

# ILO/SIDA PARTNERSHIP ON EMPLOYMENT

## ATTAINING SDG 8 IN PORTUGAL: MACROECONOMIC, SECTORAL AND LABOUR MARKET POLICIES FOR STRUCTURAL TRANSFORMATION AND FULL AND PRODUCTIVE EMPLOYMENT

Vítor Escária and Mariana Pereira

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*Attaining SDG 8 in Portugal:  
Macroeconomic, sectoral and labour market policies for structural  
transformation and full and productive employment*

Vítor Escária  
Mariana Pereira

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## Foreword

Full and productive employment and decent work are at the heart of the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs). In addition to the specific goal (SDG8) of promoting “sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”, decent work is featured in many of the other SDGs.<sup>1</sup>

In adopting the SDGs, in particular SDG8, the international community has put job creation at the heart of economic policy-making and development plans: economic growth that generates decent work opportunities will lead to inclusive and poverty-reducing growth. Systematic follow-up and review of the implementation of the 2030 Agenda is required in order to maximize and track its progress. The follow-up and review is expected to “maintain a longer-term orientation, identify achievements, challenges, gaps and critical success factors and support countries in making informed policy choices”.<sup>2</sup>

In order to support ILO constituents in their efforts to maximize and track progress on SDG8, a multi-country research programme has been undertaken that diagnoses opportunities and challenges associated with promoting productive employment and that identifies policy options for achieving SDG8. Within the framework of the ILO/Sida Partnership on “More and better jobs for inclusive growth and improved youth employment prospects”, this global research on “SDGs and employment policies: Macroeconomic, sectoral and labour market policies for structural transformation and full and productive employment” was conducted in 10 countries, taking into account their specific country context. In particular, the research focused on the interlinkages and potential virtuous circle between targets 8.1 (sustaining per capita economic growth), 8.2 (sustaining labour productivity growth), 8.3 (promoting development-oriented policies), 8.5 (promoting full and productive employment for all women and men) and 8.6 (decreasing the share of NEETs by engaging young people in the labour market).

To better tailor policy advice and to customize employment diagnostics, it is important to present types of employment and economic growth pathways, and similar dynamics, according to core employment and productive characteristics and challenges. This is related, for example, to demographic transition and labour market transformations driven by globalization and technological change. The country selection included a diversity of countries across the employment and productive transformation pathways for more nuanced and contextualized policy guidance.

Four global syntheses are presented, based on the country studies, focusing more specifically on: (i) Structural transformation for inclusive growth and productive employment; (ii) Gender impacts of structural transformation; (iii) Young people not in employment, education and training; and (iv) Delivering on SDG8.

The Employment, Labour Markets and Youth Branch (EMPLAB) is engaged in global advocacy and in supporting Member States’ efforts to put the aim of more and better jobs at the centre of economic and social policies and of growth and development strategies. Policy

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<sup>1</sup> See ILO: *Decent Work and the 2030 Agenda for Sustainable Development* for more information on the linkages between decent work and the SDGs. Available at: [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_436923.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_436923.pdf)

<sup>2</sup> United Nations (2015): *Transforming our world: The 2030 Agenda for Sustainable Development*. Available at: <http://undocs.org/A/RES/71/313>

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research and knowledge generation and dissemination are essential components of EMPLAB's activities. The ILO/Sida Partnership on Employment working paper series is designed to disseminate the main findings of research on a broad range of topics undertaken by EMPLAB on employment and youth employment policies. The working papers are intended to encourage the exchange of ideas and to stimulate debate. The views expressed in them are the responsibility of the authors and do not necessarily represent those of the ILO.

Sukti Dasgupta  
Chief  
Employment, Labour Markets and Youth  
Branch

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## List of abbreviations

EC	European Commission
ECB	European Central Bank
EEC	European Economic Community
EFAP	Economic and Financial Assistance Programme
EMU	Economic and Monetary Union
EU	European Union
EUR	Euro (currency)
FDI	Foreign direct investment
GDP	Gross domestic product
GFCF	Gross fixed capital formation
GSP	Growth and Stability Pact
GVA	Gross value added
ILO	International Labour Organization
IMF	International Monetary Fund
LTU	Long-term unemployed
MoU	Memorandum of Understanding
MS	Member State
NEET	Not in education, employment or training
NPISH	Non-profit institutions serving households
OECD	Organization for Economic Development and Cooperation
OMFI	Other monetary financial institutions
PES	Public Employment Service
p.p.	Percentage Points
R&D	Research and development
R&D	Sustainable Development Goal
WTO	World Trade Organization
YG	Youth Guarantee



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## Executive summary

Over the past couple of decades or so, the Portuguese economy has been subject to several, mainly negative shocks that have influenced its development. The first was associated with accession to the Economic and Monetary Union (EMU) at its inception. The second important shock was the 2004 Eastern enlargement of the European Union, which shifted the EU's centre of gravity eastwards, bringing many competitors inside the EU and diverting foreign direct investment (FDI) flows to the new member states. The third was caused by the increased competition from many Asian economies after their accession to the WTO and the end of the Multi-Fibre Agreement. This affected Portuguese export capacity in many products that constituted its sectors of specialization as many of these Asian countries were direct competitors of Portugal and more price competitive.

The Portuguese economy was not in a strong position when the international financial and sovereign debt crises started to unfold from 2008 onwards. The crises and some dimensions of the early response – driven by the European Commission's (EC) recommendations to promote stimulus packages – resulted in strong imbalances in both public and external accounts that almost blocked the ability of the Portuguese economy to finance itself in international markets. In order to overcome these difficulties, Portugal had to request international support, which was granted on condition that it apply an “economic and financial adjustment programme”. This programme was implemented between 2011 and 2014 and was focused on fiscal consolidation and the rebalancing of public finances in the post-crisis period, as well as on reforms considered “structural” with a view to improving competitiveness and growth prospects to correct external imbalances. The period from 2011 onwards was marked by a strong adjustment, with a severe recession in the first years and some recovery in the years that followed. After the adjustment period, since 2014 the Portuguese economy has attained a higher level of economic growth, achieving its highest real GDP growth in almost 20 years, driven by productivity gains, with the labour market recovering its pre-crisis levels in terms of both unemployment and employment. As noted in the ILO's study *Decent Work in Portugal 2008–18: From Crisis to Recovery*,

the Portuguese experience does not support the conventional notion that adjustment can be accelerated and international competitiveness rapidly regained simply by means of reducing labour costs and making the labour market more flexible. More effective in the case of Portugal appear to have been broader measures to improve the business environment, ensure access to credit, improve the capability of the public administration, fine-tune tax and fiscal incentives, actively and wisely manage the public budget, and the preservation of the level of minimum wages, thus avoiding a sudden drop in domestic demand. (ILO, 2018:1)

Overall, between 2000 and 2018 Portugal registered an annual average growth rate of only 0.61 per cent, making it one of the worst performers in the EU. Productivity was the only driver underlying growth as employment declined over the period. The fact that productivity has grown at a slower pace than in other countries explains the persistence of a GDP per capita gap with regard to the EU average.

The set of shocks that hit the Portuguese economy, combined with the dynamics registered in the international economy, fostered a profound transformation of the productive base and of the specialization of the Portuguese economy. This has had a strong impact on the labour market.

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Despite being subject to strict conditionalities for most of this period as a result of the public finance situation,<sup>3</sup> public policy has played an important role in addressing structural weaknesses and fostering structural transformation. For many years, a high level of financial aid, most of it underpinned by European Structural Funds, and tax incentives have been deployed to foster private investment with a focus on enhancing the competitiveness of Portuguese companies. Support for R&D, innovation and internationalization has been central in the strategy adopted. Several programmes, many of them also benefitting from the support of European Structural Funds, have focused on enhancing the skills of the Portuguese population and labour force, from initial schooling to advanced training, involving regular education and vocational training programmes. These investments have supported the tertiarization of the economy and the shift from low to medium-tech products in several sectors. Many changes in laws and regulations have been adopted, within the framework of generations of “Simplex programmes” aimed at cutting red tape and improving the business environment.

The structural transformation experienced in the past 20 years has resulted in a major change in the productive structure, changing the distribution of employment and gross value added (GVA) across industries. Even within each industry, there has been a change in company profiles. In the 1980s and 1990s, economic growth had been driven mainly by non-tradable sectors. Recent decades, however, have witnessed a transformation in favour of greater openness, with increased weight on the part of the tradable sectors, mainly services, following the trends of tertiarization and deindustrialization typical of many developed economies, but with a significant recomposition of the industrial and agriculture sectors and the decreasing importance of the construction sector. As a result, sectors such as social work activities, real estate activities, computer programming, consultancy and related activities/information service activities, scientific research and development, and manufacture of coke, and refined petroleum products have gained increasing importance in the Portuguese economy, whereas some traditional specialization industries have declined.

Alongside this sectoral recomposition, an increasing number of companies have abandoned traditional models of competitiveness based on low costs, enabled by low wages, and adopted new strategies based on dynamic competitiveness factors, such as innovation, product differentiation or increased capital intensity, as a way of obtaining productivity gains. Portugal continues, however, to be characterized by the predominance of very small companies, even though there has been considerable fluctuation of companies entering and exiting the market. We have also seen the emergence of some mid-cap or medium-sized companies, and even a few big ones, which have played a prominent role in economic transformation. The transformation of the economy has benefitted from public policies since the mid-1980s, with strong support from the European Structural Funds. These policies brought together financial and fiscal incentives, public investment in infrastructure and other areas, and also many legal changes, focusing on many different areas, such as productive investment, R&D, education and vocational training, cutting red tape and improving the ease of doing business and access to financing among other things.

During the period, the labour market experienced a significant structural transformation, alongside sharp cyclical fluctuations. Besides the sectoral reallocation of labour, with a strong shift of employment to services, significant changes occurred in dimensions such as the occupational distribution of labour, with some increase in the share of more skilled jobs, a reduction of self-employment and the emergence of temporary forms of employment, especially for young people. This last trend generated some increase in the level of segmentation. At the same time, the wage premium for skills has decreased significantly, as the supply of skilled workers increased and demand has not changed at the

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<sup>3</sup> For the past couple of decades Portugal has gone through several public accounts crises and has been, during most of this time, under an EU excessive deficit procedure or early warning mechanism (in 2002, from 2005 to 2008 and from 2009 to 2017).

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same pace. Those wage dynamics associated with the increase in the minimum wage resulted in an increase in wage compression. The female participation rate increased from already high levels. The deep crisis experienced since 2011 reinforced some long-term trends and changed others. The recovery since 2014 has allowed some indicators to return to previous levels but has left a visible legacy in the persistence of significant vulnerabilities in terms of the level of labour market segmentation and wage stagnation. Moreover, it is interesting to see that female labour market participation, which has traditionally been high in Portugal, has been affected by the crisis less than male participation and has recovered faster, reducing the gap between employment rates.

Some degree of social cohesion was ensured and more profound processes of exclusion were prevented during the adjustment process as new generations of social protection instruments have been deployed. They aimed to improve the social safety net by ensuring minimum protection levels to those in situations of greater vulnerability, complementing the guarantee of adequate benefit levels for the population as a whole, supported by a broad financing base.

Social protection schemes were developed in terms of an increased coverage of beneficiaries, coverage of risks and adequacy of protection, which had an impact on poverty and inequality indicators, while also benefitting and involving medium and upper-income groups.

The most vulnerable have been increasingly protected, except for the period when the international crisis weighed particularly on the labour market and, more specifically, during the financial assistance programme, when the toughest austerity measures were put in place. As the impacts of cutbacks in social expenditure during this exceptional period show, positive developments in family disposable incomes not only affect their wellbeing but also have economic consequences by securing and boosting demand. The austerity years also revealed the importance of other inclusive institutions, such as the Constitutional Court, which acted to veto more extreme austerity measures, minimizing the impact on workers, pensioners and their families.

Finally, the substantial public investment in education had major impact on the labour market, supported the transformation and upgrading of the economy and allowed for some degree of social mobility. The investment in other public services, such as universal and accessible public health care, also helped to enhance or maintain living standards even in times of crisis, when unemployment reached very high levels.

During periods of strong adjustment, it is important to pay attention to whether specific groups are bearing a disproportionate share of the adjustment costs and face exclusion. Despite measures taken over the years to fight this, the Portuguese labour market is has a high level of segmentation with a dual structure. There is a first tier that benefits from strong protection and a second tier that suffers from higher volatility, with implications in terms of incentives for pursuing human capital investment and for personal decisions, such as family planning or childbearing.

Young people have borne a particularly onerous share of the costs of adjustment. Most research highlights that while young people can deal relatively well with short spells of unemployment, long-term disengagement erodes their skills and may even have a “scarring” effect on future labour market participation, as well as their earnings over the life course. This may lead to social exclusion for those affected.

Considering this, we analyse the situation of young people in the labour market, especially those not in education, employment or training (NEET). Young people are struggling in the labour market at present despite being the most highly educated generation in Portuguese history. Unemployment is generally higher among young people than among

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prime age adults, and those who do work tend to have poorer quality jobs and are much more likely to be on temporary contracts or to earn low wages than older workers are. For this reason, young people are particularly vulnerable in times of crisis because companies' adjustments to falls in demand and production first affect those with weaker ties to the labour market.

Despite all the adjustments made and progress achieved, persistent challenges remain that require further attention to ensure that the SDG goals are met.

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## Introduction

At the heart of the 2030 Sustainable Development Agenda, Sustainable Development Goal 8 (SDG 8) concerns the promotion of sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

This study of Portugal is part of a multi-country research project aimed at reviewing opportunities and challenges associated with promoting full and productive employment and providing ILO constituents with recommendations and a policy menu based on evidence from country experience. The study is focused on two key thematic areas, one on the demand side and the other on the supply side, directly related to the SDG 8 targets and indicators:

- (i) Structural transformation: in order to pursue the goal of full and productive employment countries must have achieved some success in pursuing strategies of structural transformation and in moving away from low productivity, low income activities towards an economy based on sectors associated with productive work and decent incomes (SDG 8.2, SDG 8.5). The analysis identifies the extent to which Portugal has been experiencing job creation in a variety of sectors so as to enhance both productivity and employment at the macro level. Other issues, such as skills development and gender considerations, are also taken into account.
- (ii) NEETs: The youth NEET rate is the target (SDG8.6) and indicator (8.6.1) employed to measure progress in promoting decent work for young people. It avoids some of the pitfalls associated with using the youth unemployment rate as an indicator of youth labour market challenges, but young people who are neither in employment, education or training (NEET) are a highly heterogeneous group. Consequently, the indicator must be used with care for policy purposes because the nature and determinants of different subgroups of NEET vary greatly. The policy challenge is to ensure that the specific obstacles facing different sub categories of young NEETs are adequately addressed in order to promote young people's productive transition to the labour market. This will involve identifying the appropriate institutions, policies and programmes and interventions required to facilitate education and skills development and to create opportunities for decent work. This country study tries to pinpoint the characteristics and determinants of NEETs in Portugal in order to fashion the appropriate policy responses.

This study is organized as follows. Following this introduction, the first section presents broad macroeconomic developments since 2000, analysing the major shocks undergone by the Portuguese economy. It covers a number of dimensions.

In the course of coping with a series of shocks, the economy went through significant structural transformation, which is detailed in the following section, particularly with regard to transformation of the structure of production and changes at firm level. Public policies supporting that transformation are also described.

The structural transformation heavily impacted the labour market, as described further on, encompassing the evolution of indicators of unemployment, employment and underutilization of labour, changes in the sectoral distribution of employment, types of contracts, wages and skills. Particular attention is devoted to the evolution of major indicators in the aftermath of the economic and financial crisis and after the adjustment programme implemented in the early years of the past decade, namely addressing the vulnerabilities that still persist and the indicators that have recovered.

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The final section of this study then addresses how the existing institutions have offered a safety net and played a role in preventing deeper consequences of the crisis, both economic – through the automatic stabilizers – and social, by increasing social protection coverage and minimizing social exclusion.

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## **Economic developments: a fragile economy subject to several shocks over the past 20 years**

### **Overall developments**

After a period of strong growth that followed Portugal's accession to the then Economic European Community (EEC) in 1986 – driven mainly by domestic demand, the strong inflow of FDI and of European structural funds, as well as credit availability (Mamede et al., 2016) – the Portuguese economy has been subject, since the year 2000, to several (mostly) negative shocks.

There were three consecutive shocks at the beginning of the century that reversed the relatively stable growth trend experienced since 1986.

The first shock was associated with accession to the European Economic and Monetary Union (EMU) from the beginning. The good macroeconomic performance that enabled Portugal to meet the convergence criteria for joining EMU meant that it was considered a promising pupil, with favourable international credibility. This encouraged lending by foreign investors and Eurozone banks (Costa, 2018).

The existence of a number of significant structural weaknesses meant that the loss of the exchange rate instrument on joining the euro deeply affected the competitiveness of the Portuguese export sectors that had depended heavily on the crawling peg regime, in which regular devaluations allowed for price competitiveness gains that compensated inflation and productivity differentials. Having entered the euro at a relatively high exchange rate and not being able to devalue with regard to most important markets, traditional Portuguese export sectors faced strong difficulties. Complementarily, entering a low-inflation, low-interest rate regime increased the real disposable income of households and expanded domestic demand, for example, enabling many households to buy property on credit and many industries to focus on a rapidly expanding domestic market. This led to an increase in private debt among firms and families, mainly for consumption and real estate or financial investment.

The second most important economic shock was the European Union's (EU) 2004 Eastern enlargement, which moved the EU centre of gravity eastwards, bringing many competitors inside the EU and diverting foreign direct investment (FDI) flows to the new member states. These new member states had a number of competitive advantages over Portugal, namely the skills and low cost of their workforces, as well as greater proximity to the German market and other key European economies. FDI flows had played a crucial role for the Portuguese economy in the previous decade, contributing to the modernization of many companies and their integration in the global value chains. As a result of this shock, many Portuguese industries experienced increasing competition in some traditional markets and Portugal became less interesting to many international investors as an FDI destination.

Almost simultaneously with the second shock, a third one hit the Portuguese economy with the increased competition from many Asian economies after their accession to the WTO and the end of the Multi-Fibre Agreement. Many Portuguese exports had relied heavily on crawling-peg exchange rate policy advantages in the traditional sectors of textiles, apparel and footwear (Costa, 2019). Many of these Asian countries were direct competitors of Portugal and more price competitive as they had the capacity to produce at a significantly lower cost. Their accession to the WTO allowed their integration in international trade flows, significantly affecting Portuguese export capacity in many products that constituted its sectors of specialization.

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Moreover, after the inception of the euro the ECB started to tighten its monetary policy, which impacted domestic demand in a country that had accumulated high levels of debt in previous years. This was coupled with the “dot.com bubble” in the stock markets and the international economic crisis that followed further curbed domestic demand and employment. Portugal was the first country in the euro area to break the EU Stability and Growth Pact and consequently adopted a contractionary fiscal policy that, according to Mamede et al. (2016), contributed to the 1 per cent fall in GDP in 2003.

Thus, in this period the Portuguese economy faced a combination of internal structural weaknesses and international developments, namely growing competition from the emerging Asian countries and the eastern countries of the EU enlargement, in a context of real exchange rate appreciation of the euro against the US dollar.

Altogether, these shocks caused a recession in 2003 and increasing imbalances, namely in public and external accounts, which required significant adjustments. Those adjustments involved not only the correction of public accounts imbalances but also a strong attempt to improve the external competitive position of the Portuguese economy by improving the skills of the workforce, increasing R&D and innovation, company modernization, reducing energy dependency, and improving the business environment.

While some variables showed improvements and some sectors underwent strong adjustment in response to the external shocks, as we will analyse in more detail later on, GDP data reveal nearly a decade of very low economic growth, practically since entering the Eurozone, coupled with persistent current account deficits, imbalances in strategic sectors and weak productivity growth.

Blanchard (2006) presented Portugal as a difficult case of adjustment within the euro. In the absence of major changes, the scenario presented for Portugal was one of “long and painful adjustment”, a scenario of competitive disinflation, a period of sustained high unemployment until the reestablishment of competitiveness and the reduction of the current account deficit and unemployment.<sup>4</sup>

This was the context in which the Portuguese economy found itself when the severe international financial and sovereign debt crises started to unfold from 2008 onwards. The economy was in a very fragile state and in the midst of an adjustment, as the results of the more structural policies had not yet materialized. Moreover, the country’s ability to accommodate the most severe effects of the crisis was low. At the same time, the policy response did not fully take into account new risk perceptions concerning the ability of some countries inside EMU to meet their commitments. In fact, when some EU member states, in the first response to the crisis in 2009, increased their deficits and debts in alignment with the European Commission’s stimulus packages, this raised the spectre of risk on financial markets that had become quite volatile, based more on perceptions than on fundamentals. This new environment was not clearly apprehended and the systemic nature of the crisis was not fully appreciated. The idea that each country could or should respond to the crisis on its own become prevalent, generating strong volatility and attacks on the weaker countries, such as Portugal.

These resulted in strong imbalances in both the public and external accounts that almost blocked the ability of the Portuguese economy to finance itself on international markets. Spreads on the sovereign debt of European periphery countries, such as Portugal, increased, reaching maximum levels in the first quarter of 2011, while credit rating agencies

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<sup>4</sup> At the time, Blanchard argued in favour of measures aimed at productivity increases, a nominal wage decrease to reduce the unemployment cost of adjustment and temporary fiscal expansion, which would facilitate wage adjustment.

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downgraded Portugal's sovereign debt and banks, reducing capital inflows. It can be argued that the impact of the crisis in countries such as Portugal was aggravated by the lack of consensus among EU political leaders and institutions and the fact that EMU lacked adequate and proportionate means for mitigation (Costa, 2019: 17).<sup>5</sup>

The global financial crisis affected the Portuguese economy in two main ways: a significant drop in exports as a result of decreased output in trading partner countries and an increase in the cost of funds (Blanchard and Portugal, 2017).

In order to overcome difficulties in accessing the financial markets, Portugal had to request international support, which was granted conditional on the implementation of an "economic and financial adjustment programme". That programme was implemented between 2011 and 2014 and was focused on fiscal consolidation and rebalancing of public finances in the post-crisis period, as well as on reforms considered "structural" towards improving competitiveness and growth prospects to correct external imbalances. The period from 2011 onwards was then marked by a strong adjustment with a severe recession in the early years and some subsequent recovery.

In 2012 a tripartite agreement was signed between the Government and the social partners<sup>6</sup> supporting "Growth, competitiveness and employment", covering measures and reforms inscribed in the Memorandum of Understanding laying out the economic and financial assistance programme. Social dialogue was thus relied upon strongly during the crisis (as well as prior to and after it), with frequent consultation with social partners, except in some cases where unilateral decisions, or decisions against unions or employers, led to conflicts and resistance (ILO, 2018).

As we will see, in recent years the Portuguese economy has resumed higher economic growth, achieving its highest real GDP growth in almost 20 years, with the labour market recovering pre-crisis levels of unemployment and employment. It has benefitted from the economic recovery of its EU trade partners, as well as the ECB's bond-buying initiatives. Exports and, in particular, the positive evolution of the tourism and automotive industry, have been increasing their share of GDP. While some measures implemented during the Economic and Financial Adjustment Programme have been reversed in recent years – public sector wages, pensions and social transfer cuts, to name a few – other measures implemented in that period remain in place. Moreover, the Government continues to try to balance public finances and the stability of the financial sector. Another focus in recent years has been to reverse previous cuts, allowing families to recover disposable income, thereby promoting social wellbeing and cohesion, but stimulating economic recovery through private demand.

These overall developments are discernible in the evolution of almost all indicators of the Portuguese economy.

## **Evolution of real GDP and real GDP per capita**

Firstly, the succession of shocks is visible in the evolution of real GDP. Since 2000 Portugal has experienced an annual average growth rate of only 0.61 per cent, one of the worst in the EU.

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<sup>5</sup> In the final section of this study reference is also made to the functioning of automatic stabilizers, with the EU allowing social budgets to function countercyclically at the outset of the crisis, avoiding more severe falls in family disposable income. In a subsequent stage, however, the EU advocated deficit cuts and rebalancing, in a short timeframe, which led to cuts in social spending with economic and social implications.

<sup>6</sup> All except one trade union.

**Figure 1. Annual growth rate of real GDP**



Source: Eurostat.

The overall slow growth was to a considerable extent caused by the several severe recessions that resulted from the shocks. Those are clearly visible in Figure 1 in which one can see that real GDP declined significantly in 2003, 2009 and from 2011 to 2013.

The long stagnation was also reflected in the development of real GDP per capita as the population did not grow significantly during the period despite increased migration flows during the crisis. Population, after a period of relatively high growth that extended from EU accession in the mid-1980s until the end of 2000, has since then experienced an average growth rate of only 0.7 per cent and has developed mainly in line with the evolution of real GDP.

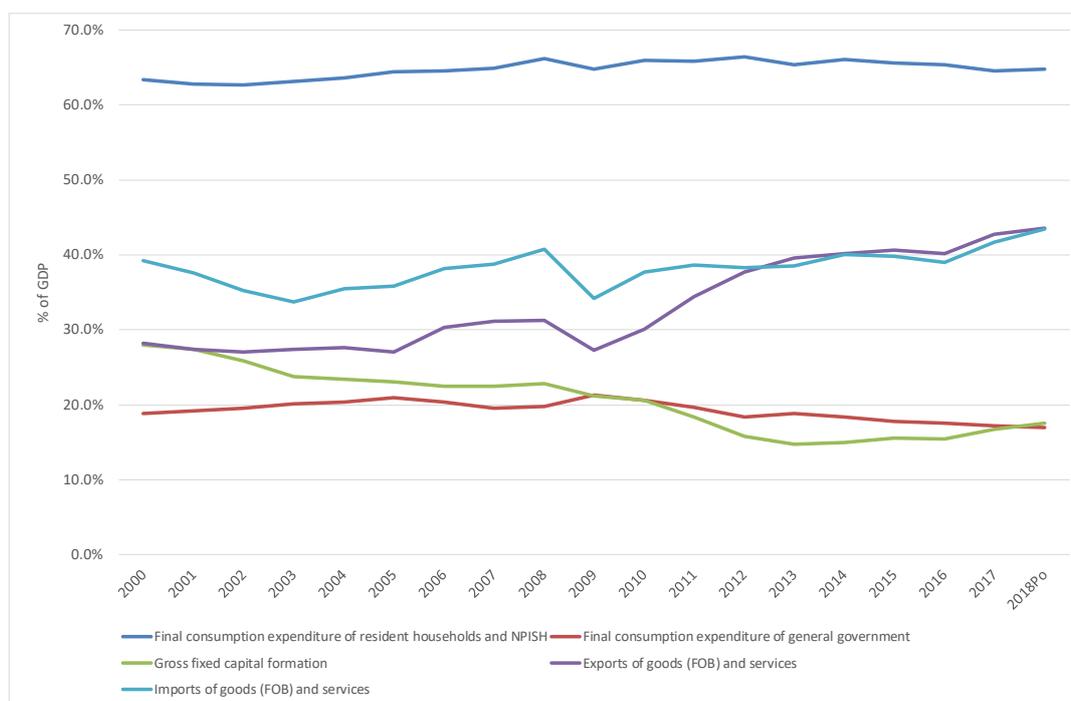
## **Evolution of major expenditure components and their contribution to GDP growth**

Analysing in more detail the behaviour of the different GDP components and their contribution to GDP growth throughout this period, Figure 2 presents the evolution of the weight of each component as a percentage of GDP, showing clearly that the different components evolved differently.

The final consumption expenditure of households and NPISH has always been the most important component of GDP and kept its weight over the period at around 65 per cent. The final consumption expenditure of general government exhibited a relatively stable weight until 2009 and a relative decline after the sovereign debt crisis, when budget consolidation measures started to be implemented. The weight of imports evolved with a strong cyclical pattern, decreasing significantly in recessions (namely in 2003 and 2009) and increasing in upturns, showing the strong import content of the Portuguese economy.

The two components that exhibited a more marked pattern over the period were gross fixed capital formation (GFCF) and exports. The first exhibited a strong decline, more pronounced after 2009, moving from values around 28 per cent of GDP in 2000 to 17 per cent in 2018, whereas the second exhibited an upward trend, moving from values around 28 per cent in 2000 to around 44 per cent in 2018. This upward trend was stronger after the crisis because some previous investments produced their results and because due to the crisis domestic demand declined significantly and many companies had to concentrate on external markets to compensate.

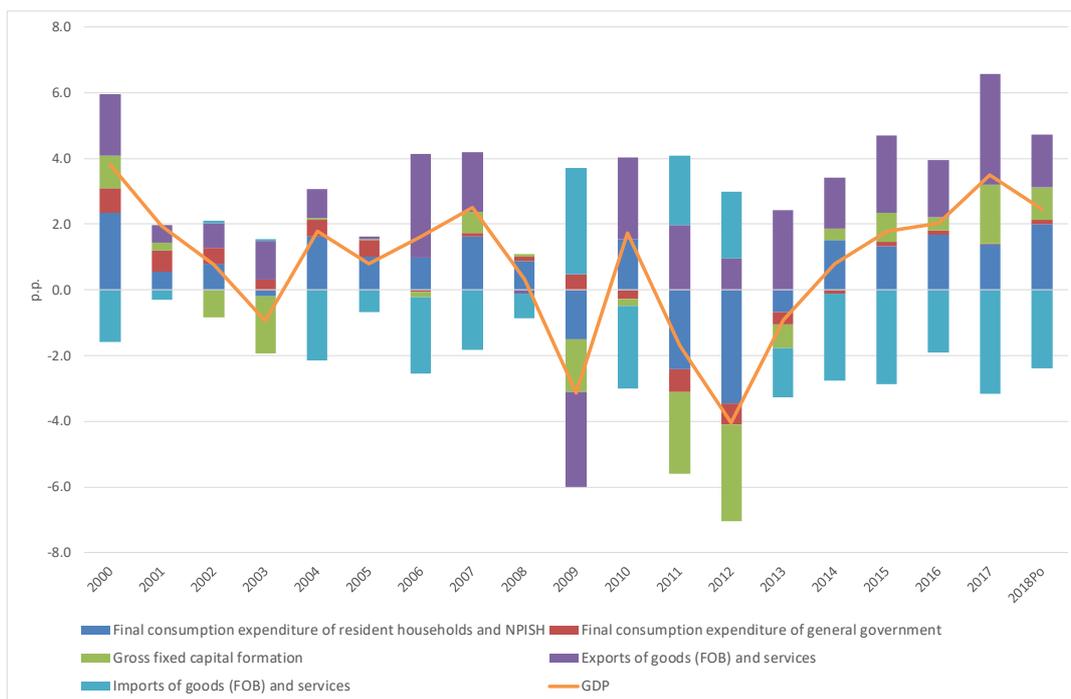
**Figure 2. GDP components (% of GDP)**



Source: National Statistical Office, National Accounts.

The marked changes in the weight of the different components are associated with their different contributions to GDP growth during the period and the various phases. Analysing the contribution of each component to the GDP growth rate, Figure 3 shows that exports, with the exception of 2009, have always had a positive contribution, whereas imports have always made a negative contribution, with the exception of recession periods. Exports and gross fixed capital formation have the highest share of imported content, among GDP components, which helps to explain why the contribution of imports to GDP is most positive when the contribution of gross fixed capital formation and exports is most negative (Cardoso and Rua, 2019). The final consumption expenditure of households had a positive contribution in every year, with the exception of the recession period from 2009 to 2013, which shows the severity of the adjustment. Gross fixed capital formation and final consumption expenditure of general government exhibited a higher volatility of contribution, stronger in the case of gross fixed capital formation, alternating periods of positive and negative contributions.

**Figure 3. Contribution of GDP components to GDP growth (percentage points)**



Source: National Statistical Office, National Accounts.

## Evolution of public debt and the fiscal position

As was made clear in the analysis of overall developments, the period since 2000 has been marked by several public finance crises that conditioned government activities and overall economic policy. Portugal has generally been under an EU excessive deficit procedure or early warning mechanism (in 2002, from 2005 to 2008 and from 2009 to 2017). During this period, the evolution of public debt and the fiscal position exhibited strong volatility associated with the cycle and with the severe shocks that hit the Portuguese economy.

As a result, public policy has been focused for long periods on correcting fiscal imbalances, which constrained other policies.

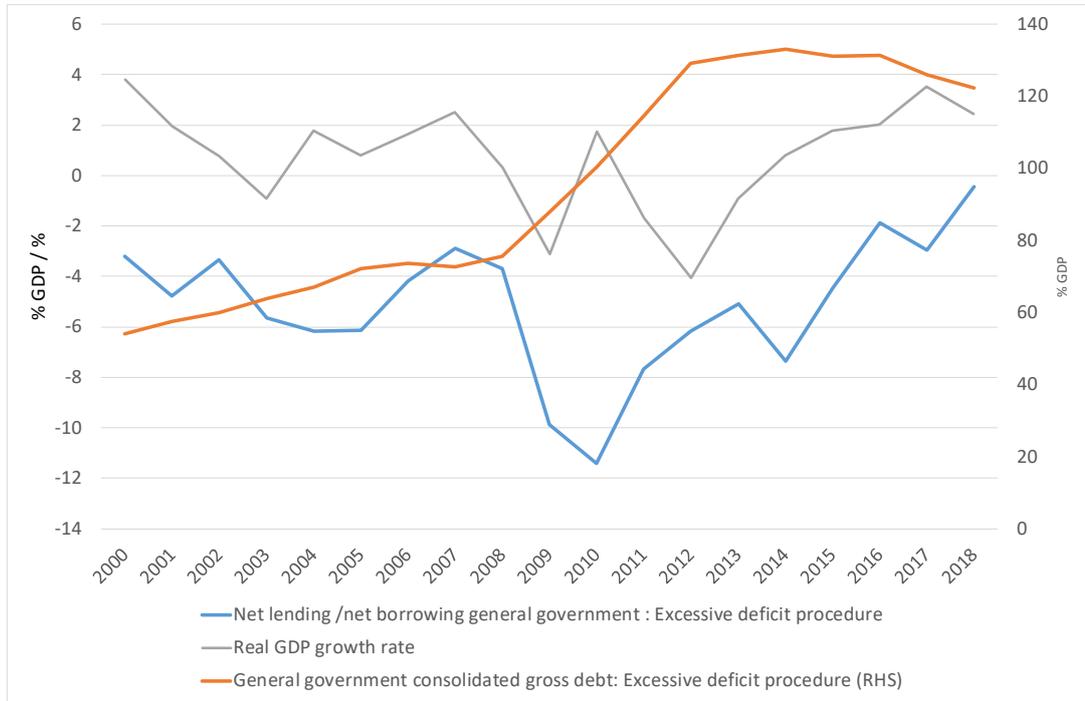
As one can see in Figure 4 in all recessions the Government's net lending/net borrowing position deteriorated significantly and is clearly visible in the severity of the recent crisis. Since the most negative result in 2011, the situation has been gradually improving and the budget was close to balance in 2018.

During the adjustment period, the composition of expenditure changed. Figure 4 shows how the different types of expenditure changed throughout the period, revealing a significant decline in the level of compensation of employees, gross fixed capital formation and social transfers in kind, whereas social benefits increased significantly.

With regard to public debt, while one can perceive an overall upward trend, there were three different periods. Until 2008, the level of debt was increasing moderately and was not significantly above the EMU benchmark (in 2008 it was 75 per cent). During the crisis, it increased significantly to values above 130 per cent of GDP in 2013. Since 2014, this indicator has been experiencing a reduction that has brought its values close to 122 per cent, still a very high value that imposes an important constraint on public policy in Portugal. The present low long-term interest rates (below the current real potential GDP growth rate) have

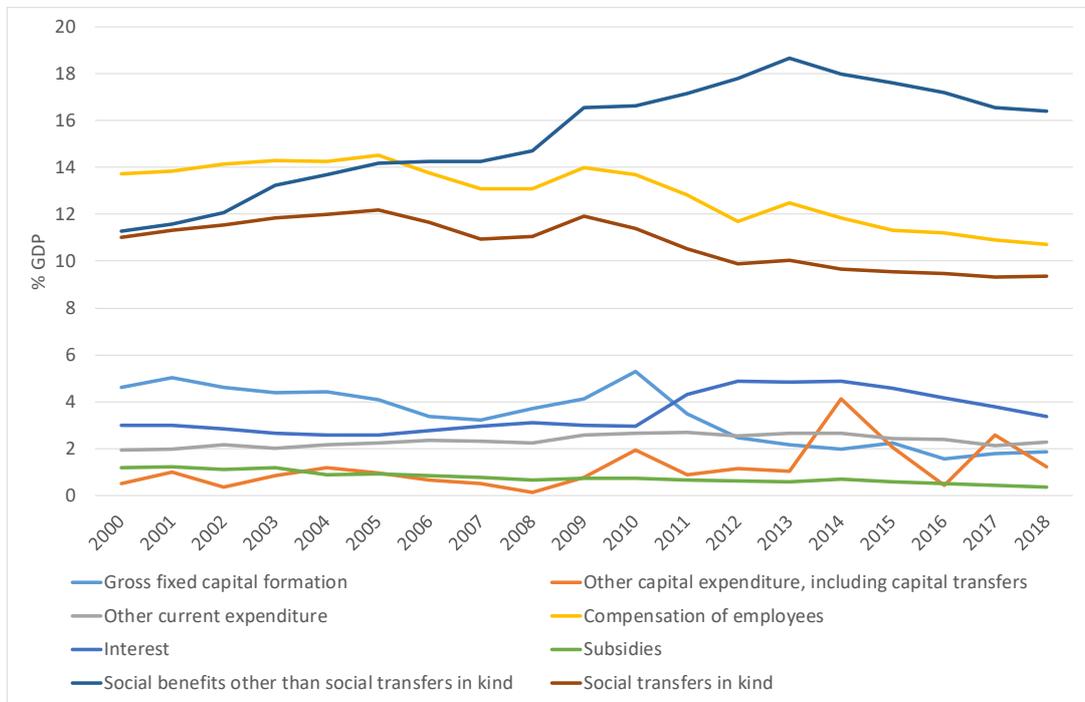
allowed some room to manoeuvre, but the high levels of debt are seen by the financial markets as a major weakness and it is of the utmost importance to reduce the debt burden to increase the autonomy of public policy.

**Figure 4. Net lending/net borrowing and consolidated gross government debt: excessive deficit procedure (% of GDP)**



Source: National Statistical Office, National Accounts.

**Figure 5. Government expenditure (% of GDP)**



Source: European Commission, Ameco

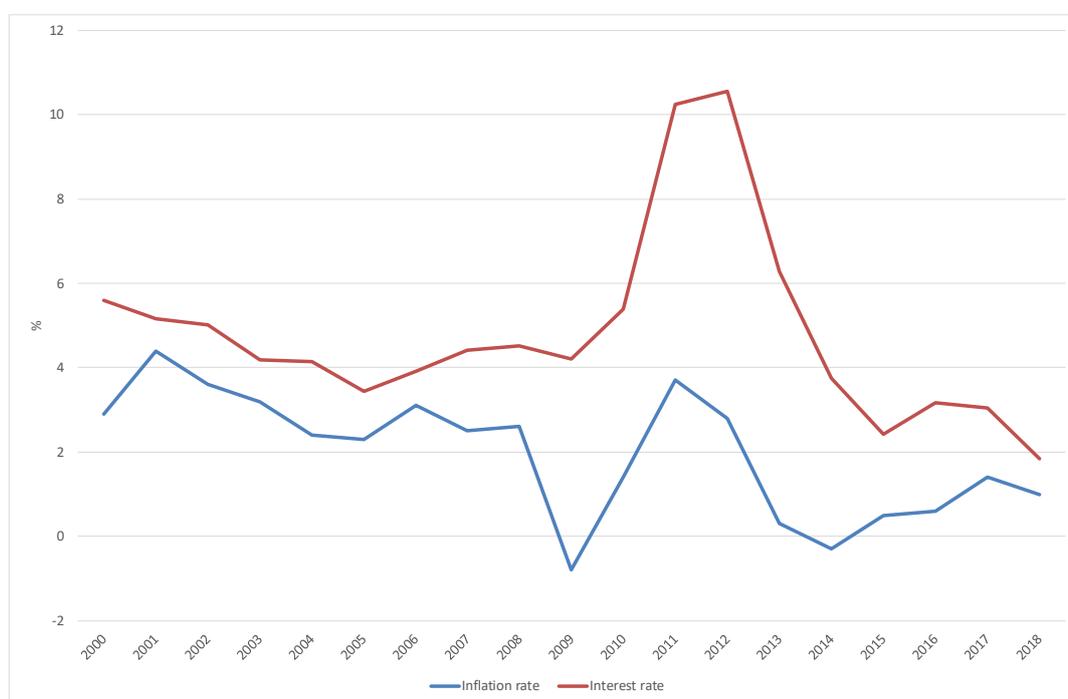
## Evolution of inflation and interest rates

Other macroeconomic indicators that have played an important role and condition the well-being of many households are interest and inflation rates.

Figure 6 shows that during this period the inflation rate showed a relatively stable and moderate downward trend with two troughs in 2009 and 2014, in which the inflation rates were negative, and a peak in 2011. The interest rates also exhibited a downward trend, only interrupted during the sovereign debt crisis from 2009 to 2014, when the risk associated with Portugal increased interest rates significantly. The determined ECB action and the progressive improvement of the Portuguese economy returned the interest rate to its previous downward trend.

The real disposable income effects associated with the evolution of these two variables played an important cushioning role during the harshest times throughout the period.

Figure 6. Inflation and interest rates (%)



Source: National Statistical Office and Bank of Portugal

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## **An economy that went through a significant structural transformation**

The set of shocks that hit the Portuguese economy, combined with the dynamics experienced by the international economy created the framework for a profound transformation of the productive base and of the specialization of the Portuguese economy, causing a significant structural transformation in the past two decades.

This transformation resulted in a major change in the productive structure, changing the distribution of employment and gross value added across industries and, even within industries there was a change in the profile of companies.

The 1980s and 1990s economic growth had been driven mainly by non-tradable sectors, reflecting the development of public services and public administration in the post-dictatorship period, the development of the financial sector and a large share of resources and credit channelled towards the construction and real estate sectors with a significant weight in the economy (Alexandre, F. et al., 2018). However, recent decades have witnessed a transformation in favour of greater openness, with an increased weight of the tradable sectors, mainly services, following the trends of tertiarization and deindustrialization typical of many developed economies. At the same time, there has been a significant recomposition of the industrial and agriculture sectors and a decreasing importance of the construction sector, as shall be detailed further on.

Recomposition, which was also a consequence of the external shocks, has meant that an increasing number of companies have abandoned traditional models of competitiveness based on the low costs made possible by low wages and have adopted new strategies based on dynamic competitiveness factors, such as innovation, product differentiation, or increased capital intensity, as a way to obtain productivity gains.

On the other hand, although Portugal continues to be characterized predominantly by very small companies, of fewer than 10 employees – which represent over 96 per cent of total employment (see Table 10) – or maybe because of that, there has been a strong reallocation process. A strong entry and exit of companies in the market has occurred that contributed to the emergence of some mid cap or medium sized companies, and even a few big companies, playing an important role in the transformation.

This transformation, which is still ongoing, has benefitted from public policies, with strong support from the European structural funds since the mid-1980s. Policies brought together financial and fiscal incentives, public investment in infrastructure and other areas, many legal changes, focusing in many different areas such as productive investment, R&D, education and vocational training, cutting red tape and ease of doing business, and access to financing.

The following sections detail some of the dynamics of adjustment.

### **Brief history of structural change across main sectors**

Before going more deeply into an analysis of the data, it is worth providing some context for the changes undergone by the main sectors of the Portuguese economy over the years.

The evolution of the agriculture sector was strongly conditioned by membership of the EEC, as it is the only sector for which there is an exclusive common European policy – the Common Agricultural Policy – in which support for prices has been a key instrument, with

less attention given to structural reform. The centrality of agricultural subsidies meant that policy did not foster productivity gains or structural change, which occurred independently and at a slower pace. This resulted in a very poor sector that diverged from those of western European countries. As a consequence, a dual agricultural sector emerged – modern and efficient farms, on one side, and unused land or land converted to extensive farming or forest on the other. This affected the structure of production in this sector: the traditional and once important cereals and wine, olive oil and fruit lost importance, giving way to milk and dairy products, the current front-runners, followed by beef and other meat (Amaral, 2019).

Regarding industrial sectors, the main effect of EEC/EU membership was a loss of competitiveness as a consequence of the real appreciation of the exchange rate. This caused the economy to deindustrialize, affecting in particular the textiles and footwear industries, which were also affected by the end of the Multi-Fiber Agreement which had protected the textile industries of developed countries for several decades.

#### **Box 1. The structural transformation of the Portuguese footwear sector**

At the time Portugal entered the EEC, in 1986, the footwear sector was characterized by outdated design and a competitive advantage based on low wages. The increased openness of the EEC/EU to international trading partners, including China, threatened the sector's competitive advantage and forced a rethink of its strategy.

After the turn of the millennium, the sector, supported by regional clustering and strong collaboration and networking, set out a strategic plan to reposition its products in international markets. This was based on strengthening competitive factors, obtaining efficiency gains from ICT systems, increasing product differentiation and improving the external image of national production (brand development). The focus was put on higher value added products directed at European markets with advantages in terms of geographical proximity and high purchasing power. Also, advances in the internal flexibility of production processes allowed for faster responses to customer demand and more personalized offers (small-series production).

In 2017, the Portuguese shoe sector had one of the highest comparative advantages in the world (5.2) and was the twelfth largest exporter. The international recognition of Portuguese shoes, in terms of quality and design, is indicated by the high average price of each pair of shoes exported (EUR 23.6), the second highest among the top exporter countries.

Source: Nunes et al., 2019

The structure of the industrial sector remained fairly stable despite an increase in the weight of food and beverages and paper, pulp and cork and a decrease in that of textiles and footwear. Low-skilled and low-technology sectors were overtaken by medium-skilled and medium technology, such as the metal transformation and equipment sector. Composition of the sector changed over time: from the 1990s electrical equipment lost ground to car assemblage as a result of a series of very significant FDI projects whose scale and impact had no parallel with previous decades.

In the textiles sector, structural change was driven towards technology and design-intensive products, which account for the main part of growth in gross value added and in exports, supported by strong scientific and technological resources. In this context, the tech textiles branch gained significantly in importance (Ramesh et al., 2018).

Overall, the export profile of the economy has changed considerably in recent decades and is now more diverse, with greater medium-technology content and increased weight for services, especially tourism. Thus, it has lost two of its main former features: concentration in low-tech branches and excessive concentration in one or two branches, such as agricultural goods up to the 1960s and textiles and footwear from then onwards until the 1990s (Amaral, 2019).

Given the high fragmentation of the business sector – which will be detailed below – the more successful sectoral developments, such as textiles and footwear, have relied on

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growth networks, clustering and synergies within sectors, which have allowed individual companies to upgrade their profiles.

One illustration of this is the strong production of textile products, with increased value added, of a cluster of companies in the north of Portugal, for the Spanish group Inditex-Zara, a global leader in fast fashion. Portugal, Spain and Morocco are the leading suppliers of textile products within the group's global production network, ahead of Asian suppliers. This is justified by the fact that along the La Coruña–Vigo axis and the north of Portugal “a very strong sector of dressmaking manufacturing has developed competitive production capabilities by means of cooperatives and non-cooperative workshops and by contracting to domestic producers”. Moreover, although “manufacturing in Spain and Portugal is two and a half times more expensive than in Eastern Europe due to higher salary costs, the group has maintained its competitiveness because it compensates for this increased cost with higher productivity, better quality products, and faster access to its markets” (Orcao and Pérez, 2014).

As we saw in the case of the footwear industry, the real appreciation of the Portuguese exchange rate, from the 1990s onwards, promoted structural change in traditional sectors. It meant that it was no longer possible to rely on low labour costs as the main source of comparative advantage. That change was made possible by the persistent and continuous efforts of governments to upgrade skills, promote public schooling and invest in R&D centres of knowledge and knowledge transfer, as well as investment in the modernization of digital infrastructure.

These important assets, connected to human capital, favoured the development of the services sector, which in certain branches was able to flourish. Hence, apart from the increasing internationalization of Portuguese companies in services, several multinationals have been choosing Portugal as a location for R&D shared services centres, IT technical support centres and contact centres, contributing to an increase in services exports. The attractiveness of Portugal in these fields is explained, among other things, by the availability of a skilled workforce, in particular the quality of the engineers that come out of Portuguese universities, a competitive combination of quality/cost of skills at different skill levels, and the availability of multiple language skills, at least in the greater Lisbon area (Ribeiro, 2012).

## **Evolution of gross value added, employment, productivity, average wage and hours worked per employee by sector – identification of growing and declining sectors**

In order to determine which industries did well and which ones did worst in this period of structural change we analyse the evolution of gross value added, employment, productivity, average wage and hours worked per employee by industry.

As regards the evolution of gross value added by industry, Table 32 in the Appendix presents average annual growth rates between 2000 and 2017, the weight of each industry in 2017 and the change in weight of each industry from 2000 to 2017. Average annual growth rates range between values of around –2 per cent per year to values above 5 per cent per year, which shows the strong diversity of sectoral dynamics and the strong structural transformation that the economy underwent. Sectors such as social work activities, real estate activities, “computer programming, consultancy and related activities; information service activities, scientific research and development and manufacture of coke, and refined petroleum products all experienced annual gross value added growth rates above 5 per cent, whereas industries such as manufacture of computer, electronic and optical products, construction, manufacture of wood and paper products, and printing, manufacture of electrical equipment, mining and quarrying, telecommunications, agriculture, forestry and

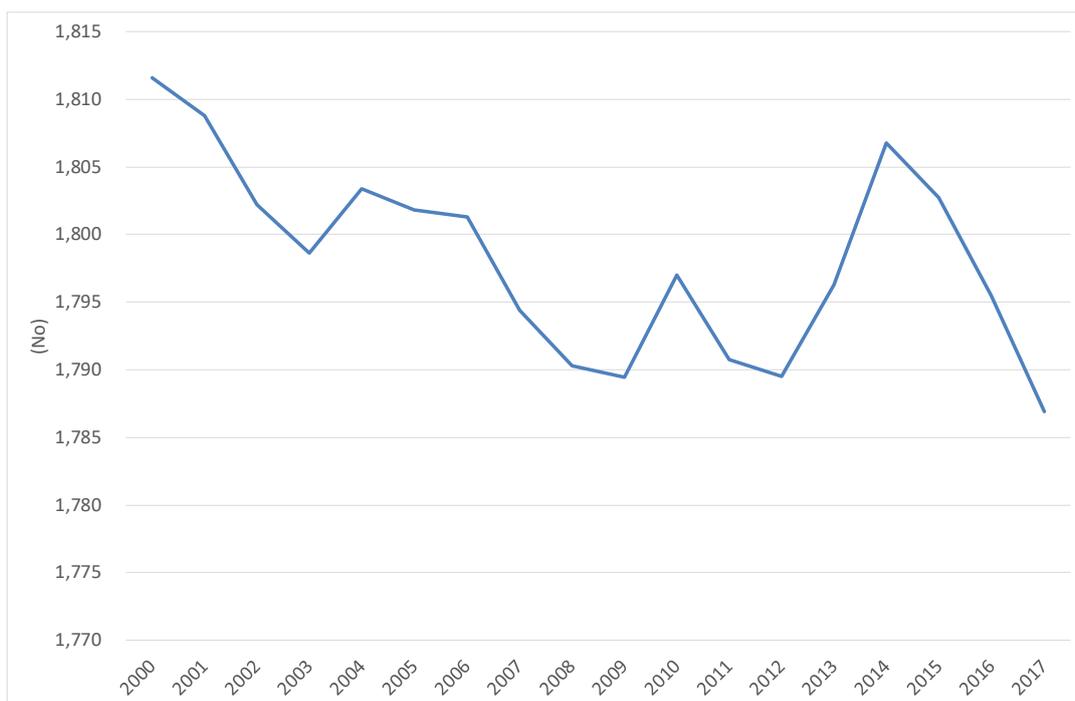
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fishing, manufacture of rubber and plastics products, and other non-metallic mineral products, manufacture of textiles, wearing apparel and leather products, and manufacture of transport equipment all experienced annual growth rates below 1 per cent. Many of these low performers were traditional specialization industries in Portugal, based on unskilled labour and low costs, whereas some of the best performers are emerging industries, highly dependent on skilled labour and knowledge. The biggest gainers in terms of presence in the Portuguese business structure were social work activities, human health services, computer programming, consultancy and related activities; information service activities, transportation and storage, administrative and support service activities, accommodation and food service activities and real estate activities, all gaining more than 0.5 percentage points increases in their share of total gross value added. The two latter sectors were driven by the strong performance of tourism and increased investment in real estate by foreign investors. The biggest losers were construction, public administration and defence; compulsory social security, agriculture, forestry and fishing, manufacture of textiles, wearing apparel and leather products and manufacture of wood and paper products, and printing, all of them losing more than 0.9 percentage points of total gross value added, with construction being the worst performer, losing 3.6 percentage points.

As regards employment, Table 33 in the Appendix presents average annual growth rates between 2000 and 2017 of full-time equivalent employment, the relative weight in total employment in 2017 and the change in weight from 2000 to 2017 experienced by each industry. Construction, agriculture, forestry and fishing, manufacture of wood and paper products, and printing, electricity, gas, steam and air-conditioning supply, manufacture of textiles, wearing apparel and leather products, manufacture of coke, and refined petroleum products, mining and quarrying, manufacture of electrical equipment, manufacture of rubber and plastics products, and other non-metallic mineral products all experienced negative annual changes of employment below  $-2$  per cent. By contrast, industries such as real estate activities, social work activities, administrative and support service activities and computer programming, consultancy and related activities; information service activities all experienced annual growth rates above 2 per cent after 2000. These differences reveal the extent of the sectoral reallocation of labour, which led industries to lose more than 2 percentage points of their share in total employment. This applies to construction, agriculture, forestry and fishing, manufacture of textiles, wearing apparel and leather products and manufacture of wood and paper products, and printing. On the other hand, industries such as computer programming, consultancy and related activities; information service activities; legal and accounting activities; activities of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis; human health services; social work activities; wholesale and retail trade, repair of motor vehicles and motorcycles; accommodation and food service activities; and administrative and support service activities have all seen their weights reinforced by more than 0.9 percentage points.

In order to grow, an economy may use more resources or, alternatively, use resources more intensively. Thus in addition to the employment evolution analysed previously, it is important to assess the evolution in the number of hours worked per worker to assess the extent to which the extensive or intensive margin has assumed greater relevance in the adjustment. Table 34 presents the overall evolution of hours worked per employee. As one can see, there is a well-marked downward trend in the number of hours worked. It is interesting to note that at the end of the adjustment period in 2014 there was a strong increase in the number of hours worked per employee, pointing to the fact that in that year most employers used the workers they had more intensively to respond to the expansion of production instead of hiring more workers.

**Figure 7. Evolution of hours worked by employee per year, 2000–17**

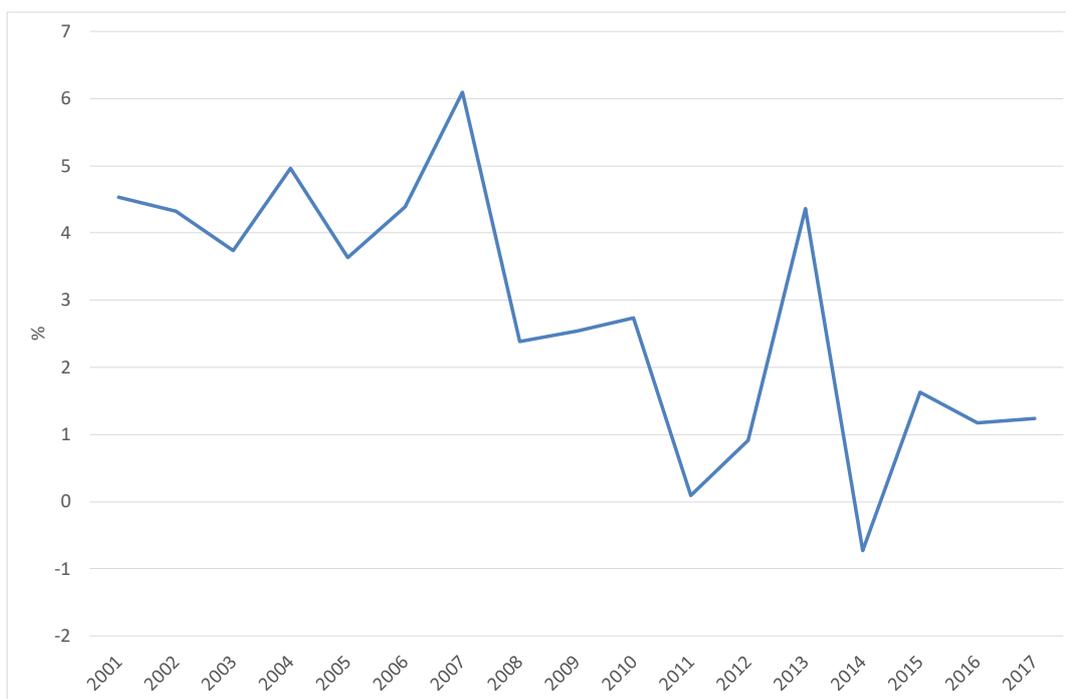


Source: National Statistical Office, National Accounts.

Overall, from 2000 to 2017 there was an annual average reduction in the number of hours per worker of 0.1 per cent per year, which can be expected as Portugal is among the countries with the highest average number of hours worked per employee. Analysing Table 34 in the Appendix, one can see that there was relative diversity in the behaviour of different industries. While industries such as human health services, manufacture of computer, electronic and optical products, scientific research and development, and arts, entertainment and recreation increased the number of hours per employee, others, such as mining and quarrying, construction, social work activities, manufacture of chemicals and chemical products, water, sewerage, waste management and remediation activities, and agriculture, forestry and fishing, reduced them significantly. In relative terms, in 2017 the industries that used their employees more intensively were manufacture of food products, beverages and tobacco products, manufacture of basic pharmaceutical products and pharmaceutical preparations, telecommunications, transportation and storage, and accommodation and food service activities.

Combining the evolution of nominal gross value added and employment, one can analyse the evolution of productivity. Computing productivity by industry, using nominal gross value added per full-time employed to measure productivity, Table 35 presents the average annual growth rate between 2000 and 2017 and the relative productivity in each industry compared with the national average in 2017. Overall, from 2000 to 2017 productivity increased 2.8 per cent per year, achieving a value of € 37,047 per full time job in 2017.

**Figure 8. Annual change of labour productivity 1, 2001–2017 (Percentages)**



Source: National Statistical Office, National Accounts.

Looking at the annual profile of development one can see that productivity was growing at an average pace slightly above 4 per cent until 2008. After the crisis started to impact the economy, the growth rate decreased significantly and even became negative in 2014. In recent years, growth has resumed but at a slower pace, at slightly above 1 per cent per year. Overall growth is also accompanied by a strong variability of rates per sector, ranging from –1 per cent per year in manufacture of computer, electronic and optical products to +12 per cent per year in the manufacture of coke and refined petroleum products. The highest growth rates, above 3.5 per cent per year, were observed in the manufacture of coke, and refined petroleum products; scientific research and development; electricity, gas, steam and air-conditioning supply; manufacture of food products, beverages and tobacco products; water, sewerage, waste management and remediation activities, and manufacture of textiles, wearing apparel and leather products. By contrast, the worst performances, with annual growth rates below 1 per cent last year were experienced in manufacture of computer, electronic and optical products; telecommunications; advertising and market research; other professional, scientific and technical activities; veterinary activities; and legal and accounting activities; activities of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis. Looking at the dispersion of productivity per industry in 2017 one can see that values range from about 50 per cent of the national average in industries such as activities of households as employers of domestic personnel and undifferentiated goods and services, production of households for own use, agriculture, forestry and fishing, administrative and support service activities, and social work activities, to values 12 times higher than the national average in industries such as real estate activities; electricity, gas, steam and air-conditioning supply; and manufacture of coke, and refined petroleum products.

Bringing together our findings so far it is interesting to summarize and try to identify growing and declining sectors. They will be identified taking into consideration the behaviour of the four indicators in each industry. Growing industries are those that exhibit clearly above average behaviour in at least two indicators.

Table 1 presents annual growth rates from 2000 to 2017 of gross value added, employment, productivity, hourly wages, and hours of work per employee by sector. For

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each indicator we indicate in light green those that exhibit the best performance and in light red those with the worst performance, using total averages as reference.

The data show the transformation of traditional sectors that lost significance in the economy and in overall employment, but were able to modernize, differentiate their products by incorporating greater knowledge and technology, and climb up the value chain. These included textiles and shoes (included in manufacture of textiles, wearing apparel and leather products), as well as agriculture, forestry and fishing that, despite the reduction of employment, were able to attain above average productivity gains, which also translated into higher than average wages during the period under consideration (Table 1).

The growing sectors identified based on performance across the four indicators, were the following:

- manufacture of food products, beverages and tobacco products
- manufacture of coke, and refined petroleum products
- manufacture of basic pharmaceutical products and pharmaceutical preparations
- electricity, gas, steam and air-conditioning supply
- water, sewerage, waste management and remediation activities
- transportation and storage
- accommodation and food service activities
- computer programming, consultancy and related activities; information service activities
- real estate activities
- scientific research and development
- administrative and support service activities
- social work activities
- other services activities

Conversely, we classify as declining sectors the following:

- mining and quarrying
- manufacture of wood and paper products, and printing
- manufacture of computer, electronic and optical products
- manufacture of electrical equipment
- manufacture of transport equipment
- publishing, audio-visual and broadcasting activities
- telecommunications
- financial and insurance activities
- public administration and defence; compulsory social security
- construction
- education

These groups will be analysed more in depth in the following sections.

**Table 1. Average annual growth rates by sector (%)**

	GVA	Employment	Labour productivity	Hourly wages	Hours worked per employee
Agriculture, forestry and fishing	0.2	-2.6	3.4	2.4	-0.3
Mining and quarrying	-0.2	-2.8	2.6	3.4	-0.5
Manufacture of food products, beverages and tobacco products	3.1	-0.5	3.7	2.4	-0.1
Manufacture of textiles, wearing apparel and leather products	0.6	-3	3.6	2.8	0.0
Manufacture of wood and paper products, and printing	-0.6	-3.1	2.6	2.4	-0.1
Manufacture of coke, and refined petroleum products	8.5	-2.5	11.6	3.8	0.1
Manufacture of chemicals and chemical products	1.8	-1.4	3.4	2	-0.4
Manufacture of basic pharmaceutical products and pharmaceutical preparations	3.3	-0.2	3.5	1.7	0.1
Manufacture of rubber and plastics products, and other non-metallic mineral products	0.4	-2.3	2.8	2.5	-0.2
Manufacture of basic metals and fabricated metal products, except machinery and equipment	2.4	-0.6	3	2.3	-0.2
Manufacture of computer, electronic and optical products	-2	-1.2	-1	0.7	0.4
Manufacture of electrical equipment	-0.4	-2.8	2.2	2.6	0.0
Manufacture of machinery and equipment n.e.c.	2.3	-0.7	2.9	2.3	0.1
Manufacture of transport equipment	0.7	-1.2	1.9	1.3	0.2
Manufacture of furniture; other manufacturing; repair and installation of machinery and equipment	2	-0.8	2.9	2.7	-0.3
Electricity, gas, steam and air-conditioning supply	4	-2.8	7.1	3.3	0.3
Water, sewerage, waste management and remediation activities	5	1.2	3.7	3	-0.3
Construction	-1.3	-4	2.8	3	-0.4
Wholesale and retail trade, repair of motor vehicles and motorcycles	2.3	0.4	2	2.2	-0.2
Transportation and storage	3.6	0.9	2.7	1.6	0.1
Accommodation and food service activities	4.2	2.2	2.2	1.7	-0.3
Publishing, audio-visual and broadcasting activities	1.3	-1.1	2.8	1.1	0.0
Telecommunications	-0.2	0.5	-0.4	0.7	0.0
Computer programming, consultancy and related activities; information service activities	7.6	6.1	1.2	1.1	0.0
Financial and insurance activities	1.6	-1	2.5	1.8	0.0
Real estate activities	5.5	1.5	3.2	1.7	-0.1
Legal and accounting activities; activities of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis	2.7	1.8	0.7	0.5	0.2
Scientific research and development	7.9	-0.4	8.1	0.4	0.5
Advertising and market research; other professional, scientific and technical activities; veterinary activities	2.3	2.3	0.3	0.5	0.3
Administrative and support service activities	4.3	2.6	1.6	1.4	0.3
Public administration and defence; compulsory social security	1.3	-0.4	1.7	0.9	0.0
Education	1.6	0	1.6	0.3	0.2

	GVA	Employment	Labour productivity	Hourly wages	Hours worked per employee
Human health services	3.5	1.5	2.1	0.9	0.3
Social work activities	5.5	2.7	2.8	2.5	-0.4
Arts, entertainment and recreation	3.6	2.2	1.8	1.8	0.5
Other services activities	4.7	1.6	3.3	2.3	0.0
Activities of households as employers of domestic personnel and undifferentiated goods and services production of households for own use	2.5	-0.9	3.1	3.5	-0.1
<b>Total</b>	<b>2.4</b>	<b>-0.3</b>	<b>2.8</b>	<b>1.8</b>	<b>-0.1</b>

Source: National Statistical Office, National Accounts.

## Evolution of and composition of exports and imports

The transformation of the Portuguese economy can also be seen in the evolution of other indicators, such as exports and imports. The economy has become increasingly open, as can be seen in the growth rates of exports and imports well above the growth of GDP.

Table 2 shows that during this period exports grew at a higher pace than imports, helping to improve the external position. In both cases, flows of services have increased more than flows of goods.

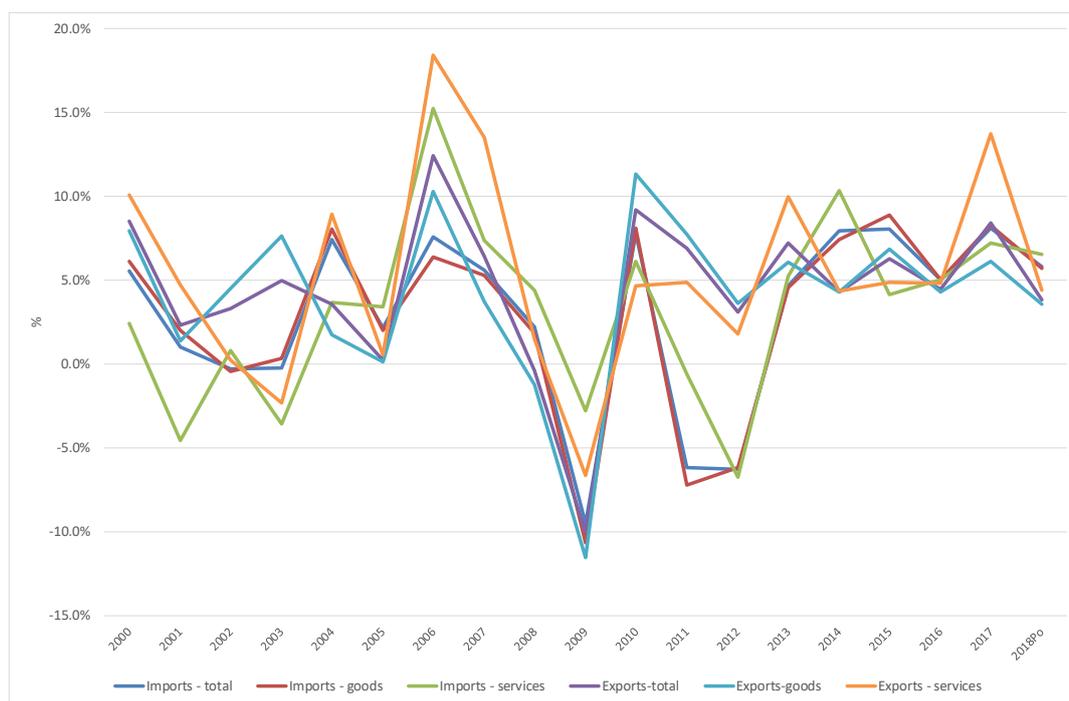
**Table 2. Average annual real growth rates 2000–18 (exports and imports of goods and services)**

	%
Imports – total	2.7
Imports – goods	2.6
Imports – services	3.3
Exports – total	4.1
Exports – goods	3.8
Exports – services	5.0

Source: National Statistical Office, National Accounts.

Looking in more detail at the annual profile presented in Figure 9, one can see that there was some volatility but in general, growth rates were significant.

**Figure 9. Annual real growth rates, exports and imports of goods and services, 2000–18 (Percentages)**



Source: National Statistical Office, National Accounts.

As regards the composition of exports and imports one can see in Table 3 and Table 4 that goods are still the most important flow for both imports and exports but that they lost significant weight in both (–9 percentage points in exports and –4.4 percentage points in imports). This confirms that the increasing importance of services in the Portuguese economy encompasses its international specialization as reflected in the trade flows of goods and services

With regard to exports of goods, industrial supplies not elsewhere specified, consumer goods not elsewhere specified, and transport equipment, parts, and accessories thereof were the most important Portuguese exports in 2018. Parts and accessories, which increased their share by 5 percentage points, processed fuel and lubricants, and food and beverages are the goods that improved their position among Portuguese exports. The biggest declines were in semi-durable consumer goods. With regard to exports of services, travel, transportation and other business services accounted for the bulk in 2018. Over the period, transportation and other business services increased their importance, whereas travel and financial services decreased.

Regarding the imports of goods, industrial supplies not elsewhere specified, capital goods (except transport equipment), and parts and accessories thereof, and transport equipment and parts and accessories thereof represent the biggest shares. Over the period the biggest increases occurred for food and beverages and fuels and lubricants, whereas the biggest declines occurred for capital goods (except transport equipment), and parts and accessories thereof, which is congruent with the major decline in investment.

With regard to the imports of services, travel, transportation and other business services are also the most important. In this case, other business services increased their share most significantly during the period, followed by maintenance and repair services n.i.e. In terms of decline, travel is the service that experienced the biggest fall.

**Table 3. Composition of exports and imports of goods**

	Exports		Imports	
	Weight 2018 (%)	Change 2000–18 (pp)	Weight 2018 (%)	Change 2000–18 (pp)
Total	63.4	-8.8	81.8	-4.4
Food and beverages	10.5	3.9	12.6	2.9
primary	3.3	1.7	5.3	0.9
processed	7.2	2.2	7.3	1.9
Industrial supplies not elsewhere specified	32.0	-0.2	28.8	0.0
primary	2.8	0.7	2.9	0.3
processed	29.2	-0.9	25.9	-0.2
Fuels and lubricants	6.6	4.5	11.9	2.2
primary	0.0	0.0	8.5	1.5
processed	6.6	4.5	3.4	0.7
Capital goods (except transport equipment), and parts and accessories thereof	13.4	1.7	16.3	-3.1
capital goods (except transport equipment)	8.5	1.5	9.6	-2.1
parts and accessories	4.9	0.2	6.7	-1.0
Transport equipment and parts and accessories thereof	18.4	1.8	16.1	-2.5
passenger motor cars	6.0	-2.9	6.3	-1.4
other	2.4	-0.3	2.6	-2.3
parts and accessories	10.0	5.0	7.2	1.3
Consumer goods not elsewhere specified	19.0	-11.6	14.3	0.5
durable	2.6	-2.8	2.5	-0.9
semi-durable	10.4	-8.1	5.8	0.4
non-durable	6.0	-0.7	6.0	1.0
Goods not elsewhere specified	0.1	-0.1	0.0	0.0

Source: National Statistical Office.

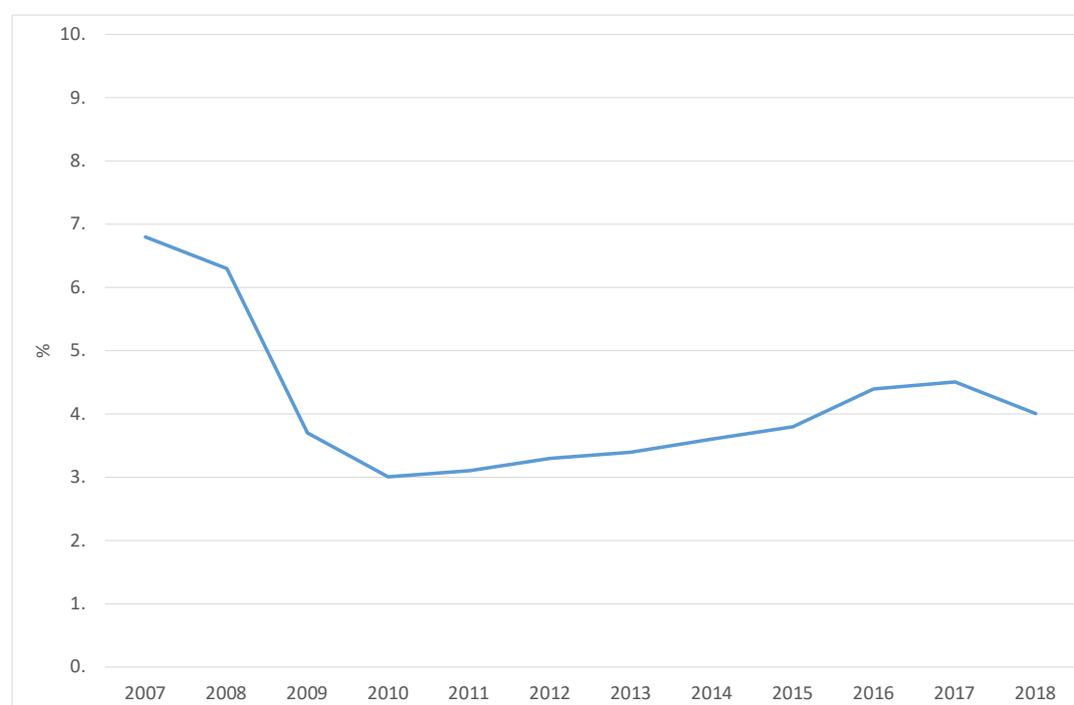
The last indicator concerns the share of exports of high technology products in total exports, presented in Figure 10. One can see that the most recent crisis had a significant impact on this indicator, which has decreased significantly and shows some signs of recovery in recent years. This development is caused by the joint effect of the closure of some plants that produced high technology products, which suffered heavily from the crisis (for instance, the second largest individual Portuguese exporter for some years, a company producing computer memory, closed in 2008) and the increasing external orientation of many companies, which due to the domestic crisis had to rely on exports to survive, mainly in medium and low medium technology sectors.

**Table 4. Composition of exports and imports of services**

	Exports		Imports	
	Weight 2018 (%)	Change 2000–18 (pp)	Weight 2018 (%)	Change 2000–18 (pp)
<b>Total</b>	36.6	8.8	18.2	4.4
Manufacturing services on physical inputs owned by others	0.8	-3.4	0.1	-0.5
Maintenance and repair services n.i.e.	2.1	0.3	2.8	2.2
Transportation	21.6	6.8	25.3	-0.2
Travel	51.1	-5.2	29.0	-5.8
Construction	2.1	0.5	0.8	-0.1
Insurance and pension services	0.5	-0.2	2.6	1.2
Financial services	1.2	-5.6	2.9	-2.4
Charges for the use of intellectual property n.i.e.	0.3	0.0	4.5	0.2
Telecommunications computer and information services	5.1	2.7	6.3	1.7
Other business services	13.8	5.6	23.8	9.1
Personal cultural and recreational services	0.8	-0.7	1.6	-2.2
Government goods and services n.i.e.	0.4	-0.9	0.5	-3.3

Source: Bank of Portugal.

**Figure 10. Exports of high technology products as a share of total exports (Percentages)**



Source: Eurostat.

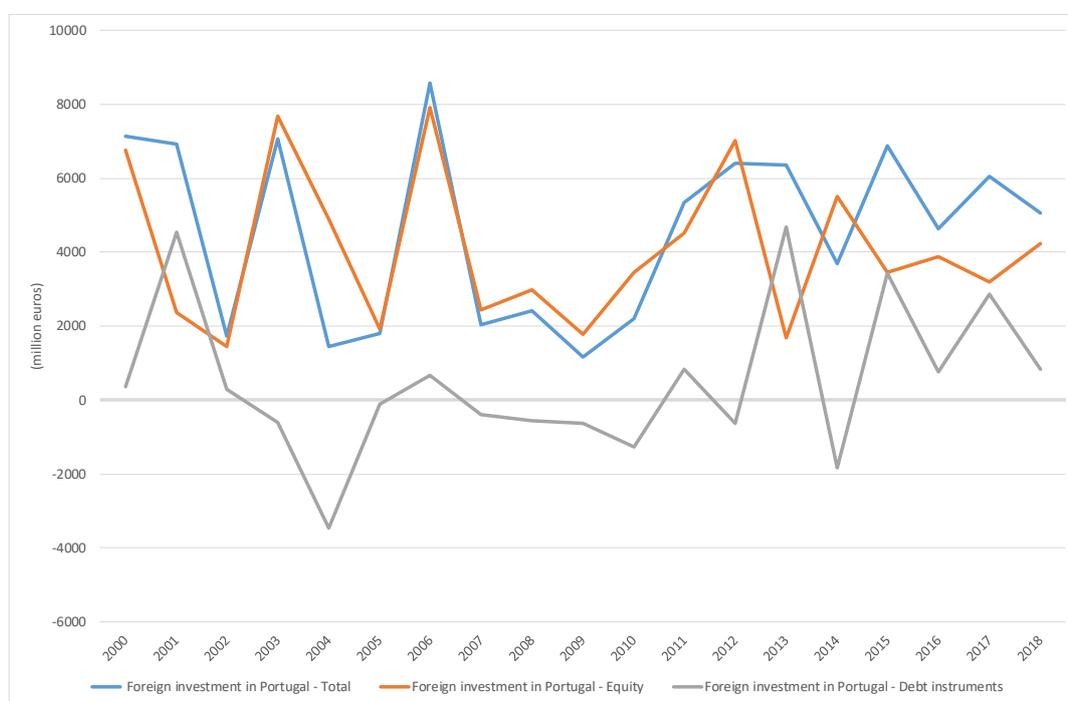
## Evolution of foreign direct investment, including by sector

Foreign direct investment (FDI) has traditionally represented an important source of capital for the Portuguese economy and it has played a role in its structural transformation.

EU enlargement and the increasing integration of countries such as China, India and other Asian nations in international trade diverted FDI to those locations, reducing it in Portugal. Even so, flows have been significant, as one can observe in Figure 11, even though subject to strong volatility.

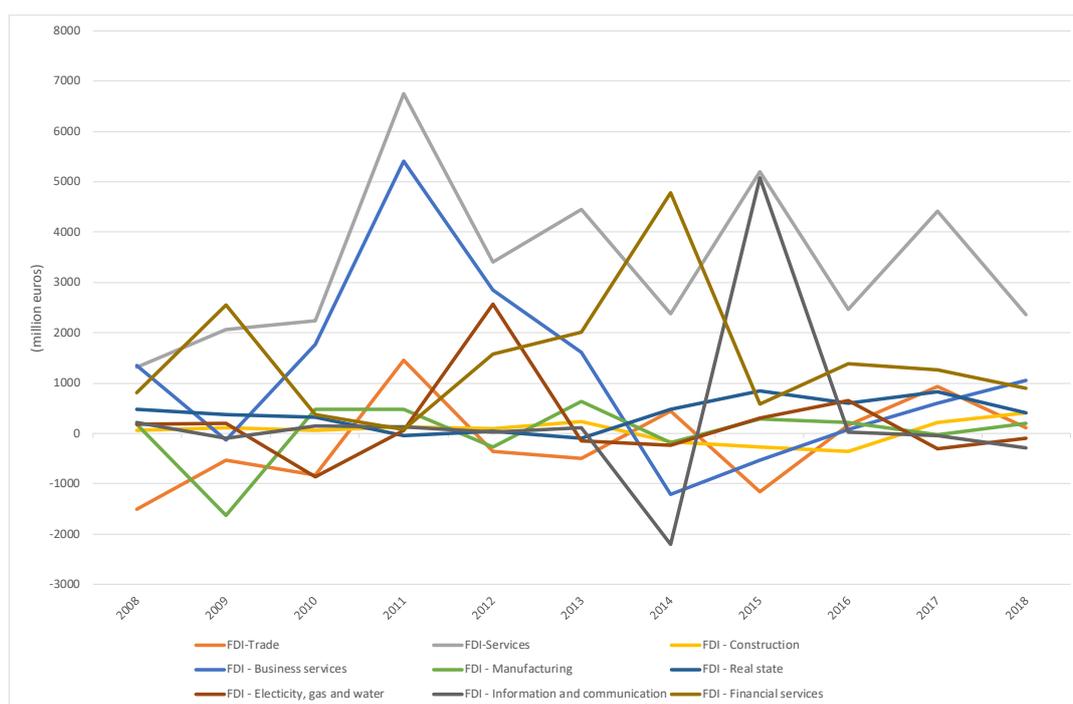
Looking in more detail at the sectors that have benefited from FDI, Figure 12 shows that services and business services have attracted more attention, revealing that FDI has contributed to the structural transformation of the Portuguese specialization towards services. Investments in shared services and contact centres, already mentioned in a previous section, are an example of this.

Figure 11. Foreign direct investment in Portugal, 2000–18



Source: Bank of Portugal.

**Figure 12. Foreign direct investment in Portugal by industry, 2008–18**



Source: Bank of Portugal.

## Sectoral shares of credit extension to the private sector

As financing plays an important role in sectoral transformation, one can analyse the distribution of financing by sector to assess the extent it has been changing. The evolution of the shares of credit extension by other monetary financial institutions (OMFI, by far the major source of credit in the Portuguese economy) to households and non-financial corporations is presented in Table 5, which reveals that the majority of loans, 62.4 per cent in 2018, were directed to households. Households increased their share in total credit by almost 10 percentage points since 2000, signalling the difficulties experienced by non-financial corporations in financing their projects. It seems that banks, while facing difficulties extending credit to the economy – at least during the banking crisis – have preferred to extend loans to households.

Looking in more detail at the distribution of loans to non-financial corporations across industries, one can see that manufacturing, wholesale and retail trade, repair of motor vehicles and motorcycles, real estate activities and construction were the largest beneficiaries of loans in 2018. Analysing the evolution of the weight of different industries in the portfolio of OMFI, accommodation and food service activities and real estate activities became more important, whereas professional scientific and technical services, administrative and support service activities, and construction reduced their importance significantly.

**Table 5. Loans of other monetary financial institutions to households and non-financial corporations**

	Weight 2018 (%)	Change 2000–18 (pp)
Households	62.4	9.5
Non-financial corporations	37.6	-9.5
Agriculture forestry and fishing	3.5	2.3
Mining and quarrying	0.4	-0.2
Manufacturing	17.4	-0.7
Electricity gas steam and air conditioning supply; water supply; sewerage waste management and remediation activities	5.7	2.5
Construction	12.3	-6.7
Wholesale and retail trade repair of motor vehicles and motorcycles	15.6	-2.8
Transportation and storage	8.1	2.4
Accommodation and food service activities	7.2	5.1
Information and communication	1.4	-0.7
Real estate activities	13.3	3.6
Professional scientific and technical services; administrative and support service activities	11.1	-4.3
Education human health and social work activities; arts entertainment and recreation	4.0	-0.4
Other activities	0.0	0.0

Source: Bank of Portugal.

## Evolution of business structure

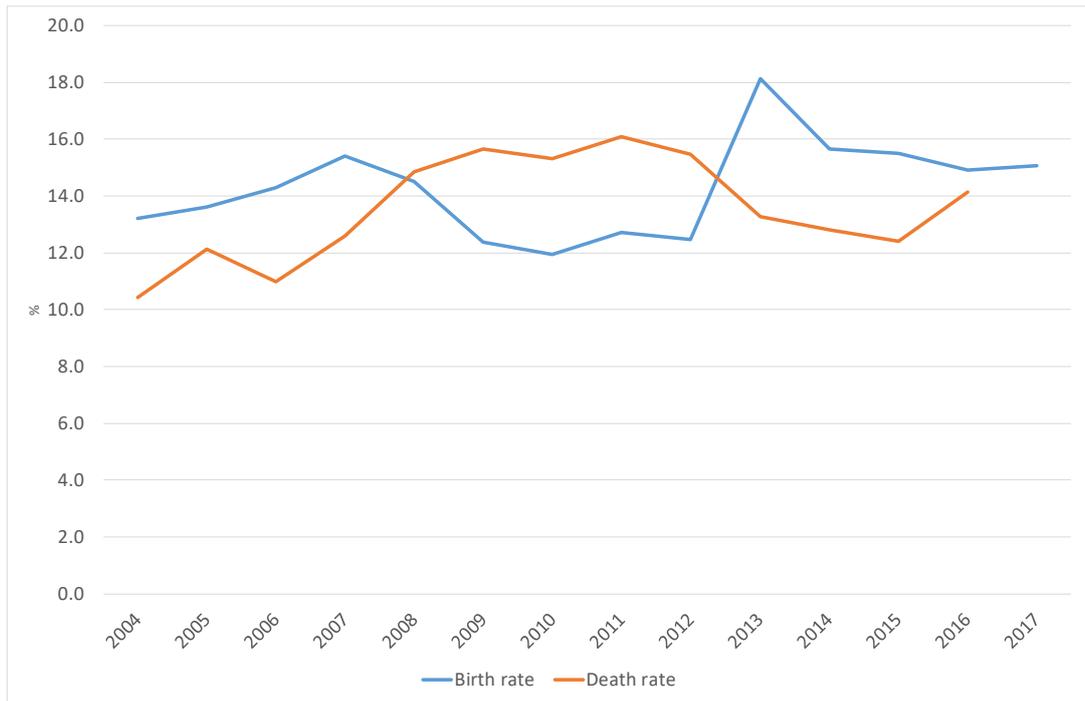
In parallel with sectoral reallocation, the Portuguese economy has experienced strong “churning” with high levels of both start-ups and failures.

Figure 13 presents the evolution of enterprise start-up and failure rates, showing that both were above 10 per cent for the whole period, meaning that more than 10 per cent of firms either started or failed each year. The impact of the crisis is clearly visible as the failure rate increased and the start-up rate declined, with the rate of failures surpassing that of start-ups between 2009 and 2012.

Churning has an impact on firm size as, in general, companies are more likely to be small when they start out and some of those that die have been growing since they were initially created. Figure 13 presents the evolution of firm size. The first impression is that Portuguese firms are on average fairly small: the average size is close to three employees. As can be seen, the financial crisis had an impact on firm size, as many companies that failed were larger than average, thus reducing average size.

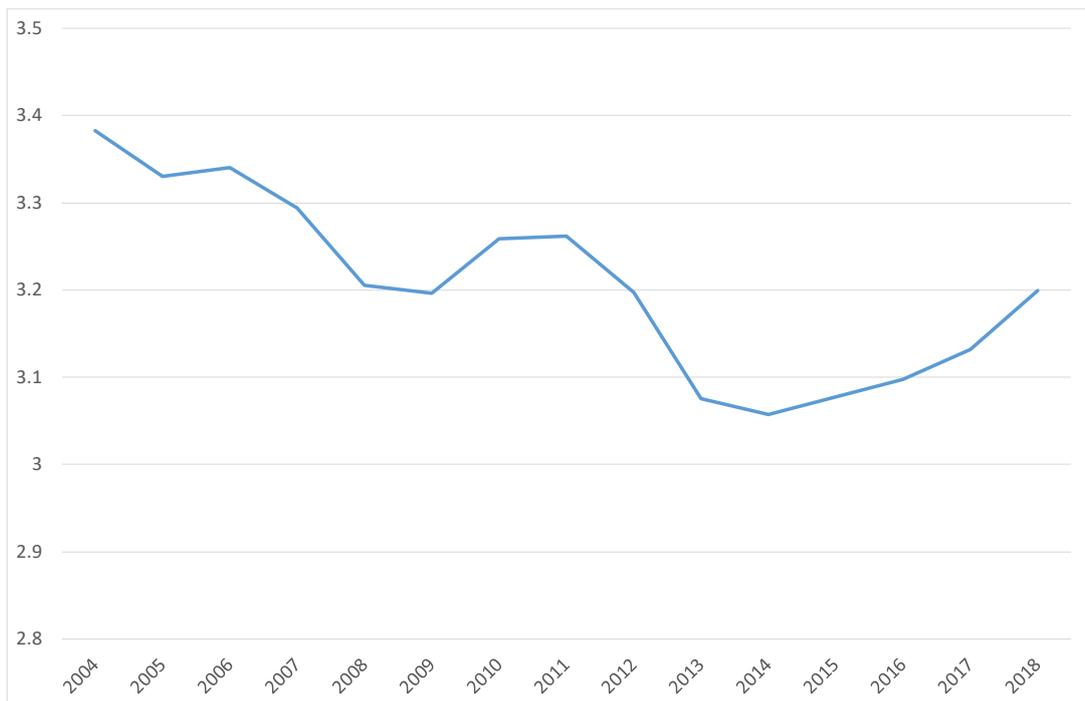
Tables 6 and 7 confirm the overrepresentation of very small firms. Micro firms represent around 96 per cent of total firms in Portugal, similar to the weight of firms with less than 10 employees. Throughout the period, only micro and large firms have increased their share and medium-sized firms have slightly reduced it.

**Figure 13. Business demography indicators, Portugal, 2004–17**



Source: Statistics Portugal, Business demography.

**Figure 14. Average number of employees per enterprise, Portugal, 2004–18**



Source: Statistics Portugal, Integrated business accounts system.

**Table 6. Distribution of enterprises by size, Portugal**

	Weight 2017 (%)	Change 2008/2017 (p.p.)
Micro	96.14	0.50
Small	3.24	-0.49
Medium	0.52	-0.02
Large	0.09	0.01

Source: Statistics Portugal, Integrated business accounts system.

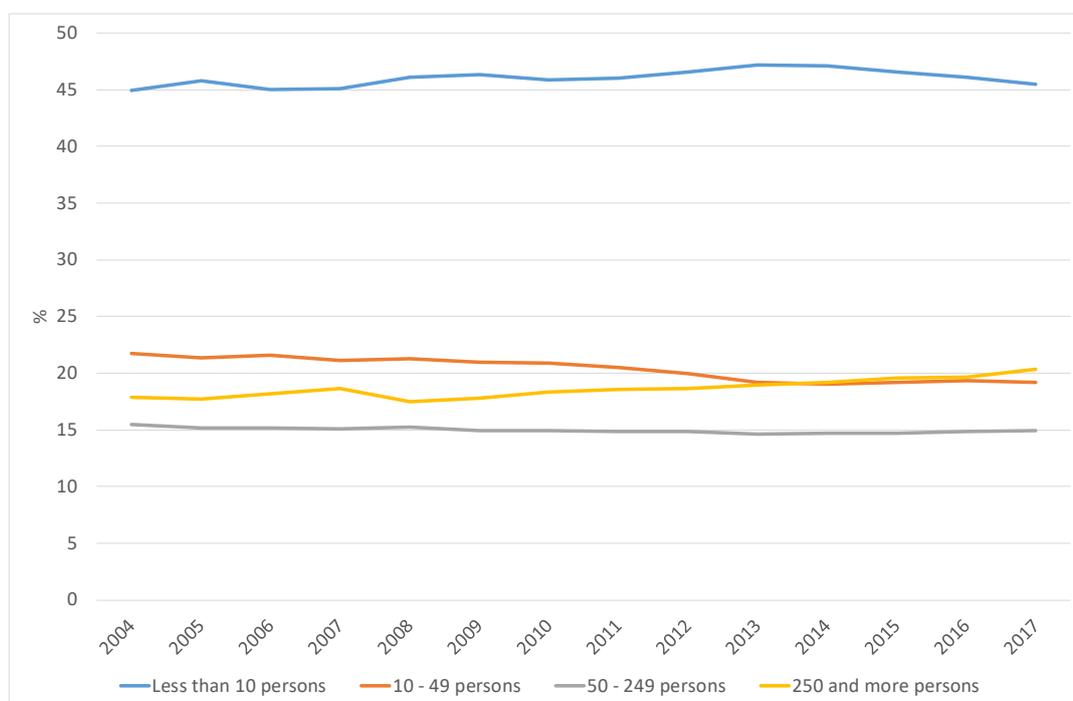
**Table 7. Distribution of enterprises by employment size, Portugal**

	Weight 2017 (%)	Change 2008-2017 (p.p.)
Less than 10 persons	96.30	0.49
10 - 49 persons	3.14	-0.47
50 - 249 persons	0.48	-0.03
250 and more persons	0.08	0.01

Source: Statistics Portugal, Integrated business accounts system.

Turning to employment, firms with fewer than 10 employees represent around 45 per cent of total employment, while firms with more than 250 employees represented slightly above 20 per cent in 2017. During this period, firms with more than 250 employees increased their share in total employment, whereas firms with 10 to 49 employees reduced it.

**Figure 15 Distribution of employment in enterprises by employment size classes, Portugal, 2004–1.**



Source: Statistics Portugal, Integrated business accounts system.

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## Investment by industry and in growing and declining sectors

Investment plays a major role in the allocation of resources. The distribution of gross fixed capital formation (GFCF) by industry drives the reallocation of labour and other resources from some industries to others as it builds productive capacity in some sectors. If one looks at the behaviour of the growing and of declining industries identified above, some differences can be found in their investment behaviour. From 2000 to 2017 growing industries experienced a slightly better evolution of investment and in 2017 their share of total investment was twice as big as that of declining industries. Some of them were also able to obtain more credit (see previous section related to the credit extension to the private sector). This signals that investment is being concentrated in better performing industries.

Table 8 presents the nominal average annual growth of gross fixed capital formation from 2000 to 2017 by sector and the share of each industry in total gross fixed capital formation in 2017.

Because of the crisis, the overall average rate of investment was negative, and so the level of nominal investment in 2017 was below that of 2000. By sector, the top investors, with annual average growth rates above 3 per cent per year, were computer programming, consultancy and related activities; information service activities; manufacture of transport equipment; accommodation and food service activities; legal and accounting activities; activities of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis; manufacture of basic pharmaceutical products and pharmaceutical preparations; manufacture of food products, beverages and tobacco products; manufacture of basic metals and fabricated metal products, except machinery and equipment; scientific research and development; arts, entertainment and recreation; and electricity, gas, steam and air-conditioning supply.

Inversely, sectors such as manufacture of coke, and refined petroleum products, financial and insurance activities, construction, social work activities and public administration and defence; compulsory social security, experienced more negative average annual changes in gross fixed capital formation in this period, with rates below -4 per cent per year.

Looking at the share of total investment in 2017, one can see that the largest investors, with shares above 4 per cent of total investment, were real estate activities, wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, public administration and defence, compulsory social security, administrative and support service activities, and accommodation and food service activities. Inversely, the lowest investors, with shares below 0.5 per cent of the total, were manufacture of coke, and refined petroleum products, advertising and market research, other professional, scientific and technical activities, veterinary activities, manufacture of electrical equipment, mining and quarrying, and financial and insurance activities.

Some differences can be found in the investment behaviour of the growing and the declining industries identified above. Growing industries experienced, from 2000 to 2017, a slightly better evolution of investment and in 2017 represented a share of total investment that is twice as big as that of declining industries. Some of them were also able to obtain larger shares of credit as previously shown. This signals that investment is being concentrated in better performing industries.

**Table 8. Evolution of gross fixed capital formation by sector, Portugal (%)**

	Average annual growth 2000–17	Share of total GFCF in 2017
Agriculture, forestry and fishing	1.1	3.5
Mining and quarrying	-0.8	0.6
Manufacture of food products, beverages and tobacco products	3.8	2.7
Manufacture of textiles, wearing apparel and leather products	0.6	1.6
Manufacture of wood and paper products, and printing	2.8	2.4
Manufacture of coke, and refined petroleum products	-9.2	0.2
Manufacture of chemicals and chemical products	2.2	0.7
Manufacture of basic pharmaceutical products and pharmaceutical preparations	3.9	0.7
Manufacture of rubber and plastics products, and other non-metallic mineral products	-0.2	2.1
Manufacture of basic metals and fabricated metal products, except machinery and equipment	3.4	2.2
Manufacture of computer, electronic and optical products	0.6	0.7
Manufacture of electrical equipment	2.8	0.6
Manufacture of machinery and equipment n.e.c.	-0.9	0.7
Manufacture of transport equipment	6.4	2.7
Manufacture of furniture; other manufacturing; repair and installation of machinery and equipment	0.8	1.1
Electricity, gas, steam and air-conditioning supply	3.0	3.8
Water, sewerage, waste management and remediation activities	-0.9	1.8
Construction	-6.3	2.0
Wholesale and retail trade, repair of motor vehicles and motorcycles	0.2	7.0
Transportation and storage	-0.8	6.1
Accommodation and food service activities	4.4	4.0
Publishing, audio-visual and broadcasting activities	1.1	1.5
Telecommunications	0.3	3.6
Computer programming, consultancy and related activities; information service activities	7.6	2.4
Financial and insurance activities	-7.2	0.7
Real estate activities	-2.7	20.2
Legal and accounting activities; activities of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis	4.0	2.1
Scientific research and development	3.2	1.5
Advertising and market research; other professional, scientific and technical activities; veterinary activities	-1.2	0.4
Administrative and support service activities	2.2	4.3
Public administration and defence; compulsory social security	-4.1	5.6
Education	2.5	3.8
Human health services	1.0	3.4
Social work activities	-4.1	0.9
Arts, entertainment and recreation	3.1	1.5
Other services activities	-0.3	1.0
Activities of households as employers of domestic personnel and undifferentiated goods and services production of households for own use		0.0
<b>Total</b>	<b>-0.5</b>	<b>100.0</b>

Source: National Statistical Office, National Accounts.

**Table 9. Evolution of gross fixed capital formation by situation of industry, Portugal**

	Average Annual growth 00-17 (%)	Share of total GFCF in 2017 (%)
Declining	-0.8	22.6
Growing	-0.7	49.6
Total	-0.5	100.0

Source: National Statistical Office, National Accounts.

## Decomposition of per capita GDP growth

Besides investment, and before moving to an analysis of the impact of structural change on the labour market, it is interesting to present a decomposition of GDP per capita to identify which factors have determined its growth.

GDP per capita can be decomposed as follows:

$$GDP \text{ per capita} = \frac{GDP}{POP} = \frac{GDP}{EMP} \times \frac{EMP}{LF} \times \frac{LF}{POP}$$

The first term,  $\frac{GDP}{POP}$ , represents productivity, the second  $\frac{EMP}{LF}$ , the employment rate, and the third,  $\frac{LF}{POP}$ , the labour force participation. The growth of GDP per capita is influenced by the growth of these indicators.

As analysed in the section focused on structural transformation, the activity rate decreased by 1.9 percentage points, from 61 to 59.1 per cent from 2000 to 2018. During the same period, the employment rate decreased from 96 to 93 per cent. As GDP per capita increased, productivity was the underlying force driving that growth. The fact that productivity has grown at a lower rate than in other countries and remained well below the EU average explains the persistent GDP per capita gap with respect to the EU.

## Impact of structural change on the evolution of aggregate variables

The evolution of each aggregate macroeconomic variable is influenced by its growth in each industry and by the sectoral reallocation of resources between industries. If reallocation goes from low performing industries to higher performing industries, the aggregate change is higher than it would be if the structure of the economy had remained the same.

In order to assess how structural change has affected the evolution of a variable one has to build a counterfactual scenario of how that variable would have evolved if the structure of the economy had remained the same and compare that value to the actual outcome.

Alternatively, one can compare the behaviour of the variables in the growing and the declining industries identified above.

Table 10 presents the growth rates of the four aggregates for the different groups. As can be seen, in general structural change has contributed to better economic performance as the actual growth rate of each aggregate is higher than what would have been expected if the

structure of the economy had remained the same. Only hourly wages deviate from this, signalling that industries that increased wages more experienced a decline.

**Table 10. Average annual growth rates of each aggregate considering alternative scenarios, Portugal**

	GVA (%)	Employment (%)	Labour productivity (%)	Hourly wages (%)
Actual	2.4	-0.3	2.8	1.8
Holding structure constant	2.1	-0.6	2.4	2.0
Growing industries	4.7	1.9	2.8	1.8
Declining industries	1.1	-0.6	1.7	1.0

Source: National Statistical Office, National Accounts.

## Growing and declining industries and quality of employment

Besides analysing the impact of structural change on some social groups, it is interesting to analyse how the different groups of industries compare on some quality of employment indicators.

Table 11 presents the share of employment by skill level in the economy and in growing/declining sectors in 2017. As one can see, in the growing industries the highest skill levels represent a significant share of total employment.

**Table 11. Share of employment by skill level in the economy and in growing/declining sectors in 2017, Portugal**

	Management (top and middle)	Highly Skilled	Skilled	Semi-skilled	Unskilled	Trainees and apprentices
Declining	15.8	5.2	37.3	24.5	13.8	3.3
Growing	27.8	9.9	39.6	13.1	6.6	2.8
Total	22.7	7.3	37.3	19.5	10.2	2.9

Source: Quadros de Pessoal, Ministry of Labour and Social Security.

Moving to another employment indicator, the wage level, Table 12 shows that in this case declining industries have a higher average hourly wage than growing industries, such as financial and insurance activities, a sector that underwent a strong crisis and has been losing ground in the Portuguese economy. By contrast, growing sectors on average have lower wages, for example, those related to the expanding tourism sector (accommodation and food services) or human health and social work.<sup>7</sup>

<sup>7</sup> However, this aggregate analysis hides significant disparities within these groups, which are discussed in more detail in the chapter focused on structural transformation, namely in the section which analyses growing and declining sectors.

**Table 12. Average wages in the economy and in growing / declining sectors in 2017, Portugal**

Average hourly wage in 2017 (€)	
Declining	12.1
Growing	7.7
Total	8.7

Source: National Statistical Office, National Accounts.

Another important indicator is the hours of work per employee. Table 13 shows that declining industries have a lower average number of hours per employee than growing industries. Contrastingly, growing sectors have on average a higher number of hours per employee.<sup>8</sup> These results point to the idea that growing industries are using the labour force more intensively.

**Table 13. Average hours of work per employee in the economy and in**

Average hours per employee in 2017 (number)	
Declining	1 762.5
Growing	1 832.3
Total	1 786.9

Source: National Statistical Office, National Accounts.

The last indicator of quality of employment analysed concerns type of contract. Table 14 presents the share of employment by type of contract in the economy and in growing/declining sectors in 2017. As can easily be seen, growing industries are more likely to have open-ended contracts, whereas declining industries are relatively more likely to have fixed-term or uncertain-term contracts.

**Table 14. Share of employment by type of contract in the economy and in growing / declining sectors in 2017, Portugal**

	Open ended contract	Fixed term contract	Uncertain term contract	Other
Declining	55.4	31.3	12.5	0.8
Growing	72.6	23.8	3.0	0.6
Total	65.0	27.0	7.3	0.7

Source: Quadros de Pessoal, Ministry of Labour and Social Security.

Overall, evidence supports the idea that growing industries are more likely to have better employment, in terms of more stable ties with the labour market. One cannot conclude, with this analysis, on any type of causality but the association is fairly evident. If these trends continue, we may be seeing a decrease in labour market segmentation.

In terms of wages, however, faster growing sectors on average have lower hourly wages, which has resulted in overall wage stagnation in the Portuguese labour market. Of particular concern are the sectors with a very positive evolution of gross value added and labour productivity (above average), which have experienced negative or below average

<sup>8</sup> Again, this aggregate analysis hides significant disparity within these groups (see section on structural transformation).

increase in hourly wages (Table 1). Such is the case with regard to the manufacture of basic pharmaceutical products and pharmaceutical preparations, transportation and storage, real estate activities and scientific research and development. The latter stands out because, despite an average annual increase of 7.9 per cent in gross value added and a 8.1 per cent increase in labour productivity, it experienced a tiny increase in hourly wages, at only 0.4 per cent per year, on average (Table 1). This raises important issues related to the ability of companies and the country as a whole to retain talent and the highly skilled, who are necessary to support structural transformation. Other factors include the abovementioned risk of lowering the education premium and reducing incentives to invest in scientific and technical skills and study beyond compulsory education, as well the implications of poor employment conditions for skills mismatches, which also results in efficiency losses for the economy.

## Public policies supporting structural transformation

Several important public policies have already been mentioned as affecting structural transformation. These include the strong investment in education and the upskilling of the workforce, investments in digital infrastructure and other public infrastructure, support for private production investment, support for R&D, changes in incentives from tradables to non-tradables, the EU common agricultural policy, as well as public policy conditionality during the “austerity” years.

Table 15 summarizes several policies and programmes affecting productivity at the sectoral level.

**Table 15. Public policies affecting productivity, Portugal**

Domain	Description of policies
Business environment	<ul style="list-style-type: none"> <li>- Important changes in policies for improving the business environment in the past twenty years, reducing regulatory complexity and legal and administrative burdens. Improvement results from simplification and administrative modernization measures, such as the Simplex, originally launched in 2006, and the Simplex+ programmes that followed, which included the “zero licencing” measure created in 2011 (<i>Licenciamento Zero</i>).</li> </ul> <p>The reforms aimed to develop a favourable business environment, namely by reducing barriers to entry of new competitors and to business growth. Portugal exhibited one of the highest recorded improvements between 2008 and 2013 in the OECD’s Product Market Regulation indicator and, up to 2018, in the World Bank’s Doing Business.</p> <p>Problems persist at the level of regulatory constraints in services and construction, however, delays in the judicial system, the complexity of licensing requirements and the instability of the tax system.</p> <p>Obstacles to market dynamism and competition are also reflected in the level of business mark-ups. Between 2012 and 2016, the mark-up level of Portuguese companies remained high and stable.</p>

Domain	Description of policies
Human capital and the labour market	<p>- Portugal has converged in recent years with the EU28 average in terms of the educational level of the population, particularly in the younger segment.</p> <p>Although the educational achievements of the younger population may indicate convergence, demographic evolution allows us to predict that it will still take some decades for the average level of formal education in Portugal to reach the average of the more economically developed countries.</p> <p>Financial support for the training and qualification of workers has been reasonably prominent in all the European support frameworks for the Portuguese economy. However, company spending on training has been decreasing since 2010, reaching its lowest value in 2016 (€224 million for 251,000 companies, that is, €891 per company).</p> <p>In 2015 the professionalization of managers in Portugal was still much lower than the OECD average.</p> <p>The recent improvement in formal education could have a positive effect on the qualifications of the managers of some Portuguese companies and, through this, their operational dynamics.</p>
Public investment and support for private investment	<p>- In Portugal, there have been two infrastructure promotion schemes this past decade. The Plano Estratégico dos Transportes e Infraestruturas (PETI3 +), launched in 2014, consisting of 53 investment projects and based on three strategic objectives for 2014–20: (i) contributing to economic growth, supporting Portuguese companies and job creation; (ii) ensuring the competitiveness of the transport sector and its financial sustainability for Portuguese taxpayers; and (iii) promoting social and territorial cohesion, ensuring the mobility and accessibility of people and goods throughout the country and environmental sustainability. More recently, the Programa Nacional de Investimento (PNI 2030) includes investments that were already foreseen in PETI 3+. It is divided into four thematic areas: mobility and transport; energy; environment; and irrigation.</p> <p>Direct support for investment is mainly based on European funds allocated to Portugal since the late 1980s, covering both private and public investment. These funds are very significant and the successive European Support Frameworks have provided around €120 billion in support (2011 prices), an average of almost €4 billion a year between 1989 and 2020, which corresponds to just over 10 per cent of average annual investment in the Portuguese economy.</p> <p>In addition, there are several types of contractual tax benefits for domestic and foreign investment and for capital enhancement, usually based on corporate tax credits and different exemptions from municipal tax on real estate and stamp duty.</p> <p>Another important policy includes debt and equity instruments, which have become more important with the intensification of credit restrictions. The creation of the Instituição Financeira de Desenvolvimento and the implementation of the Capitalizar programme, launched in 2016, which includes lines of support for investment and capital funds of different natures, aimed precisely at overcoming the market failures that affect the supply of credit and the financing of SMEs, which do not have direct access to foreign funding.</p>

Domain	Description of policies
R&D	<p>- Portuguese society has made a significant investment in R&amp;D and innovation in the past two decades. Public policies in this area are based on tax credits for research and innovation (SIFIDE programme), which in the Portuguese case can reach 80 per cent of total expenditure, and refundable or non-refundable subsidies associated with European funds (Horizon 2020) aimed at promoting knowledge in companies and collaboration networks between companies and knowledge centres, within the framework of the Interface Programme and clusters.</p> <p>However, only a limited proportion of these resources are at the service of companies, which limits their effects on productivity. Indeed, companies continue to have a low number of researchers, a low level of research expenditure (only half of total expenditure in Portugal) and a small number of patent applications, about one-tenth of the OECD average.</p>
Business dynamics and internationalization	<p>- Business dynamics are associated with the business environment and market competition, and thus have important effects on capital allocation. Public policies in recent decades have included a number of fiscal incentives and debt or capital support, such as the Programa de Apoio ao Empreendedorismo e à Criação de Emprego (2009), Start-up Portugal (2016), the Programa Semente (2017), and “business angels” funding lines, which are designed to encourage the creation of new businesses.</p> <p>In addition, public policies have been aimed at facilitating the growth of more productive companies by providing access to international markets and global value chains, with the consequent use of economies of scale. Examples of such programmes include Estratégia de Fomento Industrial para o Crescimento e o Emprego (2013), Portugal Sou Eu (2011), Agenda para a Competitividade do Comércio, Serviços e Restauração (2015), Indústria 4.0 (2017) and Internacionalizar (2017).</p> <p>Attention has also been paid to reducing barriers to exit and restructuring to promote a selection mechanism, encourage the winding up of unviable companies and the recovery of less productive ones. This was the intention of the reform of the insolvency code: implementation of the Programa Especial de Revitalização (PER) and the Sistema de Recuperação de Empresas por Via Extrajudicial (SIREVE), both launched in 2012, which was recently replaced by the Regime Extrajudicial de Recuperação de Empresas (RERE). Portugal is one of the countries that has implemented most reforms in relation to insolvency, especially regarding the prevention, simplification and reduction of barriers to restructuring, which allows for a better allocation of capital and a lower prevalence of zombie companies.</p>

Source: Based on “The Productivity of the Portuguese Economy”, First Report of the National Productivity Board, March 2019, Productivity Council.



## Labour market developments

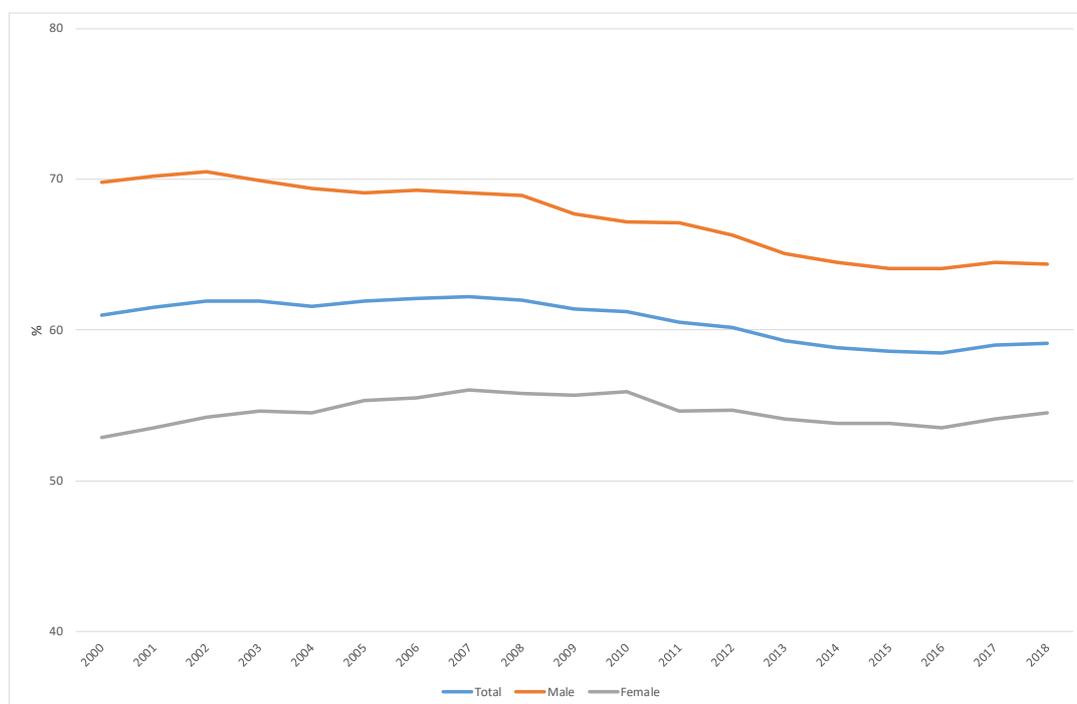
This section presents an overview of labour market developments since 2000, with a particular focus on post-crisis dynamics.

### Labour force: overall and by age and sex

Starting with an analysis of the labour force, Figure 16 presents the evolution of the activity rate, the percentage of resident population 15 years of age or over employed or available to work. Overall, the activity rate exhibited a slight trend increase between early 2000 and the beginning of the crisis. Then, and until 2016, this indicator was reduced by about 3.7 percentage points. Since 2006, it has experienced a slight increase but it remains well below pre-crisis levels, which is largely explained by the ageing of the population, that is clearly above EU average and with projections of a very sharp increase, which will have a greater impact on the labour force (Figure 16).

Despite these demographic challenges, however, it is interesting to see that female participation in the labour market, which has traditionally been high in Portugal, was less affected by the crisis than male participation and has recovered faster than the latter. This has reduced the gap between employment rates and in recent years participation levels have been attained that are above those registered in the pre-crisis period. While there is little margin to increase the participation of women, given an already high female employment rate, this does not hold for certain groups, namely involuntary part-time workers who want to work more hours than those they are able to find at present.

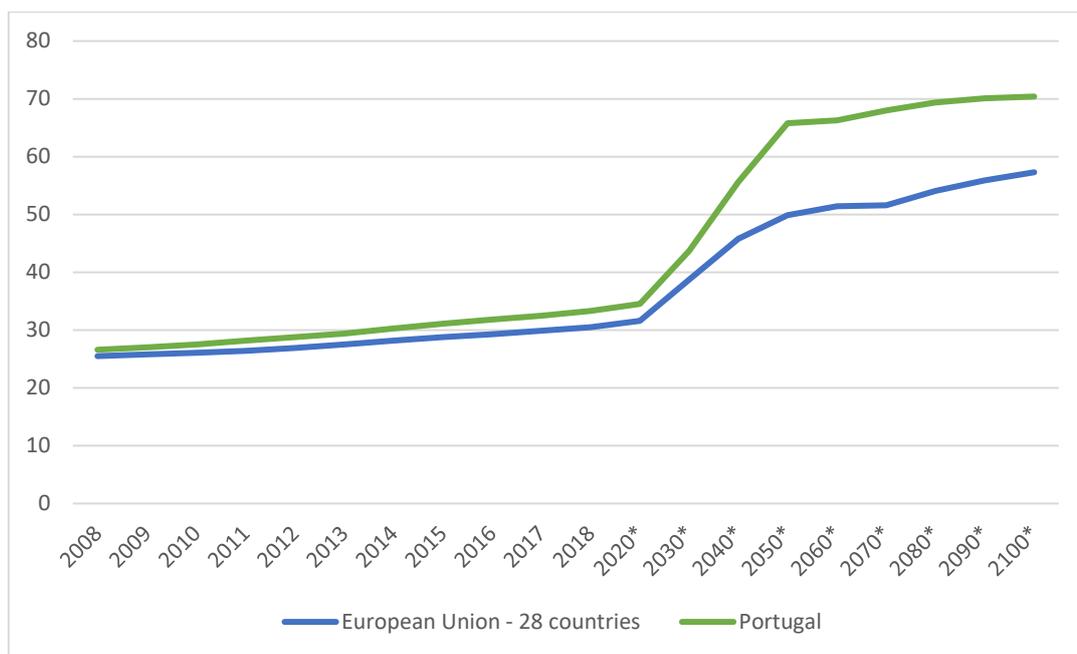
Figure 16. Activity rate workers 15 years of age or more, by sex, Portugal, 2000–18



Note: Time series break in 2011.

Source: National Statistical Office.

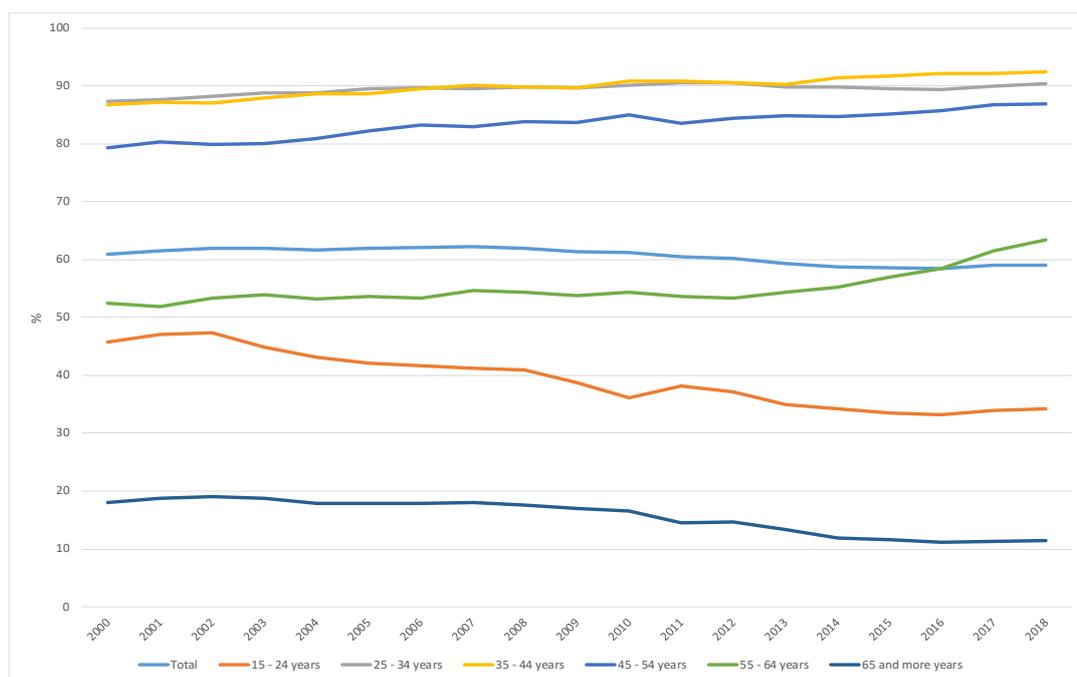
**Figure 17. Old-age dependency ratio in Portugal and EU28 – past values and projections, 2008–2100**



Note: \* Projections; EU28 series breaks in 2008, 2010, 2011, 2012, 2014, 2015 and 2017; EU28 series values for 2018 are estimations.  
Source: Eurostat.

Looking at participation rates by age group, Figure 18 shows that the most important trends since 2000 are: (i) the steady but slow trend increase of the participation of prime age groups; (ii) the significant decrease in the participation of young people 15–24 years of age, probably related to the increase in school enrolment at the highest levels of education; and (iii) the very significant increase in the participation of those aged between 55 and 64, related to population ageing and ageing workers remaining longer in the labour market due to changes in pension rules, increases in retirement age as well as financial incentives to postpone retirement.

**Figure 18. Labour force participation by age group, Portugal, 2000–18**



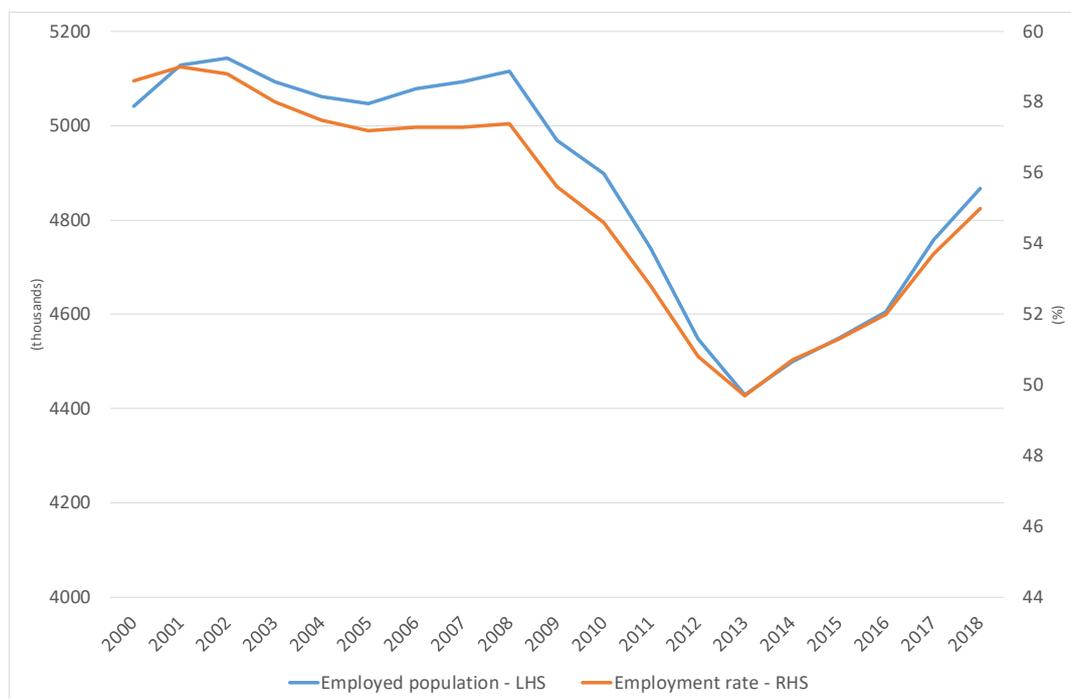
Note: Time series break in 2011.  
Source: National Statistical Office.

## Evolution of employment, unemployment and labour underutilization

Besides the analysis of activity rates, which are influenced by demographics, among other causes, it is important to analyse the evolution of employment, unemployment and underutilization of labour.

With regard to employment, Figure 19 shows the strong volatility of this indicator, which naturally closely follows the evolution of economic growth indicators. The volume of employment until 2008 exhibited a mildly cyclical pattern, with a decrease in the 2003 recession and some recovery until 2008. After the crisis, employment experienced a strong decrease until 2013, a period during which the employment rate fell by 8 percentage points and almost 700,000 jobs were lost. Since 2013, almost 450,000 jobs have been recovered, mainly in the past two years, and the employment rate has increased by almost 5 percentage points, although it is still well below the pre-crisis level, mainly for young workers and male workers, who were more impacted by the crisis, as we shall see. Women, on the other hand, increased their labour market participation as a consequence of the need to complement family earnings during the worst years of the crisis, when these earnings dropped in many households with unemployed members.

**Figure 19. Employment and employment rate, young people 15 years of age or more, Portugal, 2000–18**



Note: Time series break in 2011.

Source: National Statistical Office.

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Apart from this recent evolution, which led to an increase in female participation, women's traditionally high participation is a distinctive feature of the Portuguese labour market, namely when compared to most European countries and to the group of Southern European countries which Portugal it is often compared to. This has historical and cultural roots that has favoured a shift to the dual-earner model.<sup>9</sup>

The strong participation of women can be ascertained in several dimensions: the high employment rates of women (72.1 per cent vs 67.4 per cent for the EU28), the high proportion of women working full-time (89.5 per cent vs 68.7 per cent for the EU28) and the high employment rate of women with small children, which is especially high in Portugal (82.2 per cent vs 66.9 per cent for the EU28 with regard to mothers with one child below the age of six, and 80.8 per cent vs 65.9 per cent for the EU28 for mothers with two children below the age of six ).<sup>10</sup> The latter dimension places Portugal closer to the Nordic countries where there is also little difference between the participation rates of women with and without children. In the case of Portugal, participation rates, as mentioned above, are even currently higher for women with children than those without.

The recent international crisis seems to have affected more the economic sectors in which men represent the majority of the workforce – between 2008 and 2011, two in three jobs lost were occupied by men – namely the industrial sector, including automobiles and construction (Ferreira and Monteiro, 2014). The latter sector was already undergoing a prolonged crisis, with a strong impact on employment, since the turn of the millennium. As a consequence, women's employment rate recovered to pre-crisis levels faster than that of men. Moreover, women's employment rate is now considerably higher than before the crisis and the gap between men's and women's employment rates has decreased substantially, revealing structural shifts in employment that mirror sectoral changes, but also, as mentioned, shifts from inactivity to activity that occurred during the harsher years of the crisis when unemployment numbers soared, affecting the earnings of a large number of households that found it difficult to make ends meet.

The downside of this increased participation is the increased pressure on work–life balance policies, as well as family support measures, which are now needed more than ever so as not to further decrease fertility rates. These have been declining continuously in recent decades, increasing the risk posed by population ageing. There is a general consensus around the need to address the demographic challenges and support family-friendly policies and work–family life reconciliation. These issues are currently under discussion in the Standing Committee for Social Dialogue of the Economic and Social Council.

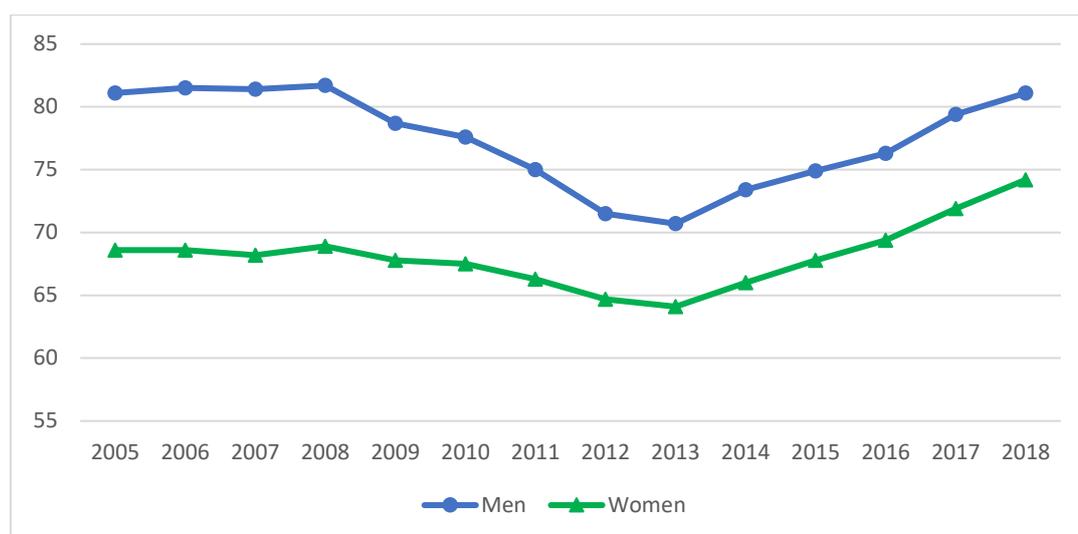
Despite more favourable trends in women's wages in recent years, in comparison to those of men, and an increased presence in higher-skilled occupations, which matches their higher qualifications, women in Portugal continue to face significant challenges concerning fair and equitable remuneration.

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<sup>9</sup> During the period of dictatorship, this participation was justified by a shortage of male workers as a result of an intense recruitment of men to the country's colonial wars and to emigration. Moreover, the persistence of low wages and the need to contribute to family incomes, the development of the public administration and the increase in women's formal education during this period, but also the transition to democracy, favoured a shift towards the dual-earner model as opposed to the male breadwinner model (Addabbo et al., 2015). Hence, by 2000 Portugal had already reached the Europe2020 headline target for the female employment participation rate.

<sup>10</sup> Eurostat numbers, 2018.

Figure 20. Employment rates of men and women, Portugal, 2005–18



Note: Age group, 15-64 years.

Source: Eurostat.

Focusing on the different age groups, if we exclude younger people, whose participation rate is influenced by increased education enrolment, the employment rates of those 20–64 years of age have evolved positively and are already above pre-crisis levels (75.4 per cent in 2018 compared with 72.5 per cent in 2007) and once again above the EU28 average, after several years of falling below this threshold (2012–16).<sup>11</sup> The 55–64 age group exhibited a strong increase in the employment rate after the financial crisis, which is probably associated with the postponement of retirement, as mentioned earlier. The over 65s age group also experienced a decline in its employment rate, probably due to the increasing coverage of people of this age group by old age pensions and the anticipation of the transition to retirement by older workers in a situation of long-term unemployment, as a consequence of the crisis.

While all age groups experienced some decline in the employment rate during the crisis, it is interesting to note that the 45–54 years age group seems to have suffered the least during the harsh times.

On the other hand, unemployment experienced an overall trend increase from 2000 until 2008 (see Figure 21), then, following the crisis, increased to unprecedented high values, such as 16.2 per cent in 2013. Since then it has been falling towards values similar to those observed in 2000. This strong decline in the unemployment rate exceeded all national and international projections in recent years, such as by the Bank of Portugal, the IMF, the OECD and the European Commission. Unemployment numbers went down with a strong improvement in youth unemployment, as we will see below, and in long-term unemployment, which in 2018 reached 3.1 per cent, below pre-crisis levels and close to the EU28 average (2.9 per cent).

<sup>11</sup> Eurostat data.

**Figure 21. Unemployment and unemployment rate, Portugal, 2000–18**

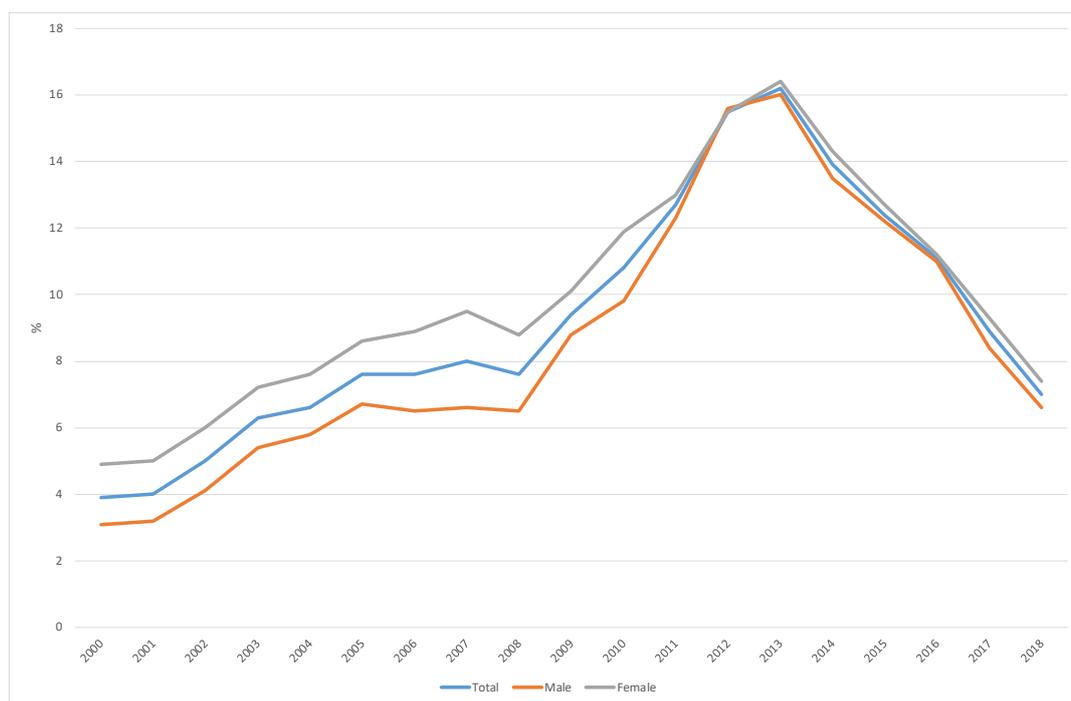


Note: Time series break in 2011.

Source: National Statistical Office.

Moving to a more detailed analysis of the evolution of unemployment, Figure 22 presents the evolution of the unemployment rate by sex and shows that during this period the relative situations of the two sexes converged, following the convergence in other indicators related to men’s and women’s labour market participation. In fact, unemployment exhibited a similar cyclical pattern for both sexes, but while in the early phase of the period the male unemployment rate was clearly below the female rate, by almost 2 percentage points, after 2011 the two unemployment rates became almost equal and have stayed close since then.

Figure 22. Unemployment rate by sex, Portugal, 2000–18



Note: Time series break in 2011.

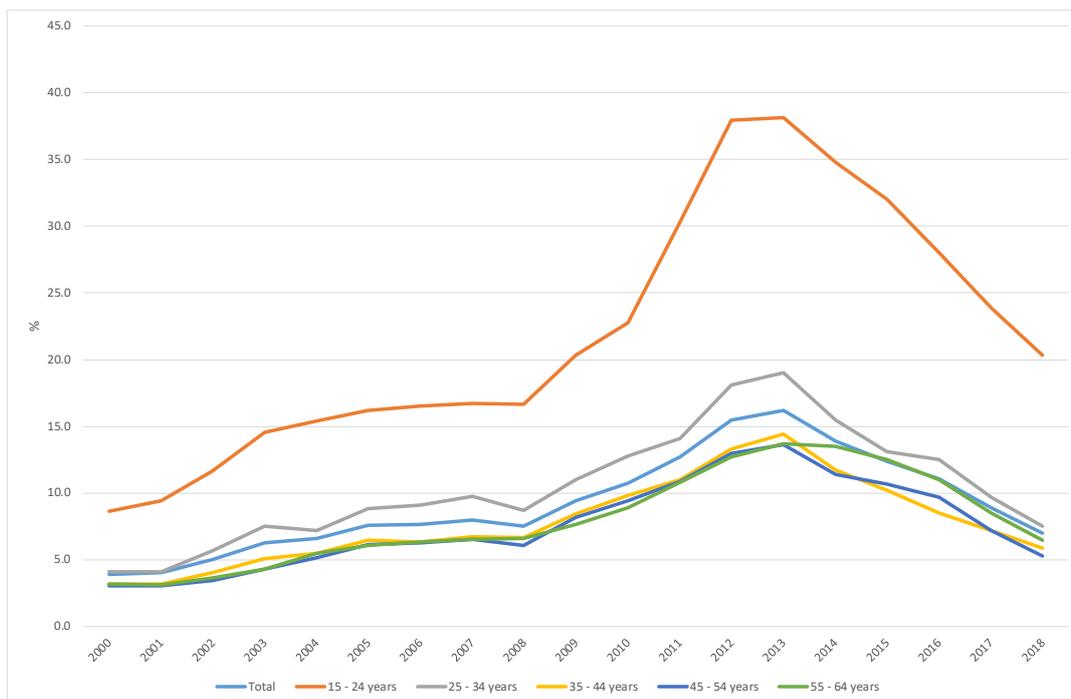
Source: National Statistical Office.

The long-term unemployment rate of men and women also converged during this period. Before the crisis the difference was 1.3 percentage points (3.2 per cent for men and 4.5 per cent for women in 2007), at the peak of the crisis it was even higher for men than for women (9.4 per cent vs 9.1 per cent, in 2013, respectively), and the latest figures available point towards a mere 0.2 percentage points differential in 2018 (3.0 per cent and 3.2 per cent, respectively).<sup>12</sup>

Looking at the evolution of the unemployment rate by age group, Figure 23 shows that the cyclical pattern already described can be observed for all age groups. There is clearly higher volatility of the unemployment rates of young people 15 to 24 years of age and, to a lower extent, 25 to 34 years of age. This shows that these groups bear a disproportionate share of the burden of adjustment in any crisis. As one can see, during the most severe period of the last crisis, the unemployment rate for the younger group was close to 40 per cent.

<sup>12</sup> Eurostat “Labour Force Survey” figures for long-term unemployment rate by sex.

**Figure 23. Unemployment rate by age group, Portugal, 2000–18**

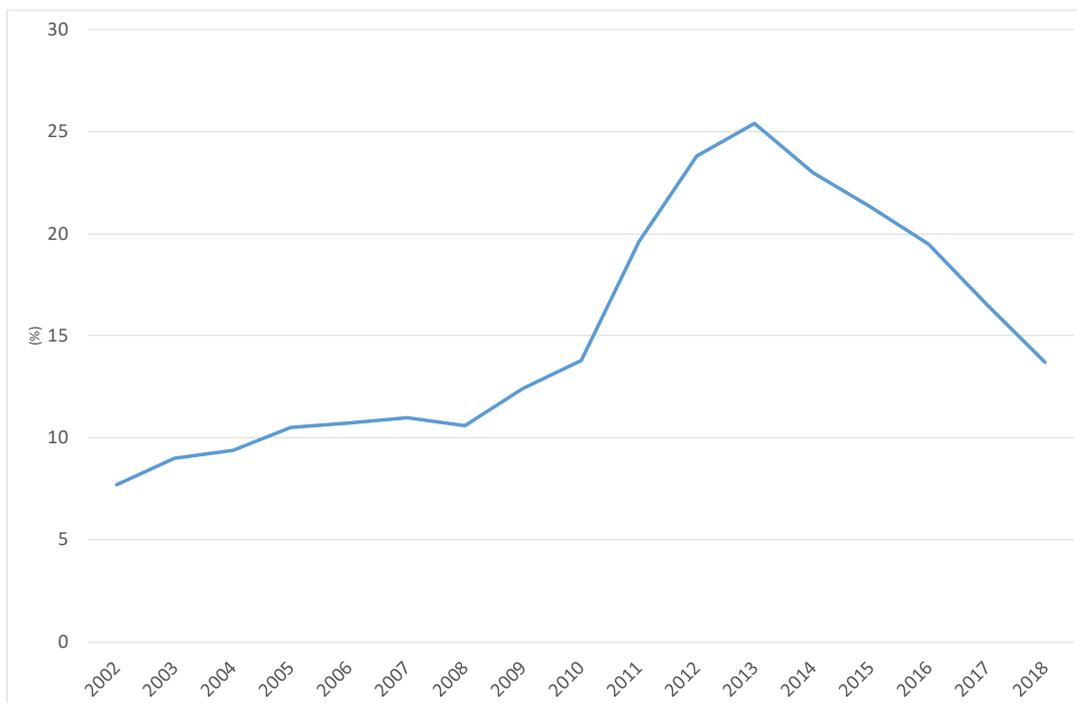


Note: Time series break in 2011.

Source: National Statistical Office.

It is also interesting to analyse the evolution of labour underutilization as the flows into and out of the labour force and adjustments to working hours can also play an important role during adjustment periods. The analysis of this indicator allows for a more complete picture than the unemployment numbers, also shedding light on the potential labour force that could be mobilised at any given time. Figure 24 reveals the strong cyclicity of labour underutilization. This indicator increased by almost 15 percentage points from 2008 to 2013, more rapidly than the unemployment rate in the aftermath of the crisis (2010–13) and more significantly than the EU average (ILO, 2018). Since then it has decreased by almost 12 percentage points, though not yet reaching pre-crisis levels by 2018, contrary to the unemployment rate.

**Figure 24. Labour underutilization rate, Portugal, 2002–18**

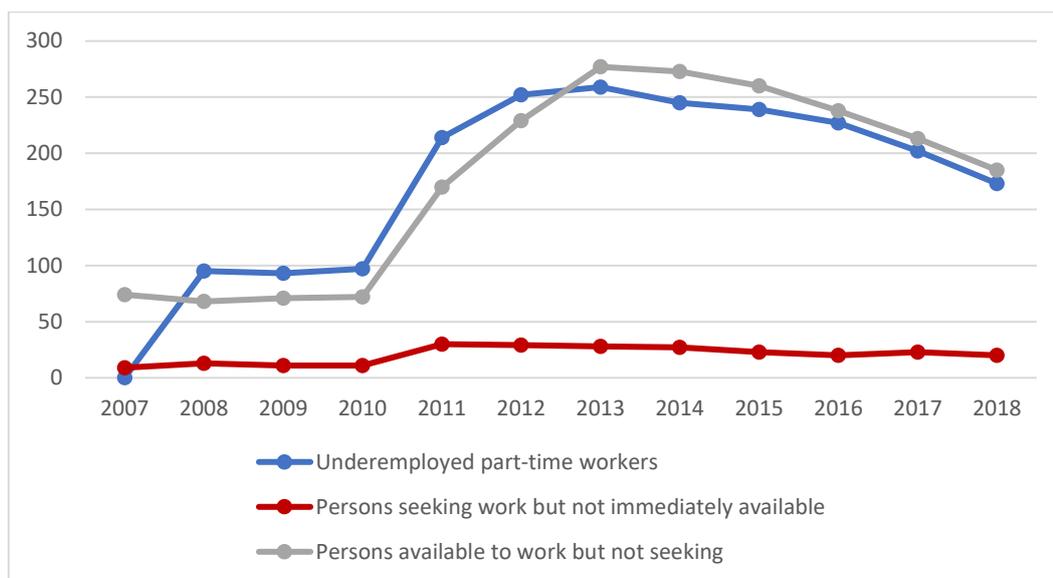


Note: Time series break in 2011.

Source: National Statistical Office.

This difference can be explained by taking a closer look at the components of the underutilization rate, excluding unemployment (Figure 25), which shows a high increase among both underemployed part-time workers and those available but not seeking work, still well above pre-crisis levels. Portugal presents a large share of involuntary part-time workers and also, in the European context, one of the highest gaps between desired hours and actual hours worked by these part-time workers (Eurofound, 2017: 20). In 2018 the amount of inactive “job wanters”, pertaining to these two categories, was close to the volume of active “job seekers” (357,500 vs 365,900 unemployed). A relationship can be established between the higher numbers of involuntary part-time workers and the structural shift in employment towards services. Although more challenging to address, this has implications for active labour market policies (Eurofound, 2017).

Figure 25. Supplementary indicators of unemployment, annual data,



Source: Eurostat.

## Evolution of employment by type of contract

One of the aims of the Economic and Financial Assistance Programme, inscribed in the Memorandum of Understanding with the Troika, was to “tackle labour market segmentation and raise the use of open-ended contracts”.<sup>13</sup>

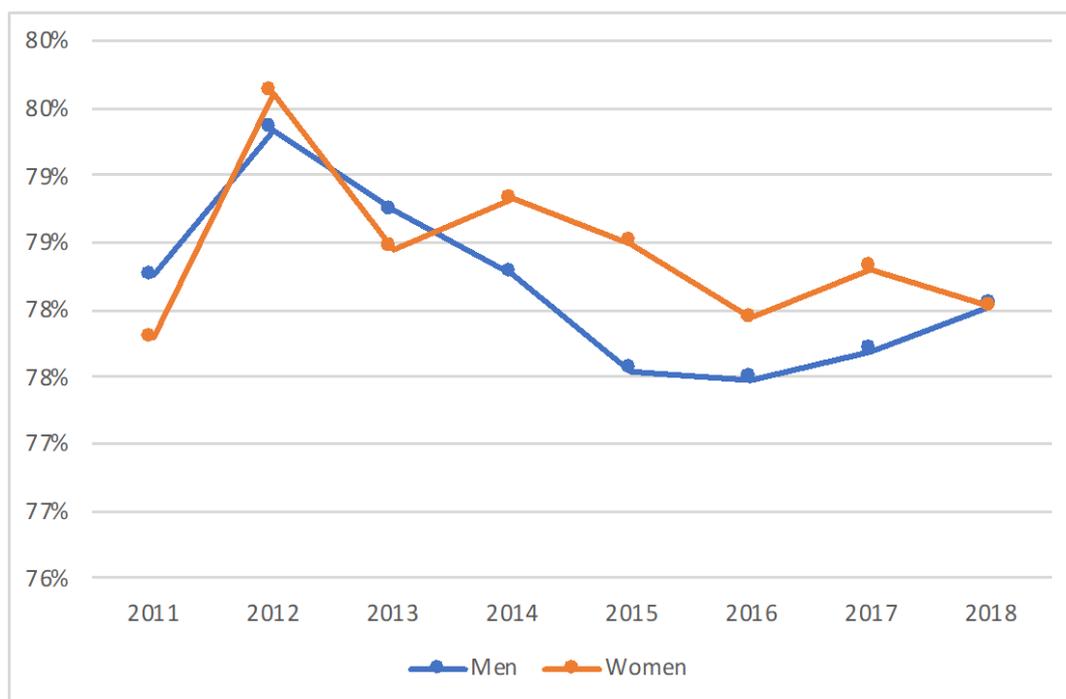
In this context, and given the high share of temporary contracts in Portugal and what this means for workers’ stability and well-being, it is important to look more closely at how the share of open-ended contracts has evolved in the past decade.<sup>14</sup>

In 2012, a year of strong decline in employment, the share of open-ended contracts increased, which shows that the adjustment fell on those with weaker ties to the labour market, which decreased their weight in total employment (Figure 26). In the years that followed, the share of open-ended contracts fell for both men and women, although less significantly for the latter and even a slight increase in 2014. Overall, the share of open-ended contracts has remained fairly stable. In 2018, this share was below where it was in 2011, for men, and slightly above for women.

<sup>13</sup> “Memorandum of Understanding on Specific Economic Policy Conditionality”. This can be accessed at: [https://ec.europa.eu/economy\\_finance/eu\\_borrower/mou/2011-05-18-mou-portugal\\_en.pdf](https://ec.europa.eu/economy_finance/eu_borrower/mou/2011-05-18-mou-portugal_en.pdf)

<sup>14</sup> Because there is a break in the data series in 2011, only figures from 2011 onwards will be analysed.

**Figure 26. Share of open-ended contracts in total contracts of employees, Portugal, 2011–18**



Source: Pordata.pt based on National Statistics Office.

Apart from this evolution, the latest data (third quarter 2019)<sup>15</sup> show that nearly one-third of temporary employees have tertiary education (28.4 per cent) and that two-thirds are between 15 and 39 years of age (66,7 per cent), revealing a large incidence on younger workers. This has implications for the quality of jobs they can get, their chances of stabilizing their life circumstances through integration in the labour market, which has implications for family planning, and perceptions of education premium, which has been decreasing in terms of both wages and stability in the labour market.

## Evolution of employment by occupation and sex

The occupational transformation of the Portuguese labour market is another consequence of the structural adjustment that has been taking place and reveals the skills demanded in the labour market, which can be analysed against the changing skills’ profile of the population.

Analysing the distribution of employment by occupation and sex, Figure 27 shows a strong change in the overall occupation profile of the employed population and of the distribution of male and female workers by occupation.

The occupations that have seen their importance increase significantly in this period for overall employment were “professionals”, a group within the higher skilled occupations, which increased its share in total employment by more than 12 percentage points, followed by the medium-skilled “services and sales workers” and the higher skilled “technicians and associate professionals”, which reflects the change in the specialization of the Portuguese economy. By contrast, occupations that saw their relative relevance decline more significantly were less skilled groups, on average, namely “craft and related trades workers”,

<sup>15</sup> Eurostat data.

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which saw its importance decline by almost 9 percentage points, “skilled agricultural, forestry and fishery workers” and “elementary occupations”.

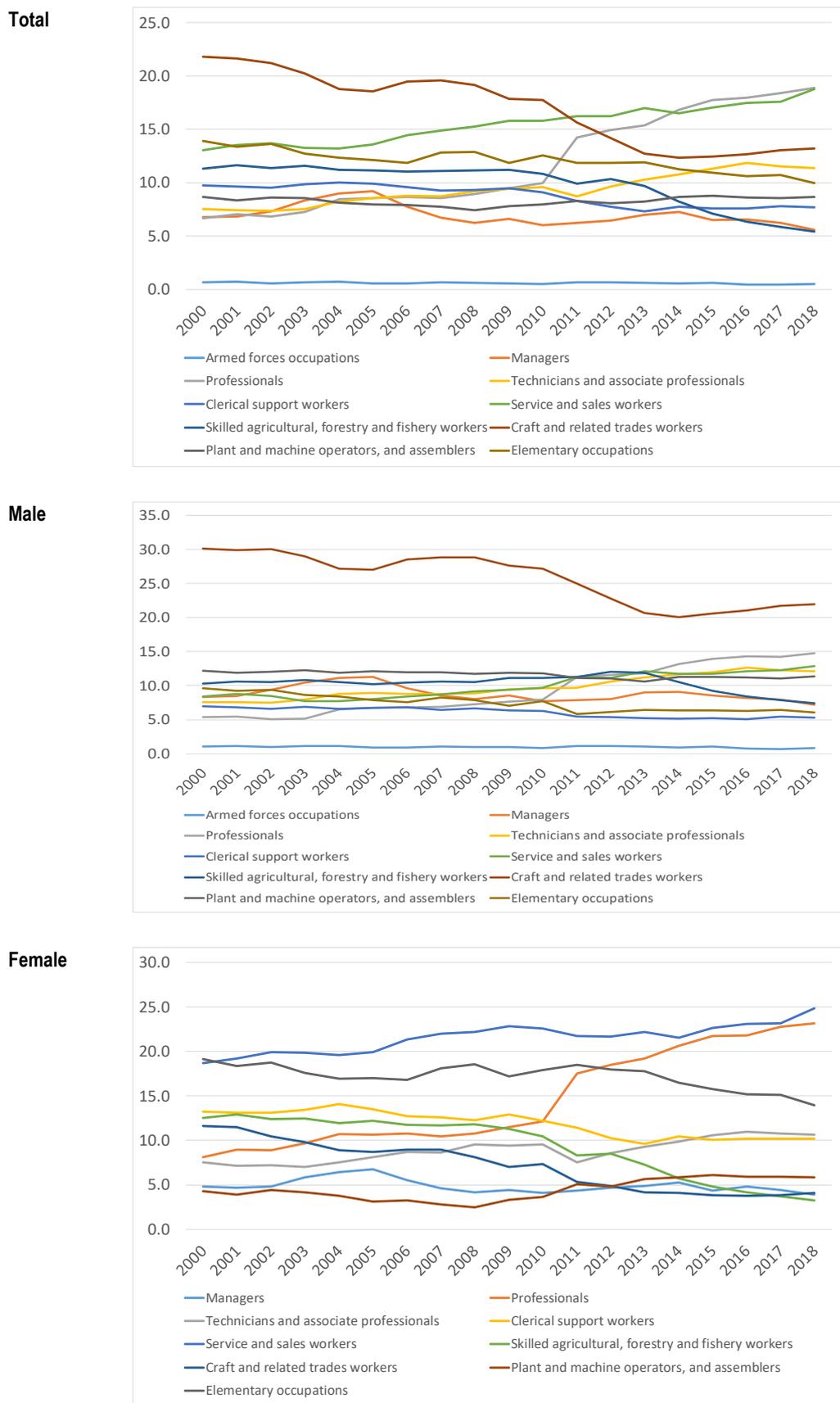
Looking more closely at the changes in the occupational profiles of men and women, one can see that, even though in general the two distributions exhibit a similar pattern, the changes in the distribution for female workers are much more pronounced, showing women’s increasing labour market participation.

For male workers, the occupations that reinforced their share in total male employment were “professionals”, which increased by about 9 percentage points, “services and sales workers” and “technicians and associate professionals”. “Craft and related trades workers” decreased its share by almost 9 percentage points and the share of “elementary occupations” also decreased.

For female workers, “professionals” increased their share in total female employment by 15 per cent. Occupations such as “services and sales workers” and “technicians and associate professionals” have also increased in importance relevance, whereas “skilled agricultural, forestry and fishery workers” and “craft and related trades workers” have become less important.

It is also important to analyse the share of female workers in each occupation and how that share has evolved. Table 16 presents these indicators. One can see that in 2018 the predominantly female occupations were “elementary” occupations, “services and sales workers”, “technicians and associate professionals” and “professionals”.

**Figure 27. Distribution of employment by occupation and sex, Portugal, 2000–18**



Note: Time series break in 2011.

Source: National Statistical Office, Labour Force Survey.

**Table 16. Evolution of the share of female employment in selected occupations, Portugal**

	Share of female workers 2018 (%)	Change of share of female workers 2000-18 (percentage points)
Armed forces occupations	0.0	0.0
Managers	34.0	2.1
Professionals	60.0	4.8
Technicians and associate professionals	45.7	0.8
Clerical support workers	64.7	3.8
Service and sales workers	64.9	0.4
Skilled agricultural, forestry and fishery workers	29.6	-20.3
Craft and related trades workers	15.1	-8.9
Plant and machine operators, and assemblers	33.0	10.6
Elementary occupations	68.8	6.9
Total	48.9	4.0

Source: National Statistical Office, Labour Force Survey.

The occupations in which women's shares have increased the most were "plant and machine operators, and assemblers" and "elementary occupations". By contrast, the occupations in which the share of women has decreased the most are "service and sales workers" and "skilled agricultural, forestry and fishery workers". These patterns are associated with the changes in the specialization of the Portuguese economy, but also with women's increasing participation in new occupations, signalling a greater presence in high-skilled occupations such as "managers" and "professionals", as well as in low-skilled occupations, with a decrease in medium-skilled ones. The occupations with higher shares of female participation tended to maintain or increase their occupational segregation. These included "professionals", "clerical support workers", "service and sales workers" and "elementary occupations", while those with the lowest share of female participation tended to exhibit a further decrease, such as "craft and related trades workers" and "skilled agricultural, forestry and fishery workers". Thus, overall, occupational segregation increased during this period.

## Changes in employment status

Another characteristic of employment that changed significantly during the adjustment period was occupational status.

Figure 28 presents the evolution of this indicator and its distribution by sex. It clearly reveals that there was a general rising trend in the share of employees. This trend halted during the crisis, when the proportion of employees slightly decreased, but has recovered since then. At the same time, one can see a continuous reduction in the share of self-employed workers. This is largely to be explained by the decline of employment in agriculture, and the shift towards the service industry, as well as the decline in the construction sector. Between 2011 and 2018 the number of self-employed "own account workers" was reduced by 193,200, of whom 189,500 were in the agriculture sector, close to 50 per cent of whose workers are self-employed. The service sector, on the other hand, increased its number of self-employed in absolute numbers and in the overall distribution. Employment in services as a whole grew more strongly in this period, however (by approximately 13 per cent), than the employment of self-employed workers in services

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(close to 4 per cent).<sup>16</sup> Although as yet there are no studies quantifying the number of workers in the platform and gig economy, because these workers are usually classified as “self-employed”, these numbers show that this is still rather residual in Portugal.

Because the self-employed category also includes “bogus self-employment” (“falsos recibos verdes”) a reduction of these numbers may also be explained by changes in legislation, at the beginning of 2012, that reduced the incentive for “self-employed workers” to work exclusively or nearly exclusively for a single entity, as employees of that company in practice, but without a standard contract.<sup>17</sup> A 5 per cent social security contribution was imposed on such companies, thus spreading part of the burden of social security financing between these entities and the “dependent self-employed” workers themselves. Nevertheless the situation is still very asymmetrical when compared with what companies pay for standard employees.<sup>18</sup> In 2018, new legal changes to the self-employment regime, to produce effects in 2019, further increased this contribution and reduced the threshold used to classify workers as “dependent self-employed”.<sup>19</sup>

Analysing the differences by sex one can see a higher prevalence in the status “employee” among women, fewer of whom have the status of self-employed “own-account workers/employer”. Women used to feature more strongly among “contributing family workers”, but that has been reduced significantly, showing the change in labour relations and increasing formalization of women’s labour market participation.

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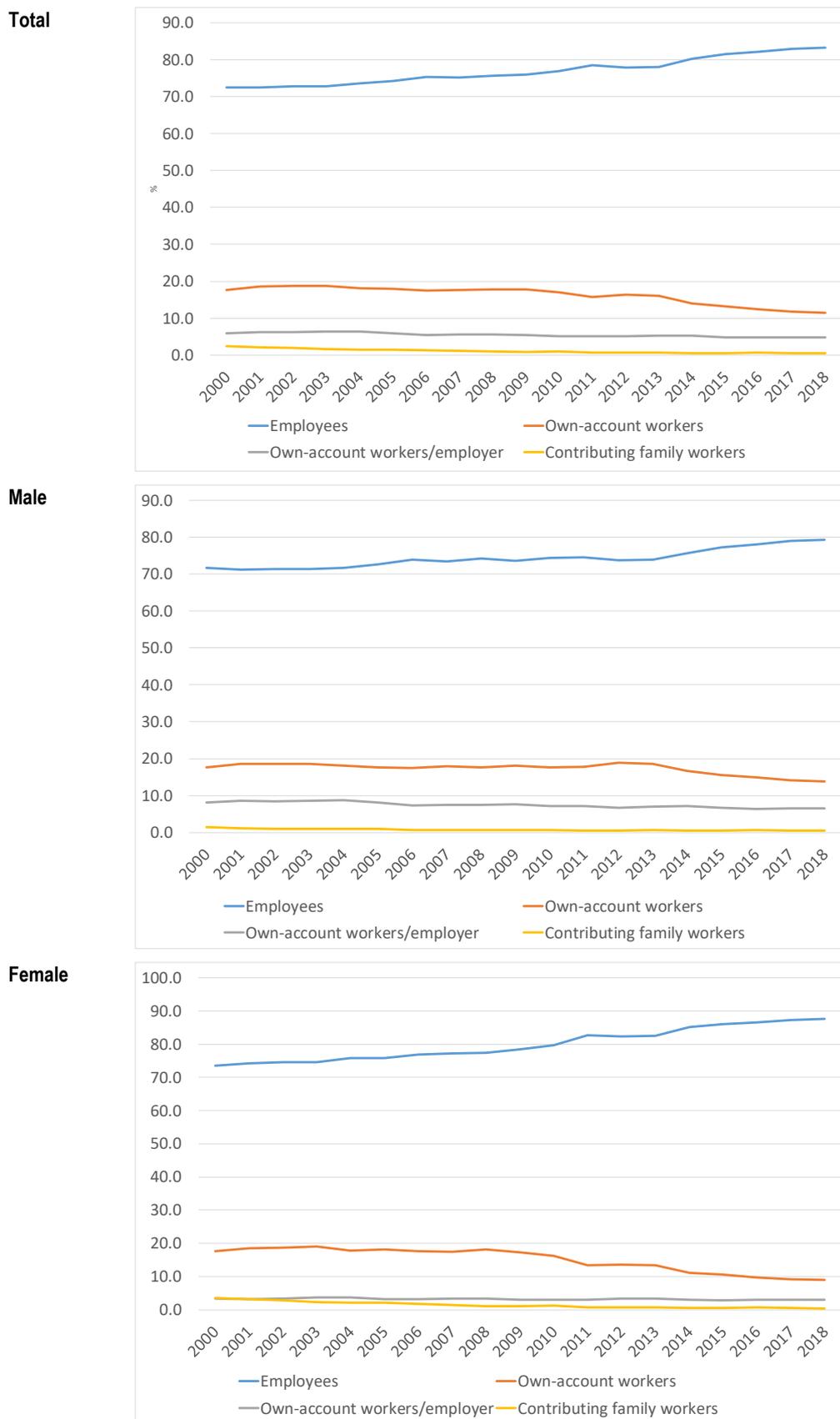
<sup>16</sup> National Statistics Office figures.

<sup>17</sup> Decree-law number 65/2012 of 15 May.

<sup>18</sup> Companies pay 23.7 per cent of gross wages and employees pay 11 per cent towards social security financing.

<sup>19</sup> Decree-law number 2/2018 of 9 January.

**Figure 28. Distribution of status in employment by sex, Portugal, 2000–8**



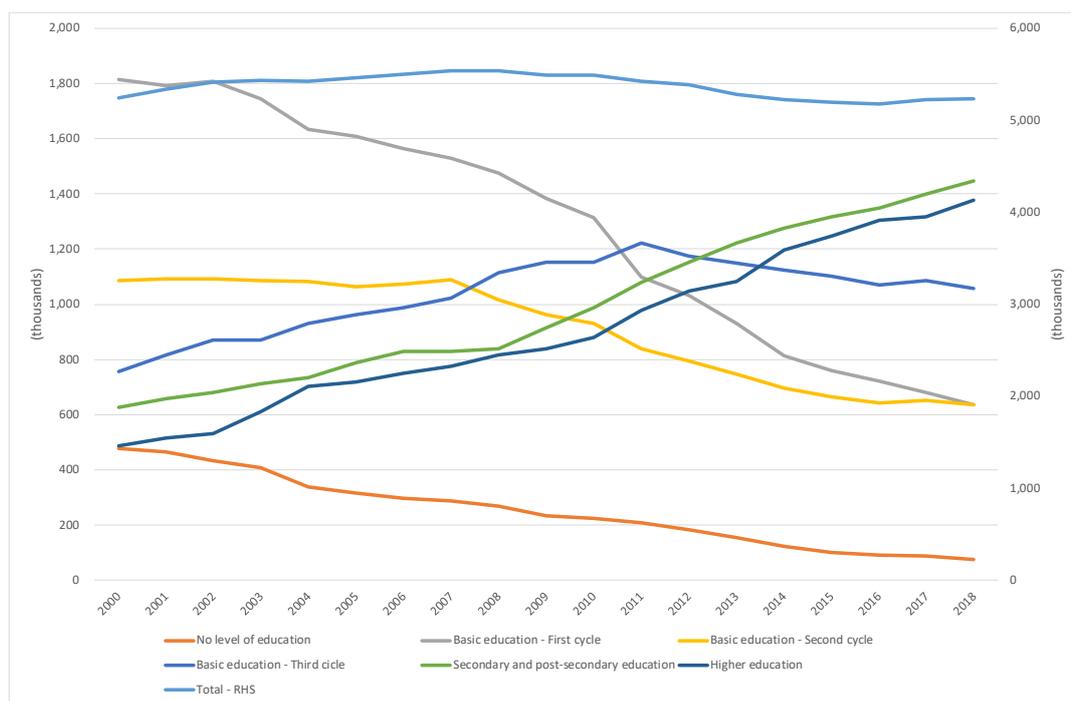
Note: Time series break in 2011.

Source: National Statistical Office, Labour Force Survey.

## Evolution of labour force skills and employment

Another relevant dimension of the Portuguese labour market transformation concerns upgrading workforce skills, which has occurred over recent decades. As Figure 29 shows, since 2000, while the total workforce has been relatively stable, there has been a significant change in its skills profile. The proportion of workers with the lowest levels of schooling (either no formal education, first or second stage) has been reduced by half during this period, while the proportion of those who have completed secondary or higher education has more than doubled. The share of those in the labour force who had at least completed compulsory education, increased up to 2011, but fell thereafter because they were among those most affected by the financial crisis and also because many reached retirement age.

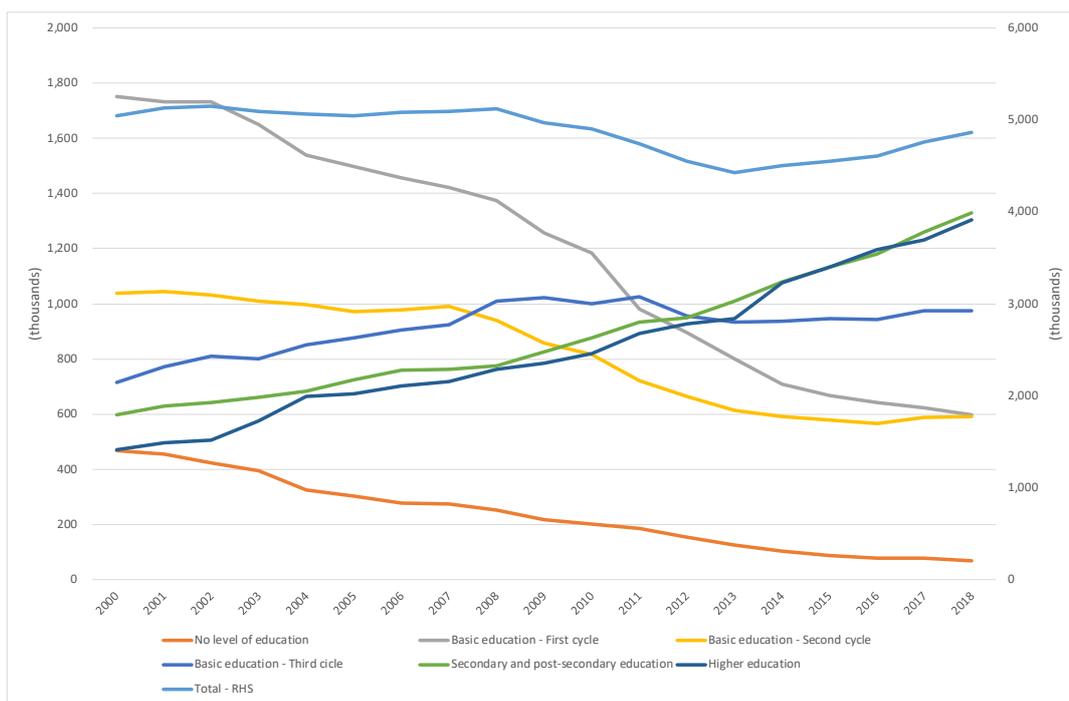
**Figure 29. Labour force by educational attainment, Portugal, 2000–18**



Note: Time series break in 2011.

Source: National Statistical Office.

**Figure 30. Employment by educational attainment, Portugal, 2000–18**



Note: Time series break in 2011.

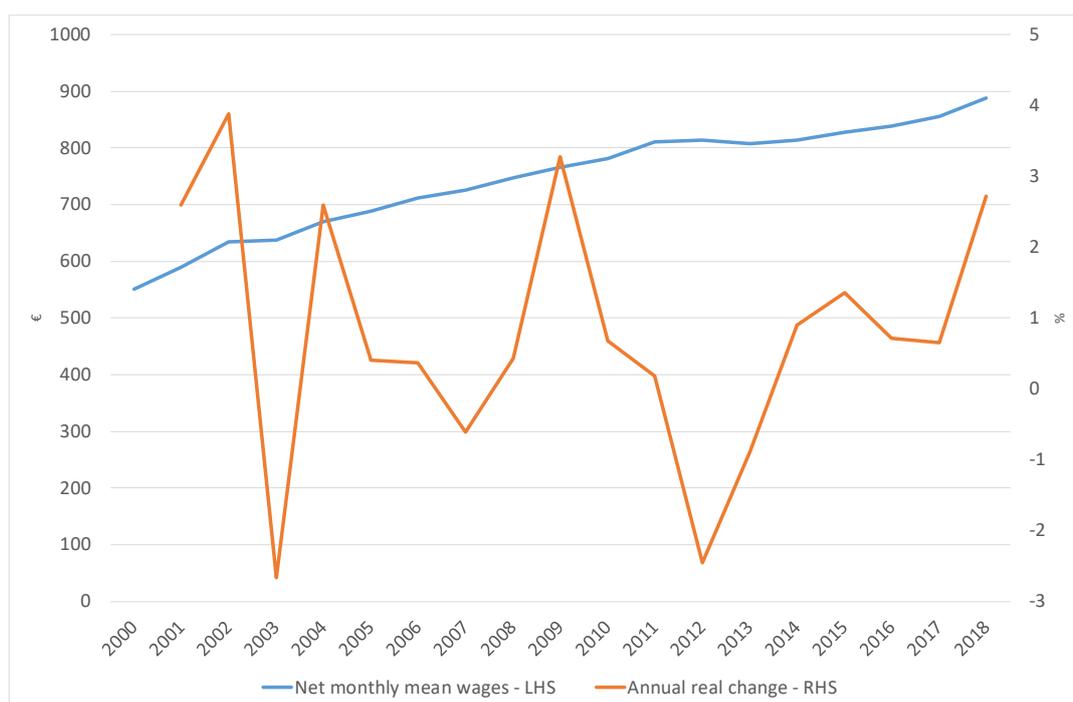
Source: National Statistical Office.

### Evolution of average monthly wages of female and male employees, by occupation and age

The Portuguese economy has long relied on low cost labour as a competitive strength. The structural transformation associated with the upskilling of the labour force has created some pressure to increase wages from their previous very low levels. On average, in 2018 the net monthly mean wage of employees was €888. During the period since the beginning of the century, this indicator has increased by around 61 per cent, a 2.7 per cent annual growth rate (Figure 31). Considering that the average inflation rate in the period was 1.9 per cent this means that on average there was real growth of 0.7 per cent per year.

This overall average growth hides a strong cyclical pattern that can be observed also in Figure 31. As one can see, the annual real growth rate of the average wage exhibits a strong cyclical pattern, with decreases in the years of recession (2003, 2012 and 2013).

**Figure 31. Evolution of net monthly mean wages and real annual change, Portugal, 2000–18**



Note: Time series break in 2011.

Source: National Statistical Office.

In the past 20 years the share of wages in GDP has fallen from 48.14 per cent (2000) to an estimated 44.52 per cent (2018). Between 2016 and 2018, however, this share grew by 0.97 percentage points, partially as a consequence of increases in the minimum wage.<sup>20</sup>

Between 2011 and 2017 nominal wages reported by companies increased by 4.1 per cent, with a higher increase for women (6.5 per cent) than for men (2.7 per cent) (GEP, 2019: 15). However, nominal wages decreased globally, as well as for men, between 2012 and 2014, the years with more severe austerity measures. Wages picked up in 2015, and increased for both sexes, but women’s wages experienced a continuous increase during this whole period (2011–17).

Given that in the recent period many workers passed from inactivity or unemployment to employment who receive, on average, lower wages, it is worth analysing the wage increases of workers who were continuously in the labour market, eliminating the distortion of new entrants, which lowers the average. Social security data show that nominal wages of these workers grew by 4.7 per cent and 3.2 per cent between October 2017 and October 2018 and between October 2018 and April 2019, respectively, which compares with an overall average increase of 2.7 per cent between October 2017 and April 2019 (GEP, 2019: 17).

Analysing the evolution of wages by gender and occupation in more detail, Table 17 and Figure 32 present the evolution of the relative female/male monthly net wage ratios by occupation.

The overall gap between female net wages and male net wages in 2018 is about 15.5 per cent. In all occupations, female workers earn on average less than their male counterparts. The biggest gaps are registered for “service and sales workers”, “plant and machine operators, and assemblers” and the more high-skilled “managers”, whereas the smallest are

<sup>20</sup> National Statistics Office numbers.

found among “clerical support workers”, “skilled agricultural, forestry and fishery workers” and “professionals”.

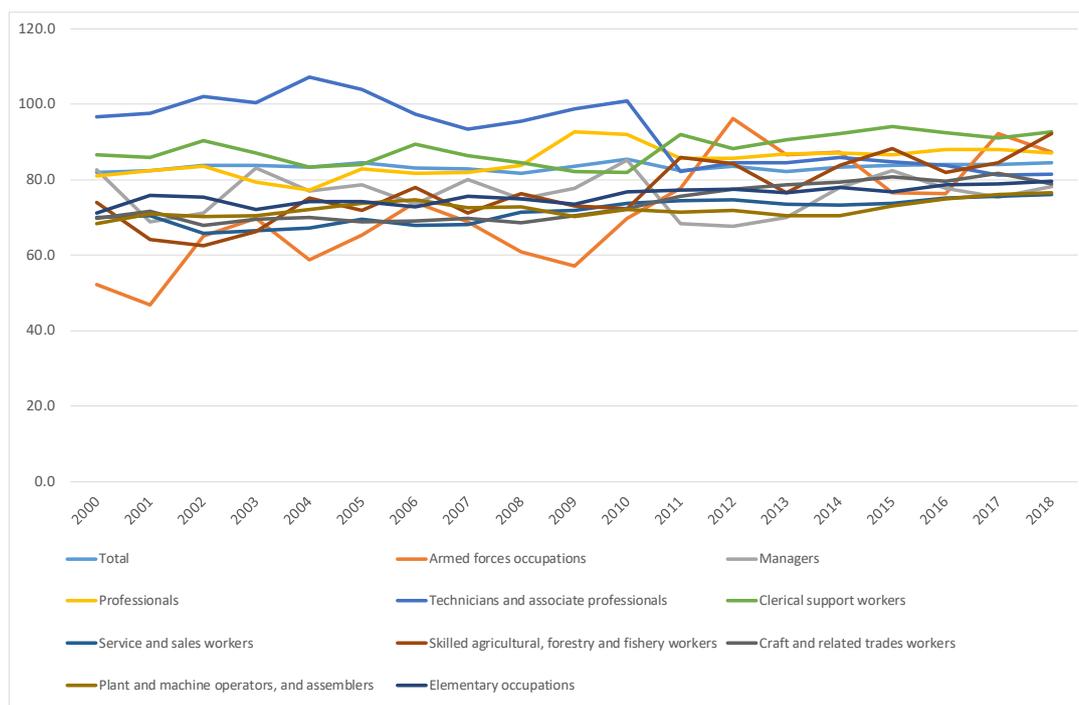
**Table 17. Evolution of the relative female – male monthly net wage ratio by occupation, Portugal**

	Relative female / male net monthly wage ratio by occupation in 2018 (%)	Change of the relative female / male net monthly wage ratio 2000-2018 (p.p.)
Armed forces occupations	87.3	35.1
Managers	78.3	-4.3
Professionals	87.2	6.2
Technicians and associate professionals	81.4	-15.3
Clerical support workers	92.8	6.2
Service and sales workers	76.0	5.9
Skilled agricultural, forestry and fishery workers	92.2	18.1
Craft and related trades workers	79.0	9.2
Plant and machine operators, and assemblers	76.5	8.0
Elementary occupations	79.6	8.3
<b>Total</b>	<b>84.5</b>	<b>2.6</b>

Source: National Statistical Office, Labour Force Survey.

The gaps have closed for almost all occupations, except for “managers” and “technicians and associate professionals”, high-skilled occupations in which, as we have seen, women increased their participation in this period. On average, from 2000 to 2018 the gap reduced by 2.6 percentage points. The occupations for which the gap closed the most were “skilled agricultural, forestry and fishery workers”, “craft and related trades workers” and “elementary occupations”.

**Figure 32. Evolution of the relative female-male net monthly mean wages by occupation, Portugal, 2000–18**



Note: Time series break in 2011.

Source: National Statistical Office, Labour Force Survey.

To analyse the female/male gap by age group one has to use data from the Ministry of Labour. Table 18 presents the relative female/male base wage ratio by age group in 2017 and the evolution of that gap from 2000 to 2017.

As one can see, in 2017 there was a gap for all age groups, but it seemed to be increasing with age, which signals that for the younger cohorts the gap is narrower and may be reduced in future. Since 2000 the gap has reduced for almost all age groups except the two oldest and the youngest. The highest reduction took place for 35 to 44 year olds.

**Table 18. Evolution of the relative female/male base wage ratio by age group, Portugal**

Occupation	Relative female / male net monthly wage ratio by age group in 2017 (%)	Change of the relative female / male net monthly wage ratio by age group 2000-2017 (p.p.)
15-24	89.0	-2.6
25-34	90.6	6.7
35-44	86.1	11.1
45-54	76.9	3.8
55-64	70.5	-0.7
>65y	58.4	-22.9
Total	82.1	4.5

Source: Quadros de Pessoal, Ministry of Labour and Social Security

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## Changes in employment by sectors

In the wake of the structural adjustment of the Portuguese economy there has been a significant redirection of labour flows across sectors.

In order to analyse the evolution of employment by sector to identify which industries have gained or lost importance, presents the average annual growth between 2000 and 2017 of the total number of jobs in each sector, each sector's share of total employment in 2017 and the change in share of each industry between 2000 and 2017.

Overall, during this period employment decreased at an annual rate of 0.3 per cent per year.

The sectors that lost most jobs during this period, with an annual average growth rate below -2 per cent, were "construction", "manufacture of wood and paper products, and printing", "manufacture of textiles, wearing apparel and leather products", "mining and quarrying", "electricity, gas, steam and air-conditioning supply", "manufacture of electrical equipment", "agriculture, forestry and fishing", "manufacture of coke, and refined petroleum products" and "manufacture of rubber and plastics products, and other non-metallic mineral products". Many of these were sectors in which Portugal had specialized, which shows the magnitude of the shock that the Portuguese economy experienced.

By contrast, the sectors that exhibited the best performance during this period, with average annual growth rates above 2 per cent per year, were "computer programming, consultancy and related activities", "information service activities", with an average annual growth rate above 6 per cent, "social work activities", "administrative and support service activities", "advertising and market research", "other professional, scientific and technical activities", "veterinary activities", "accommodation and food service activities" and "arts, entertainment and recreation". In some of these sectors the Portuguese economy has some comparative advantage and has been able to attract foreign investment.

The sectors that during this period reinforced their position in the Portuguese economy, increasing their share in total employment by more than 1 percentage point, were "administrative and support service activities", "accommodation and food service activities", "wholesale and retail trade, repair of motor vehicles and motorcycles", "human health services", "social work activities" and "legal and accounting activities; activities of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis".

**Table 19. Evolution of employment by sector, Portugal**

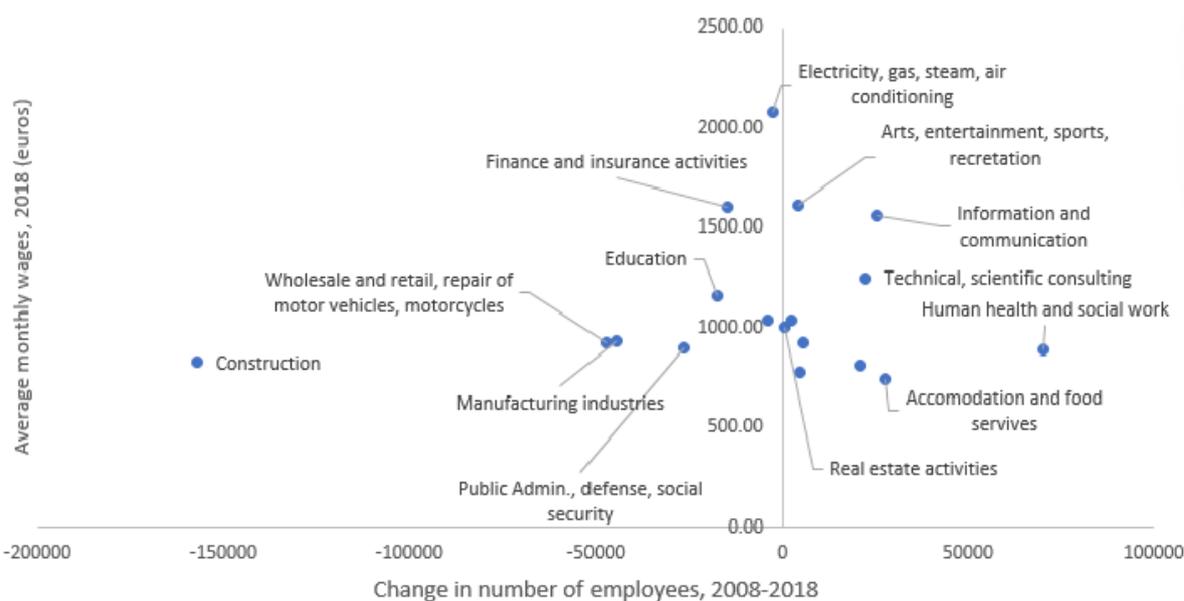
	Average annual growth 2000-17 (%)	Weight 2017 (p.p.)	Change weight 2000-17 (p.p.)
Agriculture, forestry and fishing	-2.6	8.9	-4.5
Mining and quarrying	-2.8	0.2	-0.1
Manufacture of food products, beverages and tobacco products	-0.5	2.1	-0.1
Manufacture of textiles, wearing apparel and leather products	-3.0	4.1	-2.4
Manufacture of wood and paper products, and printing	-3.1	1.1	-0.7
Manufacture of coke, and refined petroleum products	-2.5	0.0	0.0
Manufacture of chemicals and chemical products	-1.4	0.2	-0.1
Manufacture of basic pharmaceutical products and pharmaceutical preparations	-0.2	0.1	0.0
Manufacture of rubber and plastics products, and other non-metallic mineral products	-2.3	1.3	-0.5
Manufacture of basic metals and fabricated metal products, except machinery and equipment	-0.6	1.8	-0.1
Manufacture of computer, electronic and optical products	-1.2	0.2	0.0
Manufacture of electrical equipment	-2.8	0.3	-0.2
Manufacture of machinery and equipment n.e.c	-0.7	0.4	0.0
Manufacture of transport equipment	-1.2	0.9	-0.1
Manufacture of furniture; other manufacturing; repair and installation of machinery and equipment	-0.8	1.5	-0.1
Electricity, gas, steam and air-conditioning supply	-2.8	0.2	-0.1
Water, sewerage, waste management and remediation activities	1.2	0.8	0.2
Construction	-4.0	5.7	-5.1
Wholesale and retail trade, repair of motor vehicles and motorcycles	0.4	14.9	1.6
Transportation and storage	0.9	3.3	0.6
Accommodation and food service activities	2.2	6.7	2.3
Publishing, audio-visuals and broadcasting activities	-1.1	0.4	-0.1
Telecommunications	0.5	0.3	0.0
Computer programming, consultancy and related activities; information service activities	6.1	1.2	0.8
Financial and insurance activities	-1.0	1.6	-0.2
Real estate activities	1.5	1.2	0.3
Legal and accounting activities; activities of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis	1.8	3.8	1.1
Scientific research and development	-0.4	0.2	0.0
Advertising and market research; other professional, scientific and technical activities; veterinary activities	2.3	0.9	0.3
Administrative and support service activities	2.6	8.7	3.4

	Average annual growth 2000-17 (%)	Weight 2017 (p.p.)	Change weight 2000-17 (p.p)
Public administration and defence; compulsory social security	-0.4	5.4	-0.1
Education	0.0	6.6	0.3
Human health services	1.5	5.4	1.4
Social work activities	2.7	3.3	1.3
Arts, entertainment and recreation	2.2	1.4	0.5
Other services activities	1.6	2.8	0.8
Activities of households as employers of domestic personnel and undifferentiated goods and services production of households for own use	-0.9	2.2	-0.2
Total	-0.3		

Source: National Statistical Office, National Accounts.

Finally, looking once again (see section which analyses structural change across main sectors) at the evolution of employment and wages by sector it seems that a substantial proportion of the employment created between 2008 and 2018 was in low pay sectors such as “human health and social work”, “accommodation and food services” and “administrative and support services”. The top-paying sectors decreased or moderately increased employment, with the exception of “information and communication” and “scientific and technical consulting”, which saw more considerable increases. “Information and communication”, however, despite its high relative wages, witnessed one of the lowest increases in monthly wages during this period (1 per cent nominal change). The “construction” sector stands out as a low-pay sector, which reduced its contribution to employment.

**Figure 33. Change in number of employees 2008–18 and average monthly wages in 2018 by sector, Portugal**



Source: National Statistics Office based on “Quadros de Pessoal” -GEP/MTSSS.

## Employment by sector, sex and age

In addition to the distribution of employment by sector, gender distribution within sectors has also changed.

In order to analyse the distribution of employment by sector and by sex, one needs to use data from the Ministry of Labour, namely the Quadros de Pessoal dataset, as the Labour Force Survey does not allow a very detailed analysis. For the sake of comparability, one can only analyse the evolution since 2007, as the classification of economic activities changed that year.

Table 20 presents for each sector the share of female employment in 2017 and the change in that share from 2007 to 2017.

Looking first at the share of female employment, the sectors with a higher incidence of female employment, in which they represent more than 65 per cent of total employment, are “social work activities”, with more than 90 per cent, followed by “human health services”, “education”, “other services activities” and “manufacture of textiles, wearing apparel and leather products”. In contrast, the sectors with a lower incidence of female employment, in which they represent less than 20 per cent of total employment, include, starting from the lowest participation, “construction”, “mining and quarrying”, “electricity, gas, steam and air-conditioning supply”, “manufacture of machinery and equipment n.e.c.”, “manufacture of basic metals and fabricated metal products, except machinery and equipment”, and “transportation and storage”.

**Table 20. Evolution of employment by sector and sex**

	Share of female employment 2017 (%)	Change in the share of female employment 2007-17 (%)
Agriculture, forestry and fishing	8.9	-4.5
Mining and quarrying	0.2	-0.1
Manufacture of food products, beverages and tobacco products	2.1	-0.1
Manufacture of textiles, wearing apparel and leather products	4.1	-2.4
Manufacture of wood and paper products, and printing	1.1	-0.7
Manufacture of coke, and refined petroleum products	0.0	0.0
Manufacture of chemicals and chemical products	0.2	-0.1
Manufacture of basic pharmaceutical products and pharmaceutical preparations	0.1	0.0
Manufacture of rubber and plastics products, and other non-metallic mineral products	1.3	-0.5
Manufacture of basic metals and fabricated metal products, except machinery and equipment	1.8	-0.1
Manufacture of computer, electronic and optical products	0.2	0.0
Manufacture of electrical equipment	0.3	-0.2
Manufacture of machinery and equipment n.e.c	0.4	0.0
Manufacture of transport equipment	0.9	-0.1
Manufacture of furniture; other manufacturing; repair and installation of machinery and equipment	1.5	-0.1

	Share of female employment 2017 (%)	Change in the share of female employment 2007-17 (%)
Electricity, gas, steam and air-conditioning supply	0.2	-0.1
Water, sewerage, waste management and remediation activities	0.8	0.2
Construction	5.7	-5.1
Wholesale and retail trade, repair of motor vehicles and motorcycles	14.9	1.6
Transportation and storage	3.3	0.6
Accommodation and food service activities	6.7	2.3
Publishing, audio-visuals and broadcasting activities	0.4	-0.1
Telecommunications	0.3	0.0
Computer programming, consultancy and related activities; information service activities	1.2	0.8
Financial and insurance activities	1.6	-0.2
Real estate activities	1.2	0.3
Legal and accounting activities; activities of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis	3.8	1.1
Scientific research and development	0.2	0.0
Advertising and market research; other professional, scientific and technical activities; veterinary activities	0.9	0.3
Administrative and support service activities	8.7	3.4
Public administration and defence; compulsory social security	5.4	-0.1
Education	6.6	0.3
Human health services	5.4	1.4
Social work activities	3.3	1.3
Arts, entertainment and recreation	1.4	0.5
Other services activities	2.8	0.8
Activities of households as employers of domestic personnel and undifferentiated goods and services production of households for own use	2.2	-0.2
<b>Total</b>	<b>47.0</b>	<b>3.2</b>

Source: Quadros de Pessoal, Ministry of Labour and Social Security.

The highest increases in the share of female employment from 2007 to 2017 were in “financial and insurance activities”, “activities of households as employers of domestic personnel and undifferentiated goods and services production of households for own use”, “real estate activities” and “electricity, gas, steam and air-conditioning supply”. In the opposite direction, the proportion of female employment fell in sectors such as “public administration and defence, compulsory social security”, “agriculture, forestry and fishing”, “manufacture of textiles, wearing apparel and leather products”, and “accommodation and food service activities”.

Different sectors have also exhibited different abilities to attract and absorb workers from different age groups.

Analysing the distribution of employment by sector and age group, using the same Ministry of Labour dataset, Table 21 presents the share and evolution of employment for the 55–64 age group by sector. The sectors included are those with a higher incidence of employees in this age group, who face increasing challenges as they approach retirement age, when it is more difficult to re-enter the labour market after spells of unemployment. The distribution and evolution of the younger age groups, which are also a strong concern, will be analysed in the last section of this working paper.

Regarding this age group, it is important to note a strong presence in sectors that have registered a decline in employment, such as “electricity, gas, steam and air-conditioning supply” and “agriculture, forestry and fishing“, the latter as a result of the structural transformation of the economy (see above). The exception is “social work activities”, in which these workers account for 18.4 per cent of total employment. This sector has been expanding and is expected to continue to expand in the coming decades because of population ageing.

**Table 21. Evolution of employment in the 55–64 age group by sector, Portugal**

	<b>% 55-64 2017</b>	<b>% Δ 55-64 2007-2017</b>	<b>Avg. annual growth of employment 2000-2017</b>
Electricity, gas, steam and air-conditioning supply	34.6	19.4	-3.0
Manufacture of coke, and refined petroleum products	21.3	5.5	-2.8
Agriculture, forestry and fishing	18.5	2.4	-3.1
Social work activities	18.4	7.1	2.6
Mining and quarrying	17.5	5.2	-2.7
Transportation and storage	16.4	3.8	0.8

Source: Quadros de Pessoal, Ministry of Labour and Social Security.



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## Social developments

This section discusses how the economic adjustment of recent decades benefitted from, and went hand-in-hand with, institutions that ensured social cohesion and restrained more severe processes of exclusion. In this regard, one might mention the development of social protection schemes in terms of coverage of beneficiaries, coverage of risks and adequacy of protection, which had an impact on poverty and inequality reduction, while also benefitting and involving medium- and upper-income groups.

The most vulnerable were increasingly protected, with the exception of the period when the international crisis had a strong impact on the labour market and, more specifically, during the financial assistance programme, when the toughest austerity measures were put in place. As the impact of cutbacks in social expenditure during this exceptional period shows, positive developments in improving families' disposable income not only affects their well-being but also has economic consequences by stabilising and boosting demand. The austerity years also revealed the importance of other inclusive institutions, such as the Constitutional Court, which acted as a brake on more extreme austerity measures, minimizing the impact on workers, pensioners and their families.

Finally, the substantial public investment in education had a major impact on the labour market, supported the transformation and upgrading of the economy and allowed for greater social mobility. Investment in other public services, such as universal and accessible public health care, also contributed to enhancing or maintaining living standards, even at times of crisis when unemployment reached very high levels.

## Social protection

The Portuguese welfare state developed and matured later than in most other European countries as a consequence of the long period of dictatorship that ended in 1974. Portugal ceased to be a predominantly rural, traditional and emigration country, with low levels of educational attainment and lagging behind as regards the development of basic institutions, relative to most EU countries, and began to develop into an open country, with a modern economy, notwithstanding some fragilities, and developed institutions.

The decades of democratization have expanded the coverage and generosity of the Portuguese social protection system, greatly influenced by “Social Europe” and the innovative solutions adopted by other member states (Silva, 2011). The combination of guaranteed new rights and new social entitlements as the social security system has matured, as a consequence of positive transformation of the labour market – in the form of productivity and wage gains, as well as increased formal employment – have led to a continuous increase in social expenditure and coverage. This evolution has had a strong impact on raising living conditions, particularly for lower income families.

**Table 22. Evolution of the beneficiaries of some of the main social protection benefits, Portugal**

	1946	1968	1976	1979	1982	1997	2006	2008	2018
Old-age and invalidity pensions	6 746		485 578						2 215 649
Survival pensions	8 818				233 746				711 744
Unemployment subsidies				39 216					367 519
Maternity subsidies/parental leave subsidies		21 472						82 381	172 534
Social Insertion Income						116 835			282 195
Solidarity supplement for the elderly							18 480		177 335

Source: Social Security website ([www.segsocial.pt](http://www.segsocial.pt)) and "Social Security Statistics" brochure celebrating 100 years of the Ministry of Labour prepared by the Cabinet of Strategy and Planning (<http://www.gep.mtsss.gov.pt>)

As Table 22 shows, pension coverage grew significantly and there are now four times the number of pensioners as in the first years of democracy. A significant increase in coverage can also be observed in parental benefits and also unemployment benefits. The last and most significant benefits to be launched – the social insertion benefit in 1996 and the solidarity supplement for the elderly in 2006 – were different in nature. These were minimum income schemes targeted at poverty alleviation and strongly means-tested. The latter was directed at old-age recipients, while the former targeted children and the working age population. These new measures that expanded coverage and rights were nevertheless highly targeted and were balanced by important reforms to strengthen the financial sustainability of the social security system, put in place between 2001 and 2007, which introduced substantial changes to pension calculation formulas, among other things.

Data on poverty rates before and after social transfers show the effectiveness of social expenditure in reducing poverty levels, especially among the older cohorts (Tables 22 and 23).

Portugal has a substantial share of low-income pensioners whose income largely derives from low or residual pensions as a result of the low wages and weak contribution records typical of that generation. More than half (58 per cent) of the old-age and invalidity pensions paid out by the General Social Security Authority in December 2017 represented monthly instalments in the interval 264.32–421.32 euros (IGFSS, 2018).<sup>21</sup>

**Table 23. At-risk-of-poverty rate – whole population, Portugal (Percentages)**

	Before social transfers	After pensions	After social transfers	Change before/after social transfers (p.p.)
1995	37.0	27.0	21.0	16.0pp
2005	40.2	25.1	18.5	21.7pp
2015	46.1	25.0	19.0	27.1pp
2018	43.4*	22.7*	17.2*	26.2pp*

Note: \* Provisional.

Source: Pordata.pt based on Eurostat (up to 2000) and INE (from 2001 on), accessed 2/1/2020.

<sup>21</sup> This does not include the civil servants' system, which is more generous in terms of its pension calculation formula. However, this regime has been closed to new entrants since 2006, and is being phased out.

**Table 24. At-risk-of-poverty rate – 65+ years, Portugal (Percentages)**

	Before social transfers	After social transfers	Change before-after s.t. (p.p.)
2005	83.5	26.1	57.4
2015	89.8	18.3	71.5
2018	88.8	17.3	71.5

Note: \* Provisional.

Source: Pordata.pt based on Eurostat (up to 2000) and INE (from 2001 on), accessed 2/1/2020.

The data show how social transfers and, in particular, pensions, have played an important role in reducing both inequalities and poverty levels, in Portugal, especially among the elderly (Table 22 and 23). The last year available (2018) shows that pensions reduced the Gini coefficient by 24.4 percentage points. All in all, Gini after social transfers was reduced by 6 percentage points between 2005 and 2018.

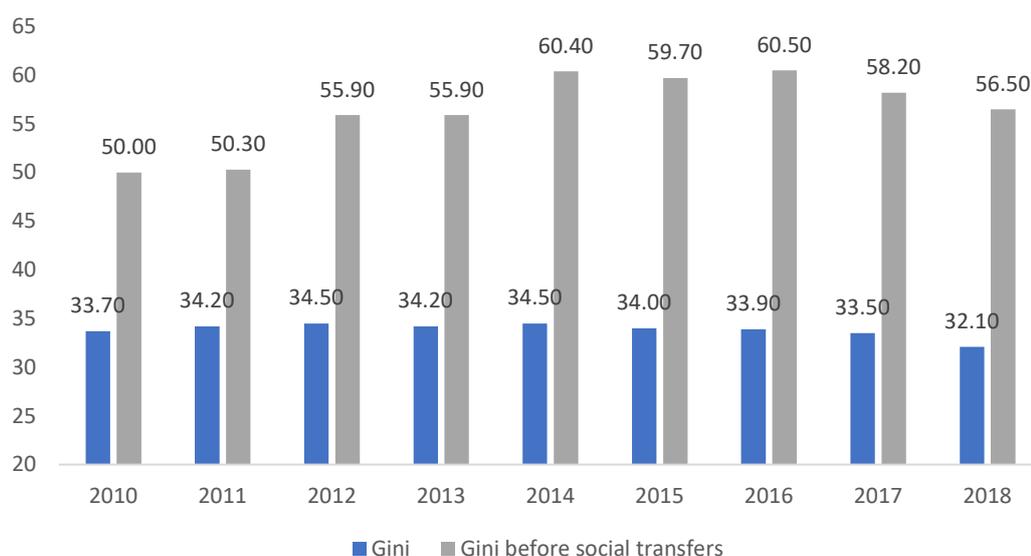
**Table 25. Gini coefficient of equalized disposable income, Portugal**

	Before social transfers	After pensions	After social transfers	Change before/after social transfers (p.p.)
2005	51.2	41.3	38.1	13.1
2015	59.7	37.8	34.0	25.7
2018	56.5	35.2	32.1	24.4

Source: Eurostat, accessed 2/1/2020.

In recent years, despite a certain stability of the Gini coefficient over time, its amount before social transfers has increased, revealing growing inequality at the level of wages and other sources of income, especially from 2010 onwards (Figure 34), strengthening the role played by these transfers, mainly pensions. However, it is important to underline that despite a positive trend in recent decades, Gini levels remain well above the EU average and pension levels remain quite low in Portugal, as mentioned above.

**Figure 34. Gini coefficient, 2010–18, Portugal**



Source: Eurostat.

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Despite the positive evolution of poverty levels and inequality indicators, it is important to stress that the Portuguese social protection system, like others around the globe, can be viewed as an historical innovation and a highly effective political instrument. Not only because of its ability to protect the most vulnerable and deal with the most severe situations of poverty, but also because it integrates and protects all, in particular the middle classes, which is key to social cohesion. Moreover, as we have seen, it redistributes resources across the lifecycle, while stabilizing the economy by mitigating the effects of economic cycles on families' disposable incomes and on critical macroeconomic variables, such as consumption (Silva and Pereira, 2016, pp. 83). Thus, the development of the social protection system has been key to ensuring social sustainability, which has supported economic transformation and adjustment.

## **Crisis and the austerity years**

During the years up to the economic recession the EU exerted positive external pressure on Portugal, a country with a strong European legacy in domestic policy, promoting the expansion of social rights and widening risk coverage, even if only through symbolic and ideological influence (Silva, 2011). The economic and financial crisis after the turn of the millennium, however, led to a change, rearranging and redirecting external pressure concerning social policy. The so-called “troika” of the ECB, the European Commission and the IMF increasingly interfered in areas in which member states' actions and decision-making had traditionally been protected from European regulation (for example, pension policies, wage policies, collective bargaining).

The first years of the response to the sovereign debt crisis, in Portugal, as well as in other EU countries, however, saw growth in social expenditure as a result of increased demand for social protection. This included unemployment protection and minimum income schemes for poverty alleviation, as well as exceptional measures to protect those most affected by the crisis. For example, the duration of unemployment social assistance benefits was increased, access to unemployment benefits was made more flexible and unemployed single parents were given a top-up. The social protection system acted as an important mechanism of economic stabilization, allowing the “automatic stabilizers” to function and avoiding more severe cuts in families' disposable income, following the fall in market incomes and, as a consequence, avoiding a more significant decline in private consumption.

In 2010, expenditure was stabilized and in 2011 a downward adjustment was observed in most EU member states, with Portugal among the countries in which the most significant declines were observed in both 2011 and 2012, despite a rise in unemployment.<sup>22</sup> In Europe, the scope of this adjustment was significantly larger in comparison with past periods of economic under-performance and reveals a weakening of the economic automatic stabilization function of social protection systems, with signs that they were actually procyclical in 2012 (Bontout and Lokajickova, 2013).

In Portugal, the poverty rate that had, since the outset of the crisis, remained rather stable, and had even decreased between 2010 and 2011 because of the effect of automatic stabilizers and a decrease in the median income, started to increase from 2011 to 2014, affecting in particular families with children, as a result, among other factors, of cuts in social benefits.

The shift in the external pressure over the social policy domain was brought about by the exceptional circumstances of the Economic and Financial Assistance Programme (EFAP) in Portugal, but started even before the signing of the MoU, with changes at the

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<sup>22</sup> The monthly unemployment rate in Portugal reached an historical peak (17.9 per cent) in January 2013.

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level of European governance. This included the strengthening of economic policy coordination and macroeconomic and budgetary surveillance that resulted from the approval of the European Semester in 2011; the legislative measures referred to as the ‘Six Pack’ and the ‘Two Pack’, which strengthened several dimensions of the Growth and Stability Pact (GSP), as well as the provisions of the Fiscal Compact.

In the particular context of the EFAP social expenditure was put in renewed focus, becoming part of a portion of public spending that could be mobilized for the short-term objectives of fiscal consolidation (Box 2). At a time when these automatic stabilizers were still deemed necessary, the budgetary targets stemming from the GSP<sup>23</sup> and the specific conditionality of the EFAP forced a reduction in social spending, which worsened households’ financial circumstances and, it can be argued, led to a slowdown in the economic recovery (Silva e Pereira, 2017).

In contrast to what happened to other EU countries, and even those under financial assistance, cuts in non-pension benefits were particularly harsh on the lower income deciles in Portugal and harshest of all on the first decile (Bontout and Lokajickova, 2013: 35). In this sense, the low income groups were not sufficiently protected during the austerity years and poverty incidence and intensity, in particular, increased, especially in households with children – child poverty reached an historic peak in 2013 – while the older cohorts were comparatively more protected (Rodrigues et al., 2016).

From 2010 onwards, living conditions and incomes started deteriorating in Portugal, interrupting the positive trend that can be observed in most social indicators. As the poverty line fell with the decrease in median income – which declined in Portugal from 2010 to 2013 – it is helpful to look at the behaviour of the anchored poverty rate. According to Eurostat data, the at-risk-of-poverty rate, anchored in 2008, increased from 16.1 per cent in 2010 to 23.9 per cent in 2014. The main reasons for this change were the rise in unemployment, as a result of the financial and economic crisis, combined with cuts in social transfers during the troika years.

The Constitutional Court, however, acted as a source of social stability, preventing harsher austerity measures and forcing the reversal of certain measures with impacts on pensioners’ and workers’ incomes (Box 2).

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<sup>23</sup> GSP I and III were particularly harsh. They included measures such as the freezing of pension levels and other social benefits, the reduction of expenditure on non-contributory social benefits and an extraordinary cut in higher pensions (“extraordinary solidarity contribution”). The coverage of the latter was to be greatly enlarged during revisions of the MoU.

### **Box 2. The Memorandum of Understanding between Portugal and the international institutions**

Between May 2011 and May 2014 Portugal, hard hit by the sovereign debt crisis and in need of financial assistance, was placed under a Financial and Economic Assistance Programme, which resulted from negotiations between the Portuguese Government and the European Commission, the IMF and the ECB (the so-called “Troika”). This Programme took the form of a Memorandum of Understanding (MoU) with these entities, which was revised and updated every three months with each external evaluation.

The design of the MoU, and its successive versions during the years of implementation, mobilized social policies towards two distinct objectives: fiscal consolidation and the correction of structural imbalances perceived as obstacles to competitiveness and stronger economic growth. At the beginning the diagnosis of growth and competitiveness deficits centred on structural bottlenecks, which included labour market rigidities (comprising, among others, severance payments, criteria for dismissals, collective bargaining rules, flexibility of working time arrangements), a perceived excessive generosity of unemployment protection that could be responsible for promoting long-term unemployment and issues related to the alignment of wages with productivity. In this context, internal devaluation was one of the strategies identified as critical to improving economic competitiveness. The value of labour was reduced by direct and indirect means: the national minimum wage was not updated; four national public holidays were eliminated, as well as three days of annual holiday leave; public sector wages were subject to cuts; career progressions and promotions were suspended in public administration; and overtime pay was reduced, among other things. The implementation of reforms towards the reduction of labour market segmentation was also envisaged, although the proposed measures were mainly centred on reducing the protection of permanent contracts, namely dismissal costs and procedures.

Though less salient, the initial MoU with the Troika also detailed a set of fiscal consolidation measures affecting social spending, which included pension cuts, greater coverage of means-testing, increased targeting and savings from changes in unemployment benefits. Moreover, the MoU also proposed increased tax revenues by subjecting social security benefits to personal income taxes.

With the successive revisions and evaluations of the MoU, measures to reduce pension expenditure and other social spending gained prominence. This can be at least partly explained by the fact that the austerity measures and the frontloading strategy adopted in the State Budget of 2012 had a greater recessive effect than anticipated – all forecasts for GDP growth, deficit and debt failed by a significant margin and the unemployment rate verified between 2011 and 2013 was twice the level that had been estimated.

In 2012 it was the IMF that recognized problems with its forecasts, in particular regarding short-term GDP multipliers. These were considered to have been underestimated in economies such as Portugal's that had carried out “more aggressive fiscal consolidation plans” (IMF, 2012:1, 41–43). This same year, the negative impact of austerity measures on the economy and employment, and also on state revenues, was first recognised in the fifth revision of the MoU. The successive deviations from targets originally set out in the MoU implied that additional measures would come to be required to reach the targets of fiscal consolidation. These new measures fell largely on pensioners, civil servants and particularly vulnerable sectors of society.

A singularity of the Portuguese case was that the Constitutional Court acted as a veto point, ruling against several norms of State Budgets that had a significant impact on households' social conditions, especially pensioners. In 2012 and 2013, it ruled against cuts in holiday subsidies for pensioners (summer and Christmas holiday subsidies, 13th and 14th month of pension benefits, respectively).

In 2014 after the end of the assistance programme, the government asked the Constitutional Court for a prior review of the constitutionality of its proposal to permanently cut pensions above €1,000, a measure that was expected to yield savings of €372 million in 2015. Once again, by invoking the constitutional principles of equality (of burden sharing) and the protection of trust (in anticipatable behaviour on the part of the administration), the judges ruled against these cuts, forcing the government to give back to pensioners payments cut in 2016. The rulings were also based on the understanding that the measures were not part of a comprehensive structural reform (Silva and Pereira, 2017).

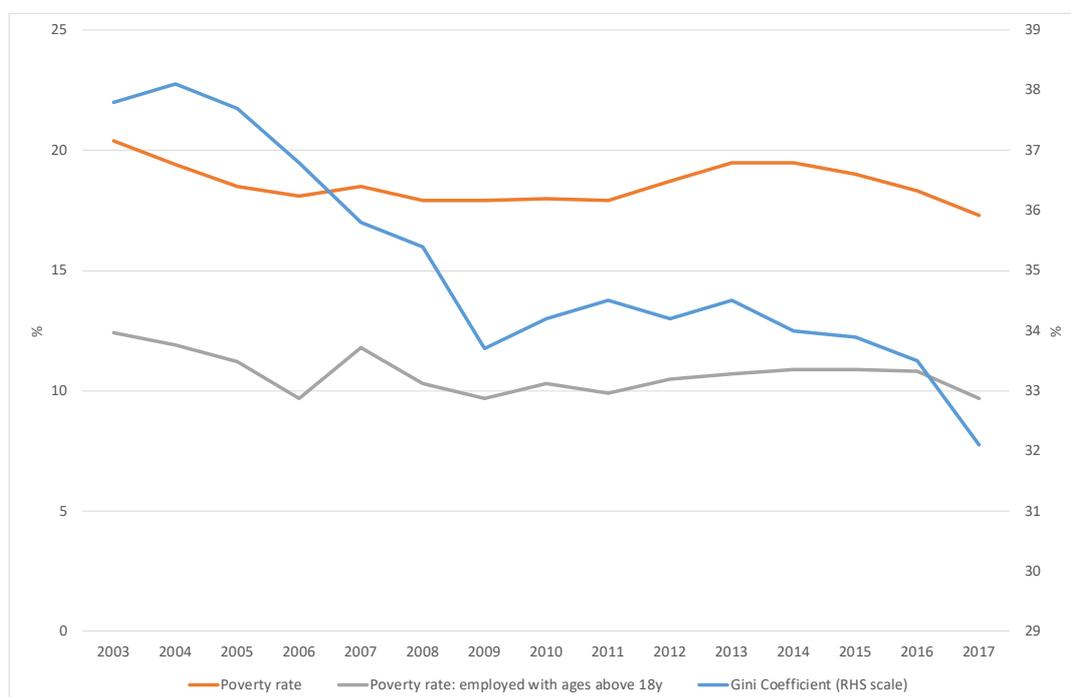
The successive deviations from targets originally set out in the MoU implied that additional measures would come to be required to reach the targets of fiscal consolidation. These new measures fell largely on pensioners, civil servants and particularly vulnerable sectors of society.

## **Long-term evolution of poverty and inequality indicators**

As regards long-term trends in poverty, the working poverty rate (SDG indicator 1.1.1), and the Gini coefficient, Figure 35 indicates that during the period 2003–17 these indicators

exhibited a global downward trend, which was interrupted only during the most severe period of the recent crisis, in which these indicators increased slightly.

**Figure 35. Poverty rates and Gini coefficient**



Source: National Statistical Office, Income and living conditions.

Both the poverty rate and the in-work poverty rate have declined by about three percentage points since 2003 to, respectively 17.3 per cent and 9.7 per cent in 2017, whereas the Gini coefficient declined by almost 6 percentage points during the same period, to 32.1 per cent, nevertheless remaining high and above the EU average. However, the reduction of the in-work poverty rate occurred mainly in the years prior to the outset of the crisis and in the period 2007–09 due to the reduction of employment among people with weaker ties to the labour market and, on average, less well paid. In the meantime it has remained fairly stable. This shows that, despite the recovery in the labour market – namely in terms of job creation – poor job quality persists in terms of level and stability of earnings, as well as the possibility of full-time work, which is not accessible to all, as we shall see further on.

As already mentioned, the severe downturn after 2008, coupled with cuts in social spending affecting the lower income deciles – namely in poverty-targeted social transfers – caused the poverty rate to increase by almost two percentage points and the working poverty rate to rise by 1.3 percentage points, whereas the Gini coefficient increased by less than 1 percentage points, interrupting a period of continuous reduction of income inequalities. Household disposable income dropped, in real terms, by more than 12 per cent during the period 2009–14, particularly in the first income decile, where the reduction was the most striking (25.1 per cent). As a consequence, the S90/S10 ratio also increased in this period, from 9.2 to 10.6.

Given the link between wages and overall income inequality, it is relevant to stress that between 2009 and 2014 the equivalised gross monthly wages were reduced by 6 per cent. However, the scope of this reduction was more significant in the first decile (–14.7 per cent) and in the first half of the income distribution. Evidence also shows that younger workers (under 25), on average more qualified than the remaining labour force, were subject to a stronger reduction in wages during this period (–31 per cent). Contrary to what happened in the past, a university degree did not protect young workers against low wage levels (Rodrigues et al., 2016). This, coupled with a high differential between wages in Portugal

and in most other EU countries, can explain the wave of emigration, which reached its peak in 2013–14 and affected in particular young workers aged 20–29.<sup>24</sup>

**Table 26. Permanent and temporary emigration, Portugal (total and 20–29 years)**

	Total permanent emigration	20–29 years, %	Total temporary emigration	20–29 years, %
2011	43 998	28%	56 980	29%
2012	51 958	42%	69 460	30%
2013	53 786	35%	74 322	29%
2014	49 572	34%	85 052	37%
2015	31 600	34%	50 154	33%

Source: [www.pordata.pt](http://www.pordata.pt)

In recent years, the recovery of the economy, which brought down the unemployment rate by more than 50 per cent (from 16.2 per cent in 2013 to 7 per cent in 2018), and the reversal of cuts in means-tested and poverty-targeted social transfers, as well as the expansion of child benefits and an update of pension levels, started to have a positive effect on the poverty and inequality indicators. However, high levels of income inequality remain a challenge for Portugal and the level of working poor has remained fairly stable in the past decade, at around 10 per cent. The latest data show that it remains above pre-crisis levels (9.6 per cent in 2018 compared with 9.3 per cent in 2007).

Given the high segmentation of the Portuguese labour market, it is relevant to note that the in-work at-risk-of-poverty rate is currently nearly twice as high for those on temporary contracts as for those with permanent ones. Moreover, part-time workers are more than three times more likely to be at risk of poverty, compared with full-time workers (Table 31). This is a particular source of concern because a large share of part-time employment is involuntary in Portugal – 45.2 per cent in 2018 compared with an EU28 average of 24.8 per cent for those aged 15–64 (Eurostat, 2018 numbers). In this sense, type of contract, intensity of work, as well as household composition, especially single parents, are strong determinants of poverty risk in Portugal, which remains high and above the EU average, despite positive developments in recent years.

**Table 27. In-work at-risk-of-poverty rate by working time and type of contract, Portugal, 2018**

	2018
Part-time workers	29.2%
Full-time workers	8.5%
Employees with a permanent job	6.3%
Employees with a permanent job	11.7%

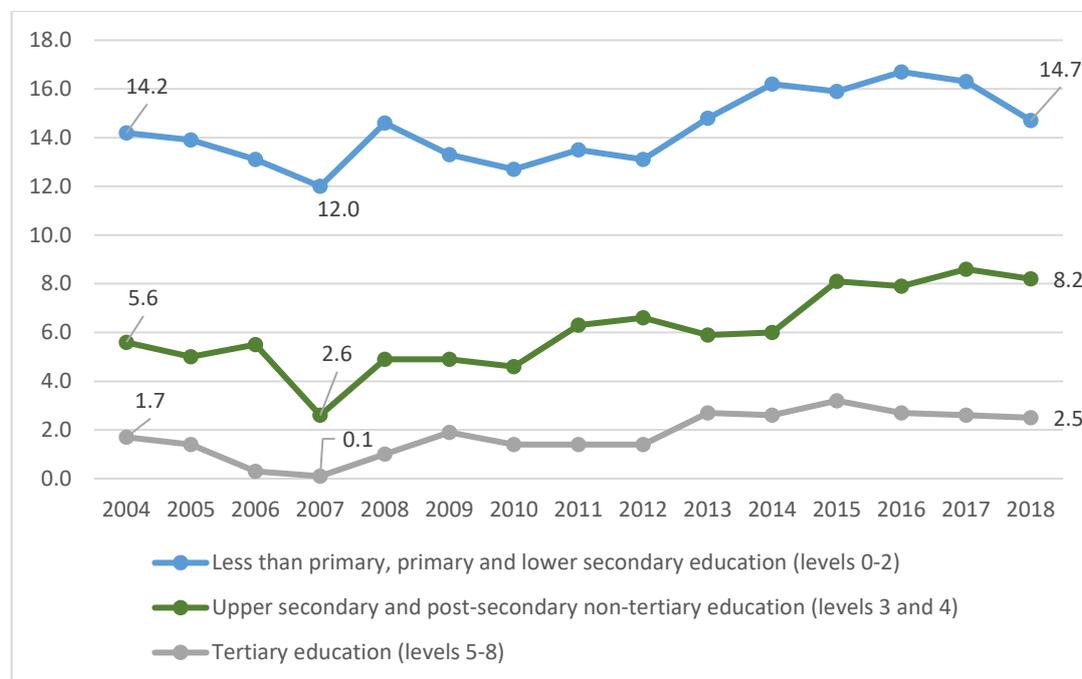
Source: Eurostat, EU-SILC survey.

The at-risk-of-poverty rate also varies with educational attainment and, as expected, is higher for less qualified workers. Given the reduction in the education premium in Portugal

<sup>24</sup> In 2019, a new policy programme “*Regressar*” was launched by the Government in an attempt to bring back, through financial and tax incentives, some of the Portuguese workers who had emigrated in past years. The programme was also intended to help companies in some sectors face certain skill shortages.

in the past decade,<sup>25</sup> however, it is relevant to look closer at how the poverty rate has evolved according to level of educational attainment. Figure 36 shows that this risk has grown significantly, in relative terms, for those with tertiary education: it was as low as 0.1 per cent in 2007 and the latest numbers point towards a rate of 2.5 per cent. A high increase can also be seen for workers with upper secondary and post-secondary education.

**Figure 36. In-work at-risk-of-poverty rate by educational attainment, Portugal, 2004–18**



Source: Eurostat.

## Public services for inclusive growth

Quality public services in Portugal, such as health care and education, are available to all residents, funded by general taxation and made available in exchange for very small contributions, or free for certain groups, such as the young and the old, those on low incomes, pregnant women and the registered unemployed, among others (in the case of the national health service). The accessibility of public health and education is protected by the Constitution, in which “universal, compulsory and free of charge” basic education and “universal, comprehensive and tending-towards-free” health services are enshrined.

This has ensured that, even at times of economic downturn, these services have contributed to the maintenance of living standards for the population as a whole.

Portugal ranks thirteenth in the “Euro Health Consumer Index 2018”, which evaluates health services across 35 European countries from the perspective of the consumer. The data reveal a continuous improvement in Portugal, the best score since this index was first calculated (2006). Life expectancy at birth, which can also give evidence of the quality of health care, grew from 66.7 in 1970, below the OECD36 average, to 81.5 in 2017, above the OECD36 average (OECD, 2019).

<sup>25</sup> The private returns to tertiary education, after increasing in the 1980s and 1990s in Portugal, in parallel with an expansion in the number of those holding a university degree, started to stabilize in the late 1990s and 2000s. From 2009 onwards, it has declined (Campos and Reis, 2017).

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Recent decades have also been marked by a strong government commitment to address the low qualifications of the Portuguese population, which is key to structural transformation and the modernization and upgrading of the economy, but also viewed as a cornerstone of social mobility and equality of opportunities in a country with significant asymmetries.

Strong public investment has been directed at strengthening the quality of public education, increasing educational attainment and reducing dropout rates, while democratising access and ensuring inclusive education opportunities for all students. Two of the most relevant policy changes in the past decade were the extension of compulsory education from 9 to 12 years, in 2009, and the more recent extension of the coverage of universal pre-primary school, in a phased manner, to start at three years of age.

Not only has coverage been continuously increasing, and is close to being universal, but a sustained improvement in PISA (“Programme for International Student Assessment”) results can be observed. The latest international assessment placed Portugal above the OECD average in literacy, mathematics and science. According to the OECD “Portugal is one of the few countries with a positive trajectory of improvement in all three subjects”.<sup>26</sup>

If we compare educational attainment levels between sons and daughters with those of their fathers, 21.7 per cent of those born in the 1960s obtained higher qualifications than their fathers, while for those born between 1970 and 1985 this percentage jumps to 40.6 per cent (Bago d’Uva and Fernandes, 2017). This shows a significant decrease in the social reproduction of education levels, with implications for wages and income distribution.

Quality public services, while reducing inequalities and fostering social mobility, also help to raise disposable income for families and thus to increase their wellbeing.

It should be pointed out, however, that in a context of accelerated population ageing, Portugal faces increasing pressure over the financial sustainability of the national health service, due to growing demand for long-term care and treatment, coupled with health care cost inflation. The balance between maintaining quality health services and ensuring financial sustainability is currently an increasing challenge for the management of public finances.

This shows that, despite a strong structural adjustment, Portugal has been able to improve its social safety net, allowing it to cushion the harsher effects of the crisis that hit the country.

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<sup>26</sup> Country note of the latest PISA survey is available at:  
[https://www.oecd.org/pisa/publications/PISA2018\\_CN\\_PRT.pdf](https://www.oecd.org/pisa/publications/PISA2018_CN_PRT.pdf)

## Engaging young people in the labour market: NEETs

During periods of strong adjustment, it is important to pay attention to whether specific groups bear an uneven part of the adjustment costs and face risks of exclusion. In spite of measures taken throughout the years to fight this, the Portuguese labour market is known for a high level of segmentation with a dual structure. There is a first tier in the market that benefits from a strong protection and a second tier that faces a higher volatility of labour relations with implications in incentives for human capital investments and personal decisions such as family formation or child bearing.

One of the groups that deserves attention when analysing the evolution of the labour market is the situation of youth. Most research highlights that young people can deal relatively well with short spells of unemployment but long-term disengagement erodes skills and may have a scarring effect on future labour market participation as well as earnings over the life course and thus may lead to social exclusion for those affected.

Considering this, it is very important to analyse the situation of youth in the labour market and namely the situation of the specific group of those youth aged 15–34 years not in education, employment or training, the NEET group.

In fact, young people struggle in the labour market despite being the most highly educated generation in Portuguese history. Unemployment is generally higher among young people than among prime age adults, and those who do work tend to have poorer-quality jobs and are much more likely to be on temporary contracts or to earn low wages than older workers are. For this reason, and as we have seen in previous sections, young people are particularly vulnerable in times of crisis because adjustments to drops in demand and production fall firstly on those with weaker ties to the labour market.

Table 28 allows us to analyse the sectors that employ larger shares of younger workers and see how these have been evolving in terms of employment creation. It also shows the shifts in the share of the two age groups (15–24 and 25–34 years of age) within these sectors.

**Table 28. Evolution of employment by sector and age group within sectors, Portugal**

	2007 %	%Δ 2007-17	Average annual growth of employment 2000-17
<b>15–24 years of age</b>			
Accommodation and food service activities	15.3	–0.1	1.9
Administrative and support service activities	13.6	–2.3	2.7
Wholesale and retail trade, repair of motor vehicles and motorcycles	10.5	–3.0	0.3
Arts, entertainment and recreation	9.6	–1.9	1.8
Manufacture of textiles, wearing apparel and leather products	8.8	–2.6	–2.9

	2007 %	%Δ 2007-17	Average annual growth of employment 2000-17
<b>25–34 years of age</b>			
Computer programming, consultancy and related activities; information service activities	42.1	–12.9	6.3
Advertising and market research; other professional, scientific and technical activities; veterinary activities	34.2	–10.9	2.0
Human health services	32.7	–6.7	1.4
Scientific research and development	31.8	–13.7	–0.2
Manufacture of basic pharmaceutical products and pharmaceutical preparations	28.4	–7.6	–0.1

Source: Quadros de Pessoal, Ministry of Labour and Social Security.

The sectors with a higher incidence of younger workers are computer programming, consultancy and related activities, and information service activities, which reflects the higher digital skills of young entrants to the labour market, followed by advertising and market research, other professional, scientific and technical activities, and veterinary activities. The top five sectors with a higher incidence of 25–34 year-olds are high qualification sectors, but in all five the share of this age group has been declining, even in sectors with above average employment growth, over the past couple of decades, including computer programming, consultancy and related activities, and information service activities. This may be partially explained by the strong segmentation of the labour market, which unequally protects those already established in it, mostly older workers, and makes it more difficult for younger workers to access permanent positions.

The weak or negative growth of human health services, scientific research and development, and manufacture of basic pharmaceutical products and pharmaceutical preparations, in which young workers represent a large share of the workforce shows the challenges young qualified professionals have been facing in finding job opportunities and, as a consequence, corresponds to areas of specialization that have witnessed significant emigration, especially in the more acute period of the crisis, raising concerns about a brain drain.

The youngest age group, as expected given the below average qualifications, has a higher incidence in less qualified sectors, such as accommodation and food service activities, administrative and support service activities, and wholesale and retail trade, repair of motor vehicles and motorcycles. In these sectors, the share of this age group has been declining, although employment has grown more in these sectors than in the rest of the economy (on average).

In the following sections, we identify the key characteristics of the different NEET subgroups in Portugal, quantify their size and analyse the determinants of belonging to them. We also identify the policies that have been put in place to address the challenge of youth employment and, in particular, those that promote labour market integration and productive employment for young NEETs.

## Characterization of NEET population

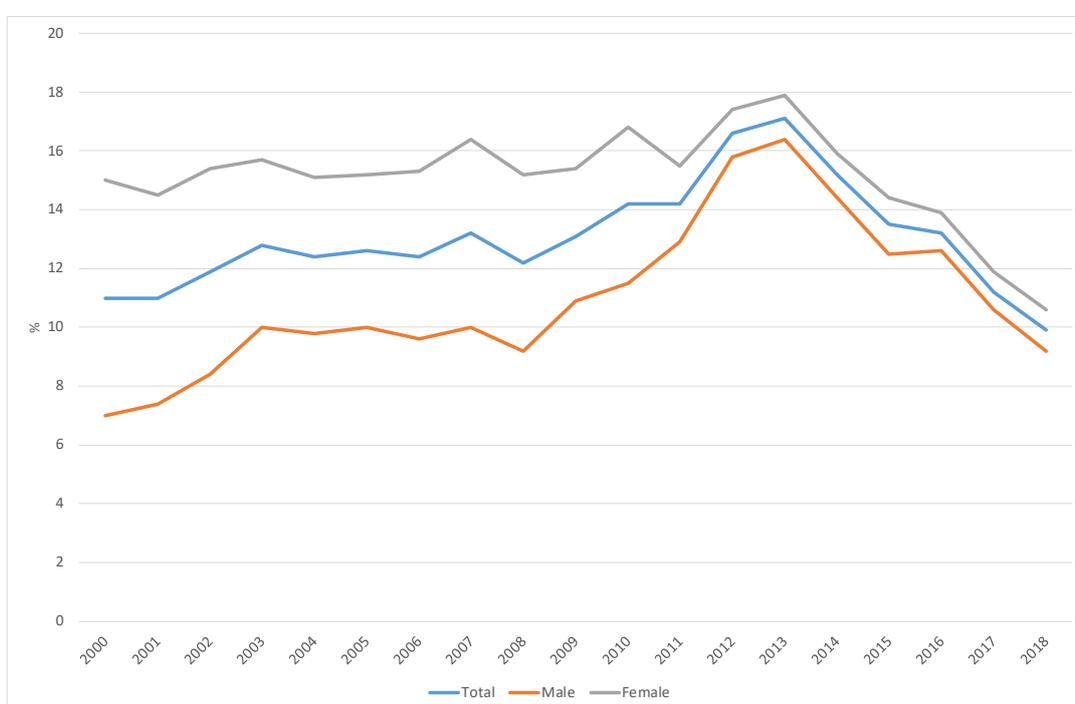
In this section, the basic characteristics of the NEET population are presented, namely gender, age group, activity status, and highest completed level of education. The major source for the analysis is the labour force survey.

In order to characterize it better, this population is compared with the relevant youth population, namely total young people and employed young people.

### Evolution of overall NEET population

Figure 37 presents the overall NEET rate and the NEET rate by gender. As one can see, the proportion of young people aged between 15 and 34 years old, neither in employment, education or training (the NEET rate) experienced a slight increase from 2000 until the beginning of the crisis. During the crisis, this rate increased significantly to over 14 per cent in 2013. Since that year, it has fallen significantly to values below the level of 2000. The second clearly visible result is the strong convergence of the NEET rate by gender: in 2000, the rate for females was twice that of their male counterparts, then the male rate increased until the crisis and the difference became less than 2 percentage points, and has remained around that value since then.

**Figure 37. Rate of young people aged between 15 and 34 years old neither in employment, education nor training, by sex, Portugal**

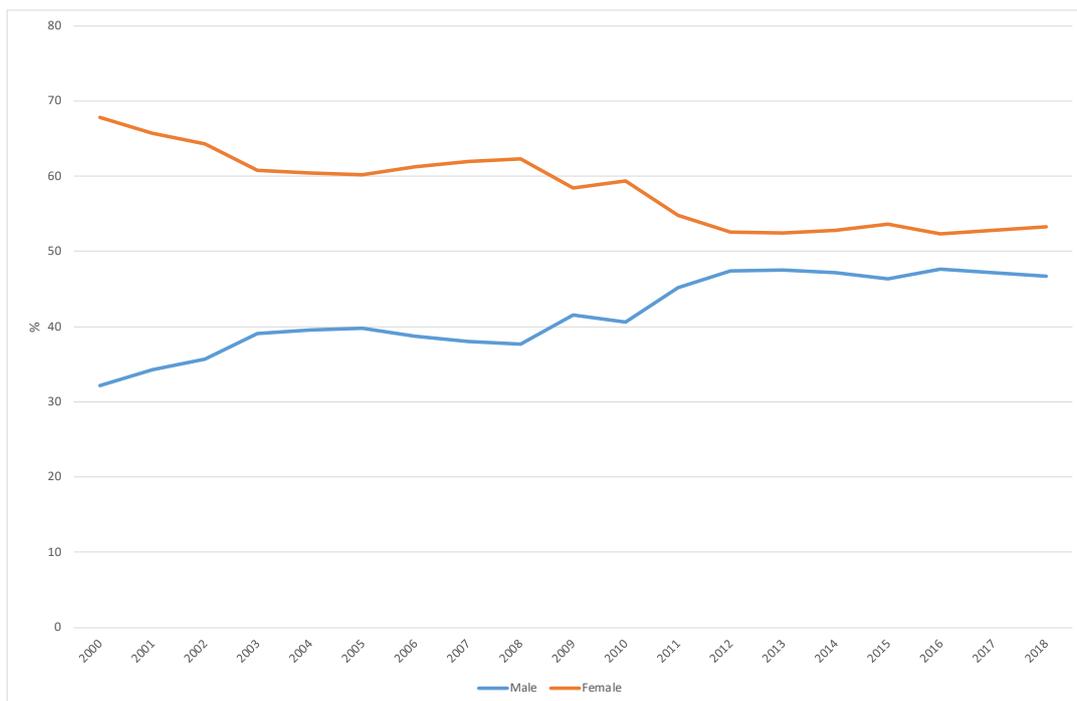


Note: Time series break in 2011.

Source: National Statistical Office.

Accordingly, looking at the composition of the NEET population by gender, Figure 38 shows a significant change in the profile during this period. In fact, in 2000, women represented almost 70 per cent of the NEET population, while since 2012 they represent about 53 per cent. This evolution mirrors that of women and men’s labour market participation, analysed in a previous chapter. The crisis affected men more than women, and women increased their participation in the labour market in the wake of the crisis. As a consequence, NEET rates increased significantly less for women than for men during the toughest years of the crisis, as the two rates converged.

**Figure 38. Distribution of NEET by gender, Portugal, 2000–18**



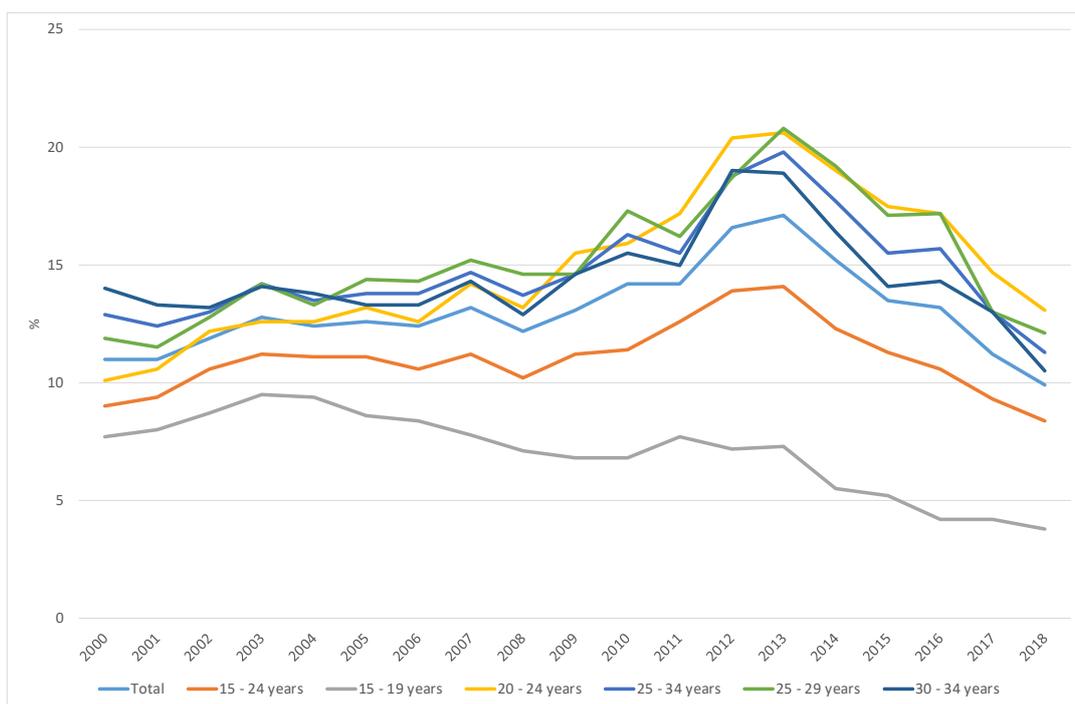
Note: Time series break in 2011.

Source: National Statistical Office, Labour Force Survey.

Figure 39 presents the NEET rate by age group. While one can observe a similar cyclical profile for most age groups, one can see that the NEET rate for the 15–19 age group has fallen throughout the period, which is probably due to the enlargement of compulsory schooling and the reduction in the early school-leaving rate.

In 2018, the NEET rate was higher for the 20–24 age group, which signals the existence of difficulties in entering the labour market. During the crisis the NEET rate for this group exceeded 20 per cent.

**Figure 39. Rate of young people aged between 15 and 34 years old in neither employment, education nor training, by age group, Portugal, 2000–18**



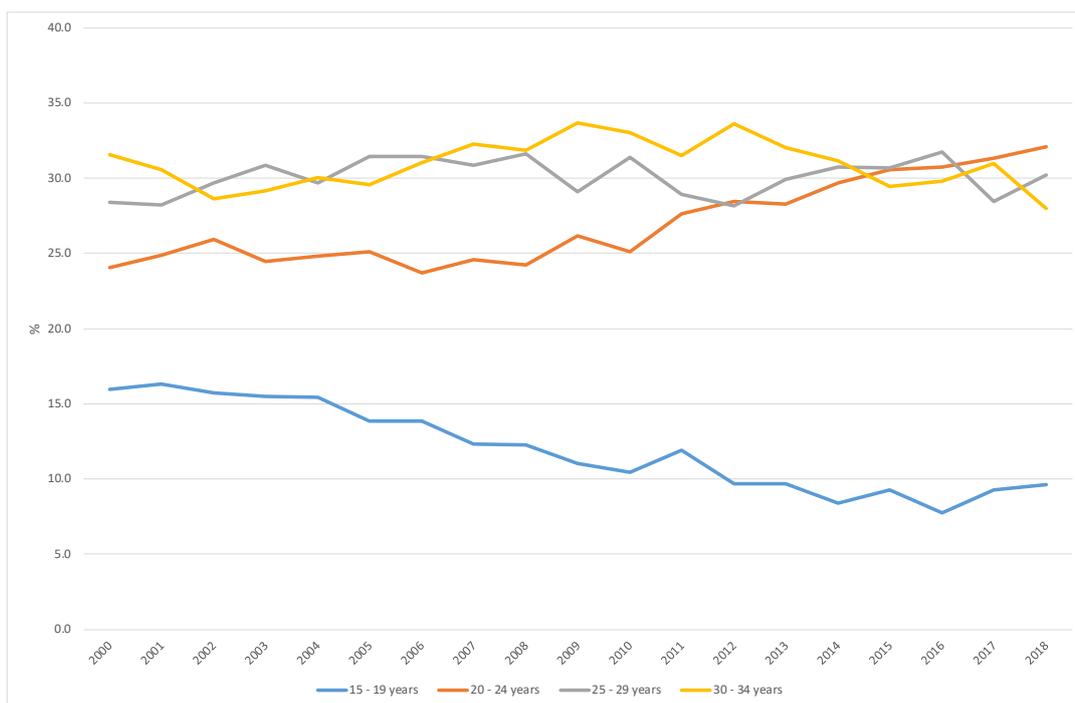
Note: Time series break in 2011.

Source: National Statistical Office.

The different NEET rates by age groups translate into changes in the composition of this population. When analysing the composition of the NEET population by age group, Figure 40 reveals a decrease in the proportion of the younger cohort (from 15 to 19 years), from above 15 per cent of the total NEET population to below 10 per cent, compensated by an increase in the 20 to 24 years cohort, which has become the largest NEET group, with a share of almost 33 per cent.

The shares of the other two age groups experienced some volatility but maintained their overall values at around 30 per cent.

**Figure 40. Distribution of NEET by age group, Portugal, 2000–18**



Note: Time series break in 2011.

Source: National Statistical Office, Labour Force Survey.

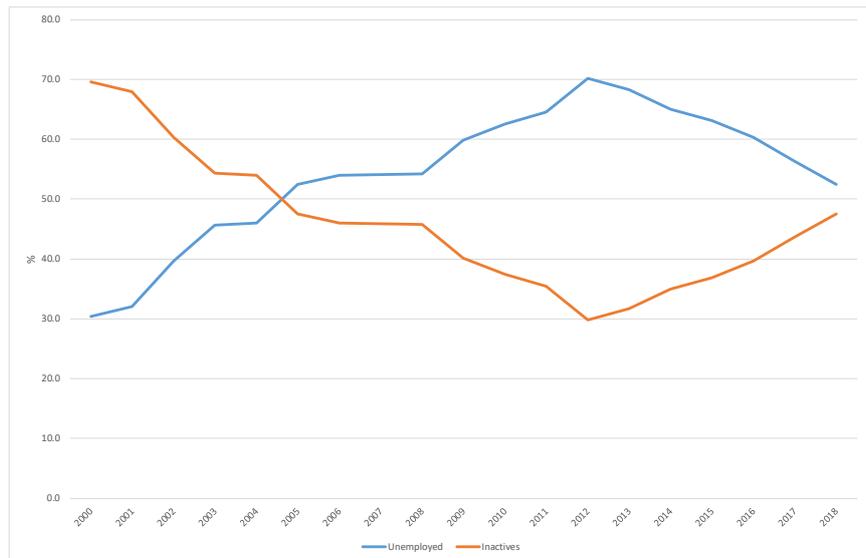
With regard to activity, NEETs can be divided into the unemployed – and thus part of the labour force, as traditionally defined – and those who are outside the labour market entirely – the so-called inactive NEETs.

Figure 41 reveals a significant change in the share of these two subgroups. In 2000, inactive NEETs were the clear majority, representing over 70 per cent of the total, but since 2004 unemployed NEETs have been the larger subgroup, particularly during the most severe period of the crisis. The enlargement of compulsory schooling until secondary level and the increase in tertiary education enrolment rates might also have contributed to this evolution. As the level of youth unemployment is decreasing (although it is still above the EU28 average), the share of unemployed people is likely to return below the share of inactives.<sup>27</sup> This also reveals that most cyclical changes are associated with male NEETs. In fact, female NEETs represented the majority, both unemployed and inactive, in the beginning of the period, accounting for 60 per cent and 70 per cent of total NEETs, respectively. During this period, and especially during the crisis, the share of female NEETs decreased significantly in terms of labour market status and in the case of unemployed NEETs it fell below that of male NEETs.

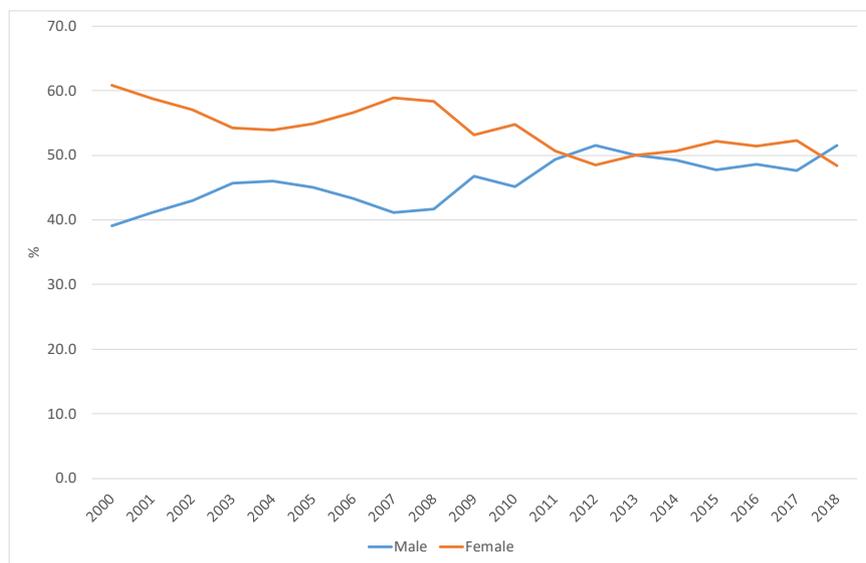
<sup>27</sup> The figures for the first quarter of 2019 point to that possibility.

**Figure 41. NEET by activity status and gender, Portugal, 2000–18**

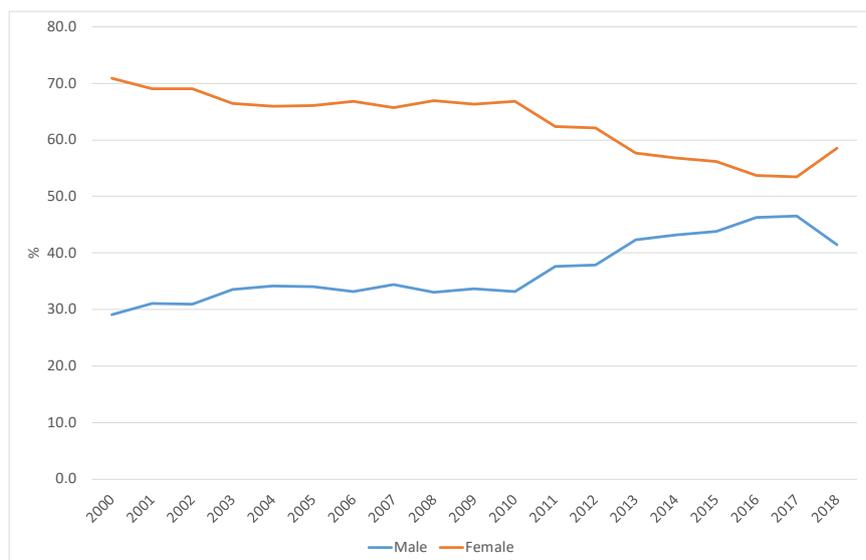
**Distribution of NEETs by activity status**



**Distribution of unemployed NEETs by gender**



**Distribution of inactive NEETs by gender**



Note: Time series break in 2011.

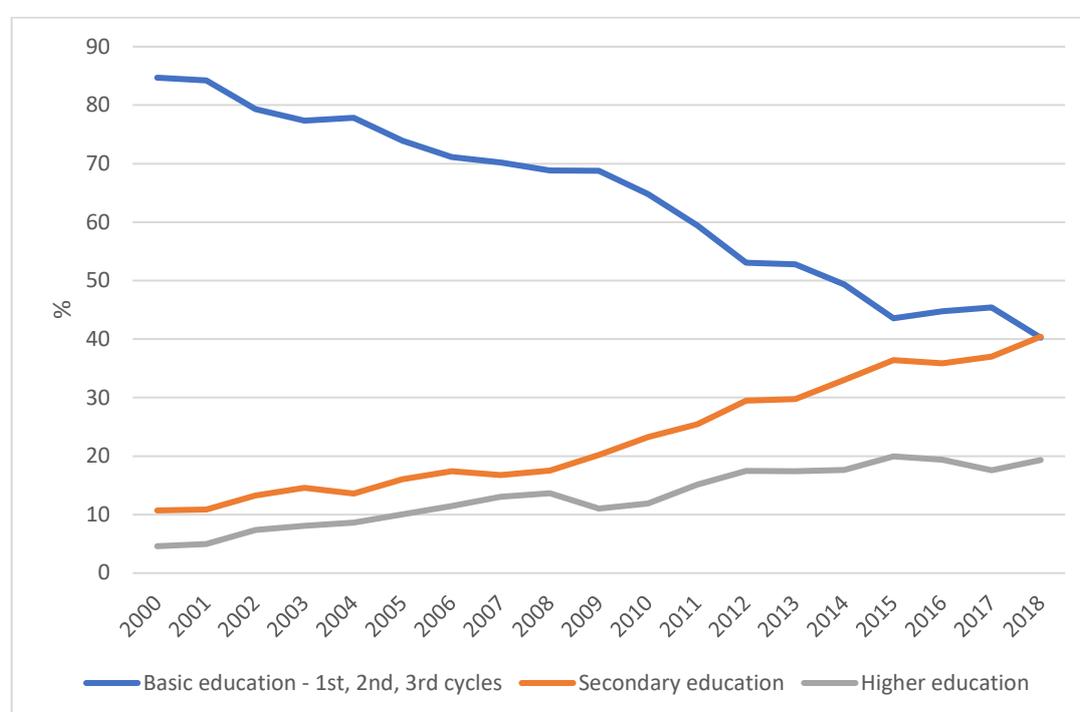
Source: National Statistical Office, Labour Force Survey.

## NEETs by highest completed level of education

When considering the distribution of the NEET population by highest completed level of education, Figure 42 reveals also a strong change in composition, with a significant decrease in the share of NEETs who have completed only basic education, from above 84 per cent to close to 40 per cent. In parallel, there was a significant increase of the share of those with secondary education and, to a lesser extent, of those with tertiary education. The increase in the share of NEETs with higher education is another indicator of the reduction in the returns to higher education and of the education premium mentioned in previous sections.

The main reason behind this overall development, however, is the skills upgrading of young people and the decrease in early school leaving. Fewer and fewer people have been leaving the education system with only a basic education. It is interesting to note the increasing gap between the shares of people with secondary and with tertiary education. It indicates that, despite some reduction, tertiary education is still likely to reduce the probability of becoming a NEET.

Figure 42. Distribution of NEET by highest completed level of education, Portugal, 2000–18



Note: Time series break in 2011.

Source: National Statistical Office, Labour Force Survey.

## Comparison of NEETs with the relevant youth population: total youth and youth employed

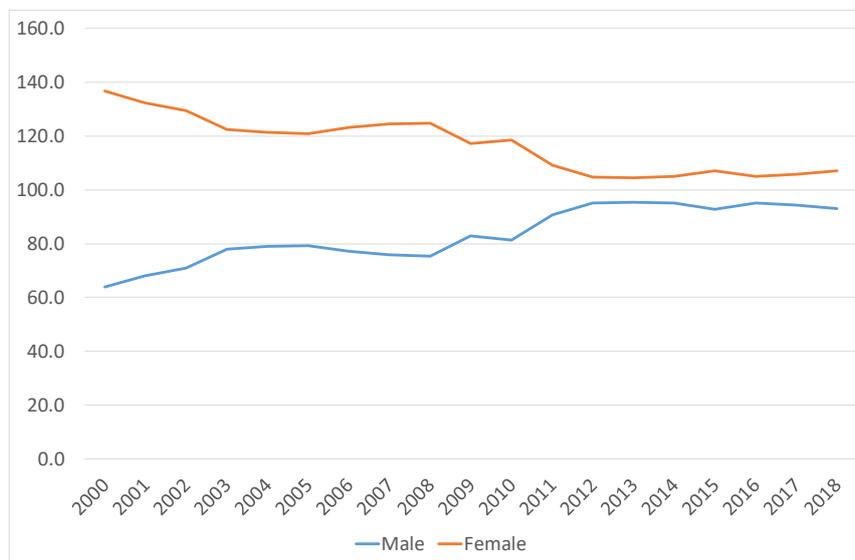
Having presented the characteristics of the NEET population it is important to analyse how this compares with reference populations.

In this section, we shall compare the composition of the NEET population with that of the whole youth population and that of the youth employed, using incidence rates. Incidence rates allow for easy comparison of the relative shares of each subgroup in the two populations. Values above 100 signal a relative incidence of NEETs in that group relative to their share in the reference population.

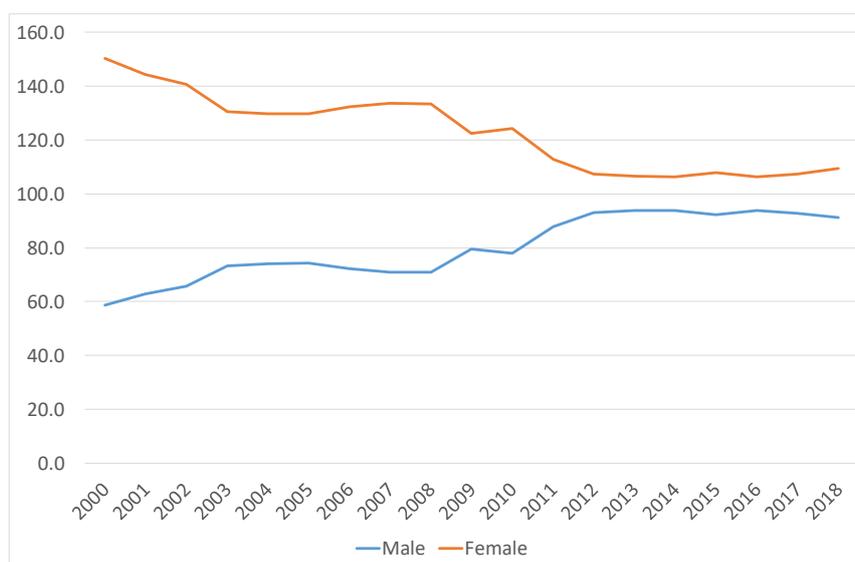
Analysing first the incidence by gender, the two panels of Figure 43 reveal a relative higher female incidence of NEETs both in comparison with the total youth population and with the youth employed. In 2000, women were 40 per cent more likely to be NEET than their share in the total population and almost 60 per cent more than their share in employed young people. In both cases, however, the relatively higher incidence was reduced in 2018 to values close to 6 per cent in relation to the total youth population and 9 per cent in relation to employed young people.

**Figure 43. Incidence rates of NEETs by gender relative to total youth and employed youth, Portugal, 2000-18**

**Incidence relative to total youth**



**Incidence relative to employed youth**



Note: Time series break in 2011.

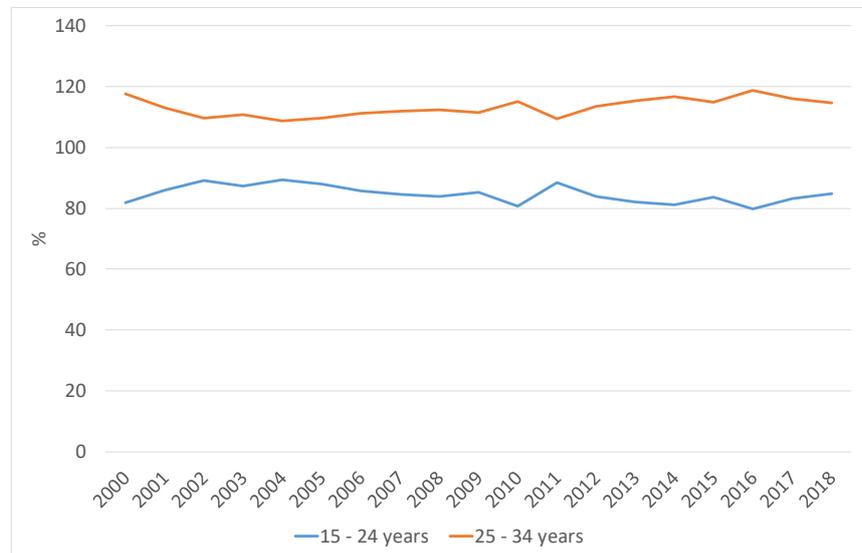
Source: National Statistical Office, Labour Force Survey.

As regards relative incidence by age group, the two panels of Figure 44 reveal a different pattern in relation to the reference populations. When compared with the total youth population, individuals belonging to the age group 25–34 are more likely to become NEET. When compared with employed young people, people between 15 and 24 years of age are much more likely to become NEET, whereas among the older age group (25–34 years of age) incidence is very low compared with total employed young people.

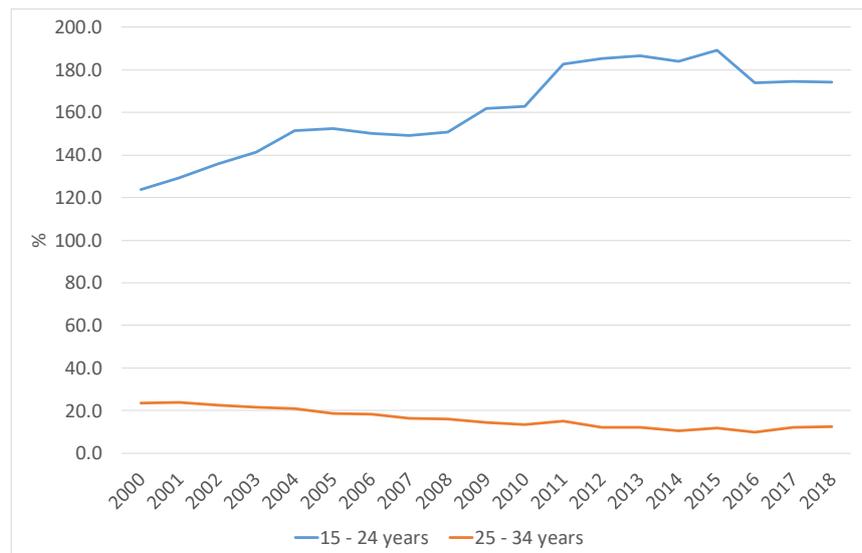
Over time, the relative incidence of both groups in comparison with total young people was fairly stable, whereas in comparison with employed young people NEET incidence in the 15–24 age group has increased and in the 25–34 age group it has decreased.

**Figure 44. Incidence rates of NEET by age group relative to the total youth and employed youth, Portugal, 2000–18**

**Incidence relative to total youth**



**Incidence relative to employed youth**



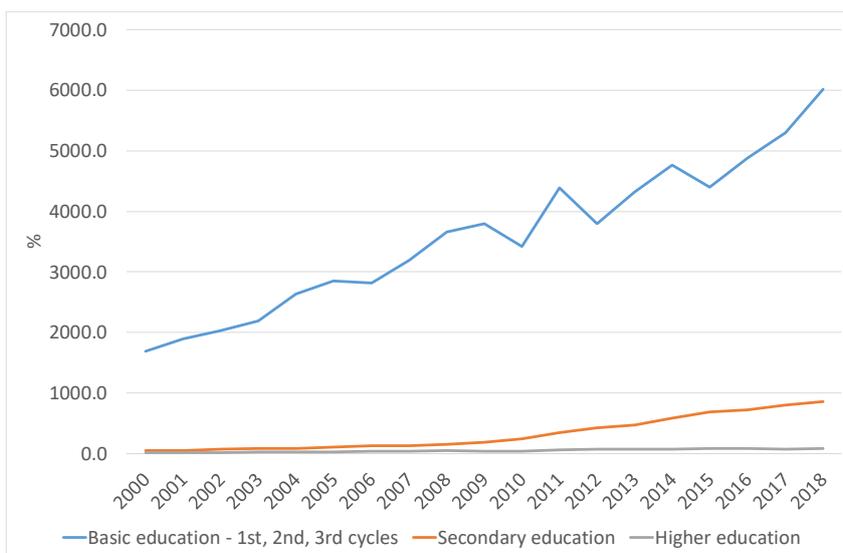
Note: Time series break in 2011.

Source: National Statistical Office, Labour Force Survey.

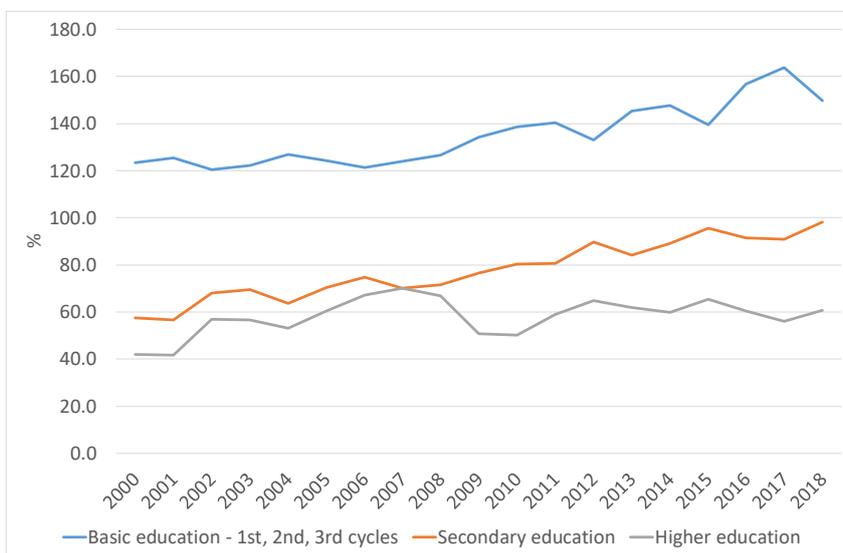
Analysing the relative incidence of NEETs by highest completed level of education both in comparison to the total youth population and in comparison with employed youth, those with low educational attainment are much more likely to be NEET. It is interesting to note that the relative incidence among those with secondary education has been increasing. This indicates that this level of education may not protect people against this risk.

**Figure 45. Incidence rates of NEET by highest completed level of education relative to the total youth and employed youth, Portugal, 2000–18**

Incidence relative to total youth



Incidence relative to employed youth



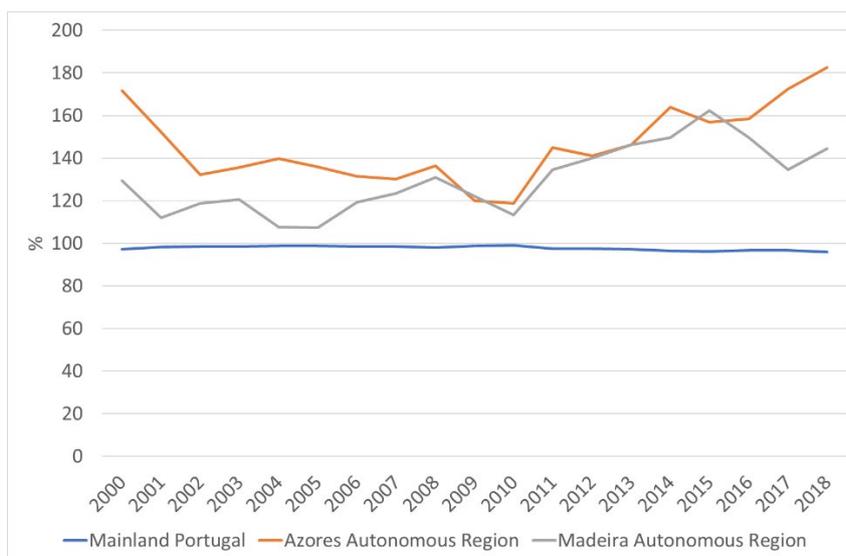
Note: Time series break in 2011.

Source: National Statistical Office, Labour Force Survey.

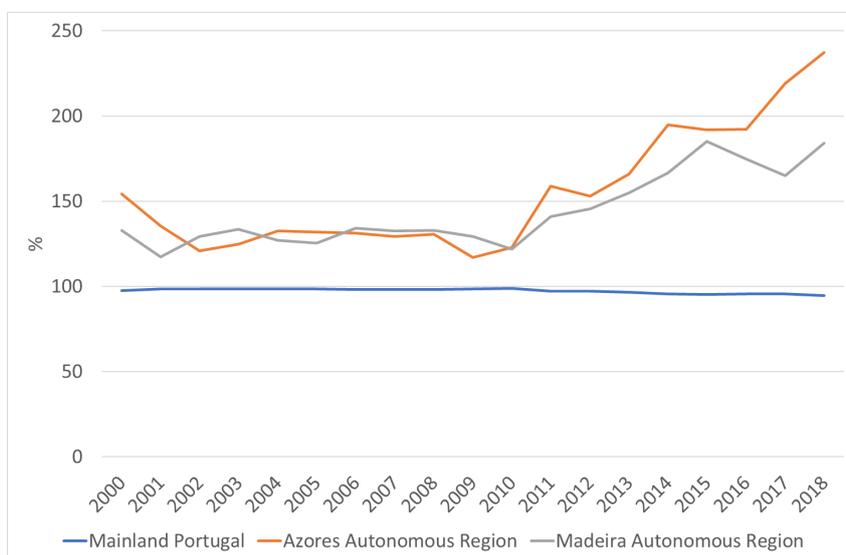
By region, the incidence of NEETs is much higher in the two autonomous regions of Portugal than in the mainland. The increase in NEET incidence compared with employed young people is two and a half times higher in the Azores.

**Figure 46. Incidence rates of NEET by region relative to the total youth and youth employed, Portugal, 2000–18**

**Incidence relative to total youth**



**Incidence relative to youth employed**



Note: Time series break in 2011.

Source: National Statistical Office, Labour Force Survey.

### Analysis of trends in different NEET subgroups since 2000: NEET growth rate by subgroup

Having characterized the distribution of NEET by different subgroups, it is important to analyse the evolution of the different groups of the NEET population. In order to do that, we present the annual average growth rate of NEETs since 2000 and the change in the share of each subgroup in total NEETs in Table 30.

**Table 30. Annual growth rate of NEET and change of the share of each subgroup in total NEET, Portugal**

NEET subgroup	Annual growth rate (%)	Change share 2000–18 (p.p.)
<b>Total</b>	-2.4	
<b>Gender</b>		
Male	-0.3	+14.6
Female	-3.7	-14.6
<b>Age group</b>		
15-19	-5.1	-6.4
20-24	-0.8	8.1
25-29	-2.0	1.9
30-35	-3.0	-3.6
<b>Highest completed level of education</b>		
Basic education – 1 <sup>st</sup> , 2 <sup>nd</sup> , 3 <sup>rd</sup> cycles	-6.3	-44.5
Secondary education	5.1	29.7
Higher education	5.8	14.7
<b>Activity</b>		
Unemployed	0.6	22.0
Not in the labour force	-4.4	-22.0
<b>Region</b>		
Mainland	-2.5	-2.0
Azores Autonomous Region	-1.1	1.1
Madeira Autonomous Region	-1.1	0.8

Note: Time series break in 2011.

Source: National Statistical Office, Labour Force Survey.

Analysis of the results shows that the profile of NEETs in Portugal has changed considerably in recent decades. Certain subgroups – males, people aged 20–29 years of age (especially those 20–24 years of age), those with secondary and higher education, the unemployed, and people in the Azores and Madeira – have fared worst, with higher incidence in the NEET group. While the development of the education structure raises issues related to the returns to education – as already mentioned – the decreased share of those “not in the labour force” – that is, more distant from the labour market than those who are unemployed but seeking employment, whose share increased slightly during the same period – is a positive development because former NEETs are more easily reached and have a higher chance of re-entering the labour market.

### **Analysis of the determinants of NEET affiliation – probabilistic approach**

The analysis carried out in the previous section, which compared NEETs with the relevant youth population, revealed significant differences in the incidence of NEETs across subgroups of the population.

When compared with the total youth population, women were, in 2018, 7 per cent more likely to be NEET, whereas in comparison with employed young people they were 9.3 per cent more likely.

The 15–24 age group was, in 2018, 14 per cent less likely to be NEET in comparison with the total youth population, and 74 per cent more likely when compared with employed young people.

Lower educational attainment significantly increases the incidence of NEETs. Compared with the total youth population people with basic education were, in 2018, 60 times more likely to be NEET, and 50 per cent more likely to become NEET when compared with total employed youth.

Living in the autonomous regions of Portugal also increases the likelihood of becoming NEET.

The results presented compare the incidence in the two groups for each attribute and may be affected by some composition effects.

In order to overcome that possibility, a probabilistic model was estimated to assess which factors have a higher impact on the probability of becoming a NEET.

Table 31 presents the results of the logistic regression on the probability of becoming a NEET. All respondents to the labour force survey in 2013 and 2018 aged between 15 and 34 years were considered. Dummies for 2018, married, female, the region, age group, level of schooling and nationality were considered. The reference individual is a male, not married, in 2013, Portuguese, living in the North Region, and with basic education.

**Table 31. Results of the estimation of the logistic model on the probability of becoming a NEET, Portugal**

Variable	B	S.E.	Sig.	Exp(B)
Year 2018	-.686	.002	.000	.503
Married	-.416	.002	.000	.660
Female	.240	.002	.000	1.271
Algarve	-.039	.004	.000	.962
Centro	-.203	.002	.000	.817
AML	-.038	.002	.000	.963
Alentejo	.099	.003	.000	1.104
Azores Autonomous Region	.342	.004	.000	1.407
Madeira Autonomous Region	.402	.004	.000	1.495
Age group 20-24	1.534	.003	.000	4.639
Age group 25-29	1.493	.003	.000	4.450
Age group 30-34	1.339	.003	.000	3.813
Secondary education	-.530	.002	.000	.589
Tertiary education	-.687	.002	.000	.503
Foreign	.470	.003	.000	1.600
Constant	-2.282	.003	.000	.102

Source: Authors computation.

The results confirm the bivariate results already described. In 2018, the probability of being a NEET was half of that in 2013. Being married reduced the probability of being

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NEET by almost 40 per cent. Women are 27 per cent more likely to become NEET than men. Living in Alentejo and the Azores and Madeira increases the probability of becoming NEET in comparison with the North Region. In the Centro region, the probability is the lowest. All age groups have a higher probability of becoming NEET than the reference group 15–19 years of age, with the 20–24 age group being the highest. Having secondary or tertiary education reduces the probability of becoming NEET compared with having a basic education. Lastly, foreigners are more likely to become NEET than nationals.

## Policy analysis

The concerns about youth unemployment gave rise to a number of public policy measures, in particular policies promoting labour market integration and access to productive employment for young NEETs.

Many so-called “active labour market policies” (ALMP) have been adopted, with a strong focus on unemployed young people, including general training, job-search assistance and special placement programmes in both the private and public sectors for the unemployed.

Regarding youth employment and the reduction of NEETs, Portugal has implemented several policies in line with the European Youth Guarantee Scheme.

These initiatives have focused on:

- extending and promoting mandatory education until the twelfth grade and reducing early school leaving, which reduces the probability of becoming a NEET because young people are obliged to study until a later age and cannot drop out before that;
- developing technical-professional courses to increase employability and create a better alternative for those who do not want to enrol in higher education but need to acquire specific skills to enter the labour market;
- providing incentives to youth employment so that young people, after concluding secondary or higher education, can find a job opportunity in their area of study, as well as avoiding an erosion of skills, which can result from inactivity or long-term unemployment, through direct-hiring subsidies, a reduction of the tax wedge on labour or support for professional internships for young people;
- reducing the investment costs of higher education through social support and reducing education fees.

The Portuguese Youth Guarantee Implementation Plan was presented in December 2013 and the Youth Guarantee scheme, covering NEETs under 30, was introduced in March 2014. The plan established the following priorities:

- reduce the risk of early school leaving;
- strengthen career guidance services;
- expand vocational training, internship and traineeship opportunities;
- enhance geographical mobility;
- create employment opportunities for young people.

The public employment services (PES) have been responsible for managing this scheme and for coordinating partnerships. Implementation involves ministries, youth organizations, trade organizations, as well as social partner organizations and other relevant institutions connected to education and vocational training and social inclusion.

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Young people who are registered as unemployed with the PES, and as eligible for the Youth Guarantee, are flagged, while those not registered are approached by the PES, which works in partnership with other entities. Individuals can also register for the Youth Guarantee through a dedicated online portal where organizations can also register to join the network of Youth Guarantee providers.

Outreach to those not registered as unemployed with the PES has been particularly challenging. There are currently various channels of communication with NEETs, which have been updated and make use of the latest technology (updated website, mobile apps, social media, YouTube videos, among others). A wide range of measures and tools are currently in place for personalised guidance and activation,

In 2014, the ILO supported the national Youth Guarantee coordination team in developing a monitoring and evaluation framework to measure the results achieved during implementation and an effective monitoring system is in place which provides all the data required for follow-up. The efficacy of these processes has been acknowledged by the Employment Committee (EMCO).<sup>28</sup>

Between 2015 and 2016, the ILO also supported Portugal with technical assistance towards assessing the profile of the young NEET population to support the development of a strategy to reach inactive young people farthest away from the labour market and formal education and training systems. This collaborative work resulted in the elaboration of a national strategy (*Estratégia Nacional para Sinalização de Jovens inativos e não registados no Serviço Público de Emprego*), that is being implemented between 2017 and 2020. There is an Action Plan directed at special target groups, based on the prior profile assessment, and supported by a strong network of local partners. These broad groups included: (i) young unemployed not registered with the PES and especially long-term unemployed, young unemployed in the 15–24 age-group, those with upper secondary educational attainment or less and those with no previous work experience; and (ii) inactive young people (due to discouragement, disability, family responsibilities, other reasons) not registered with the PES, excluding young re-entrants (because their inactivity is transitory) (Corbanese and Rosas, 2015).

EMCO's latest assessment, from October 2019, states that in "Portugal implementation of the Youth Guarantee is well advanced and has contributed to lower youth unemployment and NEET rates. Portugal has established a broad network of partners at national and local level." It highlights the significant results related to professional traineeships, including both ALMPs and open-market traineeships. It calls attention, however, to some persistent challenges at the outreach level, namely the need for additional efforts to reach a large proportion of non-registered young unemployed and inactive young people, and the need to optimise network cooperation and operations, as well as to improve coordination at local level and involve local authorities.

Overall, the evolution of NEET rates, currently below the EU28 average, seems to point to some success for the strategy adopted to address this problem.

The strategy of prolonging schooling has been effective in significantly reducing the early school leavers' rate, reducing the probability of young people becoming NEET, as the increasing offer of technical and professional courses has increased the attractiveness of education to many groups that were not interested in enrolling in higher education.

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<sup>28</sup> EMCO is the main advisory committee for Employment and Social Affairs Ministers in the Employment and Social Affairs Council (EPSCO) of the European Commission. The quote refers to EMCO's assessment of the Conclusions of the Employment Committee's multilateral surveillance review on youth employment, October 2019.

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On the other hand, the rapid reaction with advice and support on entering the labour market has been important in increasing exit rates from NEET status.

The European Commission in Portugal's latest Country report (2019) acknowledges this progress:

Youth Guarantee measures have been far reaching and contributed to lower youth unemployment and NEET rates. On average during 2017 almost 6 out of every 10 NEETs aged under 25 were registered in the Youth Guarantee scheme (compared with an EU average of 40.5 %). More than half of those who left the Youth Guarantee in 2017 (54 %) were in employment or in education and training six months later. Follow-up data on the long-term outlook suggest that outcomes are sustainable.

A number of challenges have been identified related to the provision of an offer of education or training within four months of registering, however. This is delaying labour market access and may slow down the reduction of long-term unemployment among young people. Regarding ALMPs, which cover the young NEET population, the Report concludes that these policies have achieved positive results, but that there is scope for wider coverage and focus on upskilling. Hiring support measures are viewed as having brought about good results in both outreach and engagement of target groups, with a high take-up of measures and progress in achieving the target of open-ended hiring.

Many of the positive results related to the reduction of the NEET rate occurred during a strong recovery in employment and so it is important to monitor the effectiveness of these mechanisms and how they work in other phases of the cycle.

In terms of future policy developments, despite recent progress, the Portuguese Government remains engaged in reducing the population of young NEETs and in promoting greater labour market opportunities for young people, namely by enhancing the outreach and effectiveness of measures under the Youth Guarantee and by addressing the issues of labour market segmentation and the quality of employment, which disproportionately affect younger workers, as we have seen.

Regarding the more targeted approach, the Government is focused on enhancing tools for identifying young NEETs in order to enable early intervention and avoid long-term exclusion. Also, a new programme of incubators for long-term unemployed and NEETs, inspired by Spanish and international best practices, was recently announced. The programme will involve the creation of organized teams of NEETs and long-term unemployed who will work together to seek and develop employment opportunities.

The quality and stability of young workers' ties to the labour market will continue to be a concern, as will the need to halt the emigration of qualified young workers and promote the return of those who emigrated during the crisis. To this end the Government has renewed its commitment to enhancing the targeting and selectivity of active labour market policies (ALMPs) towards young people, long-term unemployed and low-density territories, as a way of supporting employability and job quality for these target groups. Moreover, it launched the *Regressar* programme, which called for applications in 2019, offering fiscal and tax incentives for those who emigrated during the crisis and would like to return to Portugal. Finally, the State Budget for 2020 also includes a measure to reduce personal income taxes for young workers between 18 and 26 years of age during their first three years of participation in the labour market, after concluding secondary or post-secondary studies. This is aimed at encouraging young adults to obtain qualifications and supports their integration in the labour market.<sup>29</sup>

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<sup>29</sup> It exempts from personal income tax 30 per cent, 20 per cent and 10 per cent of earnings in the first, second and third year of work, respectively.

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Thus measures targeted at NEETs will continue within the framework of broader measures directed at employment promotion, within ALMPs. Such measures include the reduction of labour market segmentation; measures aimed at modernizing the public employment service; measures aimed at strengthening follow-up and orientation of NEETs through greater coordination between schools, the PES and the Qualifica Centres and promoting greater access to information on work offers, as well as monitoring and evaluation to adjust and fine-tune intervention measures.<sup>30</sup>

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<sup>30</sup> Based on the policy priorities detailed in the reference documents “National Reform Programme 2018–2022”, the “Major Options of the Plan 2020” (“Grandes Opções do Plano”) and the State Budget Report from 2020.

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## Summary: significant adjustment has taken place, but many significant challenges remain

Besides external factors and shocks, public policy has also played an important role in addressing structural weaknesses and fostering structural transformation.

For many years, high volumes of financial incentives, most of them supported by European Structural Funds, and tax incentives have been deployed to foster private investment, focused on enhancing the competitiveness of the Portuguese companies. Support for R&D, innovation and internationalization has been central in the strategy adopted.

Several programmes, many of them also benefiting from the support of European Structural Funds, have focused on enhancing the skills of the Portuguese labour force, from initial schooling to advanced training, involving regular schooling and vocational training programmes. These investments, as we have seen, have supported the tertiarization of the economy and the shift from low- to medium-tech products in several sectors.

Many changes in laws and regulations have been adopted as part of generations of Simplex programmes, to cut red tape and improve the business environment.

New generations of social protection instruments, such as those previously described, have been deployed to improve the social safety net, by ensuring minimum protection levels to those in situations of greater vulnerability, complementing the guarantee of adequate benefit levels for the population as a whole, supported by a broad financing base. As we have seen, this social expenditure has also had economic externalities, boosting demand and acting as an automatic stabilizer in times of crisis. The strategy to reverse the wage cuts that were introduced during the austerity years and to increase families' disposable incomes was pursued on the basis of social justice and social cohesion aims, but also as a way of boosting demand and increasing the pace of the economic recovery. The multiplier effect of this public expenditure should be further analysed.

In recent years, these instruments have been maintained and, in several cases – namely in what concerns social protection – even reinforced. Improvements in the living standards of the worst off have been achieved, while changing the culture of public finance management, with a rebalancing of public finances. This has enabled the achievement, in recent years, of the lowest government deficits since democracy was restored.<sup>31</sup> Future developments, with different actors and different policy and economic cycles, will show whether a real change in the way public finances are managed in Portugal has taken place.

Despite all the adjustments made and progress achieved, persistent challenges still remain that require further attention to ensure that SDG goals are met, particularly with regard to SDG8, to ensure the promotion of sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

The first challenge concerns productivity. Despite some growth resurgence in recent years, driven by productivity gains, the gap between Portuguese labour productivity and the EU average has remained broadly stable. The still low stock of skills and capital and the specialization in low value added sectors, as well as the large share of small firms are the main weaknesses that have to be addressed. The very high share of micro or very small firms limits the adoption of stronger growth strategies. Attempts have been made to foster

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<sup>31</sup> The Government Report for the 2020 State Budget refers to an estimated 0.1 per cent of GDP for the general government deficit in 2019, which includes an extraordinary one-off expenditure of 0.5 per cent of GDP towards the refinancing of the “Novo Banco”. The projection for the primary balance is a surplus of 3.0 per cent of GDP in 2019.

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cooperation among companies, namely involving some clusterization, but they need to be reinforced. Improving management skills is another priority. Low investment in research and innovation and weaknesses in the innovation system hinder Portugal's productive specialization. The share of research and development expenditure over GDP remains below the EU average, and inhibits the prospects for upgrading the economic structure towards higher shares of value-added goods and services. As already argued, within sectors there is a divide between more competitive firms, at the cutting edge of innovation, and others that are falling behind. Raising productivity gains across the economy is therefore a challenge.

Investment – mainly productive investment – is also an issue of concern because it is a condition of productivity growth. The past few years have seen investment increasing from a low base, with net private investment turning positive, but with public investment remaining subdued. In 2018 and 2019 the ratio of investment over GDP reached the highest values since 2012 but it remains one of the lowest in the EU. In 2018, net private investment turned positive, while the share of public investment in total investment was around 10 per cent, one of the lowest in the historical series. In this way, net public investment remained negative, contributing to the gradual erosion of the public capital stock. Targeted public investment is required to fuel productivity growth through improved human capital and technological innovation, so as to generate a crowding-in effect by providing relevant infrastructure for additional private investment. Access to finance is also hindering private investment, as the willingness of banks to provide loans remains low. The share of SMEs reporting difficulties in accessing loans remains relatively large and venture capital represents an almost insignificant part of total financing.

Labour market segmentation is another persistent challenge, affecting especially younger workers, with an impact on the education premium. Young workers, in particular, are having difficulty finding jobs based on open-ended contracts and often move between temporary jobs or between these and other atypical forms of contracts or spells of unemployment, despite higher than average qualification levels and their high incidence in certain high-skilled sectors. Moreover, apart from instability, wages are on average lower for these kinds of contracts. The data we have presented, however, shows that growing sectors are more likely to hire on open-ended contracts, which can start to produce positive changes immediately. Moreover, reforms are ongoing to address labour market segmentation and foster collective bargaining. A recent tripartite agreement signed in 2018 has led to a series of modifications to the Labour Code and to the code of contributory regimes of the social security system, introduced in 2019. These changes are aimed at tackling precarious employment, namely the persistently high share of workers on temporary contracts. This reform also seeks to improve collective bargaining by reducing the individualization of labour relations and stricter criteria to terminate or modify collective agreements. The capacity of the labour authority to tackle bogus self-employment has also been reinforced significantly. Another dimension of segmentation concerns gender. Female labour market participation is on the rise, with a large share of women working full-time, including mothers, although gender pay gaps remain above the EU average and occupational segregation is also a cause for concern. It is important to implement concrete legislative measures, such as those under the national strategy and programme (Estratégia Nacional para a Igualdade e Não Discriminação 2018-2030 “Portugal + Igual” and Programa 3 em Linha) that have been adopted to combat these differences and to promote a better work–life balance. Increasing maternity and paternity support and reducing the cost of education and caring for very young children – for which there is no universal coverage of free public services – is key to ensuring that women's increased labour market participation does not have negative effects on fertility rates, given the rapidly ageing population.

The evolution of wages is also a matter of concern. Low unit labour costs have been a key competitiveness factor for a long time, but lower wages have also created an incentive for the more skilled to emigrate. Moreover, Portugal remains one of the most unequal countries in the EU, which is largely explained by the distribution of labour income and the

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prevalence of low wages, close to the minimum wage level. As a matter of fact, wage compression – the ratio of the minimum wage to the median wage – is very high, indeed the highest in the EU. Wage growth is moderate but has been picking up in recent years as labour market reserves have receded and the minimum wage updated after years of no nominal increase. After the crisis, nominal wage growth turned positive in 2015 and positive real wage growth was recorded one year after nominal wages started growing. A balance in wage increases must be achieved to guarantee, on one hand, quality jobs and a good return to education that promotes upskilling, reskilling and longer education paths and allows the retention of talent; and, on the other hand, wage development that does not jeopardise the competitiveness of certain sectors and branches of the economy that remain low skilled and low technology-intensive. In 2019, the Government initiated discussions with the social partners to promote wage increases above market dynamics and increase the wage share.

Despite the significant catch-up, the low average skill level (namely among business owners/managers and older workers) and the low level of digital skills, again mainly among older workers, remain important challenges. They constrain productivity gains and potential growth and preserve high inequalities and low social mobility. It is crucial to make every effort to improve skills levels, in particular digital literacy, including by making adult learning more relevant to labour market needs. Recently adopted programmes, such as *Qualifica* or InCode, are important to address low adult skills levels or digital skills. They are achieving good results and should be scaled up.

Finally, the rapidly ageing population is putting pressure on the labour market and public finances and requires a coordinated and integrated policy response. The Portuguese Government has identified the demographic challenge as one of the main priorities. Portugal is projected to lose more than one-third of its total labour force by 2070, which puts pressure on productivity to ensure the ability to grow. The years of net negative migration flows (2011–16) have passed, but a significant number of qualified professionals left the country in search of better work opportunities during the crisis and have not returned. Despite economic recovery, wage differentials with EU and certain non-EU countries remain large and make the decision to return to Portugal more difficult. With this in mind, in 2019 the “*Regressar*” programme was implemented to attract some of these emigrants, offering temporary tax, financial and non-financial incentives for those that choose to return to Portugal. This programme, which is enjoying a good take-up, will help to address some shortages of skills in certain sectors.<sup>32</sup> Another issue that should be addressed to increase labour market participation and potential growth is the underutilization of labour, namely among involuntary part-time workers and people who have ceased to look for work, but potentially remain available. While past reforms improved the long-term sustainability of the pension system, the ageing population is putting pressure on pension expenditure. Health-care expenditure is below the EU average and will probably have to increase to cope with an ageing population.

The overall quality of life in Portugal, especially of those who have access to quality employment and are well integrated in the labour market, is quite good, including security, good weather and affordable public services, among other factors. The combination of low wages with fast rising housing costs in the two major cities, however, where work opportunities are largely concentrated, driven by foreign capital flows and tourism, has, in recent years, been reducing families’ disposable income and constraining the opportunities of young families, in particular. The European Commission signalled, in its latest Country Report on Portugal (2019), that this increase in housing costs jeopardises housing affordability in urban areas, with a significant percentage of tenants already experiencing a

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<sup>32</sup> On 11 February 2019 the Government publicly presented the report on the progress of the programme during the first six months after its launch. It shows that 800 applications were submitted, involving 1,700 people (workers and family members). Of these, close to 1,300 will benefit from support.

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rising housing cost burden. The situation is of particular concern for socially vulnerable groups, as underlined by the Commission, but medium-income groups have also been significantly affected. To address this issue, in 2018 the Government launched a “New Generation of Housing Policies” strategy, with particular focus on lone-parent households and young people. The strategy aims to promote universal access to adequate housing by increasing publicly supported housing and lowering the housing burden within the framework of the rental regime.

Finally, it is important to stress that, as underlined by the ILO (2018), the involvement of the social partners has been a key factor in recent successes by drawing attention to the social costs of fiscal consolidation and by recognizing the importance of incomes and wages in boosting economic growth. Government policies have taken into consideration the needs and circumstances of the country and ensured greater engagement, thus enhancing policy impact. The challenges identified above are significant and special attention should be given to them to ensure the sustainability of recent progress. This endeavour would benefit greatly from broad-based discussions and mobilization of the social partners to participate in designing viable strategies and measures and achieving the desired results.

## Appendices

**Table 32. Evolution of nominal GVA by sector, Portugal**

	Average annual growth 2000–17 (%)	Weight in 2017 (%)	Change in weight 2000-17 (p.p.)
Agriculture, forestry and fishing	0.2	2.4	-1.1
Mining and quarrying	-0.2	0.4	-0.2
Manufacture of food products, beverages and tobacco products	3.1	2.4	0.2
Manufacture of textiles, wearing apparel and leather products	0.6	2.5	-0.9
Manufacture of wood and paper products, and printing	-0.6	1.4	-0.9
Manufacture of coke, and refined petroleum products	8.5	0.5	0.3
Manufacture of chemicals and chemical products	1.8	0.6	-0.1
Manufacture of basic pharmaceutical products and pharmaceutical preparations	3.3	0.3	0.0
Manufacture of rubber and plastics products, and other non-metallic mineral products	0.4	1.6	-0.6
Manufacture of basic metals and fabricated metal products, except machinery and equipment	2.4	1.7	0.0
Manufacture of computer, electronic and optical products	-2.0	0.3	-0.3
Manufacture of electrical equipment	-0.4	0.4	-0.2
Manufacture of machinery and equipment n.e.c.	2.3	0.5	0.0
Manufacture of transport equipment	0.7	1.0	-0.3
Manufacture of furniture; other manufacturing; repair and installation of machinery and equipment	2.0	1.1	-0.1
Electricity, gas, steam and air-conditioning supply	4.0	2.4	0.5
Water, sewerage, waste management and remediation activities	5.0	1.0	0.3
Construction	-1.3	4.0	-3.6
Wholesale and retail trade, repair of motor vehicles and motorcycles	2.3	13.8	-0.4
Transportation and storage	3.6	5.0	0.9
Accommodation and food service activities	4.2	5.9	1.5
Publishing, audio-visual and broadcasting activities	1.3	0.6	-0.1
Telecommunications	-0.2	1.4	-0.8
Computer programming, consultancy and related activities; information service activities	7.6	1.5	0.8
Financial and insurance activities	1.6	5.0	-0.8
Real estate activities	5.5	12.5	4.9
Legal and accounting activities; activities of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis	2.7	2.8	0.1
Scientific research and development	7.9	0.3	0.2
Advertising and market research; other professional, scientific and technical activities; veterinary activities	2.3	0.6	0.0
Administrative and support service activities	4.3	3.9	1.0
Public administration and defence; compulsory social security	1.3	7.1	-1.5
Education	1.6	5.8	-0.9
Human health services	3.5	4.7	0.8
Social work activities	5.5	1.8	0.7

	Average annual growth 2000-17 (%)	Weight in 2017 (%)	Change in weight 2000-17 (p.p.)
Arts, entertainment and recreation	3.6	0.9	0.2
Other services activities	4.7	1.4	0.4
Activities of households as employers of domestic personnel and undifferentiated goods and services production of households for own use	2.5	0.7	0.0
Total	2.4		

Source: National Statistical Office, National Accounts.

**Table 33. Evolution of Employment (full time equivalent) by industry, Portugal**

	Average annual growth 2000–17 (%)	Weight in 2017 (%)	Change in weight 2000-17 (p.p.)
Agriculture, forestry and fishing	-3.1	5.8	-3.5
Mining and quarrying	-2.7	0.3	-0.1
Manufacture of food products, beverages and tobacco products	-0.6	2.4	-0.1
Manufacture of textiles, wearing apparel and leather products	-2.9	4.7	-2.7
Manufacture of wood and paper products, and printing	-3.1	1.3	-0.8
Manufacture of coke, and refined petroleum products	-2.8	0.0	0.0
Manufacture of chemicals and chemical products	-1.5	0.3	-0.1
Manufacture of basic pharmaceutical products and pharmaceutical preparations	-0.1	0.2	0.0
Manufacture of rubber and plastics products, and other non-metallic mineral products	-2.3	1.5	-0.6
Manufacture of basic metals and fabricated metal products, except machinery and equipment	-0.6	2.0	-0.1
Manufacture of computer, electronic and optical products	-1.0	0.3	0.0
Manufacture of electrical equipment	-2.5	0.4	-0.2
Manufacture of machinery and equipment n.e.c.	-0.6	0.5	0.0
Manufacture of transport equipment	-1.1	1.0	-0.1
Manufacture of furniture; other manufacturing; repair and installation of machinery and equipment	-0.9	1.7	-0.2
Electricity, gas, steam and air-conditioning supply	-3.0	0.2	-0.1
Water, sewerage, waste management and remediation activities	1.3	0.9	0.2
Construction	-4.0	6.4	-5.6
Wholesale and retail trade, repair of motor vehicles and motorcycles	0.3	15.5	1.6
Transportation and storage	0.8	3.8	0.7
Accommodation and food service activities	1.9	6.9	2.2
Publishing, audio-visual and broadcasting activities	-1.5	0.4	-0.1
Telecommunications	0.2	0.3	0.0
Computer programming, consultancy and related activities; information service activities	6.3	1.3	0.9
Financial and insurance activities	-0.9	1.8	-0.2
Real estate activities	2.2	1.0	0.3
Legal and accounting activities; activities of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis	2.0	3.6	1.2
Scientific research and development	-0.2	0.2	0.0
Advertising and market research; other professional, scientific and technical activities; veterinary activities	2.0	0.8	0.3
Administrative and support service activities	2.7	7.7	3.1
Public administration and defence; compulsory social security	-0.4	6.3	-0.1
Education	0.0	6.6	0.4
Human health services	1.4	5.2	1.3
Social work activities	2.6	3.5	1.4

	Average annual growth 2000-17 (%)	Weight in 2017 (%)	Change in weight 2000-17 (p.p.)
Arts, entertainment and recreation	1.8	1.1	0.3
Other services activities	1.3	2.5	0.6
Activities of households as employers of domestic personnel and undifferentiated goods and services production of households for own use	-0.6	1.7	-0.1
Total	-0.4		

Source: National Statistical Office, National Accounts.

**Table 34. Evolution of hours worked per employee by industry, Portugal**

	Average annual growth 2000–17 (%)	Relative intensity in 2017 (PT=100)	Change in relative intensity 2000-17 (p.p.)
Agriculture, forestry and fishing	-0.3	100.8	-4.7
Mining and quarrying	-0.5	98.1	-7.1
Manufacture of food products, beverages and tobacco products	-0.1	103.2	-1.1
Manufacture of textiles, wearing apparel and leather products	0.0	99.9	0.7
Manufacture of wood and paper products, and printing	-0.1	102.6	-1.1
Manufacture of coke, and refined petroleum products	0.1	91.1	2.9
Manufacture of chemicals and chemical products	-0.4	99.0	-4.7
Manufacture of basic pharmaceutical products and pharmaceutical preparations	0.1	104.0	3.4
Manufacture of rubber and plastics products, and other non-metallic mineral products	-0.2	101.2	-1.5
Manufacture of basic metals and fabricated metal products, except machinery and equipment	-0.2	100.0	-1.6
Manufacture of computer, electronic and optical products	0.4	99.8	7.4
Manufacture of electrical equipment	0.0	97.5	1.5
Manufacture of machinery and equipment n.e.c.	0.1	102.1	2.3
Manufacture of transport equipment	0.2	102.9	4.8
Manufacture of furniture; other manufacturing; repair and installation of machinery and equipment	-0.3	102.6	-3.2
Electricity, gas, steam and air-conditioning supply	0.3	97.9	5.5
Water, sewerage, waste management and remediation activities	-0.3	100.6	-4.7
Construction	-0.4	102.8	-6.2
Wholesale and retail trade, repair of motor vehicles and motorcycles	-0.2	102.4	-1.8
Transportation and storage	0.1	107.9	2.7
Accommodation and food service activities	-0.3	110.8	-3.4
Publishing, audio-visual and broadcasting activities	0.0	102.2	1.8
Telecommunications	0.0	105.8	1.9
Computer programming, consultancy and related activities; information service activities	0.0	102.7	1.1
Financial and insurance activities	0.0	101.0	1.3
Real estate activities	-0.1	98.8	-0.1
Legal and accounting activities; activities of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis	0.2	100.6	3.9
Scientific research and development	0.5	101.6	8.9
Advertising and market research; other professional, scientific and technical activities; veterinary activities	0.3	101.9	5.8
Administrative and support service activities	0.3	96.8	5.5
Public administration and defence; compulsory social security	0.0	96.5	0.5
Education	0.2	94.8	4.2
Human health services	0.3	97.0	6.3
Social work activities	-0.4	98.6	-5.6

	Average annual growth 2000–17 (%)	Relative intensity in 2017 (PT=100)	Change in relative intensity 2000-17 (p.p.)
Arts, entertainment and recreation	0.5	96.6	9.8
Other services activities	0.0	94.5	1.5
Activities of households as employers of domestic personnel and undifferentiated goods and services production of households for own use	-0.1	73.2	-0.1
<b>Total</b>	<b>-0.1</b>		

Source: National Statistical Office, National Accounts.

**Table 35. Evolution of labour productivity by industry, Portugal**

	Average annual growth 2000–17 (%)	Relative productivity in 2017 (PT=100)
Agriculture, forestry and fishing	3.4	42.0
Mining and quarrying	2.6	140.5
Manufacture of food products, beverages and tobacco products	3.7	100.9
Manufacture of textiles, wearing apparel and leather products	3.6	52.4
Manufacture of wood and paper products, and printing	2.6	107.8
Manufacture of coke, and refined petroleum products	11.6	1 444.7
Manufacture of chemicals and chemical products	3.4	197.6
Manufacture of basic pharmaceutical products and pharmaceutical preparations	3.5	216.3
Manufacture of rubber and plastics products, and other non-metallic mineral products	2.8	109.5
Manufacture of basic metals and fabricated metal products, except machinery and equipment	3.0	81.8
Manufacture of computer, electronic and optical products	-1.0	118.2
Manufacture of electrical equipment	2.2	93.6
Manufacture of machinery and equipment n.e.c.	2.9	101.6
Manufacture of transport equipment	1.9	98.3
Manufacture of furniture; other manufacturing; repair and installation of machinery and equipment	2.9	65.4
Electricity, gas, steam and air-conditioning supply	7.1	1 291.1
Water, sewerage, waste management and remediation activities	3.7	107.9
Construction	2.8	63.2
Wholesale and retail trade, repair of motor vehicles and motorcycles	2.0	88.7
Transportation and storage	2.7	132.0
Accommodation and food service activities	2.2	85.9
Publishing, audio-visual and broadcasting activities	2.8	145.1
Telecommunications	-0.4	436.8
Computer programming, consultancy and related activities; information service activities	1.2	112.5
Financial and insurance activities	2.5	283.9
Real estate activities	3.2	1 273.4
Legal and accounting activities; activities of head offices; management consultancy activities; architecture and engineering activities; technical testing and analysis	0.7	78.5
Scientific research and development	8.1	149.8
Advertising and market research; other professional, scientific and technical activities; veterinary activities	0.3	78.0
Administrative and support service activities	1.6	50.6
Public administration and defence; compulsory social security	1.7	111.9
Education	1.6	87.5
Human health services	2.1	89.2
Social work activities	2.8	50.8

	Average annual growth 2000–17 (%)	Relative productivity in 2017 (PT=100)
Arts, entertainment and recreation	1.8	80.9
Other services activities	3.3	54.7
Activities of households as employers of domestic personnel and undifferentiated goods and services production of households for own use	3.1	38.1
Total	2.8	100.0

Source: National Statistical Office, National Accounts.

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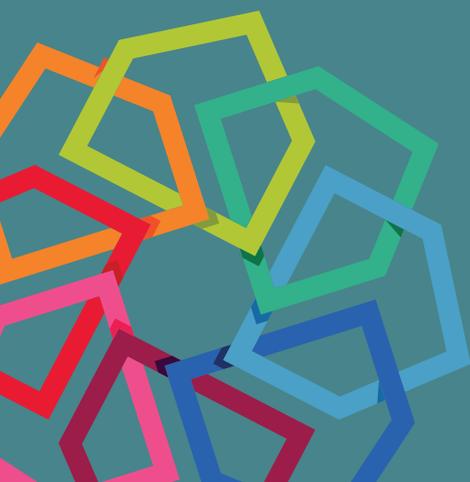
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**Contact:**  
**Employment, Labour Markets and Youth Branch (EmpLAB)**  
**Employment Policy Department**  
**International Labour Office**  
4, route des Morillons CH-1211 Geneva 22, Switzerland  
<https://www.ilo.org/emppolicy>