved financial health within the corporate sector.

Capital markets and the participation of retail investors

The Portuguese capital market is a market for just a few large firms. The use of listed equity financing among domestic small and medium-sized enterprises (SMEs) is notoriously low, with just 2.3% of SMEs indicating that equity is a relevant source of funding, compared to an EU average of 10.1%([89]). Despite the introduction of initiatives aimed at boosting market participation, such as the SME Growth Market, initial public offerings (IPOs) remain occasional and small in scale. Overall, while there are efforts to improve the capital market infrastructure, significant challenges remain in achieving a more dynamic market environment. The domestic bond market is predominantly composed of Portuguese sovereign bonds accounting for around three quarters of the domestic fixed income market. Regarding corporate bonds, only a handful are actively traded from some of the biggest Portuguese corporations. The Portuguese recovery and resilience plan (RRP) outlines key measures to strengthen capital markets, including the establishment of a new legal framework to simplify IPOs and initiatives to promote green bonds.

Corporate investment levels in Portugal appear adequate but rarely focus on innovation. Most Portuguese SMEs do not appear to face significant financing barriers to investment. According to the 2024 EIB Investment Survey, 83% of Portuguese firms reported that their investment activities in the past three years were adequate, slightly above the EU average of 80%. However, the same survey reveals that Portugal has one of the lowest shares of firms investing in the development of new products and services within the EU, while it ranks second highest in terms of firms focusing on replacing existing capacity, such as buildings, machinery, equipment and IT. Despite the expected increased momentum of investment in 2025-2026, the growth in gross fixed capital formation is expected to be primarily driven by public investment, with the private sector's focus remaining on replacing physical capital, which does not necessarily correspond to productive growth ([90]). There is potential for Portuguese companies, particularly start-ups, to increase the share of capital-market-related funding of their financing mix.

Low financial wealth drives Portuguese households to favour deposits over capital markets. Households' financial assets in Portugal are notably modest compared to the EU average, both in terms of per capita financial wealth and as a percentage of GDP. This partly explains the low equity investments culture among Portuguese retail investors. Households with lower financial wealth are less likely to allocate significant portions of their savings to capital markets, favouring safer options like deposits or sovereign bonds. Consequently, only 2.9% of households' financial wealth in Portugal is invested in listed shares, compared to the EU average of 10.1%. Portugal also has the lowest share of household investments in bonds and shares relative to the combined volume of cash holdings and deposits in the EU ([91]). In fact,

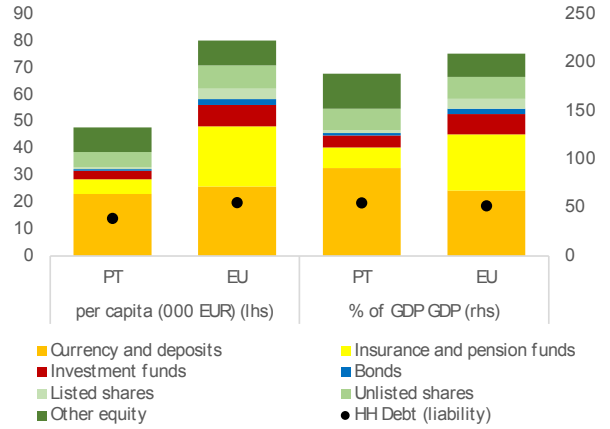
([89]) European Commission, Survey on the Access to Finance of Enterprises, 2023..

([90]) Banco de Portugal, Economic Bulletin - October 2024.

([91]) Commission staff working document: Monitoring progress towards a Capital Markets Union: a toolkit of indicators SWD(2021) 544, Overview of CMU Indicators – 2024 update.

household deposits in banks have grown substantially, increasing by 7.6% year-on-year as of November 2024. Nevertheless, the successful issuance and allocation of savings certificates – a long-term government fixed-debt instrument – demonstrates the public appetite in Portugal for low-risk, easily accessible capital market instruments. By December 2024, the outstanding monthly stock of these certificates among retail investors had exceeded EUR 34 billion, highlighting their popularity.

Graph A5.5: **Composition of household financial assets per capita and as % of GDP**



The sum of household assets only reflects the total for the HH assets considered. Reference period 2023.
Source: Eurostat

The role of domestic institutional investors

Portugal's investment fund industry still lags behind its European peers despite recent dynamic growth. The Portuguese investment fund industry has experienced robust growth over the past two years, with assets increasing by 31% from Q3 2022 to Q3 2024 ([92]). However, the sector remains relatively small compared to its European counterparts, accounting for only 0.25% of total assets held by investment funds in the euro area. This limited scale can be attributed to several factors, including Portuguese retail investors' strong preference for bank deposits, a relatively low saving rate, and historically high total expense ratios (TERs) for Portuguese undertakings for collective investment in transferable securities (UCITS). According to the European Securities and Markets Authority's (ESMA) 2024 cost and performance report, funds domiciled in Portugal consistently rank among the most expensive in the EU ([93]), which likely deters broader participation. Another notable characteristic of the Portuguese investment fund market is the significant dominance of real estate investment funds (REITs). As reported by the Portuguese Association of Investment Funds([94]), out of EUR 35.3 billion in assets under management as of October 2024, EUR 15.3 billion (43%) are held by REITs. This substantial share aligns with the dramatic rise in Portuguese house prices, which have increased by an astonishing 113% between 2010 and Q3 2024, reflecting strong demand for real estate as an asset class.

Private pension funds play a limited role. Pension funds are not a major player in the capital markets and manage about EUR 40 billion at end-2023. Pension funds do not play any major role in the overall Portuguese pension system, with most retirement benefits provided by the public pension system. Occupational pension plans cover only a small fraction of the workforce and private pensions serve mainly as a supplementary option. Encouraging the build-up of universal funded supplementary pension schemes, which invest in highly diversified financial portfolios, would further develop domestic capital markets and make the overall Portuguese pension system more sustainable in the light of demographic challenges.

([92]) Source: ECB, Assets and liabilities of investment funds.

([93]) ESMA Market Report: Costs and Performance of EURetail Investment Products 2024, January 2025.

([94]) Portuguese Association of Investment Funds: Análise APFIPP ao mercado de Organismos de Investimento Alternativo Imobiliário, November 2024.

Table A5.1: **Financial indicators**

		2017	2018	2019	2020	2021	2022	2023	2024-Q3	EU
Banking sector	Total assets of MFIs (% of GDP)	201.3	190.8	180.9	205.6	202.5	176.6	159.1	156.5	247.2
	Common Equity Tier 1 ratio	13.9	13.2	14.1	15.4	15.5	15.3	17.1	17.8	16.7
	Total capital adequacy ratio	15.2	15.2	16.7	18.1	18.0	18.1	19.6	20.5	20.1
	Overall NPL ratio (% of all loans)	13.3	9.4	6.1	4.9	3.6	3.0	2.7	2.6	1.9
	NPL (% loans to NFC-Non financial corporations)	25.2	18.5	12.3	9.8	8.1	6.5	5.0	4.9	3.5
	NPL (% loans to HH-Households)	7.1	5.1	3.7	3.4	2.8	2.3	2.4	2.5	2.1
	NPL-Non performing loans coverage ratio	49.9	52.4	51.7	55.4	52.6	55.4	56.3	55.7	42.6
	Return on Equity[1]	-0.8	2.7	4.3	0.0	4.9	8.7	13.8	16.0	10.1
	Loans to NFCs (% of GDP)	37.5	34.1	31.4	37.0	35.2	30.8	27.4	25.8	30.1
	Loans to HHs (% of GDP)	61.6	58.4	56.9	61.6	59.0	53.8	48.5	46.4	44.4
	NFC credit annual % growth	-0.1	1.7	1.1	10.0	4.5	0.8	-1.0	-0.2	0.5
	HH credit annual % growth	-0.2	0.8	1.1	1.5	3.7	3.4	-0.5	1.2	0.3
Non-banks sector	Stock market capitalisation (% of GDP)	29.8	23.6	25.6	25.1	26.1	24.3	25.8	24.4	67.6
	Initial public offerings (% of GDP)	0.00	0.01	0.00	0.00	0.23	0.00	0.00	-	0.05
	Market funding ratio	42.9	43.9	45.5	46.1	46.4	47.1	48.9	-	49.6
	Private equity (% of GDP)	0.21	0.26	0.09	0.59	0.33	0.12	0.16	-	0.41
	Venture capital (% of GDP)	0.01	0.01	0.02	0.02	0.02	0.03	0.01	-	0.05
	Financial literacy (composite)	-	-	-	-	-	-	42.5	-	45.5
	Bonds (as % of HH financial assets)	3.2	2.9	2.7	2.4	1.6	1.2	1.2	-	2.7
	Listed shares (as % of HH financial assets)	1.5	1.3	1.4	1.5	1.5	1.4	1.5	-	4.8
	Investment funds (as % of HH financial assets)	4.8	4.5	5.2	5.5	7.0	6.3	6.6	-	10.0
	Insurance/pension funds (as % of HH financial assets)	18.0	17.5	17.5	16.3	14.9	12.4	11.4	-	27.8
	Total assets of all insurers (% of GDP)	27.1	25.6	25.8	26.6	24.6	21.9	19.9	19.0	53.4
	Pension funds assets (% of GDP)	-	-	10.5	11.8	11.2	8.8	7.2	6.8	22.8

1-3 | 4-10 | 11-17 | 18-24 | 25-27 — Colours indicate performance ranking among 27 EU Member States.

(1) Annualised data

Credit growth and pension funds EU data refers to the EA average.

Source: ECB, ESTAT, EIOPA, DG FISMA CMU Dashboard, AMECO

The depth of available venture and growth capital

The local venture capital (VC) and growth capital market is still very shallow. According to the private TTR database, Portuguese start-ups raised EUR 886 million in 2024, marking a 55% increase compared to 2023. Despite this growth, the amount raised remains far from the record levels of 2021 and 2022, when start-ups secured EUR 1.6 billion and EUR 1.1 billion, respectively. Portugal Ventures, the state-owned VC company and part of Banco Português de Fomento, led the Portuguese VC sector in 2024 in terms of the number of transactions, completing 20 deals worth a total of EUR 30.4 million. However, the average value of annual private equity and VC investment relative to nominal GDP is still very modest in Portugal at 0.2% in 2023 (vs the EU average of 0.4% of GDP) and has decreased since the peak in 2020 of 0.6% of GDP. This underdeveloped venture and growth capital market points to a financing gap for early-stage innovative firms in need of capital throughout their life cycle (see Annex 3).

There are targeted policies in place to promote start-up funding. To address the issue, the Portuguese RRP includes measures to support the financing of start-ups. In particular, it finances the capitalisation of companies indirectly through the above-mentioned public development bank, Banco Português de Fomento, with a funding allocation of EUR 1.55 billion. In addition, in November 2024, the European Investment Fund committed a total of EUR 90 million to three funds that incorporate Portuguese VC, primarily to accelerate the growth of start-up companies.

Financial literacy

Portugal's financial literacy lags behind that of its European peers. Portugal's population lags behind in terms of financial literacy, ranking second to last in the financial knowledge score ([95]). While the general trend

([95]) Source: Monitoring the level of financial literacy in the EU - July 2023 - Eurobarometer survey.

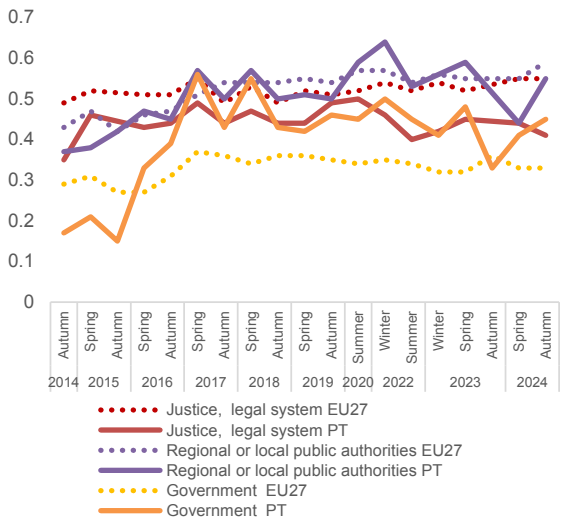
in Portugal – as in other Member States – shows that individuals with lower education levels tend to have lower financial literacy. A recent study ([96]) found that even new students entering higher education have notably weak financial knowledge. In particular, their understanding of financial risks is characterised by significant misconceptions. To address these shortcomings, Portugal has implemented several initiatives, including the national plan for financial education 2021-2025 and the digital financial literacy strategy, as well as a pilot project (2024–2027) involving schools and communities to reinforce financial education at the upper secondary level. Developed by the OECD in collaboration with Banco de Portugal and supported by the European Commission, these measures – by improving financial literacy – can also increase market participation, as individuals gain confidence to invest in bonds and equity.

([96]) Sarabando, P.; Matias, R..; Vasconcelos, P.; Miguel, T. Financial literacy of Portuguese undergraduate students in polytechnics: does the area of the course influence financial literacy?. Journal of Economic Analysis, 2023, 2, 28.

Portugal's institutional framework shapes the country's competitiveness. Portugal is undertaking reforms to reduce bureaucracy and to modernise, but challenges remain. The country has made progress on digitalisation. However, the civil service is struggling with low attractiveness and an ageing workforce. In the justice system, efforts are being made to reduce the length of proceedings, but ensuring the availability of sufficient human resources is still a challenge. There is also much scope to enhance regulatory practices.

Public perceptions

Graph A6.1: **Trust in justice, regional / local authorities and in government**



Source: Standard Eurobarometer surveys

Trust in government and judiciary has fluctuated over the past decade. Among national institutions, trust in regional and local authorities is highest (see Graph A6.1). When asked about improvements that can increase trust in Portugal's public administration, 59% of citizens pointed to less bureaucracy (EU: 52%), and 39% to better skilled civil servants (EU: 30%) ([97]). The perceived quality of government has improved and reached values above the EU average ([98]). Against this backdrop, the country is reforming several sectors as part of its recovery and resilience plan (RRP) and in line with the Portugal 2030 strategy ([99]), to modernise the state, improve efficiency and enhance citizen-centric service delivery. Portugal is also working to improve regional development and the effectiveness of its public policies through decentralisation ([100]).

Quality of legislation and regulatory simplification

Performance in developing and evaluating legislation is below the EU average. It is stronger for stakeholder engagement than for identifying impacts in advance and for assessing legislation after the fact. However, performance remains in all three cases below the EU average, on account of underdeveloped methodological, systematic adoption, transparency, oversight and quality control requirements for the above-mentioned regulatory tools (Graph A6.2). Moreover, there remains visible scope for Portugal to further strengthen its mechanisms for simplifying regulation and identifying administrative burdens (Table A6.1).

Recent reforms aim to improve the regulatory governance. Steps have been taken to further strengthen Portugal's legal framework. CEJURE, a State Legal Centre, has been set up to provide legal support and advice to the public administration ([101]). PLANAPP, the competence centre for planning,

([97]) Understanding Europeans' views on reform needs - April 2023 - - Eurobarometer survey, Country Fact Sheet.

([98]) Inforegio – European Quality of Government Index

([99]) What it is Portugal 2030 – Portugal 2030

([100]) To address the needs of regional governance, the Portuguese Commissions of Coordination and Regional Development (CCDR) have undergone changes in their status and role.

([101]) CEJURE – State Legal Centre

Table A6.1: **Portugal. Selected indicators on administrative burden reduction and simplification**

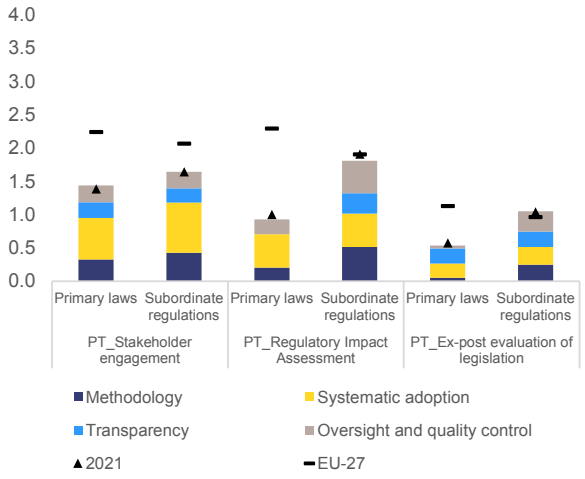
	Ex ante impact assessment of legislation		Ex post evaluation of legislation	
When developing new legislation, regulators are required to …	Identify and assess the impacts of the baseline or 'do nothing' option.	○	Is required to consider the consistency of regulations and address areas of duplication.	○
	Identify and assess the impacts of alternative non-regulatory options.	●	Is required to contain an assessment of administrative burdens.	●
	Quantify administrative burdens of new regulations.	●	Is required to contain an assessment of substantive compliance costs.	◑
	Quantify substantial costs of compliance of new regulations.	●	Compares the impact of the existing regulation to alternative options.	○
	Assess macroeconomic costs of new regulations.	●	Periodic ex post evaluation of existing regulations is mandatory.	○
	Assess the level of compliance.	○	Government uses stock-flow linkage rules when introducing new regulations (e.g., one-in one-out).	○
	Identify and assess potential enforcement mechanisms.	○	A standing body has published an in-depth review of specific regulatory areas in the last 3 years.	●
			In the last 5 years, public stocktakes have invited businesses and citizens to assess the effectiveness, efficiency, and burdens of legislation.	○

● Yes / For all primary laws ◕ For major primary laws ◑ For some primary laws ○ No / Never

(1) This table presents a subset of iREG indicators focusing on regulatory costs. The indicators refer to primary legislation.
Source: OECD (2025), Regulatory Policy Outlook 2025 [https://doi.org/10.1787/56b60e39-en] and Better Regulation across the European Union 2025 (forthcoming).

policy and foresight, has been strengthened to become a central body for planning and evaluating public policies. It supports evidence-based policy formulation and is responsible for regular audits and transparency reports ([102]).

Graph A6.2: **Indicators of Regulatory Policy and Governance (iREG)**



Source: OECD (2025), Regulatory Policy Outlook 2025 and Better Regulation across the EU 2025 (forthcoming).

The OECD product market regulation indicator shows that that Portugal's licensing system is well aligned with some best practices, but not all of them. For instance, while the government keeps an up-to-date online inventory of all the permits and licences required/issued to businesses by public bodies, it is not kept by a single body. There is no requirement for the government to regularly review the inventory and assess whether such licences and permits are still required or should be removed (see also Annex 4).

([102]) Decree Law No 67/2024.

Social dialogue

Social dialogue is highly institutionalised, with the Economic and Social Council (CES) playing a role in national legislation and policymaking. Two trade unions and four employers' associations are represented in the permanent social concertation organ of the CES and are involved in national legislation production and policy making decisions. Most of legislation, depending on the issue at stake, is preceded by a CES consultation. Social partners are in principle also consulted in advance for their views on the design and implementation of relevant policy measures. For instance, this was the case for the recovery and resilience plan (RRP), for the 2030 Partnership Agreement and the key challenges to be addressed in each European Semester cycle. However, some civil society organisations and social partners have raised concerns that such involvement is a formality used to legitimise pre-decided policies rather than a genuine platform for discussion, while others complain about their limited involvement. The thematic ESF+ programme, as well as the multi-fund regional programmes, have a dedicated allocation for the capacity building of social partners ([103]).

Digital public services

Portugal has made some progress in the provision of public services online. While it scores above the EU average on the availability of digital public services for citizens and in access to e-health records, it is still lagging behind on services for businesses (Table A6.2).

Portugal is making good progress towards seamless, automated exchange of authentic documents and data across the EU. It has already successfully tested its first transactions through the Once-Only Technical System ([104]), which is part of the European Union's Single Digital Gateway. Portugal is in the process of connecting the first authorities.

Portugal has set up and notified eID schemes for legal persons under the eIDAS regulation through the Digital Mobile Key and the Citizen Card. Portuguese businesses can authenticate themselves to access public services provided by other Member States through the Professional Attributes Certification System (SCAP). This allows to access public services provided by other Member States, including those enabled by the Once-Only Technical System, part of the EU Single Digital Gateway ([105]).

([103])For an analysis of the involvement of Portugal's social partners at national level in the European Semester and the Recovery and Resilience Facility, see Eurofound (2025), National-level social governance of the European Semester and the Recovery and Resilience Facility.

([104]) European Commission, The Once Only Principle System: A breakthrough for the EU's Digital Single Market

([105])European Commission, Once-Only Technical System Acceleratormeter.

Table A6.2: **Digital Decade targets monitored through the Digital Economy and Society Index**

		Portugal			EU-27	Digital Decade target by 2030
		2022	2023	2024	2024	EU-27
Digitalisation of public services						
1	**Digital public services for citizens**	**79**	**78**	**82**	**79**	**100**
	Score (0 to 100)	2021	2022	2023	2023	2030
2	**Digital public services for businesses**	**82**	**82**	**82**	**85**	**100**
	Score (0 to 100)	2021	2022	2023	2023	2030
3	**Access to e-health records**	**na**	**63**	**86**	**79**	**100**
	Score (0 to 100)	2021	2022	2023	2023	2030

Source: Digital Economy and Society Index

The take-up of digital services in Portugal is uneven. The use of e-government services is above the EU average and citizen perception of public service provision has improved thanks to efforts on digital transformation. However, the share of eID users is markedly below the EU average (30.4% vs 41.1% for the EU) ([106]). In line with its RRP, Portugal is implementing measures relating to digitalisation of public administration ([107]). Furthermore, an integrated citizen-centred process has been put in place for people with disabilities, to minimise unnecessary travel and interactions, ensuring information is only submitted once.

Civil service

Portugal's public administration faces risks due to an ageing workforce and low public employment attractiveness. In 2024, the share of government employees above 49 years old was almost 47% of the workforce. The share of civil servants with higher education is rising (39.7%), yet significantly below the 54% in the EU27 ([108]). The participation rate of civil servants in adult learning has been increasing in recent years. In 2024, it stood at 21.8%, vs. 18.9% in the EU27. Undertaken measures to make public administration more appealing, including under the recovery and resilience plan, promote merit-based recruitment to attract younger talent, using streamlined, digital hiring processes with transparent progress tracking for candidates. Higher salaries and professional development opportunities, along with promoting workplace modernisation and flexibility, were also in focus. Additionally, the performance evaluation system has been revamped ([109]) to better support and value civil servants' careers. The new, accessible evaluation process emphasises performance and merit of civil servants for a better quality of public service and improvement of public administration. Programmes for digital literacy, green skills ([110]) and increasing the educational attainment ([111]) of civil servants have been introduced.

Integrity

A far higher percentage of companies than the EU average consider corruption to be widespread and a problem in doing

([106]) European Commission, eIDAS Dashboard

([107]) For example, the Portuguese Ministry of Justice is developing a chatbot to simplify access to legal proceedings with a more accessible language.

([108]) Eurostat. 2025. European Union Labour Force Survey.

([109]) Law Decree No 12/2024.

([110]) Início – Portugal Digital; Portaria No 21/2023 | DR.

([111]) Doutor - AP - FCT

business. In Portugal, 83% of companies consider that corruption is widespread (EU average 64%) and 51% consider that corruption is a problem when doing business (EU average 36%) ([112]). Moreover, only 22% of companies believe that people and businesses caught for bribing a senior official are appropriately punished (EU average 31%) ([113]). However, corruption cases are being investigated as a matter of priority, including ongoing cases concerning foreign bribery. Portugal has adopted measures which are expected to help ensure sufficient resources for preventing, investigating and prosecuting corruption. However, the shortage of police and prosecution service resources continues to pose a challenge for the efficient prosecution of corruption cases ([114]). Complex criminal proceedings, including those related to high-level corruption, are lengthy, often leading to crimes becoming time-barred. There are reflections on how to adapt general criminal procedure legislation to allow for efficient handling of these cases ([115]). Furthermore, there are concerns regarding the transparency of decision-making in public procurement. 24% of companies (EU average 27%) think that corruption has prevented them from winning a public tender or a public procurement contract in practice in the last three years ([116]). A criminal investigation leading to the dissolution of Parliament revealed integrity risks linked to the National Interest Projects (PINs), which constitute an exceptional regime linking governments and businesses ([117]).

Portugal has not implemented a public register for lobbyists, unlike most Member States. Stakeholders have urged the government to introduce relevant measures on lobbying as a matter of priority ([118]). Legislation on revolving doors ([119]) introduced stricter penalties and extended the rules also to the companies hiring the persons in question ([120]).

Justice

The efficiency of the justice system has improved but challenges remain, in particular in administrative and tax courts. In civil and commercial cases, the average length at first instance has increased (267 days in 2023, compared to 238 days in 2022), and the clearance rate dropped to 96% in 2023 (compared to 103% in 2022). In first-instance administrative and tax courts, while there have been improvements in the case-backlog, and the disposition time has been decreasing since 2020, it remains comparatively high, at 597 days. In second-instance courts, the disposition time increased further, with 1 200 days needed to resolve a case in 2023 (compared to 1 064 in 2022), among the lengthiest in the EU, and the clearance rate dropped to 71% (compared to 78% in 2022). Efforts are being made to reduce the length of proceedings, including in the context of the RRP. While the overall quality of the justice system is good, there are serious concerns about resources, in particular regarding legal clerks. In February 2024, over 1 100 posts in first-instance ordinary courts and 59 posts in first-instance administrative and tax courts remained vacant ([121]). The shortage of

([112]) Flash Eurobarometer 543 on businesses' attitudes towards corruption in the EU (2024).

([113]) Ibid.

([114]) See the 2024 country-specific chapter for Portugal of the Rule of Law Report, pp. 18-19.

([115]) Ibid., pp. 12-13.

([116]) Flash Eurobarometer 543 on businesses' attitudes towards corruption in the EU (2024).

([117]) See the 2024 country-specific chapter for Portugal of the Rule of Law Report, p. 23.

([118]) Ibid., pp. 22-23.

([119]) Law No 25/2024, of 20 February, amending Law 52/2019 (Rules on the exercise of functions by political and high public office holders).

([120]) See the 2024 country-specific chapter for Portugal of the Rule of Law Report, pp. 19-20, with further references.

([121]) Situation on 27 February 2024. Ministry of Justice, staff map.

human resources is considered to be impacting the efficiency and quality of the justice system. The level of digitalisation is advanced, with widespread use of digital technologies by the courts and prosecution. However, online access to judgments remains limited, especially for first-instance decisions. As regards judicial independence, no systemic deficiencies have been reported. ([122])

([122]) For more detailed analysis of the performance of the justice system in Portugal, see the upcoming 2025 EU Justice Scoreboard and 2024 Rule of Law Report.

Portugal faces significant challenges regarding its clean industry transition and climate mitigation. Its modest manufacturing capacity in wind, solar, and electrolyser technologies shows potential, especially in the battery sector due to large lithium deposits. However, strategic industrial policy and R&D investments lag behind the EU average. The automotive industry is strong, but greening efforts need more infrastructure investment. Portugal's reliance on imported critical raw materials poses sustainability challenges, prompting circular economy initiatives. Manufacturing emissions trends highlight the need for additional industry decarbonisation efforts. This annex reviews the areas in need of urgent attention in Portugal's clean industry transition and climate mitigation, looking at different dimensions.

Strategic autonomy and technology for the green transition

Portugal 's manufacturing capacity across all net-zero technologies remains modest but with significant development potential in the battery and hydrogen sector. In 2023, Portugal's manufacturing capacity amounted to 2.4 - 5.55 GW for wind turbine towers and 3.5 – 3.75 GW for wind turbine blades; between 450 and 500 MW/y (8-9% of EU capacity) for electrolysers; and between 50 and 100 MW/y (negligible share of total EU capacity) for solar PV([123]).

Portugal has the largest lithium deposits in Europe, which could reduce dependencies on critical raw materials for European battery manufacturers. Approval was granted in May 2024 to the UK firm Savannah Resources and exploitation is expected to start next year. Paired with the announcement of a lithium-ion battery factory by CALB in Siles (expected production capacity of 15 GW/h), this could enable a wider uptake of battery manufacturing in Portugal.

Portugal participates in three hydrogen IPCEIs: Hy2Tech, Hy2Use, Hy2Infra. Between 2021 and 2023, it also received EUR 62 million for hydrogen projects from the EU Innovation Fund.

A lack of strategic orientation in industrial policy and of a dedicated regulatory framework regarding net-zero industry means that there are few signals and little scale to support net zero manufacturing. In terms of investment support, relevant schemes involve two grant frameworks approved by the European Commission in 2024 under the Temporary Crisis and Transition Framework (1 350 billion) to support investment in the production of certain net zero technologies, namely batteries, solar panels, wind turbines, heat pumps, electrolysers and equipment for carbon capture usage and storage. Additional investment and efforts to increase innovation capacity and coordination are necessary to compete in net zero innovation.

Portugal's automotive and mobility sector is one of the most important industrial value chains in the Portuguese economy and one of its leading exporters (11% of total exports). Portugal hosts over 220 automotive supplier companies and four major car manufacturers (European original equipment manufacturers, OEMs). The automotive industry employs 5.6% of the Portuguese workforce. This translates into 7.7 vehicles produced per direct automotive manufacturing employee (EU average: 5.4). In total, Portugal produces over 300 000 vehicles a year (2.14% of all EU vehicle production), with a total turnover of EUR 5.2 billion. Most of these (over 96%) are exported to other EU Member States (Germany, France, Italy and Spain), the UK and the USA. The automotive components production, with an

([123])European Commission: Directorate-General for Energy, The net-zero manufacturing industry landscape across the Member States 2025.

EUR 9.1 billion turnover, represents most of the value added of the automotive industry in Portugal and exports mainly to the main vehicle manufacturing member states (Spain (27%), Germany (22%), France (12%)), the USA (6%), as well as the UK (5%).

Portuguese efforts to green and electrify the vehicle fleet require increased green infrastructure investment. In 2023, 61.9% of new registrations in Portugal were petrol-powered cars (including hybrids), ranking 19th in the EU. This shows Portugal making some progress in greening and electrifying the vehicle fleet. There is still a high need for green infrastructure investments, especially in terms of charging infrastructure.

The strength of Portugal's automotive sector is based on a close cooperation between higher education institutions and training centres, R&D institutions, private companies and industry associations. All under coordination of the Portuguese government, which considers the industry to be a priority sector.

Critical raw materials

Portuguese manufacturing depends heavily on imports of critical raw materials (CRMs) needed for the green and digital transitions. The main critical raw material imports include copper (from Turkey, Norway, and Brazil), phosphorus (from Algeria and Morocco), aluminium (primarily from Turkey) and phosphate rock (from Morocco). This implies significant challenges regarding sustainability and resilience, such as supply chain risks, environmental degradation, and social concerns. With 29.6% of material inputs to manufacturing coming from imports in 2023 (EU average: 22%), Portugal is particularly vulnerable to supply chain disruptions.

Portugal is implementing policies to strengthen supply chains and the uptake of circular solutions for critical raw materials. The eMaPriCE project was developed during 2021/2022 with the objective of identifying opportunities for circular economy strategies to be implemented to prevent CRMs ending up as waste. It also looks at options for substituting these CRMs with non-critical raw materials.

Portugal's upcoming Circular Economy Action Plan includes measures to promote the use of recycled materials over raw material extraction. One key action proposed is to study potential policies and financial incentives that can promote circularity and reduce reliance on critical raw materials. Implementation of CEAP is supported by the 2030 National Waste Management Plan, aiming to reintegrate materials into the economy, covering areas like food, construction, plastics, textiles and CRMs. Furthermore, the Strategic Plan for Urban Waste (PERSU 2030) also outlines strategies to prevent CRMs from becoming waste and explores ways in which they can be substituted with non-critical materials. The recycling rate for e-waste, a key source of critical raw materials, was 57% in 2023, well below the EU average of 81%. The reuse and recycling rate for end-of-life vehicles is exactly at the EU average (89% in 2022). This points to the need to avoid the loss of critical raw materials, notably as the car industry shifts to -battery electric vehicles.

Portugal produces several critical raw materials needed for the development of net zero industry. These include lithium (the only EU source of lithium ores in 2021), tungsten, copper and feldspar. Portugal's raw materials resource productivity is significantly below the EU average (1 454 EUR/Kg vs 2 454 EUR/Kg). CRMs are essential for producing high-tech products, including electric vehicles, wind turbines, and electronics. The production of these materials is in the form of ore concentrates, which is one of the reasons for Portugal's raw materials resource productivity being below the EU average. Given the mineral potential of the country there is room to improve productivity. In 2023, Portugal budgeted USD 16.5 m for the exploration of

raw materials (compared to USD 18.8 m in 2022). The main ones being lithium (USD 7.9 m), copper (USD 4.3 m) and zinc (USD 4 m). Portugal's strategic dependence on raw materials is below the EU average (0.20 vs 0.23).

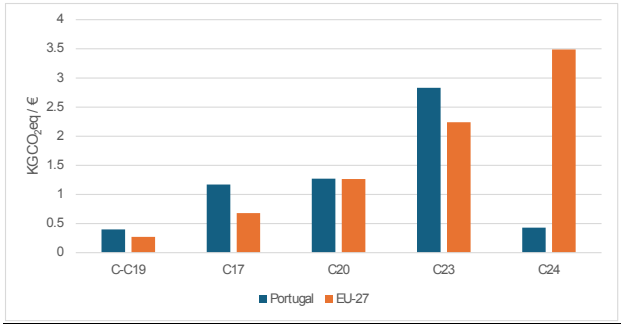
The circular use of material would help reduce Portugal's dependency on imports. The use of recycled materials has remained extremely low (2.8%) compared to the EU average (11.8%) over the last decade.

Climate mitigation

Portuguese manufacturing is relatively greenhouse emissions intensive. As in the EU overall, about one fifth of Portugal's total greenhouse gas emissions come from manufacturing ([124]). Industry emits 400 g CO2eq of greenhouse gases per euro of gross value added (GVA), about 50% more than the EU average). From 2017 to 2022, the emissions intensity of manufacturing in Portugal increased by 13%, compared to a fall of 20% in the EU overall. At 46% and 54% respectively, the shares of energy- and non-energy-related emissions in Portugal's manufacturing industry (the latter are related to industrial processes and product use) remain broadly comparable with the shares in the EU overall, 43% and 57%.

In recent years, improvements in the intensity of Portugal's manufacturing output have been lacking, regarding both energy and process and product use-related emissions. Between 2017 and 2022, the energy-related greenhouse emissions intensity of Portuguese manufacturing remained broadly constant, at 185 g CO2eq per euro of GVA, about 40% above the EU average in 2022 ([125]). Concerning industrial processes and product use, the emissions intensity from these sources of Portugal's manufacturing increased by 6%, to 160 g CO2eq/€ (60% above the EU average), while it decreased by 23% in the EU overall. In the meantime, the share of renewables and electricity in manufacturing's final energy consumption increased slightly, by 3 percentage points, to 57%. In this regard, Portugal comes sixth highest in the EU. The energy intensity of manufacturing increased in this period too, by 21%, to reach 1.8 GWh per euro of gross value added – up from 1.5 GWh in 2017 and about two thirds higher than the EU average of 1.1 GWh in 2022.

Graph A7.1: **GHG emission intensity of manufacturing and energy-intensive sectors, 2022**



Source: Eurostat.

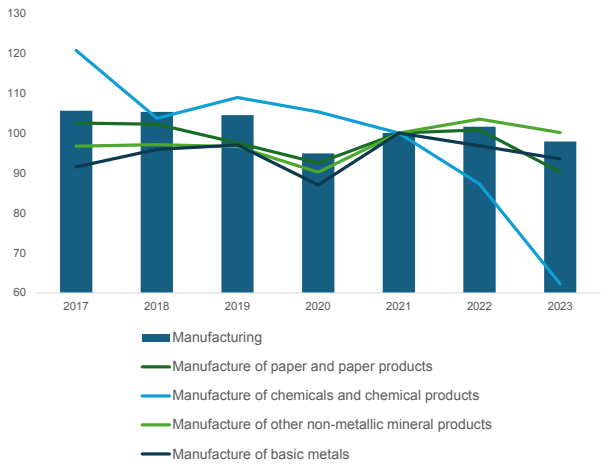
Except the paper products sector, the greenhouse emissions intensity of energy-intensive sectors in Portugal is comparatively low. Energy-intensive

([124]) In 2023. Manufacturing includes all divisions of the "C" section of the NACE Rev. 2 statistical classification of economic activities. In the remainder of this section, unless indicated otherwise, data on manufacturing refer to the divisions of the NACE section C excluding division C19 (manufacture of coke and refined petroleum products), and the year 2022. The source of all data in this section is Eurostat; data following the UNFCCC Common Reporting Framework (CRF) are from the European Environment Agency (EEA), republished by Eurostat.

([125]) For the GHG emissions intensity of GVA related to energy use and industrial processes and product use respectively, GHG emissions are from inventory data in line with the UNFCCC Common Reporting Format (CRF), notably referring to the source sectors CRF1.A.2 – fuel combustion in manufacturing industries and construction and CRF2 – industrial processes and product use. The CRF1.A.2 data broadly correspond to the NACE C and E sectors, excluding C-19. GVA data (in the denominator for both intensities) are aligned with this sectoral coverage. Therefore, they are not fully consistent with the data referred to in other part of this section.

industries ([126]) account for 16% of Portugal's total manufacturing gross value added (2022). Among these industries, in 2022, the manufacture of paper and paper products recorded a comparatively high emissions intensity, at 1.2 kg CO2eq/€ of GVA. This was above the weighted EU average of 0.7 kg. Despite comparatively low electricity prices prevailing in Portugal lately ([127]), output from greenhouse gas emissions-intensive industries has declined since 2021, in particular for the manufacturing of chemicals and chemical products (by more than half) and manufacturing of paper and paper products (by 15%) ([128]).

Graph A7.2: **Manufacturing industry output: total and selected sectors, index (2021 = 100), 2017-2023**



Source: Eurostat.

Portugal has started supporting the clean transition of manufacturing. To address these challenges, Portugal has implemented various policies including deployment of renewable energy and the promotion of renewable hydrogen and biogas, as outlined in the country's National Energy and Climate Plan (NECP). This includes a (revised) national hydrogen strategy, a biomethane action plan, a system of guarantees of origin for the injection of renewable gases into the grid and a competitive auction for the centralised purchasing of renewable gases.

Portugal is projected to reach its 2030 effort sharing target with the climate mitigation policies it currently has in place ([129]). In 2023, greenhouse gas emissions from Portugal's effort sharing sectors are expected to have been 18.6% below the level of 2005 (see graph A7.3). By 2030, current policies are projected to reduce them by 31.8% relative to 2005 levels. Additional policies considered in Portugal's

([126]) Notably, the manufacture of paper and paper products (NACE division C17), of chemicals and chemical products (C20), "other" non-metallic mineral products (C23; this division includes manufacturing activities related to a single substance of mineral origin, such as glass, ceramic products, tiles, and cement and plaster), and basic metals (C24). To date, these industries are energy-intensive – i.e. consuming much energy both on site and/or in the form of purchased electricity – and greenhouse gas emissions intensive, in various combinations.

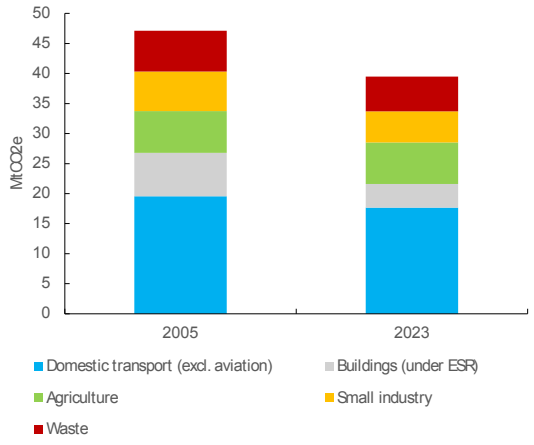
([127]) For a detailed analysis of energy prices, see Annex 8 on the affordable energy transition.

([128]) The Iberian Exception, implemented in 2022, was a temporary mechanism allowing Spain and Portugal to cap natural gas prices used for electricity generation, thereby reducing electricity costs for consumers while addressing the energy market disruptions caused by Russia's invasion of Ukraine.

([129]) The national greenhouse gas emission reduction target is set out in Regulation (EU) 2023/857 (the Effort Sharing Regulation). It applies jointly to buildings (heating and cooling); road transport, agriculture; waste; and small industry (known as the effort sharing sectors).

final updated NECP are projected to involve reductions by a further 7.5 percentage points ([130]). Hence Portugal is projected to overachieve its effort sharing target, a 28.7% reduction, by 10.7 percentage points.

Graph A7.3: **Greenhouse gas emissions in the effort sharing sectors, 2005 and 2023**



Source: European Environment Agency.

Sustainable industry

Despite progress, Portugal needs to make further efforts to improve waste management and develop the potential of the circular economy. Portugal adopted a national Circular Economy Action Plan in 2017, and a new one is still under preparation. New national legislation on waste management was approved in 2020. The new national waste management plan (PNGR 2030), the Strategic Plan for Municipal Waste (PERSU 2030) and the Strategic Plan for non-urban Waste (PERNU 2030) were adopted in 2023. The new regional waste management plans for Madeira and Azores were adopted, in 2021 and 2023, respectively. However, overall, progress in this field has been limited, although the situation varies by region.

Portugal is far below the EU average on circular economy and waste management indicators. Portugal's circular use of materials had a rate of 2.8% in 2023, well below the EU average of 11.8%. The resource productivity is also below the EU average with EUR 1.6 per kg of material consumed (EU average: EUR 2.7 per kg). Portugal missed the EU target of recycling 50% of municipal waste by 2020 (its rate was 27%) and it is at high risk of missing the new EU waste targets for 2025 ([131]). Therefore, Portugal needs to implement these new plans, as well as adopt the pending measures, including additional initiatives and further investment.

Current investment to become a more circular economy has been insufficient. Portugal is estimated to need total additional investment of EUR 2.5 billion a year for the circular economy transition, including waste management ([132]).

Portugal has been making considerable progress in reducing air pollution, which is now decoupled from GDP growth. However, this is a mixed picture. While emissions of several air pollutants have fallen in recent decades, air quality in Portugal continues to give cause for concern in some parts of its territory, mainly as regards NO_2.

Portugal's industry still releases large amounts of water pollutants. Some 800 industrial installations are required to have a permit based on the Industrial Emissions Directive. Portugal has the 11th highest amount of emissions of heavy metals to water, and ranks 6th for emissions intensity (below the EU average intensity of 0.864 kg / billion EUR GVA). The main contributors to emissions

([130])The emissions from effort sharing sectors for 2023 are based on approximated inventory data. The final data will be established in 2027 after a comprehensive review. Projections on the impact of current policies ('with existing measures', WEM) and additional policies ('with additional measures', WAM) as per Portugal's final updated national energy and climate plan.

([131])European Commission, 2023 Waste early warning report.

([132])European Commission, DG Environment, *Environmental investment needs & gaps assessment programme*, 2025 update. Expressed in 2022 prices.

to water in Portugal are the pulp, paper and wood industry for heavy metals, nitrogen, total organic carbon, total phosphorus and waste management for heavy metals.

The impact of air pollution on human health remains significant. The latest available annual estimates for Portugal (for 2022) by the European Environment Agency attribute 3 600 deaths a year (or 35 400 years of life lost (YLL)) to fine particulate matter ($PM_{2.5}$); 710 deaths a year (or 6 900 YLL) to nitrogen dioxide (NO_2) and 1 400 deaths a year (or 13 900 YLL) to ozone ([133]). The adequate implementation of the national climate and energy plan (NECP), with the investment included for sustainable energy and transport, would largely deliver the necessary investment for clean air and noise. The costs from all pollutants are estimated at EUR 4.7 billion ([134]).

([133]) EEA, 2024, *Harm to human health from air pollution in Europe: burden of disease status, 2024*.

([134]) Latest available annual estimates by the European Environment Agency.

Table A7.1: **Key clean industry and climate mitigation indicators: Portugal**

Strategic autonomy and technology for the green transition				Portugal					EU-27	
Net zero industry										
Operational manufacturing capacity 2023										
- Solar PV (c: cell, w: wafer, m: module), MW	50-100 (m)			- Electrolyzer, MW		450-500				
- Wind (b: blade, t: turbine, n: nacelle), MW	3500-3750 (b), 2400-5550 (t)			- battery, MWh		-				
Automotive industry transformation	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**		**2018**	**2021**
Motorisation rate (passenger cars per 1000 inhabitants), %	490	511	525	535	541	549	558	↗	539	561
New zero-emission vehicles, electricity motor, %	0.85	1.95	3.08	5.44	9.24	11.64	18.21	↗	1.03	8.96
Critical raw materials	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**		**2018**	**2021**
Material import dependency, %		31.4	30.7	30.4	27.8	31.3	29.6	↘	24.2	22.6

Climate mitigation				Portugal				Trend	EU-27	
Industry decarbonisation	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**		**2017**	**2022**
GHG emissions intensity of manufacturing production, kg/€	0.35	0.35	0.37	0.48	0.44	0.4		↗	0.34	0.27
Share of energy-related emissions in industrial GHG emissions	45.3	45.5	44.1	44.5	44.5	43.9	46.4	↘	44.8	42.5
Energy-related GHG emissions intensity of manufacturing and construction, kg/€	181.8	180.4	190.7	233.9	214.3	185.4	-	↗	158.4	132.9
Share of electricity and renewables in final energy consumption in manufacturing, %	53.9	53.9	54.6	55.1	54.4	57.0	58.2	↗	43.3	44.2
Energy intensity of manufacturing, GWh/€	1.48	1.51	1.59	2.01	1.89	1.80	1.76	↗	1.29	1.09
Share of energy-intensive industries in manufacturing production						16.0				7.3
GHG emissions intensity of production in sector [...], kg/€										
- paper and paper products (NACE C-17)	1.64	1.60	1.77	1.66	1.42	1.17	-	-	0.73	0.68
- chemicals and chemical products (NACE C20)	1.51	1.35	1.69	1.44	1.52	1.27	-	-	1.25	1.26
- other non-metallic mineral products (NACE C23)	3.61	3.23	3.12	3.27	2.88	2.83	-	-	2.53	2.24
- basic metals (NACE C24)	0.48	0.50	0.57	0.56	0.49	0.43	-	-	2.79	3.49
Reduction of effort sharing emissions		**2018**	**2019**	**2020**	**2021**	**2022**	**2023**		**2018**	**2023**
GHG emission reductions relative to base year, %					-17.9	-18.2	-18.6			
- domestic road transport		-14.4	-11.8	-25.5	-20.4	-14.9	-9.7	↗	1.4	5.2
- buildings		-36.6	-36.5	-36.5	-38.2	-40.6	-45.5	↘	21.4	32.9
	2005				**2021**	**2022**	**2023**	**Target**	**WEM**	**WAM**
Effort sharing: GHG emissions, Mt; target, gap, %	48.6				39.9	39.8	39.6	-28.7	3.13	10.664

Sustainable industry				Portugal				Trend	EU-27	
Circular economy transition		**2018**	**2019**	**2020**	**2021**	**2022**	**2023**		**2018**	**2021**
Material footprint, tonnes per person		17.0	17.2	15.4	18.2	16.0	16.5	↗	14.7	15.0
Circular material use rate, %		2.2	2.3	2.5	2.7	3.3	2.8	↗	11.6	11.1
Resource productivity, €/kg		1.2	1.3	1.3	1.2	1.5	1.6	↘	2.1	2.3
Zero pollution industry										
Years of life lost due to PM2.5, per 100,000 inhabitants		256	249	242	204	503	-	↗	702	571
Air pollution damage cost intensity, per thousand € of GVA					29.9					27.5
Water pollution intensity, kg weighted by human factors per bn € GVA						1.4				0.9

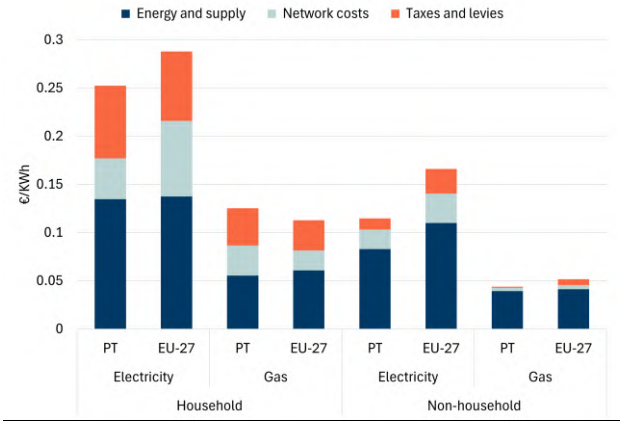
Source: **Net zero industry:** European Commission: The net-zero manufacturing industry landscape across Member States: final report, 2025. **Automotive industry transformation:** Eurostat. **Critical raw materials:** Eurostat. **Climate mitigation:** See footnotes in the "climate mitigation" section; reduction of effort sharing emissions: EEA greenhouse gases data viewer; European Commission, Climate Action Progress Report, 2024. **Sustainable industry:** Years of life lost due to PM2.5: Eurostat and EEA, Harm to human health from air pollution in Europe: burden of disease status, 2024. Air pollution damage: EEA, EU large industry air pollution damage costs intensity, 2024. Emissions covered: As, benzene, Cd, Cr, Hg, NH3, Ni, NMVOC, NOX, Pb, dioxins, PM10, PAH, SOX. Water pollution intensity: EEA, EU large industry water pollution intensity, 2024. Releases into water covered from cadmium, lead, mercury, nickel. Other indicators: Eurostat.

This annex outlines the progress made and the ongoing challenges faced in enhancing energy competitiveness and affordability, while advancing the transition to net zero. It examines the measures and targets proposed in the final updates to the national energy and climate plans (NECPs) for 2030.

While Portugal has shown progress in the share of renewable energy in its electricity mix and increasing its interconnection capacity, there are considerable challenges to be addressed, especially regarding inadequate resources in the public administration, energy efficiency and flexibility solutions.

Energy prices and costs

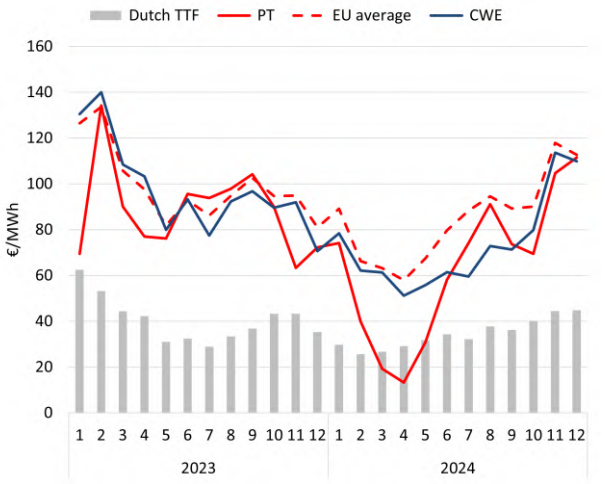
Table A8.1: **Retail energy price components for household and non-household consumers, 2024**



(i) For household consumers, consumption band is DC for electricity and D2 for gas. Taxes and levies are shown including VAT.
(ii) For non-household consumers, consumption band is ID for electricity and I4 for gas. Taxes and levies are shown excluding VAT and recoverable charges, as these are typically recovered by businesses.
Source: Eurostat

Portugal's retail electricity prices in 2024 rose for both households (+16%) and non-household consumers (+15%) yet remained below the EU average. Notably, electricity prices for non-households were the third lowest in the EU. In contrast, retail gas prices declined across both consumer categories, although household gas prices remained slightly above the EU average. The components of retail energy prices (energy and supply, network costs, and taxes and levies) generally followed EU trends, with electricity network costs being lower and taxes being higher than EU average (with the exception of non-household consumers), while household gas prices faced higher network costs and taxes, in contrast to lower charges for non-households.

Graph A8.1: **Monthly average day-ahead wholesale electricity prices and European benchmark natural gas prices (Dutch TTF)**



(i) the Title Transfer Facility (TTF) is a virtual trading point for natural gas in the Netherlands. It serves as the primary benchmark for European natural gas prices.
(ii) CWE gives average prices in the central-western European market (Belgium, France, Germany, Luxembourg, the Netherlands and Austria).
Source: S&P Platts and ENTSO-E

Thanks to a large share of renewables (87.7%) in its electricity mix, wholesale electricity prices in Portugal averaged 63.3 EUR/MWh in 2024([135]), the EU's fifth-lowest wholesale electricity prices (EU average of 84.7 EUR/MWh). The Iberian Peninsula (PT&ES) experienced stronger fluctuation in prices than the EU average. Prices in Portugal decreased to as low as 13.2 EUR/MWh in April due to strong output of renewables (+55% in February-May 2024 compared to same period

([135]) Fraunhofer (ENTSO-E data)

in 2023). Prices picked up in the second half of the year amid rising natural gas costs and limited non-fossil flexibility. In November, prices spiked further in the Iberian Peninsula due to the Dunkelflaute in the Central Western European (CWE) region which negatively impacted day-ahead prices in CWE and neighbouring markets.([136])

Flexibility and electricity grids

Being part of the south-west Europe capacity calculation region (CCR)([137]), Portugal is increasing cross-border trade capacity to Spain. Member States should ensure that a minimum of 70% of technical cross-border capacity is available for trading. The general trend in this CCR is a slight improvement in the fulfilment of this requirement. Portugal shows the highest interconnection capacity rate in the south-west region and, in May 2024, Portugal and Spain are implementing a new interconnection between Beariz, Fontefría and Ponte de Lima.

The further expansion of Portugal's cross-border interconnection capacity, along with the reinforcement of its national grid, will enable the country to integrate renewable energy production more effectively, and enhance grid flexibility and export capacity. In July 2024, Portugal and Spain started the construction of a new interconnection between Beariz, Fontefría and Ponte de Lima. The new interconnector is included in the first PCI (project of common interest) and PMI (project of mutual interest) list and is expected to be commissioned in late 2025, after some initial delays. Moreover, the internal line between Pedralva and Sobrado, which was part of the fifth PCI list and scheduled for completion by 2029, will support the necessary network expansion. This will allow for better integration of renewables, thus making it possible to distribute electricity from solar more effectively across the territory. Based on the final updated NECP, Portugal should achieve the 15% electricity interconnection target in 2030. In 2025, Portugal's overall interconnection level increased from 11.47% to 14.01%([138]).

The efforts to develop hydrogen infrastructure will support the development of a national and European hydrogen market and allow Portugal to contribute as an exporter to the renewable hydrogen corridor from the Iberian Peninsula to Germany. This flagship corridor, designed to export approximately 2 Mt of hydrogen from the Iberian Peninsula to other Member States, in particular Germany, is enabled by two Portuguese projects on the first PCI and PMI list and expected to be commissioned in 2029 and 2030: the H2 interconnection between Portugal and Spain with a capacity of 0.75 million tonnes (Mt) per year (H2 Med/CelZa project); and the internal hydrogen infrastructure (Portuguese 'hydrogen backbone' project). According to the final updated NECP, Portugal also intends to deploy several hydrogen valleys across its territory and enable the storage of hydrogen in the two additional cavities to be added to the Carriço US storage facility, which is to become operational in 2027-2028. This initiative will further contribute to the development of the hydrogen value chain in Portugal and the EU.

Permitting procedures for grid infrastructure remain essential to ensure a correct balance between demand and supply. In Portugal, the permitting procedure for energy infrastructure takes on average 36 months and is governed by environmental and sector-specific legislation. This duration is comparable to that of other Member States but on the longer side, thus, there is room for

([136]) Yearly electricity data, Ember (consumption and generation data throughout the paragraph)

([137]) The south-west Europe CCR covers Portugal, Spain and France. A CCR is a group of countries which calculate cross-border electricity flows together.

([138])ENTSO-E Winter Outlook 2024-2025

acceleration. Stakeholders have identified as key causes for delays the lack of sufficient staff in the permitting authorities and opposition by local communities and municipalities in cases where local benefits are less evident. Additionally, environmental assessment procedures are also prone to delays, often due to unexpected requests for additional documentation and information. The grid is also facing constraints with unused booked capacity and lack of transparency on the available distribution grid capacity also makes difficult for developers to plan new projects.

The Portuguese operational electricity storage capacity reported in the final updated NECP is expected to be around 3.9 GW for pumped hydro and 2.0 GW for battery storage by 2030. Portugal is currently building several storage projects, such as the conversion of a generating group at Alto Lindoso to reversible operation Portugal has already taken steps to promote the installation of electricity storage, including the adoption of Decree-Law No 15/2022, which regulates the licensing of autonomous storage plants. Tender procedures are being conducted for battery storage and other measures, such as incentivising behind-the-meter storage and smart charging strategies and should continue until 2026.

Portugal's regulatory framework presents barriers to the development of flexible resources. It allows for demand-side response (DSR) and storage to sell and buy electricity in the day-ahead and intraday markets. However, DSR and storage are not allowed to participate in ancillary services and are not eligible to provide congestion management services to transmission system operators (only industrial and commercial consumers were piloted in 2022). Aggregators, including those that operate independently, are excluded from participating in these markets and services.

Portugal's large-scale smart meter roll-out (86% in 2023) is one of the conditions that enables consumers to be empowered to take action. Portugal also had a switching rate of electricity supplied or contract higher than the EU average between suppliers and tariffs between 2022 and 2023. Nevertheless, most households are on fixed-term price contracts, which has an impact on flexibility provision. The household retail market is both regulated and involves market-based offers. Despite regulatory requirements, household consumers in Portugal did not have access to dynamic-price contracts as of 2023. Portugal also has a relatively low level of prosumers, which has fallen to below 5%. Renewable energy communities (RECs), which enable collective and citizen-driven energy actions, can be a key contributor to Portugal's energy transition. However, Portugal limits RECs to the electricity sector and mandates electricity production for self-consumption only, therefore preventing RECs to offer commercial energy services. Moreover, there is a lack of citizens empowerment in energy communities, since their control is often managed by private companies.

In 2023, electricity accounted for 25.9% of Portugal's final energy consumption, above the EU average of 22.9%, and this share has seen a slight increase in the last decade([139]). When it comes to households, electricity accounts for 41.5% of final energy consumption, while in industry it represents 33.2% (see also Annex 7). For the transport sector, this share remains negligible at 0.8%. Further progress in electrification across sectors is required for cost effectively decarbonising the economy and bringing the benefits of affordable renewable generation to consumers. Between 2022 and 2023, heat pump sales in Portugal saw an increased by 9 730 heat

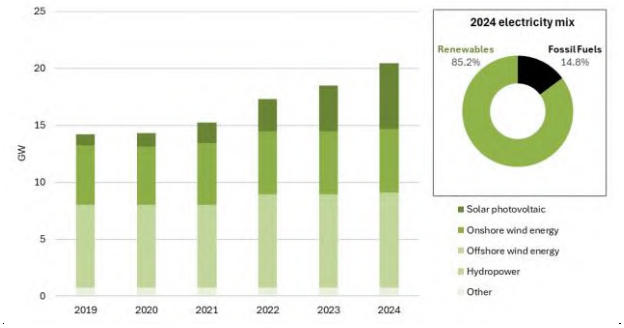
([139]) CAGR (compound annual growth rate) of -0.1% between 2013 and 2023 and minimum/maximum share of 25.2% and 26.2%, respectively.

pumps, however Portugal remains well below the EU average in this regard.

Renewables and long-term contracts

Portugal has made progress in promoting renewable energy and increasing the share of such energy in final energy consumption by 2030. In particular, Portugal has focused on bringing about the electrification of consumption, increasing installed capacity and renewable electricity generation, and it is taking steps to ensure electric vehicle penetration notably by reviewing the regulatory framework and putting in place other more sustainable mobility solutions. In 2024, renewable energy sources (RES) accounted for 87.7% of the electricity mix. (vs EU overall RES share of 47%), increasing from 75%([140]). Installed renewables capacity grew by 10.6% in 2024, reaching 20 476 MW. As regards the steady acceleration of solar deployment, the total installed capacity in 2024 was 5 808 MW (+1 768 MW, an increase of 43% compared to 2023) while installed wind capacity stagnated (+45 MW, an increase of 0.8%) reaching 5 583 MW in 2024([141]). Moreover, in 2023, 35.1% of gross final energy consumption came from renewable sources, from 34.7% in 2022. In early January 2025, Portugal also announced a plan to install 2 GW of offshore wind capacity by 2030 and four sites for this have already been identified.

Graph A8.2: **Portugal's installed renewable capacity (left) and electricity generation mix (right)**



"Other" includes solid biofuels, renewable municipal waste, geothermal energy, biogas and geothermal energy
Source: IRENA, Ember

Portugal started to take steps towards developing a regulatory framework for renewable energy and shortening its procedures, with a special focus on environmental impact assessments (EIAs), but challenges remain. The country working on the digitalisation front with a view to having all steps of the permitting process carried out online, such as creating the environmental impact assessment. Speeding up the transposition process and staffing the relevant entities with sufficient human resources and skills will further improve the situation. Current legal framework is rather complex leading to different interpretations of the different national bodies with responsibilities in this area.

Portugal still does not have in place a legal and regulatory framework to promote and facilitate the use of Power Purchase Agreements (PPAs) in line with Regulation (EU) 2024/1747([142]). In the meantime, PPAs are signed of 0,42 GW.

([140]) Yearly electricity data, Ember.

([141])Renewable capacity statistics 2025, IRENA

([142]) European PPA Market Outlook 2024, Pexapark

Energy efficiency

There has been a slowing of energy efficiency gains in Portugal despite untapped potential. In 2023, primary energy consumption (PEC) decreased by 0.3% to 20.71 Mtoe. Final energy consumption (FEC) increased by 2.9% to 17.20 Mtoe. Compared to 2022, FEC decreased in the industrial sector by 4.2%. In the residential, transport and services sector, FEC increased by 1.7%, 8.3%, and 1.4%, respectively. Under the recast Energy Efficiency Directive (Directive (EU) 2023/1791), Portugal should try to reach a PEC of 16.71 Mtoe and an FEC of 14.37 Mtoe by 2030.

Portugal aims to reduce the energy consumption of the residential sector by 11% by 2030, but progress between 2018 and 2022 was inadequate. Although there was an improvement in 2023, the current pace is still insufficient to meet the objective. To get back on track, it would be beneficial if Portugal were to significantly intensify its efforts to reduce the energy consumption of buildings.

Portugal has not notified the Commission of its comprehensive heating and cooling assessment identifying potential for the application of high-efficiency cogeneration and efficient district heating and cooling in line with Article 25(1) of the Energy Efficiency Directive. There is no estimated completion date for this.

The decarbonisation of the heating sector is advancing. There was a marked increase in sales of heat pumps, signalling progress. The ratio of prices between gas and electricity has substantially decreased (almost 50% between 2021 and 2023), which when combined with available finance assistance measures further facilitates the switch to decarbonisation. However, additional progress and actions may be necessary to meet de-carbonisation objectives. This could include measures to support the supply chain (e.g. capacity building for installers), support renovation (e.g. subsidies, or financial schemes), or target specific sectors that are lagging behind.

Portugal continues to rely mostly on grant-based funding schemes for energy efficiency, and the use of financial instruments remains limited. No new schemes were created for the financing of energy efficiency in 2024, but several previously implemented schemes remain in place. For instance, the Environmental Fund manages a set of programmes to increase energy efficiency in buildings, targeting residential, services and central government buildings. As part of ongoing efforts to promote energy efficiency, Portugal established the necessary legal framework in 2024 for the creation of one-stop shops, known as 'citizen energy spaces', which will provide energy efficiency services to the public. This framework is expected to come into effect in 2025.

Portugal has committed substantial amounts of money to energy renovation, including over EUR 2.4 billion from the Recovery and Resilience Facility. However, the current level of absorption is still low and faster assessment of applications by the Environmental Fund would ensure a faster absorption rate. Corrective measures to efficiently and effectively assess applications and disburse the funds for the objectives agreed would be important.

Security of supply and diversification

Portugal has strengthened the security of its gas supply, limited its energy imports dependency, while increased renewables' share in its energy mix. Portugal has made significant progress in reducing its dependence on Russian energy, but further efforts are still required as the country continues to import Russian energy to some extent. Notably, in the gas sector, Portugal has achieved a substantial

reduction in imports compared to the period preceding the start of the invasion of Ukraine by Russia. Specifically, Portugal's imports of Russian liquefied natural gas decreased from 0.740 bcm in 2021 to 0.233 bcm in 2024. This decline is a result of Portugal's intensified efforts to diversify its energy supply, with a focus on prioritizing LNG imports from alternative sources, such as the United States and Nigeria.

On 28 April 2025, Portugal and Spain faced an unprecedented power outage, which also affected parts of France. According to EU law, ENTSO-E will lead an independent investigation into the causes of the blackout. The European Commission will inform all Member States of the progress of the investigation through the Electricity Coordination Group.

Fossil fuel subsidies

In 2023, environmentally harmful ([143]) fossil fuel subsidies without a planned phase-out before 2030 represented 0.70%([144]) of Portugal's GDP([145]), above the EU weighted average of 0.49%. Tax measures accounted for 94% of this volume, while direct grants and income/price support represented 4% and 0.3%, respectively. Fossil fuel subsidies without a planned phase-out before 2030 and which do not specifically address, in a targeted way, energy poverty nor genuine energy security concerns included fuel tax reductions on unleaded gasoline and road diesel ("Famílias Primeiro") as well as tax exemptions for natural gas used in certain industrial processes and diesel fuel used by freight companies and for agriculture machinery. Additionally, Portugal's 2023 Effective Carbon Rate([146]) averaged EUR 80.3 per tonne of CO_2, below the EU weighted mean of EUR 84.80.

([143]) Direct fossil fuel subsidies that incentivise maintaining or increasing in the availability of fossil fuels and/or use of fossil fuels.

([144]) Numerator is based on volumes disclosed by the Portuguese authorities via the 2025 NECPR reporting. For all Member States, it includes public R&D expenditures for fossil fuels as reported by the IEA (Energy Technology RD&D Budgets) and excludes, for methodological consistency, excise tax exemption on kerosene consumed in intra-EU27 air traffic.

([145]) 2023 Gross Domestic Product at market prices, Eurostat.

([146]) The Effective Carbon Rate is the sum of carbon taxes, ETS permit prices and fuel excise taxes, representing the aggregate effective carbon rate paid on emissions.

Table A8.2: **Key Energy Indicators**

	Portugal				EU			
	2021	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**	**2024**
Household consumer - Electricity retail price (EUR/KWh)	**0,2129**	**0,2210**	**0,2180**	**0,2524**	**0,2314**	**0,2649**	**0,2877**	**0,2879**
Energy & supply [%]	34,1%	59,4%	92,0%	53,4%	36,6%	54,3%	55,6%	47,8%
Network costs	19,8%	24,7%	24,6%	16,8%	26,7%	25,3%	24,8%	27,2%
Taxes and levies including VAT	46,1%	15,9%	-16,6%	29,8%	36,7%	20,3%	19,6%	25,0%
VAT	16,9%	16,5%	15,7%	15,5%	14,5%	13,4%	13,8%	14,6%
Household consumer - Gas retail price	**0,0766**	**0,0981**	**0,1395**	**0,1254**	**0,0684**	**0,0948**	**0,1121**	**0,1128**
Energy & supply	36,0%	45,6%	54,0%	44,2%	43,7%	61,0%	64,5%	53,9%
Network costs	35,9%	28,0%	20,5%	25,0%	22,5%	17,3%	17,1%	18,3%
Taxes and levies including VAT	28,1%	26,4%	25,5%	30,9%	33,8%	21,7%	18,4%	27,8%
VAT	17,9%	18,1%	18,2%	18,0%	15,5%	11,6%	10,2%	13,6%
Non-household consumer - Electricity retail price	**0,1089**	**0,1341**	**0,1000**	**0,1148**	**0,1242**	**0,1895**	**0,1971**	**0,1661**
Energy & supply	45,4%	80,1%	88,8%	59,1%	43,0%	66,5%	63,0%	55,8%
Network costs	16,2%	18,2%	20,2%	14,5%	15,8%	10,7%	11,9%	15,5%
Taxes and levies excluding VAT	25,2%	-19,8%	-33,3%	10,1%	30,4%	9,9%	11,2%	15,4%
Non-household consumer - Gas retail price	**0,0268**	**0,0786**	**0,0553**	**0,0438**	**0,0328**	**0,0722**	**0,0672**	**0,0517**
Energy & supply	72,3%	78,2%	80,4%	73,2%	66,2%	77,3%	77,3%	68,7%
Network costs	7,0%	2,3%	2,8%	6,7%	7,7%	3,8%	5,3%	7,1%
Taxes and levies excluding VAT	2,6%	1,0%	-2,5%	2,1%	12,5%	6,1%	7,3%	11,6%
Wholesale electrity price (EUR/MWh)	111,5	168,0	88,6	63,5	111,0	233,2	99,1	84,7
Dutch TTF (EUR/MWh)	*n/a*	*n/a*	*n/a*	*n/a*	46,9	123,1	40,5	34,4

	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Gross Electricity Production (GWh)	**59.432**	**59.636**	**53.154**	**53.078**	**50.980**	**48.808**	**49.043**	-
Combustible Fuels	38.344	32.155	27.687	25.214	21.894	23.011	15.662	-
Nuclear	-	-	-	-	-	-	-	-
Hydro	7.632	13.628	10.243	13.633	13.455	8.839	14.868	-
Wind	12.248	12.617	13.667	12.299	13.216	13.244	13.145	-
Solar	992	1.006	1.342	1.716	2.237	3.519	5.160	-
Geothermal	217	230	215	217	179	195	208	-
Other Sources	0	-	-	-	-	-	-	
Gross Electricity Production [%]								
Combustible Fuels	64,5%	53,9%	52,1%	47,5%	42,9%	47,1%	31,9%	-
Nuclear	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	-
Hydro	12,8%	22,9%	19,3%	25,7%	26,4%	18,1%	30,3%	-
Wind	20,6%	21,2%	25,7%	23,2%	25,9%	27,1%	26,8%	-
Solar	1,7%	1,7%	2,5%	3,2%	4,4%	7,2%	10,5%	-
Geothermal	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%	-
Other Sources	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	-
Net Imports of Electricity (GWh)	**-2.684**	**-2.657**	**3.399**	**1.456**	**4.753**	**9.253**	**10.233**	-
As a % of electricity available for final consumption	-5,6%	-5,4%	7,0%	3,1%	9,9%	18,7%	20,4%	-
Electricity Interconnection [%]	**8,7%**	**8,3%**	**9,2%**	**8,0%**	**13,7%**	**10,9%**	**13,2%**	**11,5%**
Share of renewable energy consumption - by sector [%]								
Electricity	54,2%	52,2%	53,8%	58,0%	58,4%	61,0%	63,0%	-
Heating and cooling	41,0%	40,9%	41,7%	41,5%	42,7%	45,5%	47,1%	-
Transport	7,9%	9,0%	9,1%	9,7%	8,6%	8,7%	11,2%	-
Overall	30,6%	30,2%	30,6%	34,0%	34,0%	34,7%	35,2%	-

	2020	**2021**	**2022**	**2023**	**2020**	**2021**	**2022**	**2023**
Import Dependency [%]	**65,3%**	**66,9%**	**71,3%**	**66,9%**	**57,5%**	**55,5%**	**62,5%**	**58,3%**
of Solid fossil fuels	-6,5%	4,5%	107,4%	81,2%	35,8%	37,2%	45,9%	40,8%
of Oil and petroleum products	97,6%	97,9%	98,7%	99,3%	96,8%	91,7%	97,8%	94,5%
of Natural Gas	99,3%	100,0%	104,0%	97,5%	83,6%	83,6%	97,6%	90,0%
Dependency from Russian Fossil Fuels [%]								
of Natural Gas	11,3%	13,6%	5,1%	8,5%	41,0%	40,9%	20,7%	9,3%
of Crude Oil	0,0%	0,0%	0,0%	0,0%	25,7%	25,2%	18,4%	3,0%
of Hard Coal	0,0%	0,0%	0,0%	0,0%	49,1%	47,4%	21,5%	1,0%

	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Gas Consumption (in bcm)	**6,3**	**5,7**	**6,1**	**6,0**	**5,8**	**5,6**	**4,4**
Gas Consumption year-on-year change [%]	24,4%	-8,8%	5,8%	-1,4%	-3,7%	-3,5%	-20,4%
Gas Imports - by type (in bcm)	**6,3**	**5,8**	**6,1**	**5,9**	**5,7**	**5,8**	**4,3**
Gas imports - pipeline	2,6	2,0	0,5	0,5	0,1	0,1	-
Gas imports - LNG	3,7	3,8	5,6	5,5	5,6	5,7	4,3
Gas Imports - by main source supplier [%]							
Nigeria	33,9%	40,6%	53,5%	52,6%	51,3%	50,3%	44,1%
United States	8,5%	8,4%	21,4%	18,8%	32,9%	34,5%	42,5%
Russia	0,0%	0,0%	1,6%	11,3%	13,6%	5,1%	8,5%
Trinidad and Tobago	0,0%	0,0%	2,0%	1,4%	0,0%	6,6%	5,0%

Source: Eurostat, ENTSO-E, S&P Platts

Portugal needs to take further action on climate change adaptation and preparedness, increase water resilience and reduce its economy's impact on nature. Anticipating and adapting to the adverse effects of climate change, such as floods, coastal erosion, droughts, heat waves and forest fires, remains a core challenge for Portugal, which is one of the EU's most severely affected countries. Due to climate change these natural hazards are expected to become more frequent and extreme. Measures and investments in risk prevention and preparedness, climate change adaptation, water resilience, nature-based solutions and sustainable agriculture practices are therefore necessary to achieve sustainable growth.

Climate adaptation and preparedness

Portugal is particularly vulnerable to heatwaves, droughts and wildfires, which are set to intensify due to climate change. Over the past 20 years, freshwater availability has decreased by 20-30% in most river basins ([147]). The frequency of severe droughts is forecast to increase significantly in Portugal due to climate change, a recent example being the 2022 drought that affected over 43% of Portugal's total area. Key challenges include managing the variability of water availability (both temporal and territorial), maintaining ecological flow during droughts and restoring water bodies. Between 2006 and 2023, an average of over 93 000 ha burned each year in Portugal, a notable example being the fires of 2017, which affected over 500 000 ha and resulted in more than 100 fatalities ([148]). By the end of the century, the number of days of extreme fire danger and the probability of mega-fires are set to rise by a factor of two to three. Heatwaves also pose a significant socioeconomic problem for Portugal, affecting people's livelihoods and aggravating the drought and forest-fire risks. Climate projections show that the number and duration of heatwaves are set to increase significantly, with up to 13 events per year by the end of the century, compared to 2-4 events historically ([149]).

Climate risks directly affect Portugal's economy and society. Between 1980 and 2023, Portugal suffered EUR 16 billion in economic losses due to weather- and climate-related extreme events, with just 3% of the losses insured. This makes Portugal one of the EU Member States with the lowest insurance coverage against extreme events. Portugal also recorded more than 10 000 fatalities due to extreme events over that period ([150]). European-level estimates suggest that parts of Portugal could see a 40-fold increase in mortality from heatwaves if no adaptation and mitigation actions are taken ([151]). This would disproportionately affect vulnerable populations already at risk of energy poverty and not able to remain sufficiently cool during such events.

In recent years, Portugal has implemented several national policy initiatives related to adaptation and preparedness. A national governance structure for adaptation is in place, and was consolidated in Portugal's Climate Law, adopted in December 2021. Key strategic documents at national level comprise the national climate change adaptation strategy (ENAAC), adopted in 2015 and the action programme for climate change adaptation from 2019. In 2024, Portugal also finalised a

([147]) Agência Portuguesa do Ambiente, 2023, *Avaliação das disponibilidades hídricas por massas de água e aplicação do índice de escassez WEI+*.

([148]) Matos Soares, P. et al., 2024, *RNA 2100 – Sectoral Impacts Modelling – Forest Fires*.

([149]) Matos Soares, P. et al., 2024, *RNA 2100 – RNA 2100 – Climate Projections, Extremes, and Indices – Mainland Portugal*.

([150]) EEA, 2024, *Economic losses from weather- and climate-related extremes in Europe*.

([151]) EEA, 2022, *Climate change as a threat to health and well-being in Europe: focus on heat and infectious diseases*, p. 23

national roadmap for adaptation 2100, which will inform the review of the ENAAC, planned for 2025. Portugal has also been implementing ecological restoration actions in rivers across the country, under the coordination of the Portuguese Environment Agency (APA). A national plan focused on future interventions is currently being prepared (PRO~RIOS 2030).

Portugal has made use of several EU funds to improve its preparedness, including the Cohesion Fund, the European Regional Development Fund (ERDF), the Common Agricultural Policy (CAP) funds and the Recovery and Resilience Facility (RRF).

Climate adaptation is also addressed at sub-national level. The Portuguese Climate Law has strengthened sub-national adaptation practices by requiring all municipalities and intermunicipal communities to develop climate action plans with mitigation and adaptation measures. A survey carried out in July 2023 as part of the preparation of the national roadmap for adaptation 2100 identified 70 climate change adaptation documents at municipal level, as well as 22 intermunicipal climate change adaptation plans in force ([152]). Furthermore, the national roadmap for adaptation 2100 reviewed the integration of climate adaptation into existing municipal masterplans and provided guidelines and best practices for mainstreaming adaptation.

Water resilience

Water resilience is a matter of major importance for Portugal. **Despite the progress made in recent years, many challenges remain in terms of water management**, especially in the areas of water governance, water body rehabilitation and water efficiency. Further infrastructure investment is needed, including in wastewater collection and treatment, reduction of leaks in the networks and general water supply, improving monitoring (quality and quantity), as well as nature-based solutions and river restoration. Portugal should take advantage of the potential of water reuse. For this reason, under the 2024 European Semester, Portugal received the CSR-3 on water management and adaptation to climate change. Portugal's water productivity, or the efficiency with which a country uses its water resources, is considerably lower than in other Member States, standing at EUR 34 per m^3 of abstracted water in 2022 ([153]). An adequate and improved water pricing policy to recover the cost of all water services could harness water-saving potential. The water exploitation index plus (WEI+), a measure of how much water is being used compared with the total renewable freshwater resources available, shows that, especially in summer months, the country's total water consumption exceeds its renewable freshwater resources. The highest WEI+ value (39) was reached in the third quarter of 2022 and the second highest value (36) in the third quarter of 2019. Agriculture is the largest consumer of water, with water abstraction in the agricultural sector accounting for 75% of total consumption in 2022, putting a significant strain on the country's water resources, particularly in regions already suffering from serious water scarcity. For a more detailed analysis of regional water scarcity please see Annex 17.

Portugal is taking steps to face these challenges in the water sector. In February 2024 Portugal adopted a new national strategic plan for water supply, wastewater and pluvial water management, PENSAARP 2030. The Portuguese Government presented in March 2025 a far-reaching national water strategy ("Water that Unites") that aims to improve the

([152]) Direção Geral do Território, 2023, *WP7B - Review of guidelines on climate change adaptation in spatial plans and programmes*.

([153]) Measured as GDP in 2010 chain linked volumes over total fresh surface water abstracted in cubic metres. For comparison, France has a water productivity of EUR 87 per m^3 of abstracted water.

sustainable management of water resources throughout the country by promoting integrated water governance, water efficiency and climate resilience. The government also announced the revision of the National Water Plan to account for the update of the strategic priorities and the investments it identified to strengthen water resilience. Other measures are under way to help increase water resilience on the supply side, such as the Algarve Regional Water Efficiency Plan under the Recovery and Resilience Plan.

Portugal's delay in submitting its river basin and flood risk management plans has hindered the Commission's ability to evaluate and report on them. Portugal did not submit the third river basin management plan (RBMP) and second flood risk management plan (FRMP) by March 2022, as required under the Water Framework Directive and the Floods Directive. As a result of this late reporting in April 2024, the Commission has not been in a position to assess the plans and include its assessment in its report to the European Parliament and to the Council issued in February 2025 for most of the Member States.

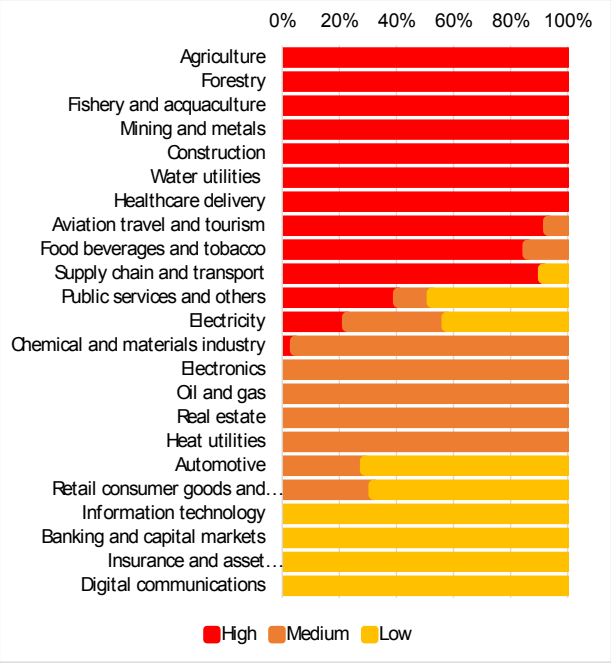
The investment needs for water protection and management, as illustrated in Graph A7.2, highlight a significant financing gap of EUR 371 million per year by 2027. Roughly 44% of the gap can be attributed to unaddressed financing needs in wastewater infrastructure. Increasing investment will be even more important as the Urban Wastewater Treatment Directive was revised and strengthened in 2024 ([154]). EU funding, such as that from the European Regional Development Fund under the 2021-2027 cohesion policy and to some degree under the Recovery and Resilience Plan already helps to meet Portugal's investment needs for water protection and management.

Biodiversity and ecosystems

There is clear room for improvement on biodiversity and nature protection and restoration. Portugal boasts a rich biodiversity. 21.2% of Portuguese territory belongs to the EU Natura 2000 network (the EU average is 18.6%). However, some species and habitats, particularly in the marine environment, are not sufficiently protected. Portugal should therefore extend its Natura 2000 network with additional designations, particularly for marine sites. Progress has recently been made in the Azores. Furthermore, Portugal needs to adopt the management plans for the sites already designated, identifying the site-specific conservation objectives and measures and providing the necessary technical, human and financial resources. Considering both Natura 2000 and other nationally designated protected areas, Portugal legally protects 22.4 % of its terrestrial areas (EU-27 coverage 26.1%) and 4.5% of its marine areas (EU coverage 12.3%). This is below the EU 2030 target of 30% under the EU Biodiversity Strategy. Overall, the status of natural habitats and species covered by the Habitats Directive has improved in Portugal, although many are still in a poor or unfavourable condition. According to the latest available data, 24% of habitats (EU-28 average 14.7%) and 27% (EU-28 average 27%) of species are reported as having good conservation status.

([154])Directive 2024/3019, of 27 November 2024. The deadline for transposition is 31 July 2027.

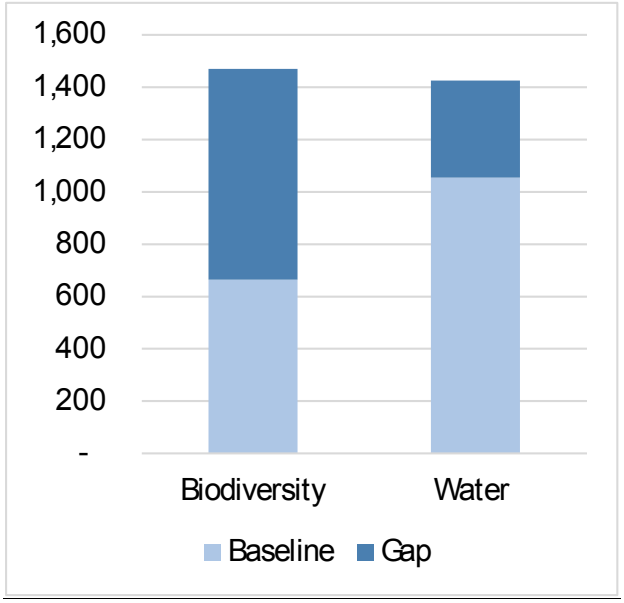
Graph A9.1: **Direct dependency (1) on ecosystem services (2) of the gross value added generated by economic sector in 2022**



(1) Dependency based on the sector's own operations, excluding value chain operations within countries and across international value chains. A high dependency indicates a high potential exposure to nature-related shocks or deteriorating trends, which means that the disruption of an ecosystem
service could cause production failure and severe financial loss.
(2) Ecosystem services are the contributions of ecosystems to the benefits that are used in economic and other human activity, including provisioning services (e.g. biomass provisioning or water supply), regulating and maintenance services (e.g. soil quality regulation or pollination), and cultural services (e.g. recreational activities).
Source: Hirschbuehl et al., 2025, *The EU economy's dependency on nature*.

Nature degradation creates significant risks to Portugal's economy and competitiveness, as it is a Member State with a high dependency on ecosystem services. Portugal's overall direct dependency on ecosystem services is 55%, much higher than the EU average of 44%, showing that Portugal is particularly prone to be economically affected by biodiversity loss. Several sectors, such as agriculture, fisheries, construction and water utilities (see Graph A7.1), are particularly dependent on ecosystem services, with 100% of the gross value added of these sectors directly dependent on ecosystem services. Compared to other Member States, the supply chain and transport, as well as the electricity sector, exhibit a particularly high dependency on ecosystem services. This means that failure to maintain ecosystems' capacity to deliver services could entail significant costs or even stop production in these sectors. Protecting and restoring key ecosystems would ensure that the long-term competitiveness of these economic sectors is preserved.

Graph A9.2: **Investment needs and gaps in EUR million, in 2022 constant prices**



Source: European Commission, DG Environment, Environmental investment needs & gaps assessment programme, 2025 update.

Portugal requires EUR 1 470 million in investment per year to effectively conserve and restore its natural capital, mitigate the impacts of climate change and preserve the country's rich biodiversity (see Graph A7.2). The current level of financing for biodiversity and ecosystem conservation in Portugal is EUR 665 million per year, meaning an investment gap of EUR 805 million per year. This shortfall puts at risk the country's commitment to global biodiversity agreements and undermines its long-term economic and social development.

Sustainable agriculture and land use

Portugal's carbon removals are in line with the level of ambition needed to meet its 2030 target for land use, land use change and forestry (LULUCF). Portugal's forests are responsible for a major share of net carbon removals and seem to have partially recovered from the decreased natural carbon sink over the period 2009-2017 resulting from severe forest fires, among other phenomena. To meet its 2030 LULUCF target, additional carbon removals of -1.0 million tonnes of CO_2 equivalent (CO_2eq) are needed ([155]). The latest available projections show a surplus to target of -11.9 million tonnes of CO_2eq for 2030 ([156]). Portugal is therefore on track to meet its 2030 target.

Portuguese agriculture is a source of greenhouse gas emissions with an impact on air, water and soils. In 2022, agriculture was responsible for a total of 7 million tonnes of CO_2eq. This includes 5 million tonnes of CO_2eq from livestock. However, GHG emissions from agriculture and livestock in Portugal are below the EU average and have been decreasing since 2018. Portugal's utilised agricultural area (UAA) increased slightly, by 6%, from 3.8 million hectares in 2018 to 3.9 million hectares in 2022. However, this increase did not translate into a growth in nutrient losses from agriculture, mainly from mineral fertilisers and manure. This is reflected in the country's nitrogen balance, which has been decreasing since 2018. Moreover, the livestock density index was 0.63 in 2020, below the EU average of 0.75, and ammonia emissions showed a decreasing trend between 2018 and 2022. During 2017-2022, pesticides at levels exceeding the thresholds were detected in 13% of surface water bodies, well below the EU average of 29%.

Portugal is transitioning to a sustainable food system by implementing policies to reduce the environmental impact of agriculture, but food waste remains a challenge. Portugal aims to reach 19% of UAA under organic farming by 2030. To mitigate the environmental impact of agriculture, the Portuguese authorities have implemented measures to promote water resilience under the CAP Strategic Plan, including by prioritising investment projects that help to reduce water consumption. The plan also supports the increase in the share of organic farming, integrated production and the use of soil covers and organic fertilisers, promotes crop rotation and diversification, and helps to reduce nutrient losses, and promotes other sustainable agriculture practices. These measures are crucial to the long-term competitiveness of Portugal's agri-food system and its bioeconomy, which play a significant economic role. The bioeconomy, encompassing the production and processing of biological products, contributed EUR 13.2 million of added value to the country's gross domestic product in 2021. Agriculture accounted for EUR 3.3 million, while the food industry contributed EUR 2.5 million ([24]). Food waste, however, remains a challenge with 185 kg wasted per person in 2022, largely driven by household practices and ranking as the fourth highest in the EU.

([155]) National LULUCF targets of the Member States in line with Regulation (EU) 2023/839.

([156]) Climate Action Progress Report 2024 COM/2024/498.

Table A9.1: **Key indicators tracking progress on climate adaptation, resilience and environment**

Climate adaptation and preparedness:	Portugal						EU-27	
	2018	2019	2020	2021	2022	2023	2018	2021
Drought impact on ecosystems *[area impacted by drought as % of total]*	0.03	3.16	0.01	0.01	43.19	6.8	6.77	2.76
Forest-fire burnt area (1) *[ha, annual average 2006-2023]*	93 731	93 731	93 731	93 731	93 731	93 731		
Economic losses from extreme events *[EUR million at constant 2022 prices]*	180	607	101	3	1 190	42	24 142	62 981
Insurance protection gap (2) *[composite score between 0 and 4]*	-	-	-	-	1.88	1.88		
Heat-related mortality (3) *[number of deaths per 100 000 inhabitants in 2013-2022]*	134	134	134	134	134			
Sub-national climate adaptation action *[% of population covered by the EU Covenant of Mayors for Climate & Energy]*	60	64	67	72	67	67	41	44

Water resilience:	Portugal						EU-27	
	2018	2019	2020	2021	2022	2023	2018	2021
Water Exploitation Index Plus, WEI+ (4) *[total water consumption as % of renewable freshwater resources]*	8.0	8.7	8.0	8.0	10.1	-	4.5	4.5
Water consumption *[million m^3]*	2 757	2 847	2 811	2 831	2 890	-		
Ecological/quantitative status of water bodies (5) *[% of water bodies failing to achieve good status]*								
Surface water bodies	-	-	-	-	-	-	-	59%
Groundwater bodies	-	-	-	-	-	-	-	93%

Biodiversity and ecosystems:	Portugal						EU-27	
	2018	2019	2020	2021	2022	2023	2018	2021
Conservation status of habitats (6) *[% of habitats having a good conservation status]*	23.7	-	-	-	-	-	14.7	-
Common farmland bird index *2000=100*	93.2	95.0	94.2	99.3	-	-	72.2	74.4
Protected areas *[% of protected land areas]*	-	-	-	22	22	-	-	26

Sustainable agriculture and land use:	Portugal						EU-27	
	2018	2019	2020	2021	2022	2023	2018	2021
Bioeconomy's added value (7) *[EUR million]*	12 001	12 017	11 900	13 242			634 378	716 124
Landscape features *[% of agricultural land covered with landscape features]*	-	-	-	-	9	-		
Food waste *[kg per capita]*	-	-	176	181	185	-		
Area under organic farming *[% of total UAA]*	5.7	7.4	8.1	19.3	19.3		7.99	-
Nitrogen balance *[kg of nitrogen per ha of UAA]*	43.4	43.6	43.6	38.1	35.2	-		
Nitrates in groundwater (8) *[mgNO_3/l]*	18.3	18.0	21.5	22.6	-	-		
Net greenhouse gas removals from LULUCF (9) *[Kt CO_2-eq]*	- 3 497	- 4 499	- 4 707	- 6 021	- 5 925	-	- 256 077	- 240 984

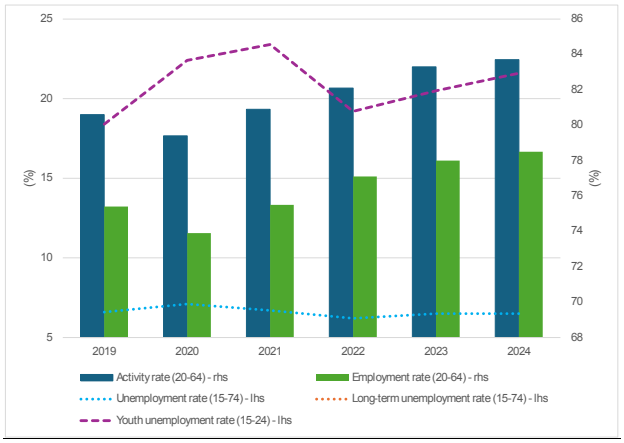
(1) The data show the average for the timespan 2006-2023 based on EFFIS - European Forest Fire Information System.
(2) Scale: 0 (no protection gap) – 4 (very high gap). EIOPA, 2024, Dashboard on insurance protection gap for natural catastrophes.
(3) van Daalen, K. R. et al., 2024, The 2024 Europe report of the Lancet Countdown on health and climate change: unprecedented warming demands unprecedented action. The Lancet Public Health.
(4) This indicator measures total water consumption as a percentage of the renewable freshwater resources available for a given territory and period. Values above 20% are generally considered to be a sign of water scarcity, while values equal or greater than 40% indicate situations of severe water scarcity.
(5) European Commission, 2024, seventh Implementation Report from the Commission to the Council and the European Parliament on the implementation of the Water Framework Directive (2000/60/EC) and the Floods Directive (2007/60/EC) (Third River Basin Management Plans and Second Flood Risk Management Plans).
(6) For this indicator, the EU average includes the figure for the UK under the previous configuration, EU-28.
(7) European Commission, 2023, EU Bioeconomy Monitoring System dashboards.
(8) Nitrates can persist in groundwater for a long time and accumulate at a high level through inputs from anthropogenic sources (mainly agriculture). The EU drinking water standard sets a limit of 50 mg NO_3/L to avoid threats to human health.
(9) Net removals are expressed in negative figures, net emissions in positive figures. Reported data are from the 2024 greenhouse gas inventory submission. 2030 value of net greenhouse gas removals as in Regulation (EU) 2023/839 – Annex IIa.
Source: Eurostat, EEA.

Portugal's labour market has demonstrated resilience and progress in recent years, with most population groups feeling the benefits. The country still faces structural challenges that have a detrimental impact on its competitiveness and economic growth, such as persistently low productivity, relatively high youth unemployment and labour and skills shortages. Despite the substantial inflow of foreign-born workers, the acute demographic decline, unless reversed, will have an adverse effect on the socioeconomic situation and cohesion. Addressing skill mismatches and labour shortages together with job quality specially for young people remain major challenges to attain a more robust and inclusive labour market.

Portugal's labour market proved to be resilient in the aftermath of the pandemic, although bottlenecks remain. Both the employment and activity rates remained above the EU average, reaching 78.5% and 83.7% respectively in 2024 (vs EU: 75.8% and 80.4%). This confirms decade-long growth in the employment rate, which has been consistently rising (except in 2020) and exceeding the EU average since 2017. At the current pace Portugal is on track to meet its 2030 employment-rate target of 80%. However, the unemployment rate remained unchanged (6.5% in 2024) and is above the 5.9% EU average since 2023. Similarly, the long-term unemployment rate remained above the EU average (2.4% vs 1.9% in 2024), and although it went down 0.1 pps from the 2023 rate, getting this section of the population into work remains a priority. Moreover, the disability employment gap increased by 7.3 pps between 2023 and 2024, and lies at 21.3%.

Long-term youth unemployment (3.0%) is higher than for the general population and higher than the EU average (2.1%). Regional disparities in overall unemployment are not very pronounced: in 2023, the highest rate was 7.2% in the Lisbon Metropolitan Area. However, youth unemployment (ages 15-24) is much higher in certain regions: Alentejo (22.4%), Lisbon metropolitan area (23.6%) and the autonomous regions of the Azores and Madeira. For the autonomous regions, there is a dearth of reliable secondary data collection, a situation that it would be beneficial to address. These regional disparities are partly due to structural weakness, especially in the case of the islands, not only because of their remote location but also due to the prevalence of smaller, less competitive and less innovative firms offering few quality job opportunities for young people. Looking ahead, employment growth is forecast to fall further back in 2025 and 2026, while the unemployment rate is expected to decrease slightly (6.3% in 2025 and 6.2% in 2026). Some sectors such as manufacturing and construction still report labour and skills shortages, despite a low rate of job vacancies, which also pushes up wage pressure. ([157])

Graph A10.1:**Key labour market indicators**



Source: Eurostat

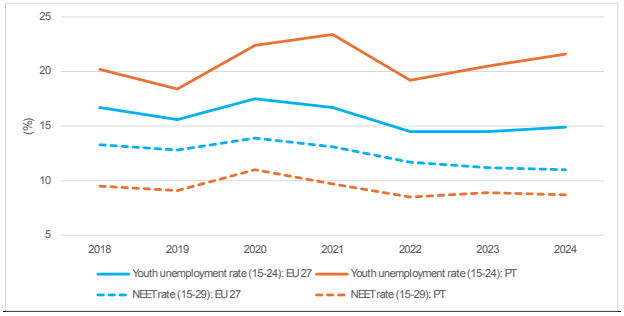
Youth unemployment remains a long-standing structural challenge for Portugal's labour market. Portugal's youth unemployment rate (age 15-24), stood at 21.6% in 2024 (vs EU: 14.9%) and is among the highest in the EU, a persistent situation over the last decade. Even with improvements in

([157]) Economic forecast for Portugal

Portugal's labour market following the implementation of targeted policy, the employment prospects of young people remain modest. The unstable employment status of young people also affects their educational paths and attainment, career prospects, mobility and access to housing, ability to gain independence and ultimately, the overall demographics of the population. For the 15-29 age bracket, the level of unemployment is lower (14.2% vs EU: 11.3%), but the pattern is similar. Harnessing the labour-market potential of young people is therefore crucial. In 2023, the share of the extended labour force([158]), for the 15-29 age bracket, was higher than the EU (22.9% vs 20.9%), roughly 213 000 individuals, approximately twice the figure for people aged 20-64 (11.3%). Calculations published by the national public employment services (PES)([159]) reveal that only 1% of young people registered as unemployed were unavailable to look for a first or a new job. This demonstrates that young people are willing and ready to find work.

Although young highly qualified workers are more sought after, it is beneficial to cater for those less qualified, with a view to promoting social mobility and career progression. According to a 2024 report form the Portuguese Youth Employment Observatory([160]), of three groups of young job seekers - namely, those with lower levels of educational attainment, post-secondary graduates in fields with lower employability and migrants - those with lower levels of qualifications faced the most significant barriers. This group accounted for around 36% of registered unemployed young people but benefited less from active labour market policies (ALMPs) which tended to target young people with higher qualifications and obtained fewer posts. Young people born outside the country are also underrepresented among beneficiaries of ALMPs, at just 7.7% of the total number of participants. The relatively high level of youth unemployment in Portugal contrasts with the current rate of young people not in employment, education or training (NEETs), which in 2024 stood at 8.7%, 2.3 pps below the EU average (11.0%). Most recent reports on the participation of young people in the Youth Guarantee scheme reveal improvements in several areas such as the number of people remaining on the scheme beyond four months and the acceptance of offers within four months of registration.

Graph A10.2:**Labour market outcomes of young people**



Source: Eurostat

Youth employment is characterised by precariousness and segmentation. Despite considerable investment and reforms, Portugal has still not managed to improve the quality of youth employment or provide greater stability and career prospects. In 2024, Portugal had one of the highest proportions of young people (age 15-29) on temporary contracts in the EU, as a percentage of employees (36.7% vs EU: 30.9%). Following significant amendments to the Labour Code and considerable investments and reforms, the country has managed to reduce overall labour market precariousness, with the proportion of temporary contracts for those aged 20–64 dropping to 13.5% in 2024 (EU: 10.0%), 5.3 pps lower than in 2018. However, the situation for young people remains unchanged, with the proportion of temporary contracts among

([158])Total number of people employed, unemployed, seeking work but not immediately available and available to work but not seeking

([159])Annex (Young jobseekers registered with the PES: Characteristics, trajectories and placements)

([160]) Young jobseekers registered with the PES: Characteristics, trajectories and placements

young people consistently exceeding the EU average. Discontinued measures such as investment in the Sustainable Employment Commitment, funded by the recovery and resilience plan (RRP) (and other initiatives such as ATIVAR.PT and AVANÇAR, both co-financed by the ESF and ESF+) were unable to make significant improvements to job prospects for young people.

The government is rolling out a new package of ALMPs targeting a wide range of unemployed individuals, including low and highly skilled workers, young people, persons with disabilities and migrants. These include programmes such as INICIAR, Estágios + TALENTO (professional traineeships), and Emprego + TALENTO and + EMPREGO. There are also with increased financial incentives for permanent hiring. The cost of living in Portugal, and in particular access to affordable housing in the two biggest metropolitan areas of Lisbon and Porto (see Annex 11), is a major obstacle for young people, even for those on average or above-average income. Young people live in their parental home until, on average, the age of 28.9 (vs EU: 26.2) in 2024. This leads to a later start in life, which affects Portugal's demography in the medium and long term.

Recent reports from youth representative organisations also indicated that working conditions were increasingly precarious and salary levels insufficient to ensure a decent life([161]). According to national data, 75% of young people between the ages of 18 and 35 years earned less than EUR 1000 per month and 25% were below the poverty line in 2023([162]). Through support from the RRP Portugal is implementing ambitious reforms and is investing in its vocational education and training (VET) system (see Annex 12). However, gains remain minimal in terms of reducing temporary employment and increasing permanent employment among young people. One potentially beneficial measure to improve long-term outcomes for youth, social cohesion and the future of the economy is a national pact for young people to be agreed by all decision makers, social partners and stakeholder groups.

Labour shortages, especially in highly skilled jobs, are becoming more evident. Portugal is facing significant supply-side challenges in meeting labour-market demand: factors include skills shortages, demographic issues and structural challenges such as low basic skills and poor educational outcomes, all of which could undermine the country's competitiveness. A significant increase in high-skilled labour demand (44%), is expected, which represents a major challenge for a country with a structural skills deficit due to low levels of educational attainment. This may be further exacerbated if the current levels of participation in education and training remain low (see Annex 12). This increase in demand for highly skilled labour is in line with the job openings forecast for the period up to 2035 for Portugal: high-skilled non-manual occupations (51%), skilled non-manual occupations (29%), skilled manual occupations (14%) and elementary occupations (5%). A projected 3% decline in the labour force between 2020 and 2035 - driven by an ageing and shrinking population (expected to decrease by 2.5%) - coupled with increasing specialisation in certain sectors, will affect the composition of employment in Portugal, leading to a higher demand for skilled workers.

Labour and skills shortages are having a particularly adverse effect on sectors that are essential for the green and digital transition. Surveys suggest that in the last two years 62% of employers found it very difficult or difficult to find and hire workers with the right skills, notably for VET and post-secondary qualifications([163]). Numerous sectors are affected, including construction, ICT (although

([161]) CNJ - Position statement: State Budget 2025

([162]) CNJ - Position statement: State Budget 2025

([163]) Flash Eurobarometer

ICT specialists account for 5.2% of total employment in 2024, compared to 5.0% in the EU), healthcare and renewable energy, where employers are finding it increasingly difficult to fill vacancies. According to CEDEFOP's Skill Forecast 2023 for Portugal, covering the period 2021 to 2035, there will be around 3 million job vacancies, of which 95% involve replacing workers and the rest new job vacancies. The fastest-growing sectors are expected to be ICT (31% increase), followed by electricity, gas, steam and air conditioning supply (19%). For the same period, the more commonly demanded occupations (with the highest number of new jobs created) will be business and administration associate professionals (around 71 000), personal care workers (around 67 000) and business and administration professionals (around 66 000).

Integrating the rapidly growing migrant population requires a great deal of coordination. From 2022 to 2023 the number of foreign-born residents increased almost 34% (from around 782 000 to 1 045 000) of whom 80.5% are working age, i.e. between 20 and 64.([164]) Moreover, the migratory balance of the country has been positive since 2017, with significant increases particularly in 2022 and 2023.([165]) The integration of non-EU nationals is a challenge for Portugal, not least because of current labour shortages and the fact that almost 40% of migrants with higher education attainment have jobs below their qualifications (compared with 27% for those born in the country).([166])

PES are facing a significant increase in registered unemployed migrants. In 2023, such people accounted for 18.4% of total registered unemployment and according to more recent data there was a 21.5% increase between November 2023 and November 2024 ([167]). The INTEGRAR programme is a key measure to address this challenge: it introduces a coordinated partnership network (led by the *Instituto de Emprego e Formação Profissional* - IEFP) to implement a series of measures intended to improve access to work and integration for migrants. Other measures include labour mobility agreements with non-EU countries (e.g. India, Morrocco, Cape-Verde and Mozambique), awareness campaigns for employers and the *GIP Imigrante* services to help immigrants into work. Portugal is also putting forward a comprehensive national plan (*Plano de Ação para as Migrações*) that includes several policy measures to ensure regulated inflows of migration, to attract foreign talent and to ensure that migrants are integrated with dignity.

When it comes to addressing labour market challenges one key element is enhancing the efficiency of PES. The main PES in Portugal is the IEFP (Portuguese Employment and Training Institute), which is putting forward several initiatives to address improvement opportunities. These include harnessing human resources, reinforcing dedicated teams for employer partnerships, and more effective integration of training and employment services in organisations. The average age of the IEFP's workforce is currently around 53. It is in the process of recruiting 300 staff members to bring down that average.

Other HR measures include promoting work-life balance, professional development (with initial and continuous training plans) and incentives for internal mobility supported by mentoring and reskilling programmes. The *IEFP* is promoting its strategy with employers (and will adopt a new one by the first half of 2025) by increasing visits to employers and with an internal training plan to help workers to improve their skills when approaching employers. Other measures to

([164]) AIMA, Report on Migration and Asylum

([165]) Statistics Portugal, Demographic Statistics

([166]) European Labour Force Survey – 2017-2022

([167]) IEFP, I.P. – Monthly Statistics of Registered Unemployment

modernise the PES goes include simplifying language, diversifying the channels for providing services, virtual assistants for ALMPs and more digital-skills training. The deployment of all these initiatives has the potential to improve the efficiency of PES, not only from an internal perspective but also in terms of the quality of services provided to employers and to the unemployed.

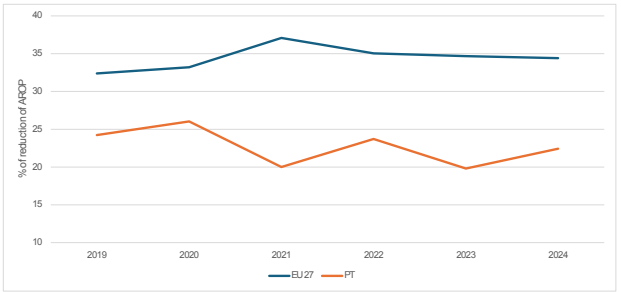
Average wage trends in Portugal remain steady. Nominal wage growth is expected to reach 8.0% in 2024 and 3.6% in 2025, following increases of 5.6% in 2022 and 8.0% in 2023, slightly above the euro area and EU averages for all years ([168]). After a drop of 1.5% in 2022, real wages rebounded by 2.8% in 2023 and are set to continue increasing by 5.2% and 1.5% in 2024 and 2025, respectively, rates slightly above the EU average. This recovery in real wages reflects both lower inflation and higher nominal wage growth, recouping the losses incurred in 2022. The statutory minimum wage also increased by around 16% between January 2022 and July 2024, an increase of 4% in real terms. Nevertheless, at 9.2% in 2024, in-work poverty remains higher than the EU average (8.2%). In the 2025 state budget the government amended personal income tax for young people (*IRS Jovem*), expanding its coverage to young people up to the age of 35 regardless of their level of education, extending the duration of exemptions from 5 to 10 years and increasing the income threshold for exemptions.

([168]) For nominal wage growth, compensation per employee is considered. It includes: i) Wages and salaries payable in cash or in kind; and ii) Social contributions payable by employers. For real gross wages, the deflator used is HICP. Real wages using this deflator then can differ from real wages shown in AMECO (that uses private consumption as deflator). Data for 2024 and 2025 are based on the European Commission Autumn 2024 economic forecast.

Portugal continues to face considerable social policy challenges. The limited capacity of social benefits to reduce poverty and inequality pose risks for Portugal's sustainable and inclusive growth and prosperity. There is potential to further strengthen social protection access, adequacy and efficiency, thus helping to achieve the 2030 national poverty reduction target. Despite some improvements, particularly in informal care, access to care services remains insufficient in the face of rising demand due to rapid demographic ageing, with public spending falling below the EU average. The persistent housing crisis reached unprecedented levels in 2023, namely in terms of purchase and rental prices and the ratio between those prices and the disposable income of families. Market trends, paired with a lack of social and affordable housing, puts pressure on families' living standards and has negative knock-on effects on the job market. Energy poverty in Portugal is significantly above the EU average, with concerning trends across multiple areas.

The effectiveness of social benefits remains very limited. The impact of social transfers (excluding pensions) on income poverty reduction was significantly below the EU average in 2024 (22.4% vs 34.4% for the EU). The poverty-reducing effect of social benefits (excluding pensions) remains below that seen before the crisis in 2019 (4.2 percentage points (pps) vs 5.7 pps) and is half of the EU average (8.6 pps). These developments are not compensated by the level of social benefits in kind ([169]), which accounted for just 7.8% of the GDP in 2021, well below the EU average of 10%. Moreover, in 2023 expenditure on social protection stood at 16.6% (vs 19.2% in the EU). In 2024, inequalities remained above the EU average, as measured by the income quintile share ratio (S80/S20), at 5.2 compared to the EU average of 4.6. Portugal's Gini coefficient decreased (from 33.7 in 2023 to 31.9 in 2024), but remains above the EU average of 29.3. The allocation of additional resources can improve social protection effectiveness and living conditions, but this depends on targeting support where it is most needed and closing coverage gaps, while maintaining fiscal sustainability. The single social benefit reform included in the recovery and resilience plan (RRP) scheduled for 2026 seeks to increase coverage, simplify and widen take-up and reduce duplicate payments. Further targeted improvements in the area of social protection policies and investments should also be considered to reduce poverty. The government plans to adopt measures to guarantee the long-term sustainability of the social security system. To this end, it has created a working group tasked with presenting solutions by 2026.

Graph A11.1:**Impact of social benefits (excluding pensions) on poverty reduction**



(1) Percentage of reduction of population at risk of poverty
Source: Eurostat

Access to social protection is still insufficient for some categories of workers. Gaps remain notably for some types of non-standard workers. Individuals with very short-term contracts are the most affected, lacking coverage for unemployment, sickness, maternity, paternity, work accidents and occupational illness benefits. In 2023, effective access remained considerably low for temporary workers (14.9% vs 39.2% in the EU), part-time workers (8.2% vs 33.3% in the EU), and the self-employed (4.7% vs 12.7% in the EU). The percentage of unemployed people receiving benefits is also relatively low (23.4% vs 52.4% in the EU). In response to these challenges, Portugal has introduced several measures to improve access to effective and

([169]) Social Protection Committee Annual Report 2024

adequate social protection for the self-employed and for workers in the cultural sector. Nonetheless, sustained efforts are needed to close the gap on effective social protection for workers on non-standard contracts.

The adequacy of minimum income in Portugal remains insufficient. In 2023, only 65.9% of people aged 18-64 at risk of poverty (AROP) and living in quasi-jobless households received benefits, compared 83.5% in the EU). Efforts to increases the *rendimento social de inserção* (the minimum income under the social integration income scheme) to offset inflation over the last three years have proven been insufficient in reverting a long cycle of decline in its adequacy. In 2023, the minimum income amounted to just 42% of the poverty threshold, below the peak of 46% reached in 2012 ([170]). Despite the recent update to the minimum income benefit to account for inflation, its level remains well below the poverty threshold. Additional measures are needed to increase the adequacy of minimum income schemes, along with active inclusion policies, as outlined in the Council Recommendation on minimum income.

Poverty levels remain stable, which calls for sustained efforts to reach the national poverty reduction target by 2030. The percentage of people at risk of poverty or social exclusion (AROPE) slightly decreased compared to 2023 and lies at 19.7% in 2024. AROPE levels are disproportionally high among certain groups, including persons with disabilities and non-EU-born individuals. Progress toward the national 2030 target of reducing the number of people facing poverty and social exclusion risks by 765 000 has been limited. Timely and full implementation of the national strategy to combat poverty (2021-2030) and its associated action plan will be key. It is also crucial to ensure synergies and complementarities with investments, namely from the European Social Fund Plus (ESF+) and the Recovery and Resilience Plan (RRP), while ensuring coordination with targeted strategies, such as the national European Child Guarantee (ECG) action plan and the national disability strategy. Additionally, it is vital to adjust the strategy against poverty in response to recent findings, when necessary ([171]). Despite some improvement in the outermost regions,the AROPE rate remains notably high in the Azores, at 28.4% in 2024.

The risk of poverty or social exclusion among children has decreased. In 2024, the AROPE rate for children decreased by 1.9 pps reaching 20.7% compared to the EU average of 24.2%. By 2030, Portugal aims to reduce the number of children at risk of poverty or social exclusion by 161 000, down from 380 000 in 2019. To date, 29 000 fewer children are at risk, highlighting considerable scope for further action. Portugal is implementing the ECG to mitigate the impact of poverty on children. The 2024 implementation report shows progress in early childhood education and care, but gaps remain in areas such as inclusive education and the adaptation of facilities, materials and teaching methods for children with disabilities remain. Improving children's access to healthcare is also crucial, particularly as only 37% of children at risk of poverty or social exclusion report having 'very good health' (37%), was well below the EU average of 63%.

Despite some improvements, the provision of long-term care (LTC) services remains insufficient. Demographic developments are driving increased demand for LTC services, with 24.1% of the Portuguese population aged 65 and over in 2024. Portugal is the fastest-ageing country in Europe, and its healthy life expectancy at 65 is low, particularly for women, who have an average of just 7.3 years, compared to the EU average of 9.2 years in 2022. LTC services are underfunded, limiting

([170])Rendimento mínimo em Portugal**,** 20 anos de RMG/RSI.

([171]) An evaluation of the national strategy to combat poverty (2021-2030) was completed in 2023**,** but it was not released to the public.

their availability and affordability. In 2022, public LTC spending accounted for 0.5% of GDP well below the EU average of 1.7%. The largest share of public LTC spending went to residential care (57.5%), followed by home care (41.8%). However, funding for home care remains insufficient, as only 15.9% of those with severe difficulties receiving home care in the previous year, compared to 28.6% in the EU([172]). Despite some progress in recent years, the system still falls short in promoting autonomy and independence for users. The MAVI scheme, designed to support independent living, provides personal assistance to people with disabilities. Although the pilot scheme has been successful, it remains underfunded relative to demand, and efforts should be made to expand it nationally ([173]).

The LTC sector still faces staff shortages and lack of career opportunities. Although the LTC workforce has increased from 0.8 to 1.1 workers per 100 people aged 65 and over, Portugal still relies heavily on informal carers. Approximately 12.3% of the total population is estimated to act as informal carers. While recent improvements in the status of informal carers, including a simplified recognition process and enhanced support are positive steps, effective implementation is crucial, particularly in the area of respite care. Simultaneously, there is a pressing need to increase the number and quality of formal carers, by providing training to improve their skill set, ensuring decent remuneration, and offering career development opportunities and improved working conditions.

House purchase prices have been growing substantially over the last decade. House prices have more than doubled since 2015. They increased by 8.2% in 2023 and are estimated to be overvalued by around 25-30%. The growth continued in 2024 (+9.8% year-on-year in Q3-2024). This cumulated growth has been driven by strong tourism demand, significantly supported by short-term rentals, low interest rates, a high level of property investment by foreigners, and a low level of residential construction and of investment on affordable housing. Mortgage interest rates increased from 0.8% in 2021 to 4.0% in 2023, impacting total amount of mortgage credit, which fell 1.4%. The adjustment to the higher interest rate environment is having a greater impact on the quantity of transactions, with the number of house transactions decreasing by 19.8% in 2023 after stabilising in 2022. However, building permits continued to increase by 5.4% in 2023.

Overall housing affordability has deteriorated over the past decade. The standardised house price-to-income ratio has jumped by almost 50% since 2015 and stands around 30% above its long-term average. Taking into account the cost of mortgage funding, the borrowing capacity of households worsened significantly over the last ten years as well, since the average household now needs a significantly higher share of its annual income for mortgage payments.

Portugal continues to face a housing accessibility crisis and rental affordability worsened. Since the past decade, Portugal has seen a sharp rise in housing costs, both for purchase and for rent. Rental prices hit a 30-year high with a 7.3% year-on-year increase in December 2024. Despite the country having a high homeownership rate, the ratio of new rents to incomes increased significantly over the last decade with increases of 9.3% year-on-year. Housing remains largely inaccessible to young people, vulnerable groups, and increasingly to the middle- and lower-income cohorts, who face substantial rental costs. In 2024, the housing cost overburden rate (share of people with over 40% of their household income spent on housing) increased by 2 pps

([172]) First report on the implementation of the Council Recommendation on access to affordable high-quality long-term care – Portugal, 2024.

([173]) Following a survey, only 26% of people currently have personal assistance, and 53% of these are not satisfied with the number of hours they receive.

compared to 2023, reaching 6.9%, while it decreased in the EU overall (EU: 8.2%). Renters are particularly affected with 30.3% facing housing cost overburden compared to 19.2% in the EU. Renters in the vulnerable groups require stronger short-term measures to alleviate the cost of renting, and to ensure a balanced and accessible rental market in the most affected cities. The reasons exposed above for this situation are paired in the rental market with low price and rent control or regulation and the pressure felt from the short-term tourist accommodation market, particularly in popular urban and holiday areas.

Affordability issues exacerbates negative social and job-market outcomes. Recent studies show that rental prices are increasing faster than average wages, particularly in Lisbon, where on average 52% of a person's wage is required to cover rent, limiting the ability of people to rent independently ([174]). The municipalities surrounding the capital are experiencing a spillover effect, with more people relocating to these areas, which also lack sufficient affordable and social housing. Similarly, the Algarve region and the Porto metropolitan area are facing significant housing pressure. Since last year, there are growing reports of noticeable increase of informal settlements, surging in the suburban areas of Lisbon, populated by low-income and migrant cohorts([175]). The financial strain felt by workers and households, paired with deteriorating of standard of living conditions, can affect competitiveness in the medium term**,** thus hindering job-market mobility and in particular the capacity to attract and retain qualified workers.

Social housing stock is insufficient to meet demand, requiring substantial measures. While Portugal has an ambitious target to increase public housing stock to 5% of total housing by 2026 and to provide rental or home-purchase support for the most vulnerable groups and households, current efforts may fall short of delivering the necessary systemic and short-term solutions. Portugal has a very low stock of public housing, at less than 2%, while in 2022 vacant dwellings, excluding seasonal and holiday homes, accounted for around 12% of the country's total housing stock ([176]). The Portuguese RRP is responsible for record investments in the public housing sector and is aiming to around 20 000 new or renovated housing units, while the government will finance 33 000 more units by 2030. However, with only 3% delivered by September 2024, this raises strong doubts as to the capacity to meet the targets set by the end of the RRP lifespan in 2026. The Portuguese government recently introduced measures, such as fiscal benefits and public guarantees, to help young people access property, though their impact on the low- and medium-income cohorts is yet to be seen. In 2023, Portugal introduced targeted initiatives to support vulnerable or lower-income households with rental costs, including stepped-up measures like Porta 65+ and extraordinary rent support. While these measures have an immediate effect on the ability of the most vulnerable to pay rent, they are not a systemic solution. Portugal should consider long-lasting measures to control the rapid rise in rental prices. This could be achieved by i) further regulating short-term tourism rentals in pressured areas, by ii) enacting rent regulation measures to protect the most affected groups, and iii) by assessing the supply of vacant, derelict or underused homes both in the public and private stocks in the most affected cities

([174]) Report on impact of rental cost in Portugal for locals: Tornou-se incomportável arrendar em Portugal, Miguel Salema, Prosper Research Center, Católica-Lisbon University.

([175]) Municipalities and local housing associations alike report the increase of number of people living in informal settlements, with prevalence in the suburban areas of Lisbon.

([176]) The OECD reports on public housing stock monitoring reveals Portugal has one of the lowest stocks of the group. OECD Affordable Housing Database (reports PH4.2 and HM1.1).

promoting their availability, The Portuguese government is expected to prepare a new housing strategy based on an assessment of investment needs and taking into account the delays in granting building permits and in social and affordable housing construction. It is crucial for this assessment to provide an updated and complete overview of national and local housing investments and reforms. This should also include a reliable timeline for completion of builds and a comprehensive plan to address housing shortages, , based on robust statistical data. It should also further promote a Housing First national approach.

A new strategy aims to provide long-lasting solutions to rising homelessness. In 2023, the number of people in homelessness on the mainland reached around 13 000, a 23% increase from 2022, with about 7 700 of them sleeping rough. Lisbon is the municipality with the highest number of people experiencing homelessness, followed by rural municipalities where the trend is heightened by seasonal agricultural work and job precariousness. Migrants face severe difficulties in finding adequate housing, with 20% of people in homelessness not being Portuguese or EU nationals. Another worrying statistic is that in 2023 38% of homeless people were under 30 years old, while in 2022 that figure was already as high as 18%, pointing to a worsening of the precarious conditions affecting this group. The new and ambitious 2025-2030 national strategy for the integration of people in homelessness aims to provide an intersectional response, and for the first time includes a nation-wide 'Housing First' initiative with 600 housing units to be made available. The strategy also focuses on the reintegration of people in homelessness through employment and personalised support. The Government must guarantee adequate and continued financing of measures currently supported by EU funds to promote the social and labour market reintegration of people in homelessness. Actions at municipal level have delivered prevention and emergency accommodation programmes, with strong support, monitoring and coordination by NGOs.

Energy poverty in Portugal is significantly above the EU average, with concerning trends across multiple areas. The percentage of the population unable to keep their homes adequately warm in 2024 was 15.7.%, which is 6.5 pps higher than the EU average ([177]). Additionally, 29% of households experienced issues such as leaks, damp or rot in their dwellings in 2023, far surpassing the EU average of 15.5%. In 2024, the percentage of households in arrears on utility bills is 4.3%, which is lower than the EU average of 6.9%, but still an area of concern. Portugal also faces one of the highest winter mortality excess rates in the EU, underscoring the severe impact of energy poverty. Portugal's national long-term strategy to combat energy poverty aims to eradicate energy poverty by 2050. The focus of the strategy will be on reducing the percentage of households spending more than 10% of their income on energy. The government has launched several initiatives, including the 'Vale Eficiência' programme, which supports economically vulnerable households by improving the energy efficiency of housing. The National Energy Poverty Observatory, established in 2024, will monitor trends and inform policy development. While short-term measures like the social tariff provide financial assistance to vulnerable households, long-term initiatives focus on improving building energy performance and efficiency. However, the national energy and climate plan lacks specific targets for energy poverty, and the assessment of policies to address this issue is incomplete. While the overall population in 2023 faced fewer affordability challenges for cars compared to the EU average (4.7% vs 5.6%), vulnerable income groups, such as those at risk

([177]) A recent survey by Lisboa-E-Nova, Agência de Energia e Ambiente de Lisboa, published in January 2024, shows that 63.2% of the population are unable to keep the house adequately warm in the winter. This rate is 56.5%, when it comes to keeping the house comfortably cool in the summer.

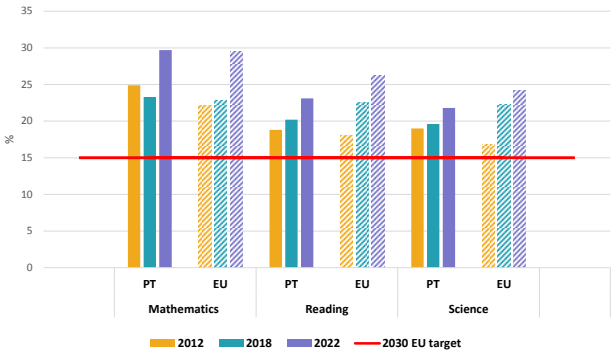
of poverty, are disproportionately impacted by both the inability to afford cars (13.1%) and the high costs of personal transport fuels. There has been a gradual shift from reliance on private cars to public transportation, but the use of public transport remains below the EU average, suggesting room for further improvement in sustainable transport use. Finally, the future European Social Climate Fund will be a key financial instrument in helping Portugal direct support to the most vulnerable in the green transition.

Portugal's competitiveness is hindered by weaknesses in skills development including basic skills, skills mismatches and a low adult learning participation rate, despite significant investments. The evolving labour market, driven by green and digital transitions, puts pressure on education and training systems to equip both young people and adults with relevant skills. Basic skills are declining, with about one third of students failing to reach minimum standards in mathematics. More 15-year-olds fail to meet basic standards, limiting future upskilling opportunities. Higher education and vocational training are not fully aligned with labour market needs, leading to skills mismatches. Although Portugal's workforce is more educated than a decade ago, many skilled young people struggle to find quality jobs. Participation in adult learning remains low, despite the vast array of measures supported by European funds such as ESF, ESF+, and the recovery and resilience plan (RRP). To boost productivity and innovation, improving educational outcomes and skills development is crucial.

Portugal has reached the EU-level target for early childhood education and care (ECEC) participation, but efforts to achieve universal access need to continue. The participation of children between the age of three and the compulsory schooling age in ECEC increased from 90.5% in 2021 to 96.3% in 2022, exceeding the EU average (93.3%) and the EU-level target of at least 96%. In 2022, ECEC participation ranged from 100% in the autonomous region of Madeira to 91.4% in the Lisbon metropolitan area. However, young children at risk of poverty or social exclusion participate less in ECEC than those not at risk. To achieve universal access to preschool education, investments to expand the ECEC network continue, supported through Portugal's PARES programme (*Programa de Alargamento da Rede de Equipamentos Sociais*) to extend the social equipment network, which is financed by the Recovery and Resilience Facility (RRF). Supported by the Technical Support Instrument (TSI), Portugal is now developing a national quality framework for ECEC (2024-26).

The high share of students underperforming in mathematics and low share of top performers pose a risk to future productivity and competitiveness. Student performance in basic skills has declined significantly since 2018 and in line with the EU/OECD trend. The underachievement rate is particularly high in mathematics. Portuguese students perform better in reading and science with underachievement rates below the EU average. At the same time, the share of top performers significantly dropped in maths and reading and is now among the lowest levels in the EU. In science, the rate has remained unchanged over the past decade and is now lower than the EU average. Other international studies conducted in Portugal, namely TIMSS 2019 (before the pandemic) and PIRLS 2021 (after the pandemic), also recorded worse results compared to previous editions (2015 and 2016, respectively).

Graph A12.1:**Underachievement rates by field, PISA 2012, 2018 and 2022 (%)**



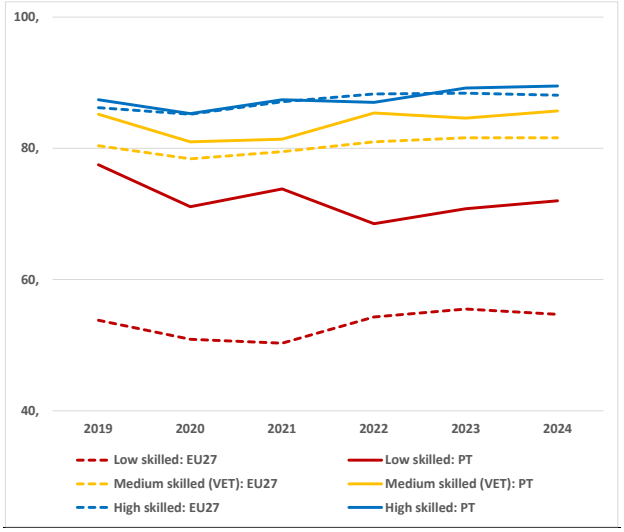
Source: OECD (2023).

While the socio-economic gap in basic skills is smaller than in other EU countries, it is widening. Underachievement has risen among disadvantaged students. It has grown by 7.5 percentage points (pps) for students from the bottom quarter of the socio-economic distribution, reaching 46.9% in 2022, slightly below the EU average (48.0%). This has widened the socio-economic gap by 4.9 pps

since 2018, in line with EU trends. Foreign-born students are more likely to underachieve in mathematics than native-born students, similarly to other EU countries. Portugal is implementing several measures to strengthen student performance. Over the last 25 years, Portugal's programme for priority intervention educational areas (*Programa Territórios Educativos de Intervenção Prioritária* - TEIP) has helped increase inclusive education, improve basic skills, and reduce early leaving from education and training (ELET) rates among school students. In 2023, the fourth generation of the TEIP (TEIP4) was launched for the next six academic years, strengthening and refocusing previous measures while granting greater autonomy to educational communities.

In 2021 Portugal launched another comprehensive plan to compensate for the learning losses and negative effect of the pandemic. The '21|23 Escola+' plan was rolled out for two academic years, with an allocation of over EUR 900 million, supported by Cohesion Policy funds. The plan has been extended to the academic year 2023/2024. The new '23|24 School+' plan aims to have all Portuguese schools set up and implement their own learning recovery plans in a variety of fields. A new plan to replace the existing one after 2024 has been approved (Council of Ministers Resolution no. 140/2024, of 17 October) putting special focus on Integrating migrant students (as a response to the growing number of non-Portuguese speaking students).

Graph A12.2:**Employment rate of recent graduates by educational attainment (annual)**



Low skilled (Less than primary, primary and lower secondary education (levels 0-2)), medium skilled (VET) (Upper secondary and post-secondary non-tertiary education (levels 3 and 4) – vocational), and high skilled (Tertiary education (levels 5-8)).
Source: Eurostat

Regional variations in early school leaving remain significant. In 2024, the ELET rate dropped to 6.6% (EU: 9.3%), well below the EU target. Nevertheless, it is strongly influenced by place of residence. Regional disparities in ELET rates persist, ranging in 2024 from over 19.8% in the Azores to 5.2% in the North region. In 2024, ELET rates did not significantly differ according to the degree of urbanisation and showed a reduction notably in rural areas (2.8 pps less than in 2023).

Several measures aim to increase the attractiveness the teaching profession and improve working conditions. The teaching force is ageing, and the shortage of teachers is worsening as few young people enter the profession([178]). In 2023, the government approved a new management and recruitment regime for primary and secondary school teaching staff, which made it possible to offer

([178])https://economy-finance.ec.europa.eu/document/download/c6e61ba3-868f-4de4-833b-a398213472b6_en?filename=SWD_2024_622_1_EN_Portugal.pdf

fixed-term contracts to more than 8 000 teachers. It also approved a regulation fixing the terms for implementing career progression mechanisms for ECEC educators and teachers in basic and secondary education, which benefited around 60 000 teachers. A Decree Law altered the legal framework for professional qualification for teaching in preschool, basic and secondary education. An agreement was also reached with trade unions on frozen service time being recovered in two years and ten months.

Tertiary educational attainment (TEA) has risen steadily in the past decade but remains below the EU average. In 2024, 43.2% of young people aged 25-34 held a tertiary degree, below the EU average (44.2%) and the EU-level target (45%). The TEA rate is much higher than in 2013 (30%). There are still significant regional differences in TEA rates (from 19.6% in the Azores to 48.4% in the Lisbon metropolitan area in 2023). There are also differences by country of birth (from 35.4% of foreign-born people to 44.8% of native-born people; EU averages: 39.3% and 45.2%, respectively in 2024). While according to national statistics, more young people are enrolled in higher education studies, the number of higher education STEM graduates decreased in 2022 compared to the previous year. In Portugal, 30.5% of pupils enrolled in medium-level vocational education and training (VET) in 2023 were in STEM fields, compared to 36.3% across the EU.

The Portuguese population has historically had a low level of qualifications, hindering productivity and competitiveness, although there has been significant progress in recent years. In 2023, around 39% of people aged 15-64 had an International Standard Classification of Education (ISCED) level of 2 or lower, significantly above the EU average of 24.2%. This is a major improvement from 2014, when the share was 56.4%, reflecting a reduction of over 15 pps. This current large pool of persons with low educational attainment (particularly for the older segments of the population) is a challenge for the competitiveness and productivity of the country. It also hinders the participation and access of less-qualified individuals to higher-skilled jobs in the medium and long term, ultimately limiting their career progression.

Policy efforts seek to improve the matching between VET offer and labour market demand. In Portugal, 38.7% of pupils in medium-level education attend programmes with a vocational orientation (2023 data). More than three out of four (77.8% in 2024) recent VET graduates had experienced work-based learning (compared to 65.3% EU-wide). Still, recent VET graduates have an employment rate below the EU average (75.5% as compared to 80.0% in 2024). The implementation of the tripartite agreement on VET signed in 2021 is lagging, but one of its most important measures – the revision of the national catalogue of qualifications – should be finalised by January 2026. Once completed, this will put more emphasis on skills (rather on training content), will feature more high-skilled training offers and qualifications no longer integrate the workload. Portugal's main forecasting tool for skills needs is its SANQ system for anticipating qualification needs, which serves as a solid base for VET provision all over the country. More regular updates of the forecasts (currently every 3 years) would help strengthen responsiveness and adaptability to changes in skills demand and feed into curricular updates.

The RRF and the ESF+ provide significant financial support for VET measures to promote quality employment for youth. Component 6 of the RRP includes reforms and investments in labour and skills, with the VET reform being a key element. This reform is complemented by the RRP EUR 710 million investment to modernise VET provision and establishments. Its goal is to install and modernise 365 specialised technological centres and enlarge the network of PES training centres. A total of 104 technological centres and 59 training centres were constructed or refurbished by the end of March 2025.

VET providers report that the large-scale RRP investment, alongside the VET system reform, has brought significant improvements while also requiring adaptation in methodology, organisation and teacher training. To fully harness these benefits, further efforts from VET training providers will be needed to upskill their teaching workforce. Portuguese mainland VET schools have implemented quality assurance systems aligned with ISO or European Quality Assurance in VET norms, enhancing their management and operations. ESF+ support to VET activities has been substantial and constitutes the main training typology of operation supported in both programming periods (2014-2020 and 2021-2027). The ESF+ programme *PESSOAS 2030* allocates around EUR 1.5 billion for VET, with a target of 366 000 participants by 2029 (100 000 participants had been supported by June 2024).

High youth unemployment and labour shortages (see Annex 10) mean the VET offer must be as closely aligned as possible with the labour market demand to avoid unnecessarily financing courses with low employability prospects. The government intends to reorganise the VET system to further align it with companies' skills demand and the technological transition. It also intends to review and systematise VET legislation and reform of the system that certifies training providers.

Adult participation in learning activities is declining, creating a significant barrier for the low-skilled adult population. Older age groups are more affected by low educational attainment (ISCED 2), with 61.9% of individuals aged 55-64 having this level of education in 2024, compared to just 16.2% of those aged 20-34. Given the rapidly changing labour market, the twin transitions and concerning demographic trends in Portugal, adult learning opportunities should be expanded to maximise the limited labour resources, facilitate reskilling, and ultimately boost national productivity and competitiveness. Outreach and participation pose a significant challenge to Portugal's goal of having at least 60% of adults participate in training annually by 2030. 2022 data ([179]) shows participation dropping to 33.4% from 38% in 2016, putting at risk the attainment of the goal. Increased outreach to significantly improve the participation could be beneficial.

The *QUALIFICA* programme remains the main way to improve the qualifications of adults and their employability. Under the supervision of the National Agency for Qualification and VET (ANQEP), which promotes double certification qualifications (non-tertiary) and both initial and lifelong learning, Portugal continues to implement the QUALIFICA programme across the country, with over 300 centres. The RRP invests EUR 225 million in the 'Adult Incentive Programme' to increase the qualification levels of the adult population. This includes local training programmes to improve basic levels of literacy, numeracy and digital skills, increase participation and completion in 'Recognition, Validation and Certification of Skills' processes and developing short higher education courses. By December 2024, 68 402 certifications were provided via RVCC (68% of the 2025 target of 100 000) and 11 231 adults participated in local training programmes (around 50% of the 2025 target of 22 500). The ESF+ main thematic programme *PESSOAS 2030* allocates around EUR 178 million for adult education through the *QUALIFICA* centres with a target of 700 000 participants by 2029 and also supports education and training for adults (*Educação e Formação de Adultos* - EFA), a double certification approach that allows low-qualified adults to improve their basic skills.

Skills shortages and mismatches will hinder the economy unless education and training systems become more efficient. Reported labour shortages (see Annex 10) underscore the need to improve skills matching in

([179]) Data from the Adult Education Survey 2022, special extraction excluding guided-on-the-job training.

Portugal, in addition to addressing the skills deficit and workforce shortages highlighted by national authorities. Despite the reported labour shortages, the low job vacancy rate (1.3% in 2024) suggests that the available positions may be of poor quality, especially for young people, indicating a mismatch between the demand for labour and the opportunities offered by public employment services.

Portugal has been investing heavily in education and training across various development areas, supported by European funding. However, challenges remain in efficiently anticipating labour market needs for different skill levels, with proper diagnostics, orientation tools, and stakeholder engagement. The SANQ forecasting system has been important in better aligning demand and supply, particularly at regional level. However, it could benefit from improvements, especially in terms of the regularity of its implementation. Portugal faces a lack of proper skills anticipation mechanisms for higher education, a challenge it aims to address with support from the TSI and the OECD through a project to identify good practices and recommendations, with results expected by July 2026.

The digital transformation is progressing well. Women already represented 22.7% of the ICT specialists in 2024 (EU average: 19.5%) and the share of the adult population with at least basic digital skills is currently slightly above the EU average (56.0% vs 55.6%). The ESF+ and RRF help provide digital education and training all over the country with examples of digitally-oriented measures under different components of the RRP and digital skills training included in various operations funded by the ESF+. Portugal intends to make digital skills an area that intersects with all types of education and training activities.

Compared to the digital transition, the green transition is lagging. Portuguese authorities say the integration of green skills into training programmes is progressing more slowly, mainly due to a lack of demand for this type of training. In 2024, labour shortages were reported in Portugal for several occupations requiring specific skills related to the green transition, including agricultural and forestry production managers, forestry labourers, and civil engineers ([180]). On the other hand, environmental education in Portugal is already a mandatory subject for all school levels. Interesting projects such as 'Educating for the Blue Generation', partnerships with NGOs and specific short-term teachers training programmes might help speed up this transition.

([180]) European Labour Authority 2025 European Employment Services (EURES) Report on labour shortages and surpluses 2024, based on data from EURES National Coordination Offices. Skills and knowledge requirements align with the European Classification of Occupations, Skills and Competences (ESCO) taxonomy on skills for the green transition, with examples analysed using the ESCO green intensity index.

Table A13.1: **Social Scoreboard for Portugal**

Social Scoreboard for Portugal		
Equal opportunities and access to the labour market	Adult participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64, 2022)	33,4
	Early leavers from education and training (% of the population aged 18-24, 2024)	6,6
	Share of individuals who have basic or above basic overall digital skills (% of the population aged 16-74, 2023)	56,0
	Young people not in employment, education or training (% of the population aged 15-29, 2024)	8,7
	Gender employment gap (percentage points, population aged 20-64, 2024)	5,7
	Income quintile ratio (S80/S20, 2024)	5,20
Dynamic labour markets and fair working conditions	Employment rate (% of the population aged 20-64, 2024)	78,5
	Unemployment rate (% of the active population aged 15-74, 2024)	6,5
	Long term unemployment (% of the active population aged 15-74, 2024)	2,4
	Gross disposable household income (GDHI) per capita growth (index, 2008=100, 2023)	110,8
Social protection and inclusion	At risk of poverty or social exclusion (AROPE) rate (% of the total population, 2024)	19,7
	At risk of poverty or social exclusion (AROPE) rate for children (% of the population aged 0-17, 2024)	20,7
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP, 2024)	22,4
	Disability employment gap (percentage points, population aged 20-64, 2024)	21,3
	Housing cost overburden (% of the total population, 2024)	6,9
	Children aged less than 3 years in formal childcare (% of the under 3-years-old population, 2024)	59,4
	Self-reported unmet need for medical care (% of the population aged 16+, 2024)	2,5

Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

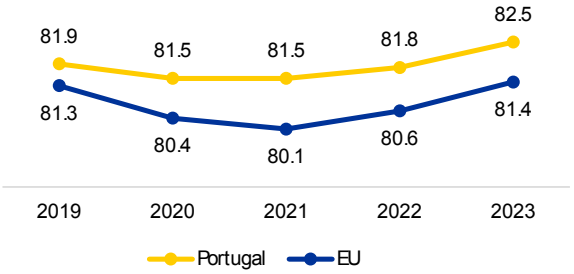
(1) Update of 5 May 2025. Members States are categorised based on the Social Scoreboard according to a methodology agreed with the EMCO and SPC Committees. Please consult the Annex of the Joint Employment Report 2025 for details on the methodology (https://employment-social-affairs.ec.europa.eu/joint-employment-report-2025-0).

Source: Eurostat

Portugal's health system performs comparatively well, with high life expectancy at birth and low rates of treatable and preventable mortality. However, Portugal faces challenges with access to healthcare, shortages of healthcare workers and an uneven geographical distribution of healthcare resources. These challenges need to be addressed if the country is to ensure the health of its population and social fairness, while boosting the competitiveness of its economy.

Life expectancy at birth in Portugal rebounded above its pre-COVID-19 level and was higher than the EU average in 2023. There is a striking gender gap, however, with women expected to live 5.8 years longer than men. That said, they can expect to live around 2.2 years less than men in good health. Portugal fares comparatively well in avoiding deaths from treatable causes. Diseases of the circulatory system ('cardiovascular diseases') and cancer are the leading causes of death, but with mortality rates lower than the EU average.

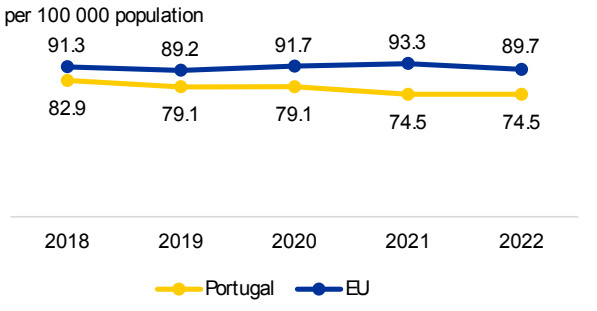
Graph A14.1:**Life expectancy at birth, years**



Source: Eurostat (demo_mlexpec)

Health expenditure per capita in Portugal is low, as is the share of spending covered by public funds. Despite recent increases, health spending per inhabitant in 2022 (adjusted for differences in purchasing power) was around one quarter lower than the EU average. The largest proportion of health expenditure went towards outpatient care, with a share above the EU average. This, together with a relatively low number of hospital beds (285 per 100 000 population in 2022, lower than the EU average), illustrates Portugal's organisational focus on primary healthcare. This matches the health system reform trend observed in other countries. Portugal is now expanding its concept of 'local health units' throughout the country to integrate hospitals and groups of primary healthcare centres in any given geographical area into a single management structure. Additionally, the ongoing health system reform foresees the creation of new 'Model C family health units', which are operated by private healthcare providers integrated into the national health service (NHS) framework and are designed to expand access in primary healthcare delivery. Public spending as a proportion of total health expenditure in Portugal was among the lowest in the EU in 2022. This translated into one of the highest proportions of out-of-pocket payments for healthcare in the EU (29.7% in 2022, more than twice the EU average). Portugal is directing a considerable amount of funding under its recovery and resilience plan (RRP) and 2021-2027 cohesion policy programmes towards medical equipment, and new and renovated facilities for hospitals, primary healthcare and community care centres. In 2022, investment in health capital formation, as a share of total health expenditure, was among the highest in the EU. Due to ageing, the projected increase in public spending on healthcare raises concerns about fiscal sustainability (see Annex 1).

Graph A14.2:**Treatable mortality**



Age-standardised death rate **(mortality that could be avoided through optimal quality healthcare)**
Source: Eurostat (hlth_cd_apr)

Table A14.1: **Key health indicators**

	2019	2020	2021	2022	2023	EU average* (latest year)
Cancer mortality per 100 000 population	244.9	240.5	226.1	219.5	n.a.	234.7 (2022)
Mortality due to circulatory diseases per 100 000 population	279.0	285.0	247.9	237.9	n.a.	336.4 (2022)
Current expenditure on health, purchasing power standards, per capita	2 283	2 332	2 659	2 823	n.a.	3 684.6 (2022)
Public share of health expenditure, % of current health expenditure	60.9	64.3	62.8	62.5	61.7	81.3 (2022)
Spending on prevention, % of current health expenditure	1.8	1.9	3.2	3.2	n.a.	5.5 (2022)
Available hospital beds per 100 000 population**	288	286	288	285	n.a.	444 (2022)
Doctors per 1 000 population*	5.3	5.5	5.6	5.7	n.a.	4.2 (2022)*
Nurses per 1 000 population*	7.1	7.3	7.5	7.5	n.a.	7.6 (2022)*
Mortality at working age (20-64 years), % of total mortality	14.0	13.4	13.3	13.0	13.2	14.3 (2023)
Number of patents (pharma / biotech / medical technology)	15	21	23	12	24	29 (2023)***
Total consumption of antibacterials for systemic use, daily defined dose per 1 000 inhabitants****	19.3	15.2	15.3	18.8	19.7	20.0 (2023)

*The EU average is weighted for all indicators except for doctors and nurses per 1 000 population, for which the EU simple average is used based on 2022 (or latest 2021) data except for Luxembourg (2017). Doctors' density data refer to practising doctors in all countries except Greece, Portugal (licensed to practise) and Slovakia (professionally active). Density of nurses: data refer to practising nurses (EU recognised qualification) in most countries except France and Slovakia (professionally active) and Greece (hospital only). **'Available hospital beds' covers somatic care, not psychiatric care. ***The EU median is used for patents.

Source: Eurostat database; European Patent Office; ****European Centre for Disease Prevention and Control (ECDC) for 2023.

As regards public health, investment in disease prevention remains low. In 2022, spending on prevention in Portugal accounted for 3.2% of total spending on health, much lower than the EU average of 5.5%. While the rate of preventable mortality in Portugal is lower than the EU average, nearly one third of deaths are linked to behavioural risk factors. Alcohol consumption remains relatively high, and overweight and obesity are a growing public health concern. Portugal's RRP includes measures to promote physical activity in the population, with investment directed towards: (i) a national campaign and technological platform to promote physical activity; (ii) extending school sports to the community; and (iii) encouraging physical activity in the workplace.

There are challenges in accessing healthcare, with geographical and income-related disparities in unmet needs for medical care. In 2024, the proportion of the Portuguese population reporting unmet needs for medical care was equal to the EU average (2.5%). Such unmet needs in Portugal are mainly due to financial reasons and waiting times, with lower income groups disproportionally affected. The difference between income groups in Portugal is among the highest in the EU. Furthermore, and specifically among people who declared having medical needs, the gap between people below and above the poverty threshold (defined as 60% of the median equivalised income) is higher in Portugal than the EU average. Moreover, comparatively higher unmet needs for medical care are reported in rural areas. This may be linked to long travelling times to healthcare facilities (see Annex 17), but also to shortages in healthcare workers being more pronounced in some rural areas. A range of measures under the RRP and the cohesion policy aim to improve access to healthcare, including investments in: (i) hospital infrastructure and medical equipment; (ii) new primary healthcare centres; (iii) digitalisation of healthcare; and (iv) accessibility of health services in less developed regions.

Persistent shortages of health workers in Portugal limit the provision of healthcare. Shortages are apparent in nursing and several medical specialties (such as gynaecology, obstetrics, paediatrics, general surgery, emergency services and mental health) as well as in certain regions, especially in the south. A shortfall of general practitioners (GPs) has resulted in an insufficient coverage of primary healthcare: around 1.6 million people (corresponding to more than 15% of the country's population) are not registered with a GP. Working conditions for health professionals are a significant issue, with low pay and limited career prospects acting as a deterrent to

working in the NHS, particularly for nurses. A significant number of nurses and, importantly, around 60% of nursing graduates choose to emigrate to countries that offer better pay and working conditions. Recruitment of doctors is equally challenging. Only around half of the doctor positions advertised between 2020 and 2024 by the NHS have been filled (see Annex 10). Incentives such as salary top-ups have not fully succeeded in filling positions, particularly in general and family medicine. Hospitals also face difficulties in recruiting and retaining doctors.

The government is considering measures to improve the planning and management of human resources in the NHS. In 2024, all family health units (a primary healthcare structure in Portugal) converted to 'Model B', which allows GPs to have a higher number of registered patients. This transition is expected to decrease the number of NHS users who have not been assigned a GP, which will in turn increase access to primary healthcare. Furthermore, according to a recent study ([181]), more than 29 000 additional health professionals (including around 3 000 additional doctors and around 14 000 additional nurses) would be needed to bridge regional gaps in the density of human resources in the NHS. This implies a 20% increase in the NHS workforce in the hospital and primary healthcare sectors. The small increases in the number of health workers seen in recent years are not sufficient to bridge this gap and respond to the population's needs for healthcare. Portugal participates in the HEROES joint action ([182]) under EU4Health, through which EU countries share knowledge and experience on health workforce planning.

The potential of Portugal's health system to drive innovation and foster industrial development in the EU medical sector is not being fully exploited. Portugal is among the EU countries reporting considerable public spending on health research and development. However, this is not fully reflected in the number of European patents granted: 24 in 2023 in the combined areas of pharmaceuticals, biotechnologies and medical technologies ([183]), lower than the EU-level median of 29. Clinical trial activity in Portugal is also limited ([184]).

Portugal aims to scale up the digitalisation of its health system, **with support from EU programmes.** The shares of people accessing their personal health records online or using online health services (excluding phone) instead of in-person consultations both increased between 2020 and 2024, but there is room for further deployment. Investments to boost the digital transformation of the health sector in Portugal are planned under the RRP and the cohesion policy in 2021-2027. Measures focus on: (i) digitalising clinical records; (ii) improving the health data network; (iii) ensuring interoperability between different information systems; (iv) improving the portability of data between primary healthcare, hospital and integrated continued care facilities; (v) facilitating the use of data in decision support systems; (vi) expanding the availability of telemedicine; and (vii) providing training on digital skills. The principal aim of these investments is to improve access to and the quality of healthcare services. In addition, Portugal participates in joint actions and benefits from direct grants under EU4Health, which aim to improve the semantic interoperability of health data and facilitate the implementation of the European Health Data Space.

([181])'The NHS Healthcare Workforce in Portugal – Overview and recent evolution', PLANAPP – Centre for Planning and Evaluation of Public Policies, October 2024.

([182]) JA HEROES | Health workforce planning project.

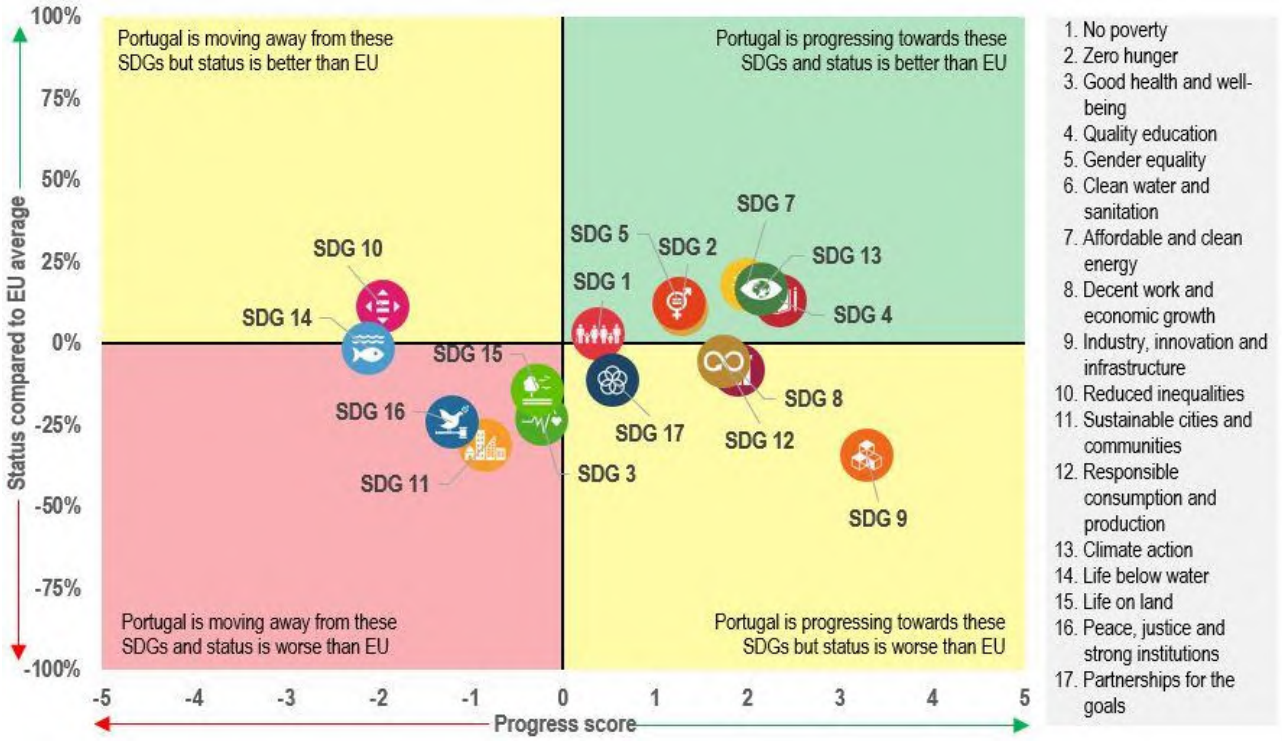
([183])European Patent Office, Data to download | epo.org.

([184]) EMA (2024), Monitoring the European clinical trials environment, p. 9.

This Annex assesses Portugal's progress on the Sustainable Development Goals (SDGs) along the dimensions of competitiveness, sustainability, social fairness and macroeconomic stability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change and the environmental crisis, while ensuring that no one is left behind. The EU and its Member States are committed to this historic global framework agreement and to playing an active role in maximising progress on the SDGs. The graph below is based on the EU SDG indicator set developed to monitor progress on the SDGs in the EU.

Portugal is improving on SDGs related to *competitiveness* (SDGs 4, 8, 9) but still needs to catch up with the EU average on both decent work and economic growth (SDG 8) and innovation and industry (SDG 9). Basic digital skills among the adult population are progressing (56% in 2023) and stand above the EU average (55.6%). The Portuguese labour market is performing relatively well compared to the EU average, with a high employment rate (78.5%, vs an EU average of 75.8%, in terms of population aged 20 to 64 in 2024). A decline in long-term unemployment, which fell to 2.4% in 2024 (in terms of active population; EU: 1.9%) was also observed. Despite slow improvement, R&D and innovation remains a key concern. Only 1.69% of GDP was allocated to R&D in 2023 (EU: 2.24%) while the number of patent applications submitted to the European Patent Office per million inhabitants

Graph A15.1:**Progress towards the SDGs in Portugal**



For detailed datasets on the various SDGs, see the annual Eurostat report 'Sustainable development in the European Union'; for details on extensive country-specific data on the short-term progress of Member States: Key findings – Sustainable development indicators - Eurostat (europa.eu). A high status does not mean that a country is close to reaching a specific SDG, but signals that it is doing better than the EU on average. The progress score is an absolute measure based on the indicator trends over the past five years. The calculation does not take into account any target values, as most EU policy targets are only valid for the aggregate EU level. Depending on data availability for each goal, not all 17 SDGs are shown for each country.

Source: Eurostat, latest update of 28 April 2025. Data refer mainly to the period 2018-2023 or 2019-2024. Data on SDGs may vary across the report and its annexes due to different cut-off dates.

remains very low: 39 in 2024 (EU: 156). Portugal's ambitious recovery and resilience plan has the potential to transform its business sector and R&I system. These measures aim to improve the business-academia link, increase R&D, and reform vocational education and training.

Portugal is improving overall on the SDGs related to *sustainability (*SDGs 2, 7, 9, 12, 13, 14) but is moving away from the SDG on sustainable cities (SDG 11). It performs well on SDG 7 (Affordable and clean energy) but needs to catch up with the EU average on sustainable industry and infrastructure (SDG 9), responsible consumption and production (SDG 12), life below water (SDG 14), and life on land (SDG 15). In 2022, 19.3% of the utilised agricultural area in Portugal was under organic farming (EU: 10.5%). The share of renewable energy in gross final energy consumption increased from 30.2% in 2018 to 35.2% in 2023, standing well above the EU average (24.6% in 2023). The environmental impact of agriculture is lower than the EU average, but the level of nitrate in ground water is increasing (from 18.5 mg NO_3 per litre in 2017 to 23.4 mg in 2022), higher than the EU average (20.7 in 2022). On sustainable agricultural production, Portugal performs very well in organic farming (19.3% of the utilised agricultural area vs 10.5% in the EU in 2022), while the use of chemical pesticides remains higher than the EU average (60 vs 54 out of 100, in 2022). However, it has diminished substantially since 2017 (89). Portugal protects less than 5% of its marine areas (EU: 12.3% in 2022). Circular economy indicators are also well below EU averages, with a low rate of recycling of municipal waste (30.6% in 2023, vs 48.2% for the EU in 2023) and a circular material use rate that, even if slightly improved since 2018, is only around one fifth of the EU average. The share of public transport (buses and trains) in total passenger transport and the use of rail and inland waterways in freight transport are well below the EU average. Various measures in Portugal's RRP aim to further contribute to emission savings. These include investments in energy storage and renewables, renewable hydrogen, energy efficiency renovations, the extension of metro lines, increased use of bioproducts in industry, and the decarbonisation of industry.

Portugal is improving on SDGs assessing the *social fairness* of society and the economy (SDGs 1, 4, 5, 7, 8) but is moving away from the SDGs on inequalities (SDG 10) and, to a lesser extent, on health and well-being (SDG 3). However, the status of inequalities remains better than EU average. In 2023, the poverty rate (persons at risk of poverty or social exclusion) was slightly below the EU average (20.1%, vs 21.3% for the EU), while the share of population at risk of monetary poverty after social transfers was higher (17%, against 16.2% for the EU). Portugal performs well for people living in households with very low work intensity (6.3% of the population aged less than 65 in 2023, vs 8% at EU level) and on the housing cost overburden rate (4.9% of population in 2023 vs 8.8% at EU level). On the in-work-at-risk-of-poverty rate, Portugal is above the EU average (10%, vs 8.3% in 2023). Even if the urban-rural gap has slightly decreased since 2018, it remains far above the EU average (6.1% vs 0.2% in 2023). The same trend applies to energy poverty, as in 2023 20.8% of the population reported that they were unable to keep their homes sufficiently warm (EU: 10.6%). The citizenship gap (difference between EU and non-EU nationals) narrowed for early leavers from education and for training but increased for employment. Despite some improvements, such as the smoking prevalence rate which dropped from 26 (in 2017) to 21 (2023) vs 24 at EU level, in terms of % of population aged 15 and over, most of the health and well-being indicators are still far from the EU average. These include those on road traffic deaths (6.1 vs 4.5 per 100 000 persons, in 2023), the obesity rate (15.8 vs 14.8 as % of population aged 18 or over, in 2022) and healthy life expectancy (59.1 years in 2022 vs 63.6 years for the EU in 2021). Education and training indicators are better than the EU average, with the tertiary

education attainment rate (population aged 25-34) increasing from 38% in 2019 to 43.2% in 2024 (vs an increase of the EU average from 39.6% to 44.2%). The same is true for the participation of adults in learning, which stood at 16.1% in 2024 (EU: 13.3%). Portugal also performs better than the EU average on gender equality, with a low gender employment gap, and a gender pay gap below the EU average (8.6 in 2023 vs 12 at EU level, as % of average gross hourly earnings of men). The share of women in senior management and in government has progressed in the last few years, surpassing the EU average. The RRP includes measures aimed towards a more equal and healthy society. These include reforms of primary care services and simplification of the social benefit system, and investments in community-based social services, social housing, and student accommodation, as well as household support for energy efficiency renovations.

While Portugal is improving on some SDG indicators related to *macroeconomic stability* (SDGs 8, 17), it is moving away from the target for peace, justice, and strong institutions (SDG 16). It is closing its gap with the EU average in terms of the investment share of GDP, with 19.8% in 2024 (EU: 21.7%). However, central government expenditure on the law courts, a key indicator of the quality of the justice system, remains below the EU average (in 2023, EUR 73 per capita in Portugal vs EUR 121.7 per capita at EU level). The share of the population reporting crime, violence or vandalism increased from 6.5% in 2018 to 6.9% in 2023 (EU: 10%), and the death rate from homicide and the victims of human trafficking are increasing (0.92 in 2022 vs 0.69 in 2017, and 3.9 in 2023 vs 1.2 in 2018, respectively, per 100 000 persons). The RRP includes measures to improve the efficiency of administrative and tax courts and to improve the management of public finances, for example, by introducing new IT solutions.

As the SDGs form an overarching framework, any links to relevant SDGs are either explained or depicted with icons in the other annexes.

Portugal faces structural challenges in a wide range of policy areas, as identified in the country-specific recommendations (CSRs) addressed to the country as part of the European Semester. They refer, among other things, to ensuring the fiscal sustainability of the pension system, reducing the administrative and regulatory burden on businesses, improving the effectiveness of tax system and the efficiency of administrative and tax courts, reducing the overall reliance on fossil fuels and investing in sustainable transport, accelerating the deployment of renewables and investment in energy efficiency, strengthening capacities for energy storage, electricity transmission and the distribution grid, and improving water and waste management.

The Commission has assessed the 2019-2024 CSRs considering the policy action taken by Portugal to date and the commitments in its recovery and resilience plan (RRP). At this stage, Portugal has made at least 'some progress' on 69% of the CSRs ([185]), and 'limited progress' on 29% (Table A16.2).

EU funding instruments provide considerable resources to Portugal by supporting investments and structural reforms to increase competitiveness, environmental sustainability and social fairness, while helping to address challenges identified in the CSRs. In addition to the EUR 22.2 billion funding from the Recovery and Resilience Facility (RRF) in 2021-2026, EU cohesion policy funds ([186]) are providing EUR 22.6 billion to Portugal (amounting to EUR 31 billion with national co-financing) for 2021-2027 ([187]) to boost regional competitiveness and growth. Support from these instruments combined represents around 16.7% of 2024 GDP ([188]). The contribution of these instruments to different policy objectives is outlined in Graphs A16.1 and A16.2. This substantial support comes on top of financing provided to Portugal under the 2014-2020 multiannual financial framework, which financed projects until 2023 and has had significant benefits for the economy and Portuguese society. Project selection under the 2021-2027 cohesion policy programmes has accelerated, while significant volumes of investment are yet to be mobilised.

The Portuguese RRP contains 128 investments and 43 reforms to stimulate sustainable growth, foster the green and digital transitions, improve skills and qualifications and increase territorial and social cohesion. A year before the end of the RRF timespan, implementation is well on its way with 51% of the funds disbursed. Portugal has fulfilled 33% of the milestones and targets in its RRP ([189]). Increased efforts are needed to ensure completion of all RRP measures by 31 August 2026. Speeding up implementation requires addressing challenges in terms of administrative capacity, public procurement rules and lengthy permitting procedures affecting, in particular, large investment projects.

Portugal also receives funding from several other EU instruments, including those listed in Table A16.1. Most notably, the common agricultural policy (CAP) provides Portugal with an EU contribution of EUR 6.1 billion ([190]) under

([185]) 7% of the 2019-2024 CSRs have been fully implemented, 5% substantially implemented, and some progress has been made on 57%.

([186]) In 2021-2027, cohesion policy funds include the European Regional Development Fund, the Cohesion Fund, the European Social Fund Plus and the Just Transition Fund. The information on cohesion policy included in this annex is based on adopted programmes with the cut-off date of 5 May 2025.

([187]) European territorial cooperation (ETC) programmes are excluded from the figure.

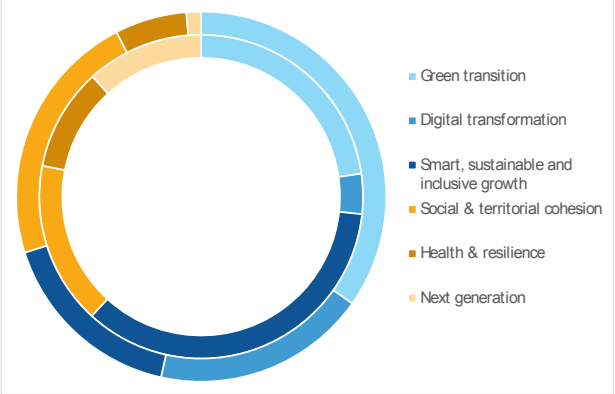
([188]) RRF funding includes both grants and loans, where applicable. GDP figures are based on Eurostat data for 2024.

([189]) As of mid-May 2025, Portugal has submitted 6 payment requests, the last one being under assessment.

([190]) An overview of Portugal's formally approved strategy to implement the EU's common agricultural policy nationally can be found at:

the CAP strategic plan for 2023-2027. Operations amounting to EUR 4.2 billion ([191]) have been signed under the InvestEU instrument backed by the EU guarantee, improving access to financing for riskier operations in Portugal.

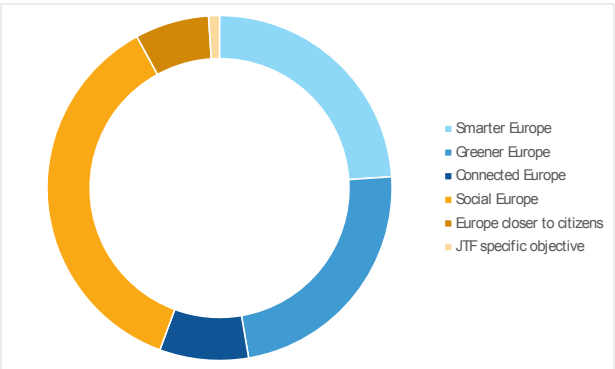
Graph A16.1:**Distribution of RRF funding in Portugal by policy field**



(1) Each RRP measure helps achieve the aims of two of the six policy pillars of the RRF. The primary contribution is shown in the outer circle, while the secondary contribution is shown in the inner circle. Each circle represents 100% of the RRF funds. Therefore, the total contribution to all pillars displayed on this chart amounts to 200% of the RRF funds allocated.

Source: European Commission

Graph A16.2:**Distribution of cohesion policy funding across policy objectives in Portugal**



Source: European Commission

Cohesion policy funds aim to increase the productivity and competitiveness of Portugal's firms and improve the business environment. For example, the European Regional Development Fund (ERDF) and the Just Transition Fund (JTF) will provide support to 17 000 enterprises, with the ERDF providing access to very high-capacity broadband for nearly 20 000 firms and enabling over 300 public institutions to develop a wide range of digital services, products and processes. The calls launched have seen strong demand in areas like research & development, innovation productive investments, internationalisation of small and medium-sized enterprises (SMEs), and business adaptation to change. Strategic infrastructure projects have been launched, for example the Mondego Mobility System (in Coimbra) and the reconstruction of the Port of Lajes das Flores in the Azores following destructive storms. The JTF is being used to diversify the local economy in three regions affected by the closure of coal-fired power plants and refineries. This includes supporting business investment, research and innovation in SMEs, self-employment, innovative entrepreneurship and reskilling. The European Social Fund Plus (ESF+) supports vocational education and training in the mainland, with EUR 1.5 billion enabling the participation of 366 000 people, of which 110 000 had been supported already by December 2024. The aim is that 84.5% of participants in such courses either find employment or continue their studies. In addition, by April 2025, ESF+ had already supported 109 000 participants in adult education centres known as 'Qualifica Centres'. The target is to reach 700 000 adult participants, with 90% of them achieving certified qualifications.

Other funds are contributing to competitiveness in Portugal, for instance through open calls. The Connecting Europe Facility has financed strategic investments in the rail and road transport, including in the development of alternative fuel infrastructure, as well as in maritime, inland waterways and air infrastructures. It also supports investments to increase the capacity, resilience and security of backbone digital infrastructure by deploying submarine cables improving the connection to

https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans/portugal_en

([191])Data reflect the situation on 31.12.2024.

the Azores and Madeira and advanced the deployment of 5G in smart communities, enabling remote healthcare and smart emergency services. Horizon Europe has supported research and innovation, from scientific breakthroughs to scaling up innovations, with Climate, Energy and Mobility; and Digital, Industry and Space as top priorities in Portugal. The Technical Support Instrument (TSI) has assisted Portugal in the implementation of the new institutional framework for the integration of migrants; a training framework in the area of wildfires; and a more integrated approach to health care at local level. In 2024, the TSI also assisted Portugal to implement RRP measures for strengthening policy costing methodologies and medium-term budgeting practices.

Portugal's RRP also contains ambitious measures to improve the business environment and competitiveness. Measures covered by payment requests submitted over the past year include major reforms and investments to develop the capital market, improve the effectiveness of public services and support the digitalisation of businesses and the justice and tax systems. Capital markets and securities codes were revised to promote the capitalisation of companies and incentivise access to equity, business growth, debt financing and investor participation in capital markets. Legislation was adopted to implement functional changes in the public administration and the reorganisation of public services. A new permanent technical tax policy unit known as 'U-TAX' will help simplify and monitor tax benefits. Investments were made to digitalise rural property taxation processes and in platforms to digitalise the justice system, in digital invoices and digital certification, and in digital innovation hubs to support the digitalisation of companies and public administration. A total of 200 Industry 4.0 projects were selected for support to foster the digital transformation of businesses.

EU funds are playing a significant role in promoting environmental sustainability and green transition in Portugal during the current seven-year EU budget (multiannual financial framework). The ERDF and JTF will aim to create over 9 100 MW of additional production capacity for renewable energy. Meanwhile, the ERDF and the Cohesion Fund are investing in clean mobility, through the improvement of railway infrastructure, the expansion of metro lines, clean buses, and clean ferries and ports, including the greening of key transport infrastructure in the outermost regions of Azores and Madeira, which is benefiting almost half a million people. Portugal is also investing substantial cohesion policy funding in improving preparedness for and management of disasters, especially climate-related risks. Significant ERDF resources are being devoted to building resilience in the face of water scarcity and improving the efficiency of water and wastewater supply systems, including in the more affected regions such as Alentejo, Algarve and Madeira. Water management, in terms of quantity and quality, plays also an important role in the CAP strategic plan. To improve water-use efficiency, support is going towards renovating old infrastructure and equipment used in collective and on-farm irrigation systems, covering up to 4.5% of the agricultural area under support. More than EUR 32 million of funding under the CAP will be invested in restoring forestry potential following natural hazards, including forest fires. In the Portuguese CAP strategic programme, more than EUR 580 million are reserved for farmers committing to more ambitious actions under eco-schemes such as carbon sequestration, organic fertilisation, organic farming and integrated production. 19% of the agricultural area will be farmed organically by 2030. Around EUR 1.7 billion have been allocated for environmental and climate objectives under rural development to support climate change adaptation, soil practices, improving grassland quality and fire protection.

Portugal's RRP, including the REPowerEU chapter, has a comprehensive set of reforms and investments for the green transition.

Measures covered by the payment requests submitted over the last year include: (i) the entry into operation of a deposit and refund system for non-reusable plastic bottles, ferrous metals and aluminium; (ii) the creation of energy efficiency one-stop shops for the public; (iii) scaling up the production capacity of renewable hydrogen and renewable gases; and (iv) the launch of a call for projects to produce renewable hydrogen and other renewable gases for a new installed energy capacity of at least 77 MW.

Promoting fairness, social cohesion and access to basic services are key priorities of EU funding in Portugal. For example, the ERDF will be used for new and modernised education facilities with classroom capacity for over 52 000 students. Investments planned for healthcare facilities are expected to benefit over 4.5 million people a year. ESF+ is also investing in vocational education and training and paid traineeships to integrate young people into the labour market in the outermost regions of Azores and Madeira. Similarly, the ESF+ is helping low-income students access higher education across the country where the overall aim is to reach 500 000 participants, with 183000 already supported by December 2024. The ESF+ has also successfully supported 1.2 million pupils with learning difficulties, enabling them to continue their educational path.

Portugal's RRP contains several reforms and investments related to fairness and social policies. Measures covered by payment requests submitted over the last year include: (i) delivery of 1 500 dwellings to eligible households with the greatest needs; (ii) access for 1 000 health centres to the risk stratification instrument, allowing them to intervene proactively in populations with higher clinical risk and social vulnerability; and (iii) the creation of the National Energy Poverty Observatory to help improve energy efficiency in the residential sector for households experiencing energy poverty.

Table A16.1: **Selected EU funds with adopted allocations - summary data (million EUR)**

Instrument/policy	Allocation 2021-2026		Disbursed since 2021 (1)
RRF grants (including the RepowerEU allocation)	16 325,1		8 492.2
RRF loans	5 890,8		2 903.7
Instrument/policy	**Allocation 2014-2020 (2)**	**Allocation 2021-2027**	**Disbursed since 2021 (3)** (covering total payments to the Member State on commitments originating from both 2014-2020 and 2021-2027 programming periods)
Cohesion policy (total)	23 547,5	22 602,4	11 905,1
European Regional Development Fund (ERDF)	12 707,9	11 496,7	6 136,5
Cohesion Fund (CF)	2 781,1	3 105,3	1 569,3
European Social Fund (ESF, ESF+) and the Youth Employment Initiative (YEI)	8 058,5	7 776,5	4 129,9
Just Transition Fund (JTF)		223,8	69,4
Fisheries			
European Maritime, Fisheries and Aquaculture Fund (EMFAF) and the European Maritime and Fisheries Fund (EMFF)	392,5	392,6	265,1
Migration and home affairs			
Migration, border management and internal security - AMIF, BMVI and ISF (4)	149,0	186,6	87,0
The common agricultural policy under the CAP strategic plan (5)	**Allocation 2023-2027**		**Disbursements under the CAP Strategic Plan (6)**
Total under the CAP strategic plan	6 092,3		1 621,3
European Agricultural Guarantee Fund (EAGF)	3 814,5		1 344,3
European Fund for Agricultural Development (EAFRD)	2 277,8		277,0

(1) The cut-off date for data on disbursements under the RRF is 31 May 2025.
(2) Cohesion policy 2014-2020 allocations include REACT-EU appropriations committed in 2021-2022.
(3) These amounts relate only to disbursements made from 2021 onwards and do not include payments made to the Member State before 2021. Hence the figures do not comprise the totality of payments corresponding to the 2014-2020 allocation. The cut-off date for data on disbursements under EMFAF and EMFF is 29 April 2025. The cut-off date for data on disbursements under cohesion policy funds, AMIF, BMVI and ISF is 5 May 2025.
(4) AMIF - Asylum, Migration and Integration Fund; BMVI - Border Management and Visa Instrument; ISF - Internal Security Fund.
(5) Expenditure outside the CAP strategic plan is not included.
(6) The cut-off date for data on EARDF disbursements is 5 May 2025. The information on EAGF disbursements is based on the Member State declarations until March 2025. Disbursements for the Direct Payments (EAGF) started in 2024.
Source: European Commission

Table A16.2: **Summary table on 2019-2024 CSRs**

Portugal	Assessment in May 2025	Relevant SDGs
2019 CSR 1	**Some progress**	
Achieve the medium-term budgetary objective in 2020, taking into account the allowance linked to unusual events for which a temporary deviation is granted. Use windfall gains to accelerate the reduction of the general government debt ratio.	No longer relevant	SDG 8, 16
Improve the quality of public finances by prioritising growth-enhancing spending while strengthening overall expenditure control, cost efficiency and adequate budgeting, with a focus in particular on a durable reduction of arrears in hospitals.	Some progress	SDG 3, 8, 16
Improve the financial sustainability of state-owned enterprises, while ensuring more timely, transparent and comprehensive monitoring.	Some progress	SDG 9
2019 CSR 2	**Some progress**	
Adopt measures to address labour market segmentation.	Some progress	SDG 8
Improve the skills level of the population, in particular their digital literacy, including by making adult learning more relevant to the needs of the labour market.	Some progress	SDG 4
Increase the number of higher education graduates, particularly in science and information technology.	Some progress	SDG 4
Improve the effectiveness and adequacy of the social safety net.	Some progress	SDG 1, 2, 10
2019 CSR 3	**Some progress**	
Focus investment-related economic policy on research and innovation,	Some progress	SDG 9, 10, 11
railway transport and port infrastructure,	Limited progress	SDG 10, 11
low carbon and energy transition and extending energy interconnections, taking into account regional disparities.	Some progress	SDG 7, 9, 10, 11, 13
2019 CSR 4	**Some progress**	
Allow for a swifter recovery of the collateral tied to non-performing loans by increasing the efficiency of insolvency and recovery proceedings.	Some progress	SDG 8
Reduce the administrative and regulatory burden on businesses, mainly by reducing sector-specific barriers to licensing.	Limited progress	SDG 8, 9
Develop a roadmap to reduce restrictions in highly regulated professions.	Substantial progress	SDG 9
Increase the efficiency of administrative and tax courts, in particular by decreasing the length of proceedings.	Some progress	SDG 8, 16
2020 CSR 1	**Some progress**	
In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.	No longer relevant	SDG 8, 16
Strengthen the resilience of the health system	Some progress	SDG 3
and ensure equal access to quality health and long-term care.	Limited progress	SDG 3, 8, 10
2020 CSR 2	**Some progress**	
Support employment and prioritise measures to preserve jobs.	Some progress	SDG 8
Guarantee sufficient and effective social protection and income support.	Some progress	SDG 1, 2, 10
Support the use of digital technologies to ensure equal access to quality education and training	Some progress	SDG 4, 8, 10
and to boost firms' competitiveness	Some progress	SDG 8, 9

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Table (continued)

2020 CSR 3
Implement the temporary measures aimed at securing acce liquidity for firms, in particular small and medium-sized enterpris
Front-load mature public investment projects and
promote private investment to foster the economic recovery.
Focus investment on the green and digital transition, in particul clean and efficient production and use of energy,
rail infrastructure
and innovation.
2020 CSR 4
Increase the efficiency of administrative and tax courts
2021 CSR 1
In 2022, use the Recovery and Resilience Facility to fi additional investment in support of the recovery while pursu prudent fiscal policy. Preserve nationally financed investment. the growth of nationally financed current expenditure.
When economic conditions allow, pursue a fiscal policy aim achieving prudent medium-term fiscal positions and ensuring sustainability in the medium term.
At the same time, enhance investment to boost growth pot Pay particular attention to the composition of public finances, on the revenue and expenditure sides of the budget, and t quality of budgetary measures, to ensure a sustainable and inc recovery. Prioritise sustainable and growth-enhancing invest notably supporting the green and digital transition.
Give priority to fiscal-structural reforms that will help pr financing for public policy priorities and contribute to the long sustainability of public finances, including by strengthenin coverage, adequacy, and sustainability of health and protection systems for all.
2022 CSR 1
In 2023, ensure prudent fiscal policy, in particular by limitin growth of nationally financed primary current expenditure medium-term potential output growth, taking into account cont temporary and targeted support to households and firms vulnerable to energy price hikes and to people fleeing Uk Stand ready to adjust current spending to the evolving situation
Expand public investment for the green and digital transitions for energy security taking into account the REPowerEU init including by making use of the Recovery and Resilience Facilit other Union funds.
For the period beyond 2023, pursue a fiscal policy aim achieving prudent medium-term fiscal positions and ens credible and gradual debt reduction and fiscal sustainability medium term through gradual consolidation, investment reforms.
Improve the effectiveness of the tax and social protection sys in particular by simplifying both frameworks, strengthenin efficiency of their respective administrations, and reducin associated administrative burden.
2022 CSR 2
Proceed with the implementation of its recovery and resilience in line with the milestones and targets included in the C Implementing Decision of 13 July 2021.
Swiftly finalise the negotiations with the Commission on the 2027 cohesion policy programming documents with a vie starting their implementation.
2022 CSR 3
Enhance the conditions for a transition towards a circular eco in particular by increasing waste prevention, recycling and reu divert waste away from landfills and incinerators.

Table (continued)

2022 CSR 4	**Some progress**	
Reduce overall reliance on fossil fuels,	Some progress	SDG 7, 9, 13
including in the transport sector.	Some progress	SDG 11
Accelerate the deployment of renewables by upgrading electricity transmission and distribution grids, enabling investments in electricity storage	Limited progress	SDG 7, 9, 13
and streamlining permitting procedures to allow for further development of wind, particularly offshore, and solar electricity production, as well as renewable hydrogen production.	Some progress	SDG 7, 8, 9, 13
Strengthen the incentives framework for energy efficiency investments in buildings.	Some progress	SDG 7
Increase energy interconnections.	Some progress	SDG 7, 9, 13
2023 CSR 1	**Substantial progress**	
Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.	Some progress	SDG 8, 16
Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 1.8%1, unless a higher reference rate in net nationally financed primary expenditure growth is estimated to be compatible with Portugal reaching its MTO of -0.5% of GDP, inter alia if interest expenditure is lower than currently projected by the Commission.	Full implementation	SDG 8, 16
Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.	Full implementation	SDG 8, 16
For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.	Full implementation	SDG 8, 16
Improve the effectiveness of the tax and social protection systems, in particular by prioritising the simplification of both frameworks, strengthening the efficiency of their respective administrations, and reducing the associated administrative burden.	Limited progress	SDG 1, 2, 8, 10, 12, 16
2023 CSR 2		
Accelerate the implementation of its recovery and resilience plan, also by ensuring an adequate administrative capacity and, following the recent submission of the addendum, including the REPowerEU chapter and the additional loan request, rapidly start the implementation of the related measures. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.	RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets, to be reflected in the country reports. Progress with the cohesion policy is monitored in the context of the Cohesion Policy of the European Union	
2023 CSR 3	**Limited progress**	
Improve the conditions for the transition towards a circular economy, in particular by increasing waste prevention, recycling and reuse, to divert waste away from landfills and incinerators.	Limited progress	SDG 6, 12, 15
2023 CSR 4	**Some progress**	
Reduce overall reliance on fossil fuels.	Some progress	SDG 7, 9, 13
Further accelerate the deployment of renewables by further simplifying and digitalising permitting to allow for additional wind particularly offshore and solar electricity production, as well as promoting self-consumption and renewable energy communities.	Some progress	SDG 7, 9, 13
Increase electricity interconnection capacity	Some progress	SDG 7, 9, 13
and upgrade the electricity transmission and distribution grids, enabling investment in electricity storage	Limited progress	SDG 7, 9, 13
and digitalisation of the grid, including the faster roll-out of smart meters.	Some progress	SDG 7, 9, 13
Accelerate investment in energy efficiency by promoting financial schemes to attract private investment and supporting households in need.	Some progress	SDG 1, 2, 7, 10
Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.	Some progress	SDG 4

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Table (continued)

2024 CSR 1	**Limited progress**	
Submit the medium-term fiscal-structural plan in a timely manner.	Full implementation	SDG 8, 16
In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and respecting the 3% of GDP deficit Treaty reference value.	Limited progress	SDG 8, 16
Wind down the emergency energy support measures before the 2024/2025 heating season.	Some progress	SDG 8, 16
Improve the effectiveness of the tax system, in particular by strengthening the efficiency of its administration and reducing the associated administrative burden.	Limited progress	SDG 8, 16
Take action to ensure the medium-term fiscal sustainability of the pension system	No progress	SDG 8
2024 CSR 2		
Strengthen administrative capacity to manage EU funds, accelerate investments and maintain momentum in the implementation of reforms. Address relevant challenges to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review, continue focusing on the agreed priorities, taking action to better address the needs in the area of prevention of and preparedness for climate change-related risks, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.	RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets. Progress with the cohesion policy programming is monitored in the context of the Cohesion Policy of the European Union.	
2024 CSR 3	**Limited progress**	
Improve water management to strengthen adaptation to the effects of climate change and ensure long-term economic and environmental resilience, by putting in place a strategy for integrated and sustainable water management, developing its governance structure,	Limited progress	SDG 1, 6, 7, 8, 11, 12, 13, 15
promoting investments in wastewater collection and treatment, leaks reduction and water monitoring,	Limited progress	SDG 1, 6, 7, 8, 11, 12, 13, 15
while developing nature-based solutions and water body rehabilitation, and improving water efficiency and water reuse.	Limited progress	SDG 1, 6, 7, 8, 11, 12, 13, 15
2024 CSR 4	**Limited progress**	
Strengthen the capacity of the electricity transmission and distribution grid, in particular by improving connection procedures and increasing their transparency to incentivise investments in the national network and increase energy storage capacities.	Limited progress	SDG 7, 9, 13

Source: European Commission

Portuguese regions have recovered quickly since 2020, but disparities continue to be pronounced, with uneven development. Supporting business growth is important to improve regional competitiveness, alongside better policy and administrative coordination and improvements in the local business environment. Demographic challenges persist, and achieving a carbon-neutral economy requires transformation across all economic sectors, with some regions facing water management challenges.

Portugal continues to catch up with the rest of the EU in terms of GDP per capita, but regional disparities remain significant. In 2023, the capital region was the only region in Portugal with a GDP per capita above the EU average, while - apart from Algarve, Madeira and Alentejo – it was below 75% in all other regions. In 2014-2023, Madeira, Algarve, Norte, Azores experienced the strongest average annual GDP per head growth (all above 2.2% compared to the EU average of 1.6%).

Competitiveness

Despite the increase in the GDP per capita, increasing productivity remains a challenge for Portuguese regions. Considering labour productivity by industry (GDP per hour worked), the 'Manufacturing' and 'Industry' sectors registered annual growth below the EU average in 2013-2023 (+1.1% and +0.7% respectively) ([192]). Despite increases in labour productivity in all Portuguese regions between 2013 and 2022, it stood at 68% of the EU average in 2022. The capital region had the highest productivity, while Norte had the lowest levels of productivity in Portugal (Table A17.1).

The business structure remains largely unchanged, with medium-sized and large enterprises concentrated in a few regions and notable differences in entrepreneurial activity. In 2022, micro and small enterprises represented approximately 97% of business entities, without significant changes over the past decade. Norte and the capital region account for the highest number of medium-sized and large enterprises. Unleashing the potential of companies to scale up would help to stimulate innovation and improve regional competitiveness. The entrepreneurial activity that is vital to generate positive economic outcomes has improved over the same period, but significant disparities persist between and within regions ([193]).

Demographic trends, skills mismatches and researchers' limited transition industry, particularly in regions with a strong industrial and business R&D base, are undermining competitiveness. According to the 2023 ageing index ([194]), Centro and Alentejo have the highest rate of older people for every 100 young people. While in 2014-2023, the population aged 20-64 in Portugal as a whole decreased similarly to EU average, the working age population has diminished at a higher rate in Centro, Alentejo, Norte and Madeira (Table A17.1), leading to a shrinking workforce.

There are also skills mismatches, indicating that qualified workers are not optimally engaged in the labour market. On the other hand, highly qualified individuals with strong R&D skills often find opportunities in their home country less attractive. As a result, many opt to work abroad or explore alternative career paths (see Annex 3). The low employment of researchers (full-time equivalent) in enterprises is evident, even in the capital region and Norte, which have the highest employment of researchers in

([192]) Eurostat (nama_10_lp_a21).

([193]) GEP - Gabinete de Estratégia e Planeamento / MTSSS - Ministério do Trabalho, Solidariedade e Segurança Social (2024) Quadros de Pessoal 2012 – 2022.

([194]) Statistics Portugal – 2024.

Table A17.1: **Selection of indicators at regional level (NUTS 2024) in Portugal**

	GDP per head (PPS)	Real GDP per head growth	Productivity - GDP per hour worked (PPS)	Real productivity growth (per hour worked)	Population growth	Working age population (20-64) growth	Employment rate 20-64	At-risk-of-poverty or social exclusion
	Index EU-27 = 100	Average annual % change	Index EU-27 = 100	Average annual % change	Average annual change per 1000 residents	Annual % change	% of population aged 20-64	% of total population
NUTS2024	2023	2014-2023	2022	2013-2022	2014-2023	2014-2023	2024	2024
European Union (27 MS)	100	1,6	100	0,9	1,7	-0,3	75,8	21,0
Portugal	81	1,8	68	0,9	1,9	-0,3	78,5	19,7
Norte	69	2,3	60	1,4	0,9	-0,4	77,4	21,0
Algarve	87	2,4	72	0,9	7,3	0,2	79,8	18,7
Centro (PT)	69	1,7	63	1,0	-0,7	-0,4	78,5	18,9
Grande Lisboa	126	1,5	77	-0,8	5,2	0,3	81,1	16,5
Península de Setúbal	54	1,6	66	0,4	4,6	0,2	78,8	21,8
Alentejo	76	2,1	64	-0,2	-4,5	-0,7	79,7	18,7
Oeste e Vale do Tejo	62	1,2	58	1,1	3,2	-0,3	76,7	19,1
Região Autónoma dos Açores	71	2,2	63	0,8	-1,8	-0,3	74,8	28,4
Região Autónoma da Madeira	87	2,8	71	1,8	-2,0	-0,6	76,3	22,9

Source: Eurostat and ARDECO (JRC)

enterprises (6.2 per 1 000 active population) ([195]). This persists despite an increase in the overall number of researchers since 2014.

Innovation investments continue to be concentrated in a few regions, with modest improvements in high-technology exports. In 2022, total expenditure on innovation activities reached EUR 3.4 billion, an increase of 30% compared to 2018, indicating a promising path. However, innovation expenditure is highly concentrated in enterprises in Greater Lisbon and Norte, which accounted respectively for EUR 1.4 billion and EUR 1.2 billion, or 41% and 34% of total innovation expenditure ([196]). While export activities increased from EUR 42.8 billion to EUR 79.3 billion between 2011 and 2024, the relative performance of high-technology exports in Portugal increased only from 3% to 5% in the same period. Norte is still the main exporting region, and its export activities grew by EUR 10.7 billion, the highest absolute value among the Portuguese regions. The other two regions which recorded the highest increases in exports were the capital region and Centro. This trend was observed in high-technology exports, which reached5.6% of total exports in Norte, 4.8% in the capital region, and 3.9% in Centro ([197]).

Fostering science-industry and business-to-business cooperation would help to boost innovation and the creation of marketable products. This is particularly relevant in Norte, which has a substantial concentration of industry and enterprises but below average levels of cooperation. So far there has been a small increase in new-to-market innovation sales. In 2022, Greater Lisbon accounted for the highest proportion of new-to-market innovation sales (5.6%), while the figures were much lower in most other regions. The proportion of enterprises cooperating with other enterprises or organisations in R&D activities was highest in Centro (8%), while Greater Lisbon had the highest percentage (6.2%) of cooperation in other innovation activities. In Norte, which has the highest concentration of enterprises in Portugal, cooperation accounted for 4.9% and 4%,

([195])DGEEC - Direção-Geral de Estatísticas da Educação e Ciência (2024) Inquérito ao Potencial Científico e Tecnológico Nacional. Investigação e Desenvolvimento (I&D): Principais Indicadores por Região 2022.

([196]) Community Innovation Survey - 2022.

([197])Statistics Portugal – 2025.

respectively, falling behind the national average ([198]).

Portugal has a diversified economic structure ([199]), with different regional specialisation patterns, pointing towards comparative advantages and emerging opportunities to generate new sources of growth and employment. Norte is the most industrialised region of Portugal, with a strong presence of the textile sector and manufacturing of components and parts for the automotive sector. In the pharmaceutical and biotechnology sector, activities are driven by BIAL ([200]). The future Innovation Hub which is being developed in the Metropolitan Area of Porto is an opportunity to diversify economic activities in new areas ([201]). The aeronautics industry - not yet as developed as the automotive sector - has a growing cluster of companies. Centro is specialised in manufacturing of ceramics and glass, and moulding, with activities linked to the pharmaceutical and biotechnology sectors. The capital region has the greatest concentration of services, with a strong presence of manufacturing industries, such as the pharmaceutical sector, and in Península de Setúbal, the automotive industry. In Alentejo, in addition to traditional sectors, aeronautics is a more recently developed sector in the region, with the renewable energy cluster providing an opportunity for economic diversification. Considering geographic location and natural resources, there is high but still untapped potential to develop the blue economy in coastal areas of mainland Portugal, as well as in the outermost regions of Azores and Madeira, for instance on renewable energy production. Economic diversification is key to building more resilient regional economies in Azores and Madeira which rely heavily on tourism.

Improving the quality of governance would be beneficial for improving the Portuguese economy's competitiveness both at national and regional level. According to the 2024 European Quality of Government Index ([202]), the regions with below scores below EU average are Algarve, Norte and Alentejo. It is important to continue strengthening the capacity of the Commissions for Coordination and Regional Development (CCDRs), considering the new powers granted to them during the reform which entered into force in January 2024. In addition, closer cooperation between the CCDRs and the Portuguese Trade and Investment Agency would be beneficial for attracting new investors. Streamlining internal processes remains important to further improve collaboration with other national agencies, for instance, Portugal's Agency for Competitiveness and Innovation ([203]).

There is also scope to improve the business environment by streamlining processes at local level. Variations across Portuguese cities in the speed at which building and environmental permits can be obtained and property is transferred suggest there is scope for improvement ([204]). For instance, in Funchal it takes about nine months to obtain a building permit, while in Coimbra and Lisbon it can take up to a year and a half. Obtaining environmental permits in mainland Portugal is

([198]) Community Innovation Survey - 2022.

([199]) The Portuguese economy is based on traditional industries, with agri-food, textiles, footwear and the tourism sector playing an important role. The key manufacturing industries include the automotive sector, aeronautics, automation, pharmaceuticals and renewable energies. For detailed regional industrial economic indicators see: https://web.jrc.ec.europa.eu/dashboard/TEDV/index.html.

([200]) BIAL is ranked 53rd in the EU pharma and biotech companies with the highest R&D investments. EU Industrial R&D Investment Scoreboard – 2024.

([201]) Sustainable mobility, clean energy, advanced manufacturing and marine economy.

([202]) European Quality of Government Index 2024 | University of Gothenburg

([203]) OECD (2024) Rethinking Regional Attractiveness in the Alentejo Region of Portugal.

([204]) The World Bank (2024) Subnational Business Ready in the European Union 2024: Portugal.

supported by a platform ([205]) which enables comprehensive online services, including submissions, payments and notifications. In turn, the outermost regions of Azores and Madeira do not have similar electronic platforms, relying instead on in-person or email submissions. Property transfer can take 44 days in Lisbon, but 83 days in Ponta Delgada.

Social fairness

Portuguese regions are affected by demographic changes. The four regions where the population grew in 2014-2023 were the capital region, Península de Setúbal, Oeste e Vale do Tejo and Algarve, mainly due to strong net in-migration 2022 - 2023. Alentejo had the largest decline in population, with the Azores and Madeira showing also significant decreases (Table A17.1). Most of the decline in the Azores is related to net outmigration in between 2013 and 2019. Other regions show positive net in-migration in this period, which is not sufficient to compensate for the negative natural population change. It is a challenge to ensure access to essential services, particularly in areas facing depopulation.

Helping young people find jobs is necessary to sustain the working age population and economic growth in many Portuguese regions. Between 2013 and 2022, 845 000 people emigrated from Portugal ([206]). Over the past decade, thousands of young and educated Portuguese people left the country in search of better opportunities. In 2024, youth unemployment was still above the EU average of 15% in all regions and 41.9% of those aged 30-34 held tertiary degree, with only the capital region exceeding the EU average (44.8%). Situation of the youth is challenging in the Azores, where the rate of early leaving from education and training stood at 19.8%, which is three times higher than Portugal's average of 6.6%, while only 22.7% of those aged 30-34 held tertiary degree.

The outermost regions of Azores and Madeira continue to face major challenges. In 2024, the Azores and Madeira recorded the lowest employment rates (for 20- to 64-year-olds) and the highest percentage of population at risk of poverty and social exclusion (AROPE rate) (Table A17.1). These disparities appear to be linked to the high rate of early school leaving and below average educational attainment. The percentage of population with a tertiary education degree was significantly lower in the Azores (17.6%) and Madeira (22.4%) than Portugal's average (31.4%) in 2024. Digitalisation also remains a challenge, with internet usage for interactions with public authorities at 39% in Azores and 44% in Madeira, well below the national average of 49% in 2021.

Portugal performs relatively well in terms of access to essential services, but regional disparities persist, with significant difficulties in housing. In 2018, the percentage of the population with a primary school within 15 minutes' walk was comparable to the EU average in most regions, with the highest proportion in the capital region and the lowest in Centro (Graph A17.1). This is a common problem for municipalities in low density areas, which are incurring considerable costs to ensure transport for pupils. The travel time to the nearest healthcare centre exceeds the EU average in all regions except the capital region, and is particularly long in Alentejo, Centro, Azores and Madeira, where double insularity ([207]) translates into challenging access

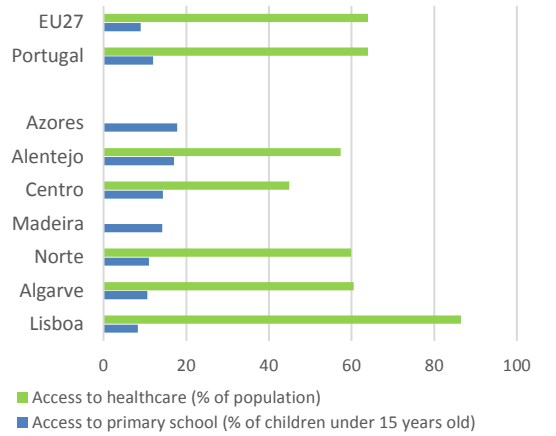
([205]) Integrated Environmental Permitting System (SILiAmb), managed by the Portuguese Environment Agency (APA).

([206]) Observatório da Emigração (2024) Emigração Portuguesa 2023: Relatório Estatístico.

([207]) Double insularity refers to geographical remoteness from 1) the continental part of the Member State and from 2) the European Union (EP report 'Islands of the European Union: State of play and future challenges, March 2021, Research for REGI Committee - ISLANDS OF THE EUROPEAN UNION: State of play and future challenges | Think Tank | European Parliament)

to services in the smallest islands. Moreover, Portugal continues to experience significant difficulties in housing (see Annex 11).

Graph A17.1:**Access to healthcare and primary education in rural areas**

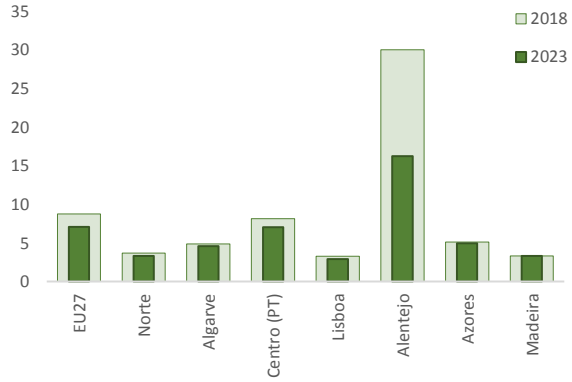


Units: Percentage of population that can reach nearest hospital within 10 minutes by car (EU-27) (2020-2021); Percentage of children under 15 years old who can reach primary school within 15-minute walk (EU-24) (2018).
Source: Eurostat

Sustainability

Greenhouse gas emissions per capita are below the EU average in Portugal and continue to decrease, but there are some specific territorial challenges in the transition to climate neutrality. Despite having decreased emissions by 13.8 tonnes per capita between 2018 and 2023, Alentejo is the only Portuguese region with a level of emissions above the EU average. Centro is the Portuguese region with the second-highest emissions per capita, with a decrease estimated at 1.1 tonnes per capita in the same period (Graph A17.2). Emissions in those two regions decreased following the closure of coal-fired power plants in Sines (Alentejo Litoral) and Pego (Médio Tejo) in 2021 ([208]).

Graph A17.2:**Greenhouse gas emissions per capita**



Unit: **Tonnes per capita per year**
Source: REGIO elaboration based in Eurostat

Achieving a carbon-neutral economy requires transformation of every economic sector. Portuguese regions lag far behind the EU average in resource productivity and the use of environment-related technologies, but also in terms of green employment. In 2020, the proportion of employment in sustainable but competitive sectors ranked below the EU average in all regions (12% in the capital region), and much lower in all others ([209]). Improving rail infrastructure, decarbonising transport and personal mobility play a key role, particularly in Portugal's metropolitan areas, which face significant challenges in air quality and traffic congestion (see Annex 7).

Algarve, Alentejo and Madeira are facing water scarcity. Water stress has been aggravated by prolonged droughts and climate

([208]) Alentejo Litoral and Médio Tejo, and Matosinhos in the Metropolitan Area of Porto, are currently implementing the Territorial Just Transitional Plans, aimed at boosting economic diversification and ensuring that the transition towards a climate-neutral economy leaves no one behind.

([209]) Regional Competitive Environmental Sustainability indicator; https://publications.jrc.ec.europa.eu/repository/handle/JRC136629.

change, and growth forecasts anticipate that the situation will deteriorate further (see also Annex 9). The Algarve and Alentejo already are affected by severe and extreme water scarcity, with expected further increase in water demand leading to decreases in water availability, estimated at between -1% and -13% within the next decade ([210]). This suggests the need to strengthen water management policy in vulnerable territories.

([210]) DG REGIO / Guido Schmidt (AMI list expert), Supporting the management of water scarcity in Portugal.