

# Portugal



<b>Prime Minister:</b> Jose SOCRATES	<b>Population</b> (2007 est.): 10,599,095			
<b>Finance Minister:</b> Fernando TEIXEIRA DOS SANTOS	<b>GDP</b> (2007): €162.8 billion			
<b>Central Bank Governor:</b> Victor CONSTANCIO	<b>GDP/capita:</b> €15,400			
<b>Joined the EU:</b> 1986	<b>GDP by sector:</b>			
<b>Adopted the Euro:</b> 1999	Agriculture 8.1%			
<b>Currency prior to Euro:</b> Escudo	Industry 25.4%			
	Services 66.5%			
	<b>Life Expect.</b> (women / men): 82 / 76			
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008*</b>
<b>Real GDP growth rate</b>	0.9%	1.4%	1.9%	0.5%
<b>Inflation</b>	2.1%	3.0%	2.4%	2.9%
<b>Unemployment Rate</b>	7.7%	7.8%	8.1%	7.7%

\* forecast

## Portugal in the EU and the Euro Area

Portugal joined the European Union on January 1, 1986, along with Spain. The addition of these two countries brought EU membership to 12 States. Portugal was among the first group of countries which adopted the Euro in 1999. Euro notes and coins were introduced in Portugal on January 1, 2002, replacing the Escudo.

Portugal benefited from the lower inflation, lower interest rates, and greater exchange-rate stability brought about by Economic Monetary Union. However, the process of monetary integration also brought forth a number of imbalances that have contributed to the country's poor economic performance in recent years. Moreover, such imbalances are perceived to have been exacerbated by policies pursued by the government.

## Economic Overview of Portugal

Portugal has a services based economy with the services sector contributing to 66% of GDP and employing 52% of the population. Trade and tourism are also key industry sectors. In addition the financial sector has benefited from an increasing degree of privatization.

Economic growth rose from 1.4% in 2006 to 1.9% in 2007, led by strong external demand and the wide-ranging reform program being introduced by the government. Economic activity in Portugal decelerated rapidly in the course of 2008 after a gentle upswing in 2006-2007, such that for 2008 as a whole, GDP is projected to grow by only ½%, down from almost 2% in 2007. Domestic demand has weakened mainly as the result of construction falling back into the red. GDP per capita stands at roughly two-thirds of the EU-27 average. A poor educational system, in particular, has been an obstacle to greater productivity and growth. Portugal has been increasingly

overshadowed by lower-cost producers in Central Europe and Asia as a target for foreign direct investment. Portugal in recent years has struggled with an excessive budget deficit, most notably in 2005 when the deficit reached an astronomical 6% of GDP, although this has now been reduced to 2.6% (2007). Furthermore, modest employment growth failed to keep up with continuing labor force growth, leading to unemployment rising to 8.0 percent in 2007.

The Executive Board of the IMF<sup>1</sup> noted that the economic situation for Portugal remains challenging, as growth has slowed and near-term risks continue to be tilted to the downside. In part this is considered to be a consequence of international financial tensions and weaker global economic conditions. Improving productivity growth and closing the external competitiveness gap are critical to address Portugal's economic problems.

### Some Economic Challenges Facing Portugal

Living standards have fallen vis-à-vis the OECD average in recent years, with the widening GDP-per-capita gap essentially reflecting low productivity.<sup>2</sup>

#### *Improve Upper Secondary and Tertiary Education*

Many people in Portugal do not receive adequate upper secondary and tertiary education, thereby limiting their job choices and wages. Improvements in this area would help develop a better educated workforce and facilitate greater levels of innovation. This in turn would enhance adoption of new technologies and stimulate productivity growth. By now, the authorities have started implementing reforms in this regard, such as commissioning reviews of the higher education sector.

#### *Reform employment protection legislation*

To facilitate higher productivity growth and encourage hiring of workers under regular contracts, Portugal needs to relax employment protection legislation, particularly for individual dismissals.

#### *Weak Competitiveness*

Weak competition in many network and service sector industries such as telecommunications and energy hamper productivity growth by reducing the incentive for firms to seek efficiency gains or adopt more advanced production techniques. Some steps have been taken by the government to ease regulatory restraints in some network industries. On the other hand, no notable reforms have been formulated so far, to separate ownership and the control of cable and telephony networks.

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<sup>1</sup> International Monetary Fund (IMF), <http://www.imf.org/external/np/sec/pn/2008/pn08128.htm> 10/03/08

<sup>2</sup> "Economic Reform: Going for Growth." OECD. 2008