LAUNCH VERSION

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BETTER POLICIES FOR BETTER LIVES

LAUNCH VERSION

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Foreword

This Economic Survey was prepared by Antoine Goujard and Timo Leidecker, under the supervision of Aida Caldera Sánchez. Research assistance was provided by Michela Gamba, administrative and editorial assistance by Rosario Hernando Cruz and communication assistance by Laura Fortin and François Iglesias.

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Information about this and previous Surveys and more information about how Surveys are prepared is available at https://www.oecd.org/en/topics/economic-surveys.html.

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Basic statistics of Portugal, 2024

(Numbers in parentheses refer to the OECD average)[1]

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	10.7		Population density per km²	116.8	(39.6)
Under 15 (%)	12.8	(16.7)	Life expectancy at birth (years, 2023)	82.3	(81.2)
Over 65 (%)	24.5	(18.6)	Men (2023)	79.5	(78.6)
International migrant stock (% of population)	10.8	(15.7)	Women (2023)	85.3	(83.8)
Latest 5-year average growth (%)	0.8	(0.5)	Latest general election	May 2025	
ECONOMY					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	313.1		Agriculture, forestry and fishing	2.3	(2.5)
In current prices (billion EUR)	289.4		Industry including construction	21.2	(25.3)
Latest 5-year average real growth (%)	1.8	(1.7)	Services	76.5	(72.2)
Per capita (thousand USD PPP, 2023)²	51.4	(59.0)			
GENERAL GOVERNMENT (% of GDP)					
Expenditure	42.6	(43.0)	Gross financial debt (OECD: 2023)	99.3	(110.0)
Revenue	43.1	(38.1)	Net financial debt (OECD: 2023)	63.0	(66.9)
EXTERNAL ACCOUNTS					
Exchange rate (EUR per USD)	0.92		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.53		Machinery and electronics	14.9	
In per cent of GDP			Transportation	12.8	
Exports of goods and services	45.8	(30.3)	Metals	8.2	
Imports of goods and services	43.9	(29.9)	Main imports (% of total merchandise imports)		
Current account balance	2.1	(-0.4)	Machinery and electronics	18.4	
Net international investment position	-58.3		Transportation	12.9	
			Chemicals	12.0	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	54.9	(58.0)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	6.4	(4.9)
Men	59.0	(65.4)	Youth (aged 15-24, %)	21.6	(11.1)
Women	51.3	(51.0)	Long-term unemployed (1 year and over, %)	2.4	(1.0)
Participation rate (aged 15 and over, %)	58.7	(61.0)	Tertiary educational attainment (aged 25-64, %)	29.9	(41.0)
Average hours worked per year	1,716	(1,736)	Gross domestic expenditure on R&D (% of GDP, 2022)	1.7	(3.0)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2023)	1.8	(3.7)	CO_2 emissions from fuel combustion per capita (tonnes, 2023)	3.0	(7.5)
Renewables (%, 2023)	31.6	(12.5)	Water abstractions per capita (1 000 m³, 2022)	3.6	
Exposure to air pollution (more than 10 µg/m³ of PM 2.5, % of population, 2020)	14.6	(56.5)	Municipal waste per capita (tonnes, 2023)	0.5	(0.6)
SOCIETY					
Income inequality (Gini coefficient, 2022, OECD: latest available)	0.332	(0.317)	Education outcomes (PISA 2022 score)		
Relative poverty rate (%, 2022)	11.2	(11.5)	Reading	477	(476)
Median disposable household income (thousand USD PPP, 2022)	23.2	(31.7)	Mathematics	472	(472)
Public and private spending (% of GDP)			Science	484	(485)
Health care	10.2	(9.3)	Share of women in parliament (%)	32.6	(33.3)
Pensions (2021)	13.0	(9.9)	Net official development assistance (% of GNI, 2022)	0.2	(0.4)
Education (total spending, 2021)	4.6	(4.4)			

Note: 1. The year is indicated in parenthesis if it deviates from the year in the main title of this table. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries. 2. OECD aggregate refers to weighted average.
Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

Executive summary

Key messages

Portugal economic performance has been strong, with resilient economic growth, historically high employment rates, and a rapid decline in public debt. However, Russia's full-scale invasion of Ukraine and rising trade tensions have slowed down growth in Europe and hit the Portuguese economy. Labour shortages, population ageing, the need to maintain productivity gains, rapid house price increases and the rising impact of climate change further emphasise the need to accelerate structural reforms.

- Fiscal prudence and structural reforms are key to sustain growth and maintain public debt on a firmly declining path, including by prioritising productivity-enhancing public investments and by containing long-term spending pressures through a balanced combination of measures to raise revenues and limit ageing-related expenditure growth.
- Strengthening the labour market integration of older workers, the long-term unemployed and the youth, by continuing to improve education, training and lifelong learning policies, and by improving incentives for longer working lives, would lower labour shortages and help lift labour supply as population ages.
- Housing affordability challenges reflect long-standing weaknesses in construction and rental markets and call for comprehensive reforms to remove investment obstacles, mobilise underused housing, promote residential mobility, and effectively protect vulnerable households.
- Despite previous achievements, more and broader efforts to decouple the economy from greenhouse gas emissions are needed to reach climate targets. Differences in carbon prices across sectors and fuels weaken incentives for low-cost emission cuts, while adequate targeted support will be key to protect vulnerable groups. Continuing good progress with adapting to a warming climate will hinge on empowering municipalities.

The economy remains resilient but structural challenges weigh on future growth

Portugal's economy has shown remarkable resilience in the face of global shocks, but persistent structural challenges threaten long-term growth and fiscal sustainability. Growth reached 2.1% in 2024, public finances have strengthened, and Portugal recorded a historical current account surplus. However, labour shortages, a rapidly ageing population, housing affordability challenges, the need to maintain productivity gains, and delivering the green transition and adapting to climate risks will require sustained investment and reforms.

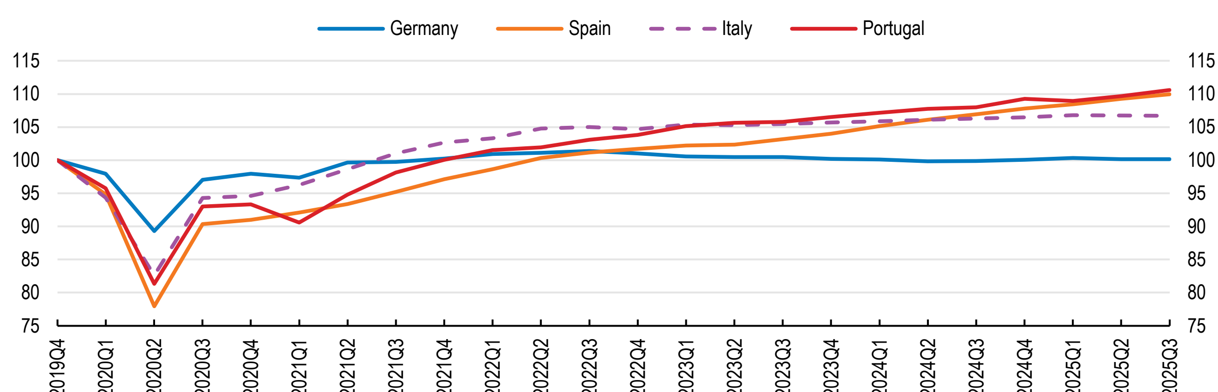
The Portuguese economy weathered well recent global crises. Growth rebounded strongly after the successive shocks (Figure 1), while stronger public finances allowed the government to shield households and businesses from the shocks. A record high current account surplus in 2024 reflects better trade competitiveness, rising household savings and declining household and corporate debt ratios.

Labour shortages, population ageing and weak investment during the economic and financial adjustment programme weigh on growth and productivity. The unemployment rate fell to a historic low of 6.4% in 2024, but labour shortages and subdued investment limit firms' ability to scale up and innovate. These constraints risk dampening potential growth and fueling fiscal pressures. Rapidly rising housing prices also hinder residential mobility and access to housing, especially for the young. Meeting climate targets and addressing climate risks will require significant investment in adaptation and mitigation.

Structural reforms are needed to sustain growth and safeguard fiscal sustainability, amidst a challenging global landscape. Reducing the administrative burden, strengthening labour supply and skills are central. Reforms should also focus on expanding housing supply and implementing cost-effective climate policies.

Figure 1. The economy has been resilient

Real GDP (Index, 2019Q4 = 100)



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

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Growth is set to stabilise, but risks remain elevated

GDP growth is projected to reach 1.9% in 2025, before reaching 2.2% in 2026 and 1.8% in 2027, supported by rising real incomes and strong internal demand, and the implementation of the Recovery and Resilience Plan (RRP) until 2026. However, trade tensions and global policy uncertainty pose significant risks to the outlook.

Domestic demand will remain the main growth driver. A strong labour market and rising real incomes will sustain private consumption, as the unemployment rate stabilise at a low level, while public investment will accelerate supported by European funds, but the projected slowdown in global and European growth, rising trade barriers and an assumed 15% US tariff on Portuguese goods, including steel and autos, will weigh on exports and private investment. Inflation is expected to remain around 2.2% in 2026 and reach 2.0% in 2027 (Table 1), as wage growth remain strong and import costs raise as a result of tariffs and exchange rate effects.

Downside risks due to rising geopolitical tensions and trade fragmentation are considerable. Weaker-than-expected global trade growth and disruptions in supply chains, could directly weaken export growth. A sharp contraction in demand from major Euro-area trading partners would not only reduce exports, but also depress confidence, with knock-on effects on private consumption and business investment.

The fiscal stance is accommodative, with rising public investment and higher pension and wage bill spending, while tax revenues are set to decline due to recent reductions in personal and corporate taxation The authorities should carefully consider further expansionary measures, such as corporate and age-based personal income tax cuts, that risk fueling inflation and lower fiscal space. Despite this, the primary surplus is projected to remain sizeable at 1.3% of GDP in 2026 and 1.5% in 2027, helping to keep public debt on a declining path (Table 1). Given past underinvestment in growth-enhancing programmes and rising long-term spending pressures, the planned budgetary expansion in 2026 need to prioritise high-impact public investment and support potential growth, while maintaining a prudent medium-term fiscal path.

Financial risks appear contained but require continued vigilance. Household mortgage debt has declined, but new borrowing has increased alongside rising house prices, raising macroeconomic vulnerabilities. The central bank implemented a sectoral systemic risk buffer targeting residential real estate in 2024 and will introduce a new countercyclical capital buffer from January 2026. Continued close monitoring of household debt and timely macroprudential responses will be key to maintaining financial stability.

Table 1. Growth will remain resilient

Annual growth rates (%, unless specified)

	2024	2025	2026	2027
Gross domestic product	2.1	1.9	2.2	1.8
Private consumption	3.0	3.2	2.3	2.1
Government consumption	1.5	1.6	2.4	1.0
Gross fixed capital formation	4.2	2.5	5.0	0.4
Exports	3.1	1.1	2.2	2.5
Imports	4.8	4.3	3.6	1.9
Unemployment rate (%)	6.4	6.1	6.0	5.9
Consumer price index	2.7	2.2	2.2	2.0
Current account balance, % of GDP	2.1	1.3	1.0	1.2
General government fiscal balance, % of GDP	0.5	0.1	-0.6	-0.5
General government fiscal primary balance, % of GDP	2.3	1.9	1.3	1.5
General government gross debt (Maastricht), % of GDP	93.6	90.1	87.2	84.9

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

Fiscal prudence and productivity-enhancing reforms are needed to safeguard public finances

Portugal has significantly reduced public debt and rebuilt some fiscal buffers over the past decade. However, sustaining this trajectory will become more difficult with population ageing, rising pension and health care costs and the need to address underinvestment in infrastructure, health care and education. To navigate these pressures without compromising growth, it is essential to maintain a prudent medium term fiscal policy while rebalancing spending towards productivity-enhancing investments.

Continued implementation of the Recovery and Resilience Plan offers a window of opportunity to boost potential growth. To maximize the impact of this plan, prioritising high-impact investments and accelerating execution will be key.

Ageing-related spending is projected to increase rapidly in the coming two decades (Figure 2). At the same time, past underinvestment in education and infrastructure is weighing on potential growth. Rebalancing spending towards more growth-enhancing uses requires addressing the rapid rise in pension entitlements by prolonging working lives, improving the targeting of social spending and prioritising preventive and primary healthcare spending.

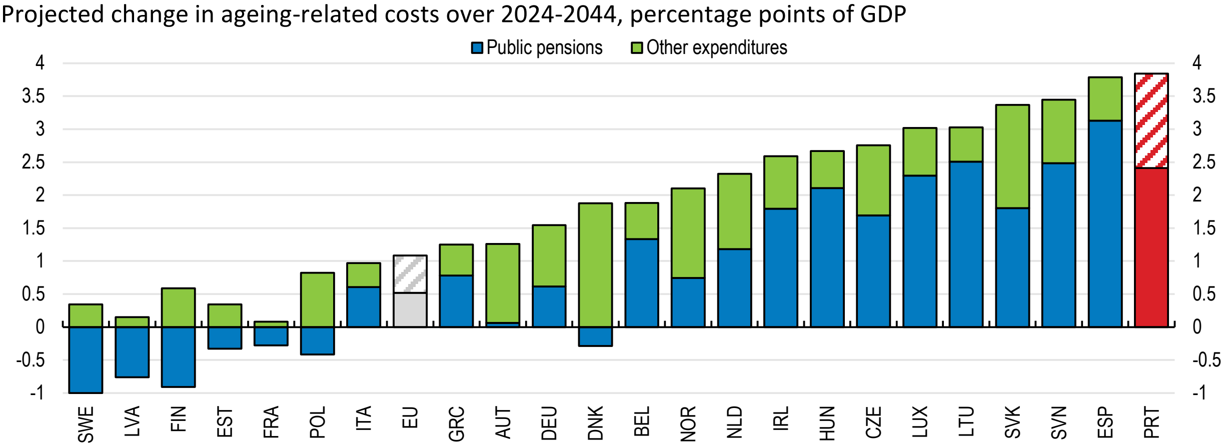
Fiscal sustainability will also require strengthened fiscal governance to better prioritise public spending and ensure cost-effective investments. Modernising the budget framework, including the implementation of performance budgeting, is crucial to ensure an efficient use of public funds. The authorities incorporated spending reviews as part of the budget process from 2025 which could help identify inefficient spending. Accelerating the implementation of the 2015 Budget Framework Law and of new accounting standards, one of the objectives of the RRP, would further support the shift of expenditures towards more growth-enhancing uses.

The system of taxes and benefits is overly complex, increasing administrative costs and reducing revenues. Tax expenditures, at 6.2% of GDP, including many reduced value-added tax rates, are not effective to support growth and equity goals. Portugal should simplify and broaden its tax system, building on the work of its new tax evaluation unit (U-TAX), to assess and gradually phase out inefficient tax expenditures in the VAT, personal and corporate income tax regimes, which could help lower tax rates. Consolidating means-tested benefits into a simplified and better-targeted system with harmonised rules, would improve take up and poverty reduction, while reducing fragmentation and administrative costs.

With the working-age population set to decline over the long term, boosting productivity is essential to support fiscal sustainability and living standards. Labour productivity remains 17% below the OECD average. A significant share of employment in the business economy is concentrated in micro firms, around 40%, which often lack professional management skills and underinvest in technology and innovation. Despite generous public support, research and development has not yielded commensurate innovation outcomes. Improving productivity will require a more favourable business environment, including streamlining complex administrative processes as part of the public sector's digitalisation efforts. In parallel, reforming regulations in professional services and retail trade would reduce costs and improve productivity. Introducing and enforcing a permanent lobbying registry and codes of conduct on how to engage with lobbyists, as planned, would help to prevent conflict of interests and reduce corruption risks.

Figure 2. Ageing-related spending pressures are sizeable

Projected change in ageing-related costs over 2024-2044, percentage points of GDP



Note: The EU corresponds to the composition of European Union as of 2020. Other expenditures include health and long-term care and education.
Source: EC (2024), The 2024 Ageing Report: Economic and Budgetary Projections for the EU Member States (2022-2070), European Commission.

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Strengthening training and activation to address population ageing and skill shortages

Labour shortages and population ageing will weigh on growth and living standards. Extending working lives, upskilling older workers, and strengthening skills policies, especially vocational and lifelong learning will be crucial. Easing labour market access for migrants and women would boost employment. Raising employment and productivity will also require raising the quality of the education and training systems and curbing the still high use of temporary contracts.

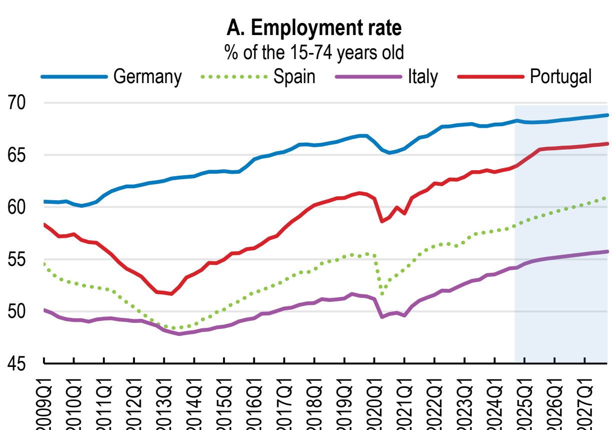
Portugal's labour market has recovered strongly from the COVID 19 shock with employment reaching record highs and unemployment near historical lows (Figure 3).

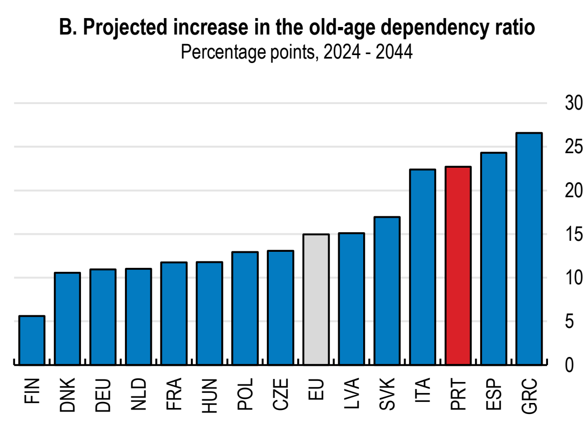
Despite robust labour market performance, many firms report difficulty recruiting suitably skilled workers. Labour shortages are growing across key sectors, notably in the information and technology activities, administrative and support activities, construction and wholesale and retail sectors, as well as in seasonal sectors. Educational attainment has increased, but field-of-study and qualification mismatches and limited alignment between training and labour market needs, lead to skill mismatches. Enrolment in initial vocational education has declined during the pandemic and the work experience of recent vocational graduates is limited.

Expanding secondary vocational education and training and strengthening work-based training components, ensuring strong involvement of employer bodies, would help to better meet labour market needs.

Adult skills remain low, particularly among older workers and the long-term unemployed, which make little use of lifelong learning. Though spending on active labour market policies is slightly above the OECD average, there is room to further target activation policies towards older workers, notably by rebalancing expenditures towards training and counselling. Targeted upskilling programmes, notably for digital skills, promoting flexible work arrangements for older workers and integrating local public employment services and vocational training centres would support longer working lives. .

Figure 3. The employment rate has increased, but the working-age population is set to shrink





Note: Panel A: Shaded area indicates OECD projections. Panel B: The old-age dependency ratio is the ratio of the population aged 65 years and over per 100 people of working age (20 to 64 years old) The EU corresponds to the composition of European Union as of 2020.
Source: OECD Economic Outlook: Statistics and Projections (database) and EC (2024), Ageing report.

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Tackling Portugal's housing affordability challenge will require a comprehensive reform package

Many people, particularly the youth, struggle to buy a home, rent, pay off their mortgage, or move to find suitable housing or better jobs. Making housing more affordable will require a comprehensive set of reforms to increase supply, bolster residential mobility, better use the existing housing stock, and improve support for those in need.

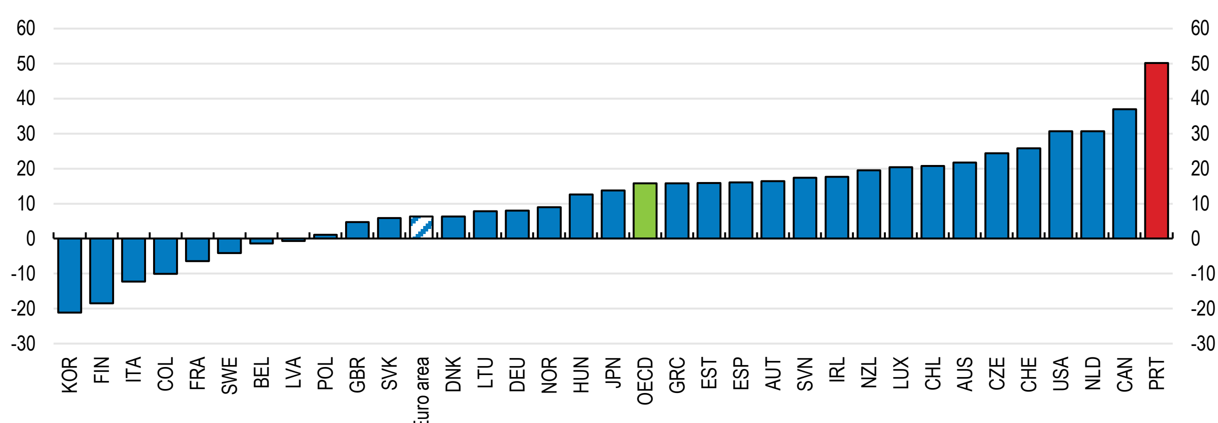
Housing supply is constrained by high barriers to construction. Regulatory burdens in the construction sector raise costs and uncertainty, slowing projects and contributing to persistently low investment despite high demand (Figure 4). Obtaining building permits takes long and approval procedures are often cumbersome and vary across municipalities, weighing particularly on smaller construction firms.

Adding to the supply challenges, the tax framework discourages housing transactions, fails to mobilise underused properties, and exacerbates inequality. While exceptions apply for young first-time buyers since 2024, property transaction taxes are generally high, which deters residential mobility and downsizing. Tax values of immovable property are outdated, and municipalities rarely apply higher rates on vacant dwellings. This reduces incentives to put underused housing into productive use. In combination with generous capital gains tax exemptions, the system favours longstanding homeowners, who have often seen large housing wealth gains, while excluding prospective buyers. Property tax reforms can help stimulate housing supply, make housing markets more dynamic, and raise revenues effectively and equitably.

A small stock of social housing and poorly targeted housing allowances provide insufficient support for many low- and middle-income households. The small social housing stock, focused on very poor households, is oversubscribed and subject to long waiting lists. Meanwhile, housing allowances are modest and often benefit high income households. As a result, many lower income households lack adequate support. Many older tenants rely on legacy rent-controlled contracts, contributing to segmentation and limited rental supply for new tenants. While current plans to expand social and affordable housing are welcome, sustained and predictable long-term funding and better targeted and higher housing allowances will be critical to meeting high needs. Housing quality additionally is often poor, undermining people's well-being and contributing to high energy poverty as well as to emissions. More financial support is needed to boost energy renovations.

Figure 4. House prices have significantly increased

Change in house price-to-income ratio, 2015 to 2024, %



Note: The Euro area aggregate corresponds to the 20 OECD members countries of the European Union. The OECD aggregate corresponds to the simple average of the OECD countries. Variable corresponds to nominal house price divided by nominal disposable income per head.
Source: OECD Affordable Housing (database).

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Addressing climate change requires significant investment in adaptation and mitigation

Portugal has made significant progress in reducing greenhouse gas emissions over the last two decades, thanks largely to a rapid shift to renewable electricity. Still, to achieve its emission goals, mitigation efforts need to broaden beyond energy industries. At the same time, Portugal is increasingly vulnerable to the effects of a warming climate, including through more frequent heatwaves and wildfires. A more coordinated and well-funded adaptation strategy is needed to strengthen adaptation at the local level and to mobilise private investment in risk prevention.

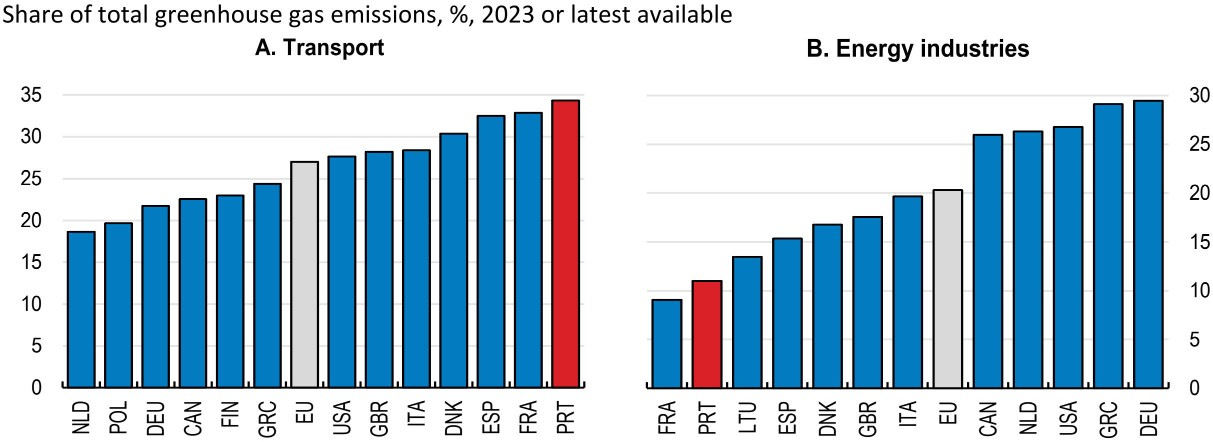
Faster and broader decoupling is needed to meet emission goals and ensure stable energy supply. Meeting emission goals requires sustaining the fast pace of emission reductions achieved during a period of weak economic growth. Rapid progress in scaling-up electricity production from renewable sources has helped reduce emissions, but going ahead greater efforts are needed in energy consuming sectors, notably transport and buildings (Figure 5). Meanwhile, increased reliance on intermittent sun and wind energy sources poses challenges for system flexibility that call for large investments in grid and storage capacity.

Stronger and more uniform carbon price signals will be key to accelerating cost-efficient emission cuts across sectors. Nearly all carbon emissions are priced either through a carbon tax or excise taxes. However, large differences in effective emission prices across fuels and users, aggravated by sizeable fossil fuel subsidies, weaken incentives to cut emissions with the lowest abatement costs. Portugal has committed to phasing out fossil fuel subsidies by 2030, and emission prices for transport and buildings are set to rise with the EU's ETS2. Implementing these plans to align, raise and harmonise effective emission prices across sectors would accelerate economy-wide mitigation efforts, while providing targeted support will be key to protect vulnerable groups from higher prices.

Continued progress in adaptation is needed to protect people and businesses from a warming climate. Much has been done over the last few years to improve prevention and management of natural disasters, especially wildfires. Still, while local governments play a key role in identifying risks and implementing adaptation measures, their responsibilities are not always well defined, overlap with those of other actors, and outcomes are not systematically monitored. Improving coordination and ensuring sufficient capacities would empower municipalities to pursue effective adaptation measures. Private insurance coverage is low, which entails large contingent liabilities for the public sector in the event of climate risks, and weakens incentives to prevent damages. Enlarging mandatory insurance requirements, while raising public awareness of risks, would improve risk pooling and leverage private sector capacities for a faster recovery after damages occur.

Figure 5. Reducing transport emissions and continuing the expansion of renewable energy is key to meet emission targets

Share of total greenhouse gas emissions, %, 2023 or latest available



Note: Panel A & B: A selection of OECD countries is shown. The EU corresponds to the composition of European Union as of 2020.
Source: OECD Greenhouse gas emissions inventories (database).

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MAIN FINDINGS	KEY RECOMMENDATIONS
Ensuring strong growth and sustainable public finances	
Portugal has achieved primary surpluses since 2022 and significantly reduced its public debt to 94.9% of GDP in 2024. The fiscal stance is set to be expansionary in 2025-26, partly due to the acceleration of the implementation of the Recovery and Resilience Plan.	Ensure the effective and timely implementation of the Recovery and Resilience Plan by prioritising high impact public investment supporting potential growth.
The fiscal stance is set to be procyclical over 2025-26. Further expansionary measures could fuel inflation and lower fiscal space.	Carefully consider any further fiscal expansionary measures.
Portugal has committed to maintain significant primary surpluses until 2038, which would lower public debt towards 60% of GDP. However, this will require strong efforts to maintain significant primary surpluses and there are currently no detailed plans on how to achieve these targets. Moreover, there are rising long term aging expenditures.	Continue to ensure the implementation of the medium-term fiscal strategy to reduce further public debt by enhancing spending efficiency, containing ageing-related expenditures and prioritising growth enhancing investment, while phasing out inefficient tax expenditures.
Population ageing is expected to increase pension expenditures, despite the link between the normal retirement age and life expectancy. Employment rates decline rapidly with age. The ratio of pension benefits to wages is projected to fall.	Consider improving incentives for delayed retirement, including by withdrawing gradually early retirement options for the long-term unemployed, and adjusting benefit formulas to preserve adequacy and sustainability.
The social safety net is fragmented, and some benefits suffer from low take up. Reforms are planned to consolidate benefits.	Consolidate means-tested benefits into a simplified and better-targeted system with harmonised rules.
The tax system remains complex and numerous tax expenditures reduce public revenues. While a Tax Unit has been established, the 2025 budget introduced new tax exemptions.	Simplify the tax system and broaden the tax base by reducing inefficient tax expenditures and consider using this fiscal space to lower tax rates.
Competitive pressures are weak in some sectors. The OECD 2023 Product Market Regulation Indicators point at significant regulatory barriers in professional services and the retail sector.	Lower entry barriers and streamline regulations in professional services and the retail sector.
Lobbying activities and potential conflict of interest are not monitored systematically. Draft laws on how Members of Parliament engage with lobbyists have been approved in July 2025.	Approve legislation introducing a permanent lobbying registry and codes of conduct on how to engage with lobbyists, and ensure effective enforcement.
Strengthening labour market resilience in the face of ageing and skill shortages	
Enrolment in vocational education has declined at the secondary level and the work experience of recent graduates remains relatively short, despite investment through the Recovery and Resilience Plan.	Expand vocational education and training at the upper secondary level and strengthen work-based training components, ensuring strong involvement of employer bodies.
Long-term unemployment is high, especially among older workers. Spending on active labour market policies has increased, but funding for public employment services remains comparatively low.	Strengthen targeted activation policies for older workers and rebalance spending towards training and counseling.
Flexible work and training options remain underused, while local public employment services and vocational training centres are not fully integrated.	Support longer working lives, including by targeted upskilling, notably for digital skills, promoting flexible work arrangements and integrating local public employment services and vocational training centres**.**
Tackling the housing affordability challenge	
Processes for obtaining building permits are often complex, lengthy and vary across municipalities. This delays housing development and discourages private investment.	Simplify and harmonise building permitting procedures across municipalities as planned by expanding digital platforms and simplifying approval rules with clear maximum timeframes.
Outdated tax property values reduce revenues from recurrent property taxes, distort investment decisions and favour long-time homeowners. High transaction taxes on housing discourage downsizing and mobility.	Gradually shift the tax burden from transactions to recurrent taxes on immovable property, including through regular updates of taxable property values to reflect market prices.
Many dwellings remain vacant or are used only seasonally, even in high-demand areas. Existing aggravated recurrent property tax rates have been ineffective due to limited enforcement by municipalities, outdated tax values and narrow definitions of vacant property.	Gradually raise taxation and increase the use of aggravated rates on underutilised dwellings by updating tax values, broadening vacancy definitions, and strengthening enforcement of vacancy declarations by municipalities in high-demand areas.
Despite recent investments, the social rental housing stock remains small and waiting times for people in need are long and can exceed several years, particularly in urban areas.	Expand the social rented housing stock by increasing investment, ensuring adequate funding for construction and operation, and setting targets aligned with local housing needs.
Housing allowances are poorly targeted, and support levels are often insufficient to allow access to adequate housing.	Improve the targeting and adequacy of housing allowances and regularly review benefit levels to ensure they meet housing costs.
Promoting decarbonisation and adapting to a warming climate	
Despite important progress, decoupling needs to accelerate to meet 2030 targets in a growing economy. Emission prices remain uneven across fuels and sectors and fossil fuel subsidies undermine incentives to cut emissions cost-effectively.	Gradually align and increase effective carbon prices across sectors by fully implementing the expanded EU Emission Trading System and completing the planned phase out of fossil fuel subsidies, while addressing potential impacts on vulnerable households.
Insurance coverage for climate-related risks, such as floods and wildfires, is low, while public-private risk sharing mechanisms are fragmented and lack a formal framework.	Establish a formal public-private risk-sharing mechanism, for example by making property insurance for natural catastrophes compulsory for all buildings and aligning premiums with risk exposure.


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1 Strengthening fiscal policy and long-term growth

Antoine Goujard, OECD

Portugal's growth has been robust despite successive international shocks. Domestic demand remains strong, driven by easing inflation, recovering household demand, and supportive fiscal policy. While the resilience of the financial sector has improved significantly, recent house prices increases and vulnerabilities in the business sector to slowing external demand merit continued vigilance. Despite a rapid decline, public debt remains high, making it crucial to maintain sizeable primary surpluses over the medium term. The implementation of the Recovery and Resilience Plan in 2026 will support the economy facing increasing international uncertainty and lower global demand. Yet, the authorities should carefully consider further expansionary measures, such as corporate and personal income tax cuts, that risk fueling inflation and lower fiscal buffers. Reducing inefficient spending and tax expenditures and continuing structural reforms to boost productivity and employment would help sustain higher public investment, while meeting rising spending pressures from ageing and the climate transition.

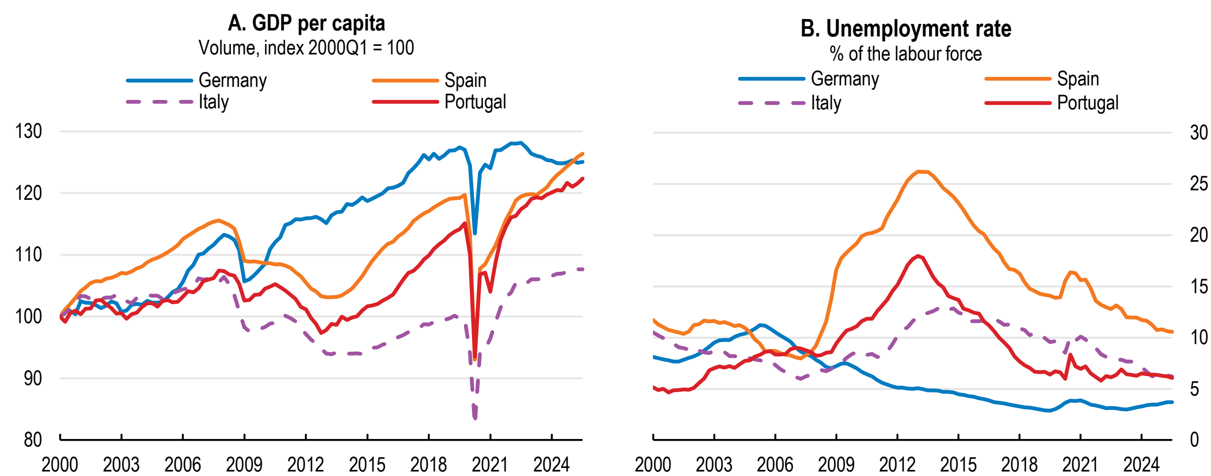
1.1. Safeguarding growth in a changing global environment

1.1.1. Growth has been robust

Growth and the labour market have remained robust (Figure 1.1, Panel A). After the historically deep recession of 2020, the Portuguese economy recovered rapidly in 2021-22, productivity and exports rebounded, while unemployment declined quickly. Though Russia's war of aggression against Ukraine, the surge in energy and food prices, and the associated slowdown in global demand have dented economic prospects, growth remained resilient in 2023 and 2024 supported by broad support measures for households and firms and the monetary policy response, the implementation of the Recovery and Resilience Plan, as well as the benefits of past structural reforms (OECD, 2023[1]). The unemployment rate fell to an historically low level of 6.4% in 2024 (Figure 1.1, Panel B).

High international uncertainty, increased trade costs associated with weak external demand and still elevated public and private debt levels pose significant risks for the Portuguese economic outlook. The economy has decelerated at the beginning of 2025, before rebounding in the second and third quarters. Household and business confidence have been volatile: they declined in early 2025, but they had recovered their end-2024 level by November. A deceleration of private investment could lower trend growth and put pressure on fiscal sustainability in the context of a rapidly ageing population and historically slow productivity growth. This chapter reviews the short-term macroeconomic outlook and the resilience of the financial system (Sections 1.1 and 1.2). It then turns to options to maintain fiscal sustainability (Section 1.3) and strengthen Portugal's short and medium-term growth prospects through higher productivity (Section 1.4).

Figure 1.1. GDP per capita growth has accelerated, and unemployment is low



Source: OECD (2025), OECD Economic Outlook: Statistics and Projections (database).

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1.1.2. Domestic demand is supporting growth

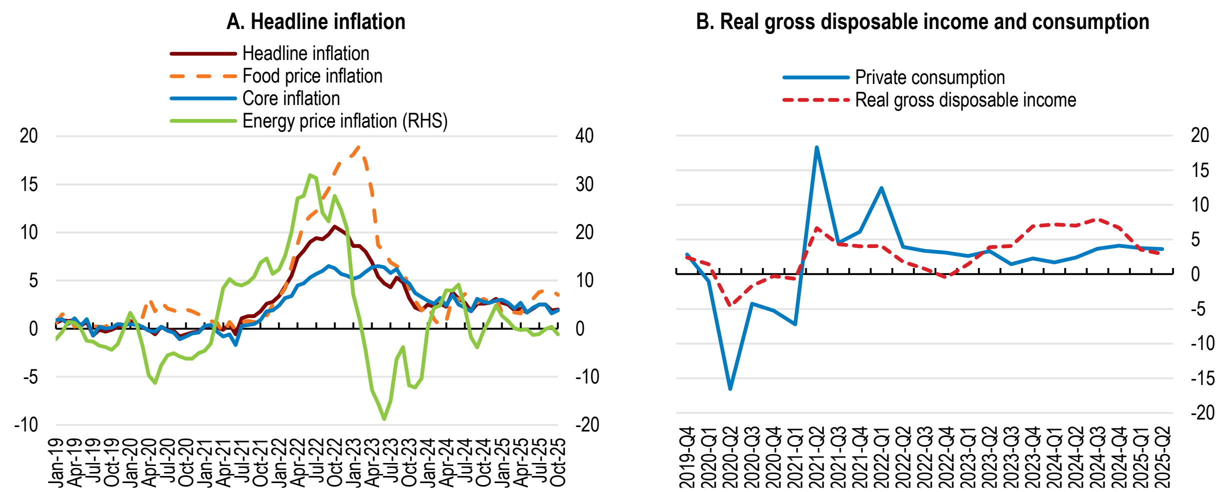
Fiscal policy has supported internal demand. Inflation related support totalled about 1.9% of GDP in 2022 and 3.7% in 2023 (OECD, 2023[1]), when private consumption slowed due to falling purchasing power (Figure 1.2 and Table 1.2). Over the same time, net exports contributed increasingly positively to GDP growth as global trade improved, while the contribution of investment was supported by the progressive implementation of Portugal's Recovery and Resilience Plan (RRP,Box 1.1) despite tight financial conditions. From the second half of 2024, private consumption strengthened, reflecting the strong labour market, rising real incomes with the temporary reduction of the Personal Income Tax withholding rates and improving consumer confidence as price pressures eased. Private investment picked up at the same moment, largely owing to monetary easing, while international trade continued supporting the Portuguese economy until early 2025.

Headline consumer price inflation has declined from its peak of 10.6% in October 2022 due to lower energy and food price inflation and was at 2.0% in October 2025 and 2.1% in November, close to the euro area average (Figure 1.2). Slowing energy prices, partly driven by the decrease of electricity taxes in January 2025, have led to a further decline over 2025. Food inflation has however accelerated in the third quarter of 2025. Service inflation remains also around 2.9% in October 2025, reflecting capacity constraints against the background of strong domestic demand as well as the lagged adjustment of some prices, such as housing rents. Looking ahead, inflation expectations of consumers have moved upwards in 2025 with the announcement of the United States' increased tariffs (Box 1.2), but declined in May and June, while firms' inflation expectations remain contained, as the appreciation of the euro exchange rate in early 2025 moderates import price pressures.

Fiscal policy is set to remain accommodative, with expected fiscal easing of around 0.5% of GDP in 2026, before turning contractionary in 2027. Spending from RRP grants is expected to increase from 0.7% of GDP in 2024 to 2.2% in 2025 and 1.8% in 2026, boosting investment and public consumption without affecting the budget balance. However, public investment is set to decline after the end of the RRP in 2026 (Box 1.1). Persistent fiscal surpluses will lower public debt to 89.4% of GDP in 2027 (Maastricht definition). Activity will also be supported by increasing disbursements of RRP loans. In this context, the authorities should carefully consider further expansionary measures, such as higher public wages, the increases of pension benefits above the application of the indexation formula, a further reduction in the personal income tax, and business tax cuts that risk fueling inflation and lower medium-term fiscal space (see Section 1.3).

Figure 1.2. Inflation has declined and gains in real disposable income have supported consumption

Y-o-y, % change



Source: Eurostat (2025), HICP - monthly data (annual rate of change); OECD (2025), OECD Economic Outlook: Statistics and Projections (database).

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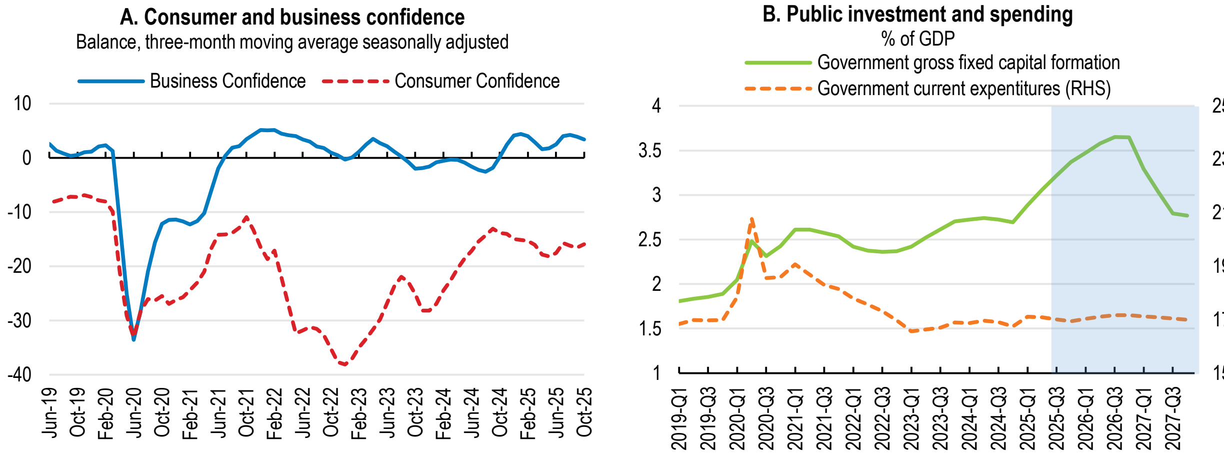
High uncertainty and declining global growth have weakened Portuguese and European growth prospects, although supply bottlenecks have eased (OECD, 2025[2]). The new international economic environment has hurt household and business confidence (Figure 1.3). Though Portugal direct exposure to the US export markets is limited and partly compensated by its high integration with European trading partners, some industries and exporting companies will bear direct adjustment costs (Box 1.2). Firm-level analysis by the Banco de Portugal (2025[3]) shows that business level export exposure to the United States is particularly high in textile industries, non-metallic mineral products and the beverage industry. Moreover, indirect effects will be significant. Portuguese exports have been particularly susceptible to economic developments in euro-area trading partners, where growth is set to soften. Both goods and services exports fell sharply in 2020, before recovering to their pre-pandemic level over 2022 and expanding further in 2023-25. In particular, the direct value added of the tourism sector has rebounded strongly, reaching 8.1% of domestic gross value added in 2024, well above its 2021 level of 5.5%, while increasing information and communication technology and knowledge-intensive services exports contributed to diversification (INE, 2025[4]).

Figure 1.3. Confidence indicators have declined but public investment will support activity



Note: Panel A: Business confidence corresponds to the average of the construction, manufacturing, retail trade and services sectors. Panel B: Shaded area indicates OECD projections.
Source: INE (2025), Short-term trends (database); OECD (2025), OECD Economic Outlook: Statistics and Projections (database).

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Box 1.1. Portugal's Recovery and Resilience Plan (RRP)

Portugal's Recovery and Resilience Plan (RRP) is intended to foster a stronger post-COVID recovery, while making the economy more sustainable, resilient and better prepared for the green and digital transitions. The 2023 updated RRP of Portugal is worth EUR 22.2 billion. It allocates 55% and 23% of the funds to climate and digital objectives, respectively, taking into account primary and secondary assignments of each measure (EC, 2025a).

The implementation of the RRP is set to boost public investment and spending in 2025-26 (Table 1.1). Supply-side disruptions and inflationary pressures have added to existing challenges from an ambitious initial timeline and expenditures are concentrated towards the end of the programming period. With the preliminary positive assessment of its seventh payment request, Portugal would have achieved 62% of the disbursements of its allocated funding and 47% of its milestones and targets (EC, 2025b). Yet, the full implementation of the RRP by 31 August 2026 still poses significant challenges, especially for larger-scale investment. The Portuguese authorities recently passed legislation to speed up procedures. As other European countries, Portugal also amended the allocation of funds to minimise implementation risks (Council of the EU, 2025[5]) and to use unspent RRF resources to guarantee instruments through the national promotional bank, and has submitted a further revision of its Recovery and Resilience Plan at the end of October 2025.

Table 1.1. Disbursements of RRP funds

% of GDP	2021	2022	2023	2024	2025[2]	2026[2]
Revenues from RRF grants	0.0	0.2	0.5	0.7	2.2	1.8
Expenditures financed from RRF grants	0.0	0.2	0.5	0.7	2.2	1.8
of which current spending	0.0	0.1	0.1	0.2	0.8	0.5
of which gross fixed capital formation	0.0	0.1	0.1	0.2	0.9	0.8
of which capital transfers	0.0	0.0	0.2	0.3	0.5	0.5
Disbursements from RRF loans[1]	0.2	0.2	0.3	0.4	0.2	0.8
Expenditures financed from RRF loans	0.0	0.0	0.1	0.2	0.4	0.6
of which current spending	0.0	0.0	0.0	0.0	0.0	0.1
of which gross fixed capital formation	0.0	0.0	0.0	0.1	0.2	0.2
of which capital transfers	0.0	0.0	0.1	0.1	0.2	0.3
Financial transactions financed from RRF loans	0.0	0.1	0.1	0.1	0.2	0.3

Note: 1. As included in the revenue projections. 2. Planned disbursements as reported in Ministry of Finance (2025).
Source: OECD calculations based on Ministry of Finance (2025), Orçamento do Estado para 2026 - Relatório.
Source: EC (2025a), Recovery and Resilience Scoreboard; EC (2025b), Commission greenlights Portugal's seventh payment request of €1.06 billion under NextGenerationEU - 14 October 2025; Council of the EU (2025[5]), Recovery and resilience fund: Council gives green light to amended plans of the Netherlands, Portugal, Slovakia and Spain, Press Release 13 May 2025.

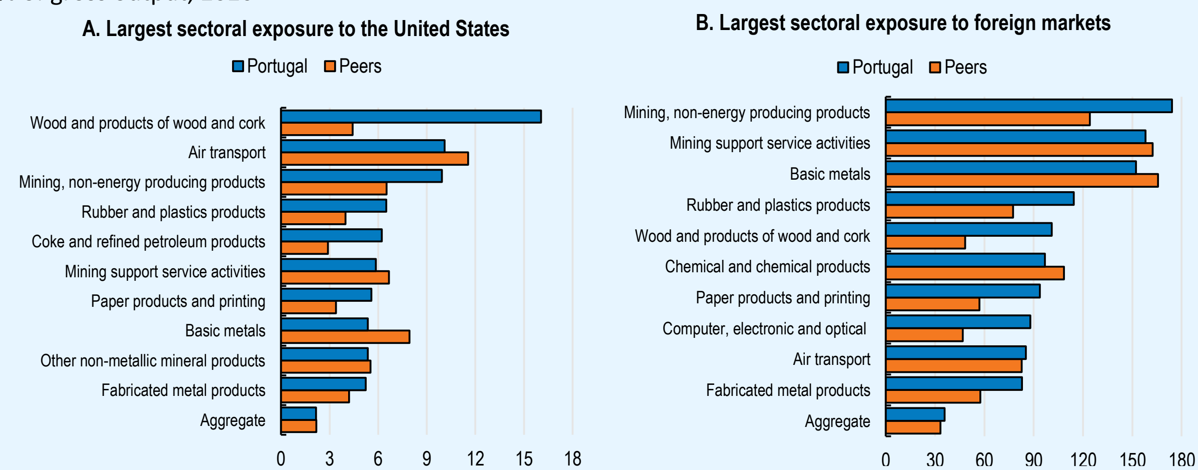
Box 1.2. Portugal’s exposure to increased trade costs and current trade tensions

Portugal’s trade with the United States

Exports of goods and services to the United States represented around 3.8% of Portugal GDP in 2024 (Banco de Portugal, 2025[3]). The United States were the destination of about 6.7% of Portuguese gross exports of goods in 2024 and Portugal is highly integrated in global value chains. Therefore, the effect of US tariffs would not only be direct, but also indirect, via Portugal’s key European partners, notably France, Germany and Spain (Banco de Portugal, 2025[3]). The OECD Foreign Market Reliance indicator shows the share of domestic outputs directly (face value) and indirectly reliant on the US export market, through other economies (Figure 1.4) (OECD, 2023[6]).

Figure 1.4. Portugal’s exposure to the US and global export markets

% of gross output, 2020



Note: Panel A & B: The figures depict the ten Portuguese sectors with the largest Foreign Market Reliance (FMR) for the United States (Panel A) and global markets (Panel B) as well as total exposure for Portugal (aggregate). The FMR indicator aims at measuring the risk of a downstream demand disruption in the United States and foreign markets on a given economy. For each industry, it considers (1) the size of exposure to the USA or foreign markets in the value chain, and (2) the distance to these partners in the value chain (Schwellnus et al., 2023). The FMR count value added each time goods or services cross borders, thus it can take values above 100%. Peers is the unweighted average of France, Germany, Greece, Italy and Spain.
Source: OECD calculations based on OECD (2024), Gross output flows in global value chains; Schwellnus, C. et al. (2023), “Global value chain dependencies under the magnifying glass”, OECD Science, Technology and Industry Policy Papers, No. 142, OECD Publishing, Paris.

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Recent main international trade policy announcements

Since February, the United States has announced multiple waves of tariffs against trading partners, some of which have invoked countermeasures. They have notably announced the introduction of a tariff of 25% on all steel and aluminium (effective since 12 March 2025), as well as tariffs of 25% on foreign-made auto imports (effective from 2 April 2025). In addition, the US Fair and Reciprocal Plan was introduced on April 2, imposing a 10 percent minimum tariff on all countries other than Canada and Mexico and country-specific rates as high as 50 percent for roughly 60 countries (effective from 5 April 2025). On August 21, an agreement was announced which would set a 15% tariff rate on most European exports, including cars, semiconductors and pharmaceuticals, and envisage a tariff-rate quota solutions on steel and aluminium.

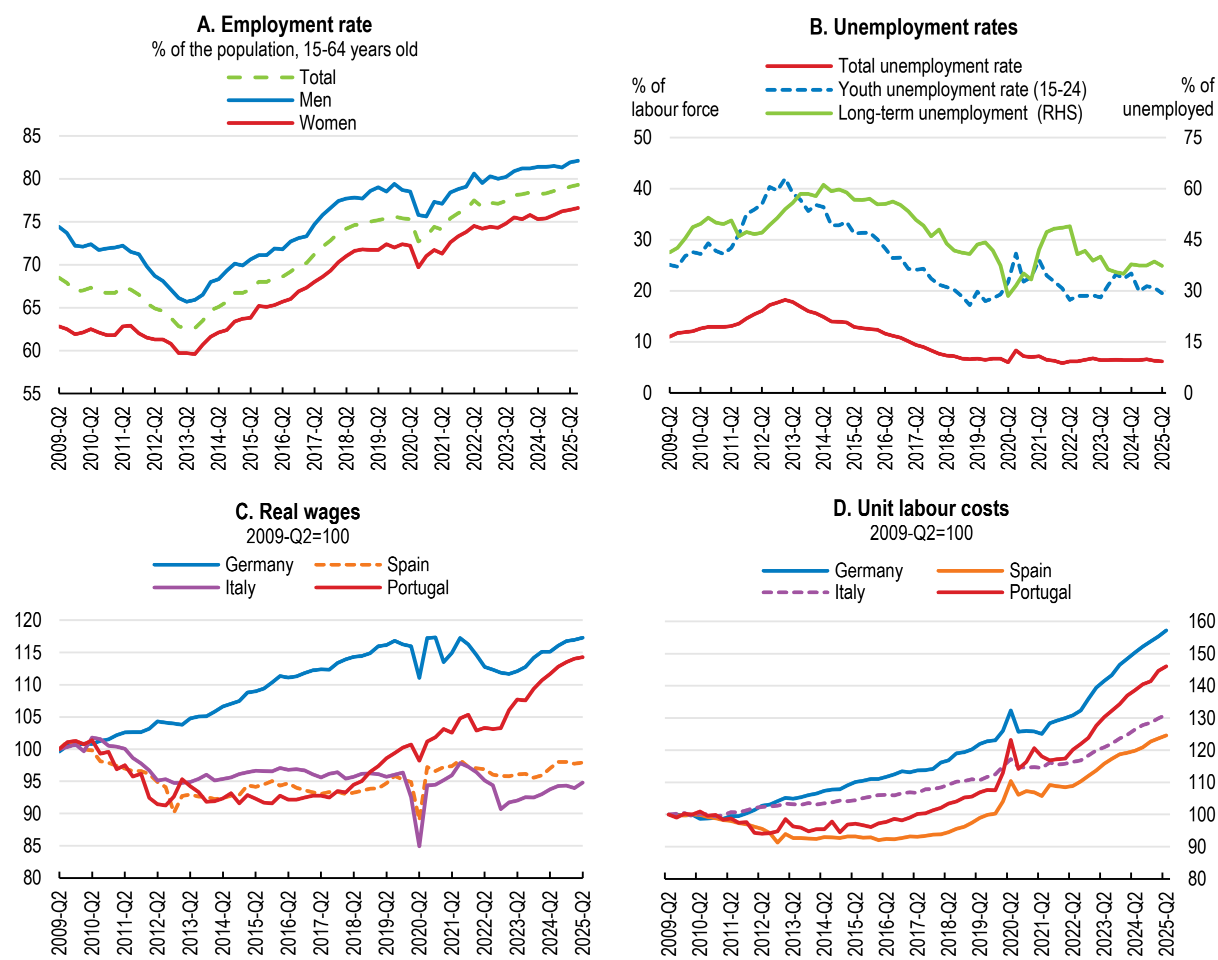
The direct impact of the US import tariffs on Portugal is likely to be concentrated in the mining industry and related manufacturers, as well as manufacturers of rubber, plastic and wood products, which have the largest exposure to the US market (Figure 1.4, Panel A). These are also the sectors with the largest foreign market exposure (Panel B). However, the ten sectors the most integrated with the US economy according to this indicator only accounted for below 7% of Portugal value added.

Source: Banco de Portugal (2025[3]), Economic Studies March 2025; OECD (2023), ICIO-TIVA Highlights - GVC Indicators for Portugal, OECD Publishing, Paris.

1.1.3. The labour market is set to remain resilient

The labour market remains robust, with the unemployment rate projected to broadly stabilise below 6% in 2026-27 (Table 1.2). Participation and employment rates remain around historical highs, including for women, whose employment rate is around 7 percentage points higher than in the OECD average in 2024 (Figure 1.5, Panel A). The recent large inflows of working-age migrants have also supported labour supply, with a relatively high employment rate of the foreign-born population (Chapter 2), though their skills could be better used. However, labour-market opportunities for young people still appear limited, with a high unemployment rate among those aged 15-24 around 20% Panel B). At the same time, the persistent large share of long-term unemployment points at structural labour market mismatches (Figure 1.5, Panel B and Chapter 2).

Figure 1.5. The labour market is strong, real wages and labour costs are growing



Note: Panel B: Long-term unemployment refers to those who have been unemployed for 12 months or more. Panel C: Real wages are deflated by the private consumption deflator.
Source: Eurostat (2025), Labour Force Statistics (database); OECD (2025), OECD Economic Outlook: Statistics and Projections (database).

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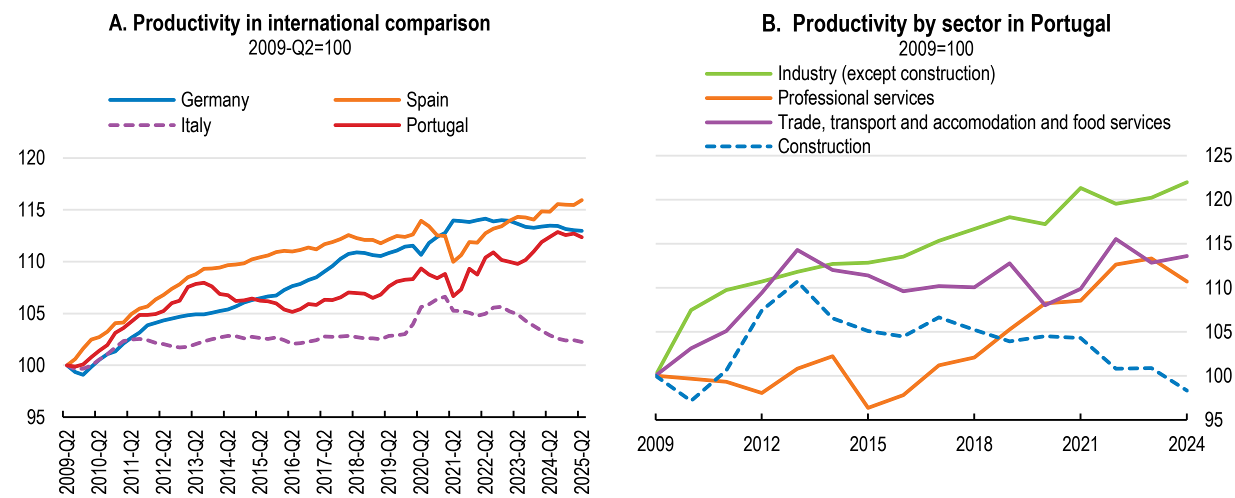
The improving labour market and enduring labour shortages in specific sectors have pushed up wages, unit labour costs and contributed to strong services price pressures. Labour shortages appear widespread across sectors, with 25% of businesses that report the existence of obstacles to business in the manufacturing sector and 75% in the construction sector considering a lack of skilled staff as the main obstacle to carrying out business in the second quarter of 2025 (INE, 2025[7]) (Chapter 2). Real wages have significantly picked up (Panel

C), with nominal wage growth outpacing inflation. Nominal wages are projected to grow by 3.7% in 2026 and 3.4% in 2027, supported by the minimum wage hikes of 6.1% in 2025 and 5.7% in 2026, and the planned further increase of 5.4% in 2027. Tax incentives for firms to raise wages, where firms can deduct 200% of costs associated with salary increases from their taxable income (in place since 2023), are also supporting wage developments. Given the tight labour market and the weak international evidence about their positive impact on wage and employment and their cost-effectiveness (OECD, 2023[1]), they should be phased out. Unit labour costs have been increasing at a rapid pace (Figure 1.5, Panel D), reflecting unequal productivity growth despite its rapid growth in services sectors (Figure 1.6). While recent wage growth supports living standards, it is also pushing up the price of labour-intensive services, and ensuring this momentum does not erode competitiveness requires policies to strengthen productivity.

Figure 1.6. Productivity growth accelerated in some sectors

GDP per hour worked, index



Note: Panel A shows a 4-quarter moving average of labour productivity as GDP per hour worked by employees and self-employed at constant prices. Panel B shows yearly real labour productivity per hour worked by employees and self-employed at constant prices.
Source: Eurostat (2025), Annual and quarterly national accounts.

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1.1.4. Growth will stabilise

GDP is projected to grow by 1.9% in 2025, 2.2% in 2026 and 1.8% in 2027 (Table 1.2). Spending of European funds is boosting investment, but the projected slowdown in global activity and European growth, rising trade barriers and an assumed 15% US tariff on Portuguese goods, including steel and auto parts, will weigh directly and indirectly on exports and private investment (Box 1.2). Sustained wage growth and robust employment will support consumption, especially as inflation and debt servicing costs are set to remain moderate. Tax cuts, increasing social transfers and higher public wages will support household incomes but also slow the decline in inflation. Headline consumer price inflation will moderate to 2.2% in 2026 and 2.0% in 2027 as import prices rise and services price pressures diminish slowly.

Table 1.2. Macroeconomic indicators and projections

	2022 Current prices (billion EUR)	2023	2024	2025	2026	2027
Gross domestic product (GDP)	244	3.1	2.1	1.9	2.2	1.8
Private consumption	155.2	2.4	3.0	3.2	2.3	2.1
Government consumption	42.5	1.8	1.5	1.6	2.4	1.0
Gross fixed capital formation	50.2	6.0	4.2	2.5	5.0	0.4
Housing investment	10	4.6	5.5	5.1	2.5	2.8
Final domestic demand	247.9	3.0	3.0	2.8	2.9	1.6
Stockbuilding[1]	2	-0.8	-0.1	0.6	0.0	0.0
Total domestic demand	249.8	2.2	2.9	3.4	2.8	1.5
Exports of goods and services	120.7	4.3	3.1	1.1	2.2	2.5
Imports of goods and services	126.6	2.3	4.8	4.3	3.6	1.9
Net exports[1]	-5.9	0.9	-0.7	-1.4	-0.6	0.3
Other indicators (growth rates, unless specified)						
Potential GDP	. .	2.3	2.4	2.1	2.0	1.9
Output gap[2]	. .	1.1	0.8	0.6	0.8	0.7
Employment	. .	2.3	1.2	3.1	1.3	0.4
Unemployment rate	. .	6.5	6.4	6.1	6.0	5.9
GDP deflator	. .	7.5	4.8	3.7	2.4	2.1
Consumer price index	. .	5.3	2.7	2.2	2.2	2.0
Core consumer price index	. .	5.4	2.7	2.3	2.1	2.0
Household saving ratio, gross[3]	. .	8.9	12.5	11.8	11.8	11.8
Current account balance[4]	. .	0.5	2.1	1.3	1.0	1.2
General government fiscal balance[4]	. .	1.3	0.5	0.1	-0.6	-0.5
Underlying general government fiscal balance[2]	. .	-0.4	-0.6	-1.9	-2.4	-0.8
Underlying government primary fiscal balance[2]	. .	3.0	2.3	1.9	1.3	1.5
General government gross debt (Maastricht)[4]	. .	96.9	93.6	90.1	87.2	84.9
General government net debt[4]	. .	71.2	63.0	57.6	54.7	52.4
Three-month money market rate, average	. .	3.4	3.6	2.2	2.0	2.0
Ten-year government bond yield, average	. .	3.2	3.0	3.1	3.2	3.3

Note: 1. Contribution to changes in real GDP.
2. As a percentage of potential GDP.
3. As a percentage of household disposable income.
4. As a percentage of GDP.
Source: OECD (2025), OECD Economic Outlook: Statistics and Projections (database).

1.1.5. Risks around the outlook remain substantial

Significant uncertainty about economic prospects remains, and the major risks are on the downside, affecting both firms and households. Like in other OECD countries, businesses have been hit by two shocks in a row, as the pandemic was immediately followed by the war in Ukraine and increasing price pressures. High input costs, including for energy, have stretched thin financial buffers and some firms will face liquidity and solvency challenges that could potentially lead them into bankruptcy. Heightened international tensions, uncertainty and increasing trade costs and global value chain fragmentation are key risks for the Portuguese economy.

A further increase in trade barriers and a more significant slowdown among Portugal's main trading partners could lead to an additional decline of exports. Portugal's export performance has been strong since 2007 (Figure 1.7). However, according to simulations by the Banco de Portugal (2025[3]), a 25 percentage points increase in the tariffs imposed by the United States on the European Union associated by an equivalent retaliation could lead to a reduction of GDP by 0.7% in Portugal after three years and the impact could reach

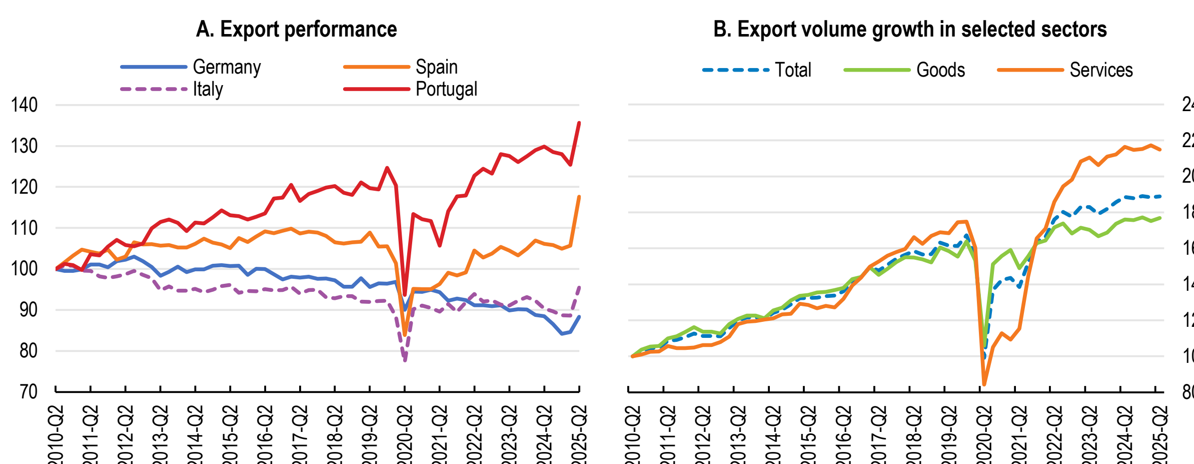
1.1% once the associated shock to uncertainty and confidence is taken into account. Some sectors such as the mining industry and related manufacturers will likely be more affected (Box 1.2 and Figure 1.8).

Heightened and prolonged uncertainty and market volatility linked to the international trade situation and geopolitical tensions could also weigh on investment and growth. Historically, uncertainty had a significant negative impact on Portuguese economic activity during the financial and sovereign debt crises (Manteu and Serra, 2017[8]). Moreover, Portugal's net external debt and net international investment position (NIIP) albeit steadily improving, remained 44.3% of GDP and -57.5% of GDP in 2024 (UTAO, 2025[9]). Risks are mitigated by the high share of non-defaultable instruments, such as foreign direct investments and equity, in Portugal's net investment position (EC, 2024[10]), but the uncertain external environment and rising global interest rates could negatively impact Portugal's financing conditions. In addition, if RRP spending were implemented more slowly than projected, this would constrain investment and the green transition.

By contrast, growth could be supported by a further decrease in the historically high household saving rate and stronger-than-expected wage developments that could strengthen consumption but also fuel inflation. Higher than expected public expenditures, notably on defence, could also raise internal demand. The Portuguese authorities have committed to increase defence spending to 5% of GDP by 2035 (see below). Finally, several large potential shocks could alter the economic outlook (Table 1.3).

Figure 1.7. Export performance remains strong

Index, 2010-Q2 = 100



Note: Panel A: Difference between export growth and export markets' growth, in volume terms (based on export markets as of 2021).
Source: OECD (2025), OECD Economic Outlook: Statistics and Projections (database); INE (2025), National Account database.

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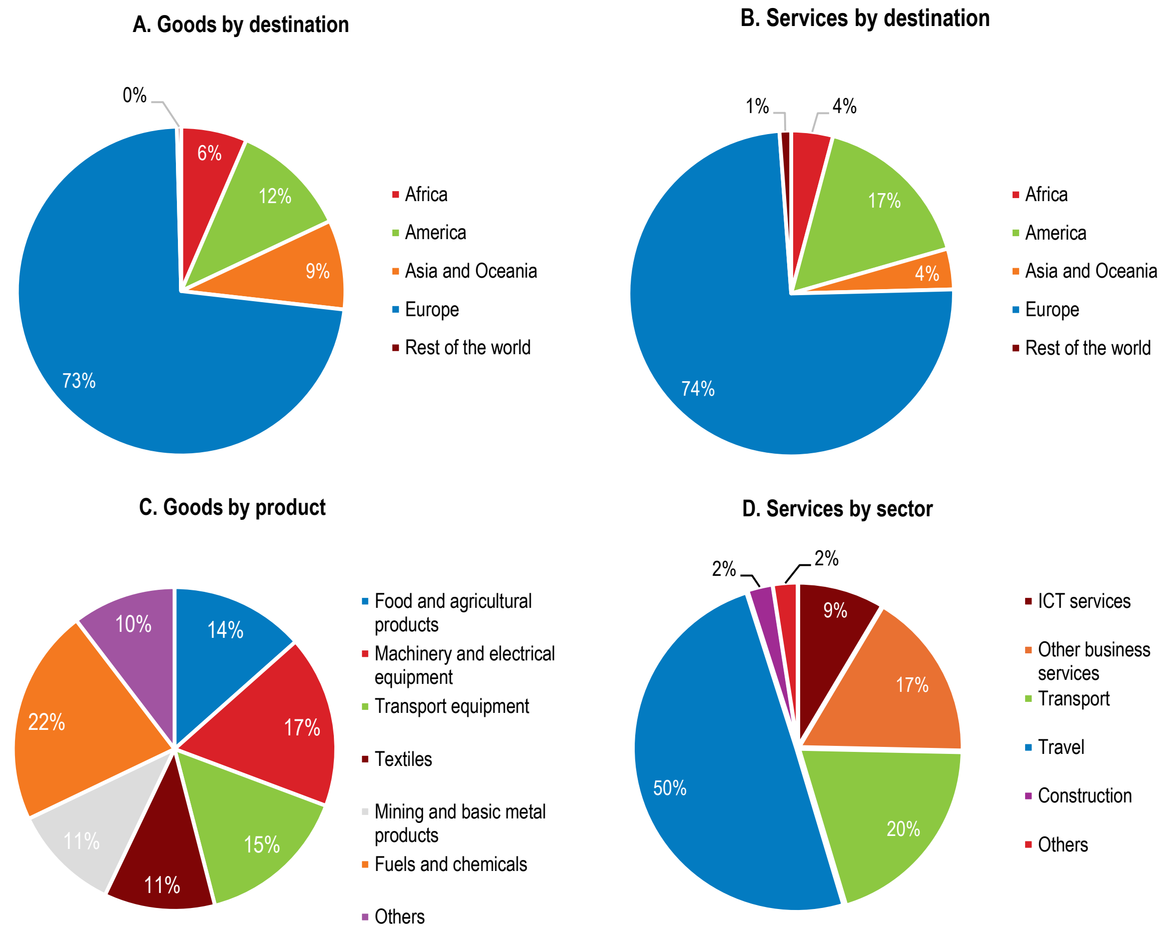
Table 1.3. Low-probability events that could lead to major changes in the outlook

Shock	Possible impact
Sharp escalation of trade tensions globally leading to abrupt global slowdown or recession accompanied by financial market disruptions.	A global recession would dampen external demand, while prolonged uncertainty and financial market disruptions could tighten financial conditions, lower confidence, and hamper investment.
A significant increase in risk premiums due to a deterioration in macro-economic conditions and heightened financial market volatility.	Higher risk premiums would increase interest rates on the issuance of sovereign debt, raise market financing costs for firms and could affect the quality of assets in bank portfolios.
Extreme weather events such as forest fires and floods.	Temporary and local drop in output due to the induced disruptions. Rising price pressures, as labour demand for rebuilding adds to skill shortages. Pressure on public finances, as physical infrastructure is replaced.
A large-scale cyberattack.	Disruption of business operations. Shutdown of vital domestic infrastructure.

Figure 1.8. Portugal's exports are tilted towards European partners

Share of exports by sector and destination, 2023



Note: Panels A & B: regions are defined as in the United Nations Statistics Division's areas code (M49). Panels A & C: data refer to balanced value adjusted for re-exports. Panel C: categories are based on the OECD BIMTS CPA 2.1 classification. The "Food and agricultural products" category corresponds to codes A and C10T12; "Machinery and electrical equipment" corresponds to C26 to C30; "Textiles" corresponds to C13_15; "Mining and basic metal products" corresponds to B and C24_25; "Fuels and chemicals" corresponds to C19T23; "Others" refer to the remaining, mostly manufactured, products. Panel D: the categories correspond to the EBOPS 2010 classification; "Others" refer to the remaining services exports (excluding the other categories shown).

Source: OECD Balanced international merchandise trade statistics (BIMTS), OECD International Trade in Services EBOPS 2010.

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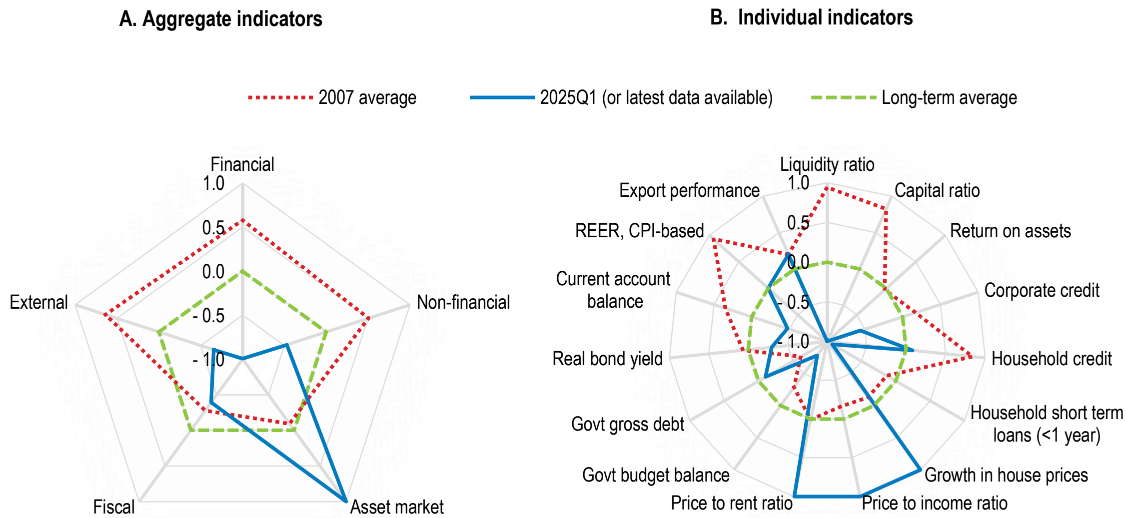
1.2. Financial risks require continued close monitoring

Portugal's financial system has become significantly more resilient since the global financial crisis. Credit ratings of major banks have improved, and key financial soundness indicators have strengthened (Figure 1.9). Banks' funding structure has become more stable, with the share from customer deposits remaining high at around three quarters of bank liabilities at end-2024, helping to mitigate high market volatility. Non-performing loans (NPLs) declined sizably to 2.3% of all outstanding loans in the second quarter of 2025, yet they remain above the OECD and euro area averages (Figure 1.10, Panels A and B). Liquidity positions and capital buffers have improved, ranking favourably compared to European peers, signaling improved resilience to the volatile international macroeconomic environment (Panels C and D). Limiting dividend payouts and share buybacks could support capital accumulation. Despite a narrowing of net interest margins because of declining interest rates, bank profitability, as measured by the returns on assets and equity or the cost-to-income ratio, remains above the euro area average (Banco de Portugal, 2025[11]).

Figure 1.9. Macro-financial vulnerabilities have declined overall, but some housing vulnerabilities have increased

Index scale of -1 to 1 from lowest to greatest potential vulnerability



Note: Each aggregate macro-financial vulnerability dimension is calculated by aggregating (simple average) normalised individual indicators from the OECD Resilience Database. Individual indicators are normalised to range between -1 and 1, where -1 to 0 represents deviations from long-term average resulting in less vulnerability, 0 refers to long-term average and 0 to 1 refers to deviations from long-term average resulting in more vulnerability. Financial dimension includes regulatory capital ratio, regulatory Tier 1 capital ratio and the return on equity ratio. Non-financial dimension includes private bank credit (% of GDP), household credit (% of GDP) and corporate credit (% of GDP). The asset market dimension includes growth in real house prices (year-on-year % change), house price to disposable income ratio and house price to rent ratio. Fiscal dimension includes government budget balance (% of GDP) (inverted) and government gross debt (% of GDP). External dimension includes current account balance (% of GDP) (inverted) and real effective exchange rate (REER) (relative consumer prices).
Source: Calculations based on OECD (2025), OECD Resilience Database June.

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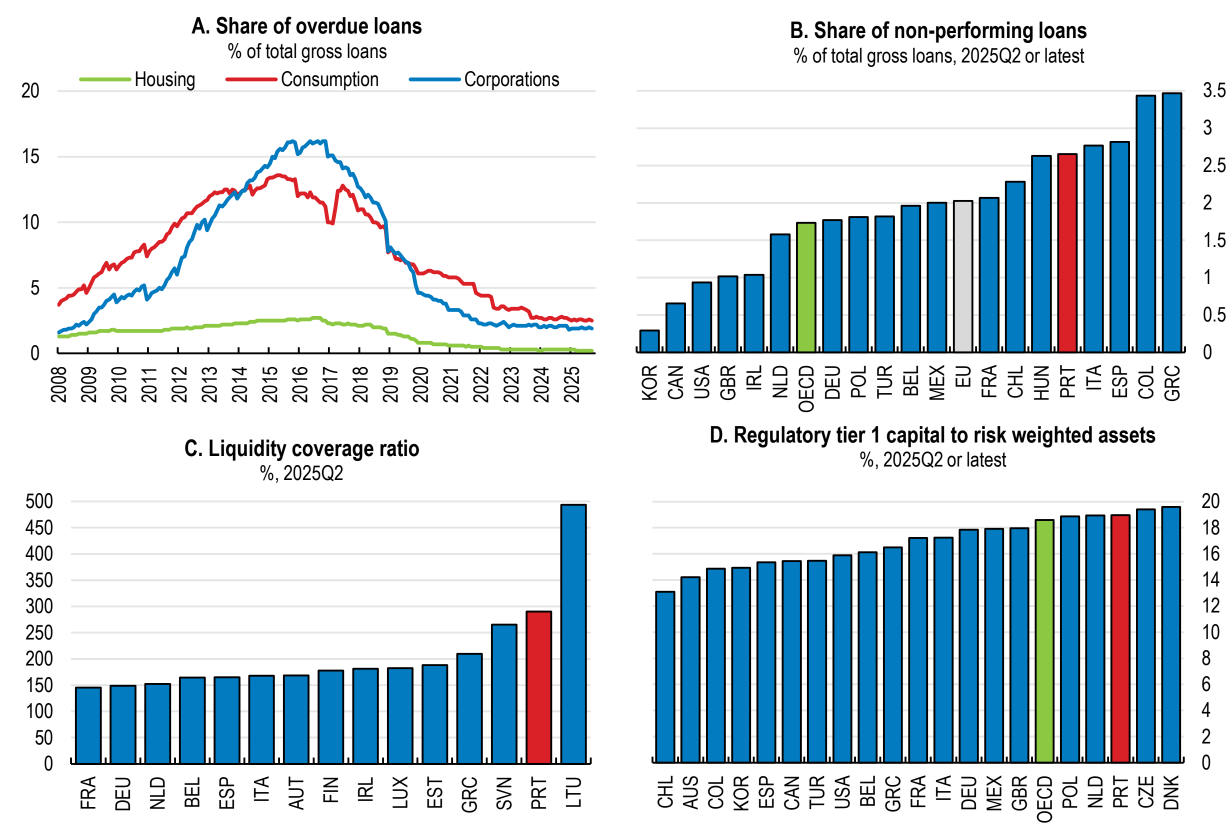
Households balance sheets have strengthened, helped by declining debt ratios and low unemployment. Gross household debt fell to 76% of gross disposable income in 2024, a decline of around 40 percentage points since 2013 (Figure 1.11, Panel C). Most mortgages have conservative loan to value ratios, with 94% of total mortgage loans in June 2024 below 80%. Although many loans are still variable rate (Panel D), new loans are dominated by mixed-rate agreements (at 82% of the mortgages issued in 2024) which have an average period of 3.4 years in which the initial rate is fixed and monetary policy in the euro area has become less restrictive and lower interest rates and rising real incomes are easing the repayment burden. The government has also introduced policy measures to improve access to housing and lower debt repayments for low-income households (Chapter 4).

Housing market risks persist requiring close monitoring. Financial stability risks stem mainly from a combination of elevated housing prices (Figure 1.11, Panels A and B), high household indebtedness, and high use of variable rate mortgages. While near term risks of a sharp fall in housing prices may be contained by tight housing supply and continued demand from non-residents (IMF, 2024[12]; Banco de Portugal, 2024[13]), affordability pressures remain high. Macroprudential measures such as borrower-based limits on loan-to-value and debt-to-service income ratios since 2018 have narrowed risk exposures, however, households remain vulnerable to future interest rate fluctuations and income shocks. The average mortgage payment has fallen (EUR 405 in July 2024 to EUR 395 in May 2025) but is still substantially higher than before the recent interest rate rise cycle, of EUR 237 over 2021 (INE, 2025[14]). A sectoral systemic risk buffer of 4% (implemented as of October 2024) for banking groups that use the internal ratings-based approach targeting sources of systemic risk from residential real estate and a countercyclical capital buffer (0.75%) set for 2026 aim to further strengthen resilience (Banco de Portugal, 2024[15]). Continued close monitoring of household debt and macroprudential policy adjustments, if needed, is essential. Moreover, continued reforms to boost housing supply, particularly easing land use restrictions and increasing the stock of social housing, are crucial to reduce housing market pressures, as discussed in Chapter 4.

Corporate sector financial conditions have also improved significantly. Gross corporate debt has declined to 76% of GDP in 2024 (Figure 1.12, Panel A), and debt servicing capacity has risen. Insolvencies remain below pre-pandemic levels in most sectors, though they have increased in some including manufacturing accommodation and food services. Firms' profit margins remain historically low, and a slowing global economy poses downside risks (Panel B). Lower global demand could add to the financial challenges resulting from the pandemic, the rise in energy and other input costs and the maintenance of still high interest rates (Banco de Portugal, 2024[13]). Although the share of vulnerable firms is declining, financial risks in the business sector warrant ongoing surveillance.

Figure 1.10. The resilience of the banking sector has improved



Note: Panel A: 2025 data is up to the month of September. Panel B: The EU corresponds to the composition of European Union as of 2020. Panel C: Data for Luxembourg correspond to 2024Q4. Panel B & D: The OECD aggregate corresponds to the simple average of 37 countries (New Zealand is missing).
Source: Banco de Portugal, IMF: Financial Soundness Indicators, European Central Bank.

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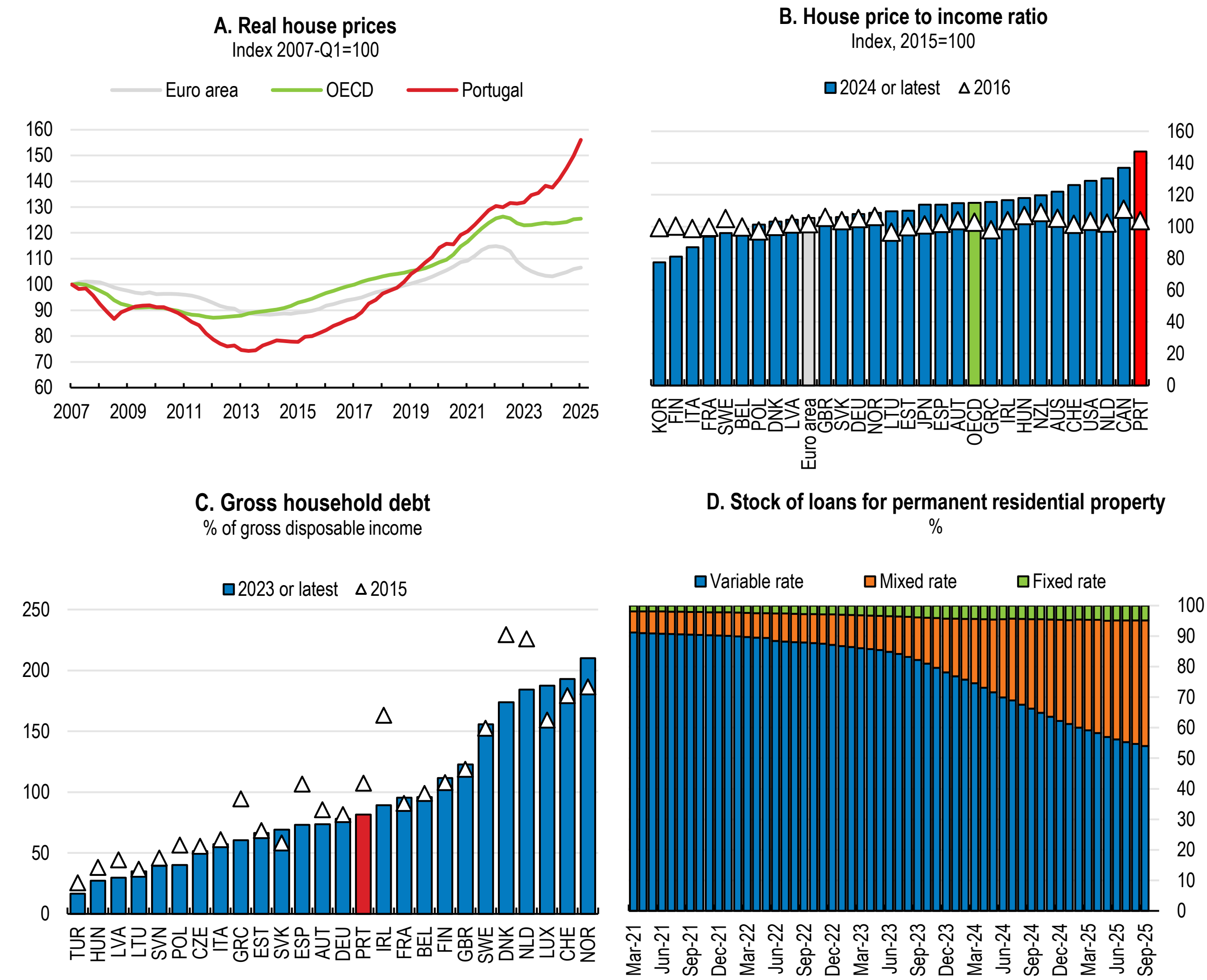
As in other OECD countries, climate-related risks are increasingly relevant for Portugal's financial system, both in terms of physical risks (such as wildfires or floods) and transition risks arising from the shift to a low carbon economy. While some steps have been taken, like easing loan maturity rules for green investment in renewable energy and energy transition, Portugal should strengthen its financial supervisory framework further. While Banco de Portugal (2024[16]) has already carried out and published climate scenario analysis, additional stress testing should be regularly developed, as done in countries like France, and additional borrower and lender-based macro prudential tools should be considered to address vulnerabilities.

Amidst high geopolitical tensions, operational and cyber risks are growing and could disrupt the economy and the financial system. In Portugal, financial institutions often outsource part of the services and infrastructure to third parties to perform their core functions, such as payments, cloud storage and cybersecurity, which can be critical, notably for e-payments and cash services (Banco de Portugal, 2025[17]). The implementation of the European Digital Operational Resilience Act (DORA) is a welcome development and Portugal's central bank has taken additional steps to map these risks in the banking system. Regular updates and extending this work to other financial institutions and critical service providers will be important to maintain systemic wide resilience.

Figure 1.11. Household debt has decreased, but housing market vulnerabilities remain high



Note: Panel B: Data for Costa Rica, Iceland, Mexico and Turkey are not available. OECD unweighted average is computed on available countries. Euro area aggregate corresponds to the 17 OECD countries of the Euro area. Data for Colombia, Chile and Luxembourg are not shown. Panel C: 2023 data for Norway correspond to 2022, for United Kingdom to 2019.
Source: OECD Analytical House Prices Indicators (database), Eurostat, Banco de Portugal.

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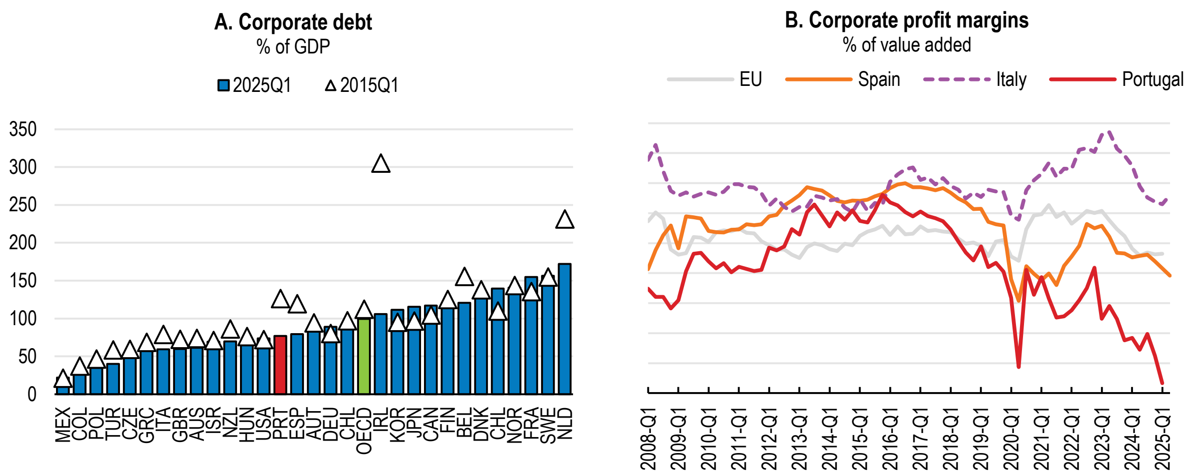
Figure 1.12. Corporate debt and profit margins of non-financial corporations have declined



Note: Panel A: Average of the OECD countries for which data is available. Panel B: The EU corresponds to the composition of European Union as of 2020.
Source: BIS, Credit Statistics (database); Eurostat (2025), National Accounts (database).

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Table 1.4. Past OECD recommendations to address financial risks

Recommendations in past surveys	Actions taken since 2023
Strengthen incentives for banks to reduce their non-performing loans should they prove insufficient.	Non-performing loans continued to decrease over 2024-25.
Consider establishing a national asset management company.	No action taken.

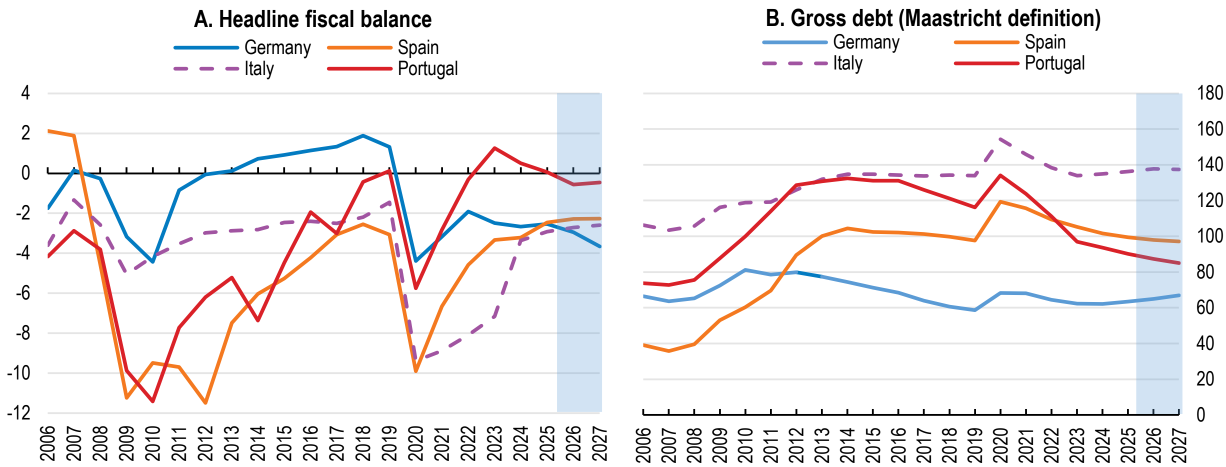
1.3. Maintaining fiscal sustainability over the longer term

1.3.1. Fiscal performance has been strong

Portugal's fiscal performance has been among the strongest in the OECD and the Euro Area in the past few years. A robust recovery, disciplined budget execution and favourable revenue dynamics have supported improvements in the fiscal balance and a decline in the public debt-to-GDP ratio, as well as a fall of long-term sovereign bond spreads with respect to Germany to an historically low level in the second part of 2025. Like in all OECD countries, the COVID-19 crisis triggered a deterioration of public finances, widening the fiscal deficit to 5.8% of GDP in 2020. However, since 2023, the fiscal balance has turned to surpluses of 1.3% of GDP 2023 and 0.5% in 2024, as COVID-19 measures and cost-of-living support were withdrawn (Figure 1.13, Panel A). The fiscal improvement was supported by strong nominal GDP growth, contained current public expenditures, dynamic tax revenues and a stabilisation in interest payments as a share of GDP, as well as regular under-spending on public investment (CFP, 2025[18]). Public debt declined to 93.6% of GDP (Maastricht definition) in 2024, 40 percentage points below its 2020 peak (Panel B), faster than most euro area countries, and more than fully reversing the pandemic era increase.

Figure 1.13. The fiscal situation is expected to remain strong in the short term

% of GDP



Note: Shaded areas indicate OECD projections.
Source: OECD (2025), OECD Economic Outlook: Statistics and Projections (database).

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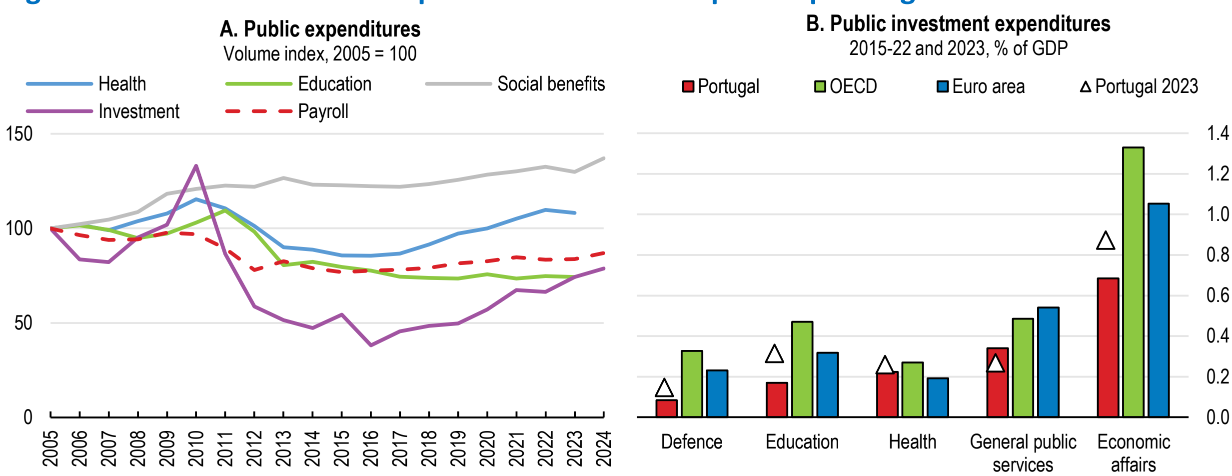
The fiscal situation is set to remain strong in the short term, with a further decline in the public debt-to-GDP ratio (Figure 1.13 and Table 1.2). This favourable trajectory reflects continued primary surpluses, stable growth and EU-funded investment under the Recovery and Resilience Facility. Fiscal policy will nonetheless remain accommodative in 2025 and 2026, with the fiscal balance projected to reach 0.1% of GDP in 2025, -0.6% in 2026 and -0.5% in 2027, as expenditures financed though RRP loans are set to temporarily increase to 0.7% of GDP in 2026 (Box 1.1). The expected fiscal easing in 2026 of around 0.5% of GDP, will help raise needed public investment. However, to maximize the impact of the RRP, prioritising high-impact investments and accelerating execution will be key. Moreover, the expected fiscal easing will also increase current spending and permanently reduce tax revenues, which would reduce fiscal room in the longer term. The 2025 measures include compensation of past purchasing power losses for public servants and pension increases beyond the regular indexation rule (0.5% of GDP), along with cuts to personal and corporate income taxes (0.5% of GDP), through the adjustment of the personal income tax brackets by 4.6%, above the projected headline inflation rate, the strengthened youth PIT scheme and the lowering of the corporate income tax rate. The government further reduced personal income taxes by 0.2% of GDP in August 2025 for low and middle-income households.

There is a risk of underinvestment after EU funds taper off. Despite the support of European funds, public investment remains below its 2005-10 levels (Figure 1.14). European support for public investment is set to significantly decline in 2027-29 after the Recovery and Resilience Plan concludes (CFP, 2025[19]), though the acceleration of the implementation of the EU cohesion funds after 2027 will dampen this decline. Unless nationally financed investment raises in parallel, the decline in European support risks undercutting long term growth. Fiscal risks also stem from rising defence and security expenditures, in line with Portugal's international commitments. Defence spending is expected to reach 5% by 2035 from 1.5% of GDP in 2023 (EDA, 2024[20]; CFP, 2025[21]). With other European countries, the request of the Portuguese authorities to activate the fiscal escape clause of the Stability and Growth Pact was accepted in early June 2025. The fiscal costs will only be partly eased by the European Readiness 2030 package and the SAFE (Security Action for Europe) loan instrument, and positive growth spillovers from a coordinated fiscal package (EC, 2025[22]), and would raise public debt (CFP, 2025[19]). Potential costs overruns on large infrastructure projects, like the Porto-Lisbon high-speed rail and significant contingent liabilities pose additional fiscal risks. At the same time, government guarantees have declined to 3.7% in 2023 and liabilities to non-financial State-Owned Enterprises (SOEs) have declined to a relatively low level of 2.3% of GDP, while contingent liabilities of SOEs involved in financial activities reached 28.4% of GDP (Eurostat, 2025[23]; CFP, 2023[24]).

To maintain debt on a firmly declining trajectory and create room for investment, Portugal should ensure the implementation of a medium-term strategy with gradual fiscal consolidation combined with policies to foster potential growth, building on the adoption of the national medium-term fiscal-structural plan (2025-28). In recent years, social expenditures have increased rapidly, while investment, notably in infrastructure, education and defence has lagged (Figure 1.14). This strategy should include improving expenditure quality, notably for the numerous overlapping social expenditures (see below), reducing inefficient tax expenditures and strengthening the use of spending reviews, which will be implemented in the annual budget process. Increasing nationally funded investment will require rebalancing spending towards growth enhancing spending. Stronger public financial management and budget evaluation tools can help ensure long term fiscal sustainability.

Figure 1.14. There is room to improve the structure of public spending



Note: Panel A: Expenditures are deflated by the GDP deflator. Public education and health expenditures are defined according to the COFOG classification. Panel B: Average gross fixed investment as a percentage of GDP over 2015-22. The OECD average is unweighted and includes 31 countries (excluding Canada, Chile, Costa Rica, Mexico, New Zealand, Türkiye and Portugal) and the euro-area average includes 16 countries (excluding Croatia, Cyprus, Malta and Portugal). Economic affairs cover transport, communication, fuel and energy and other industries.
Source: OECD (2025), National Account database and OECD calculations.

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1.3.2. Rising long term aging expenditures challenge fiscal sustainability

Demographic change will significantly increase public spending pressures in the next two decades. Ageing-related expenditures are set to rise substantially by 3.8% of GDP by 2045, from 23.5% of GDP in 2025 to 27.3% in 2045, before declining thereafter to a still high 24.3% of GDP (Table 1.5) (EC, 2024[25]), driven by pensions, healthcare and long-term care. While the pension system includes automatic stabilisers through the link between the retirement age and life expectancy, expenditures are set to rise further. Therefore the Portuguese authorities are evaluating additional measures to raise older worker employment and contain cost pressures. Without reforms to improve spending efficiency and further contain rising ageing-related costs, public debt could rise above 100% of GDP by 2060 (Figure 1.15, Panel A, scenario A "Current policy and ageing costs"). On the other hand, the measures proposed in this Survey could alleviate some ageing costs pressures and raise potential growth, strengthening long-term sustainability and lowering public debt below 40% of GDP by 2060 (Panel A, scenario B "Scenario (A) and OECD recommendations" and Box 1.4 and Box 1.5). This would help to achieve Portugal's commitments within the new European fiscal which foresee to maintain sizeable primary surpluses until 2038, despite rising ageing costs (Panel A, scenario C "Portugal fiscal plan until 2038") (República Portuguesa, 2024[26]; EC, 2024[27]).

Table 1.5. Ageing-related spending is projected to increase substantially

As a percentage of GDP unless otherwise indicated

	2025	2030	2035	2040	2045	2050	2060
Public pensions expenditure, gross[1]	12.8	13.5	14.3	14.7	15.1	14.6	11.8
of which:							
Old-age and early pensions	10.2	10.9	11.8	12.2	12.8	12.4	9.7
Disability pensions	0.5	0.4	0.5	0.5	0.4	0.4	0.4
Survivors' pensions	2.0	1.9	1.9	1.8	1.6	1.5	1.3
Public spending on healthcare[2]	6.0	6.2	6.5	6.7	6.9	7.1	7.3
Public spending on long-term care[2]	0.5	0.6	0.7	0.7	0.8	0.9	0.9
Education	4.2	4.1	4.1	4.3	4.4	4.4	4.3
Total ageing-related spending	**23.5**	**24.4**	**25.6**	**26.4**	**27.3**	**27.0**	**24.3**
Risk scenario: possible additional spending on health and long-term care[3]	**0.2**	**0.5**	**0.9**	**1.4**	**2.1**	**3.0**	**5.4**
Old-age dependency ratio (20-64)	43.1	48.2	53.5	59.8	65.9	68.6	67.8
Life expectancy at 65[4]	21.3	21.8	22.3	22.8	23.2	23.7	24.5
Total ageing-related spending EU average	24.3	24.6	25.0	25.2	25.4	25.5	25.5

Note: 1. AWG baseline scenario, 2. AWG Reference scenario. 3. The European Commission's risk scenario assumes an upward convergence of coverage and costs profiles towards European Union averages for long-term care, as well as a partial continuation of the recently observed upward trends in health care expenditures. 4. Average of men and women's life expectancy.
Source: EC (2024), The 2024 Ageing Report: Economic and Budgetary Projections for the EU Member States (2022-2070).

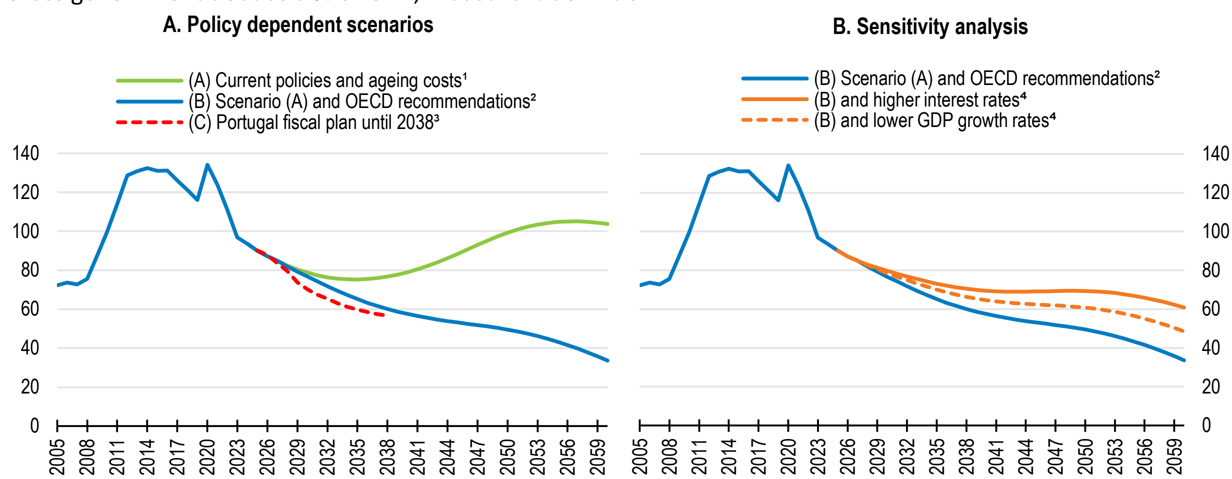
Moreover, ageing-related costs may raise more than expected in the baseline scenario of Table 1.5 because of additional spending on health and long-term care. Health spending may raise faster than projected, as Portugal currently spends less than the EU average and faces high unmet needs and out of pocket expenditures. Promoting prevention and cost-efficient behaviour through primary care providers is a rising priority. Spending on prevention amounts to less than 2% of health spending (OECD, 2023[1]; OECD/EC, 2024[28]). Around 12.8% of the population is not registered with a dedicated general practitioner and the excessive use of emergency rooms drives up costs without promoting better health outcomes. In addition, the organisation of primary care is fragmented, and the different types of public care centres rely on various payment schemes that fail to encourage a systematic follow-up of patients from disadvantaged groups. Expanding the number of general practitioners and streamlining the different payment schemes for primary care centres would improve both access and quality.

Public expenditure on long term care is among the lowest in the OECD and could also raise above the baseline projections of Table 1.5 (OECD, 2024[29]). Much of the care burden falls on informal family carers, especially women, as the currently low public expenditure reflects Portugal's historical reliance on informal care arrangements (OECD/EC, 2024[28]). Long-term care and unmet needs appear already high among older people (OECD, 2024[29]; Albuquerque, 2022[30]) and out-of-pocket costs (the share of the total costs that is left for older people to pay, after receiving public support) are high, notably for those with severe needs for which it could reach 80% of the median disposable income (OECD, 2024[29]). Portugal has been making efforts to scale up the availability of formal LTC services to more appropriate levels through its National Network for Long-term Care (RNCCI). However, regional disparities are significant (República Portuguesa, 2024[31]) and covered formal long-term care costs are low for both home and institutionalised care.

Portugal's upcoming long-term care Action Plan will expand access to affordable and high-quality long-term care, potentially increasing public spending. Portugal is one of the few OECD countries where the public support system for long-term care reduces relatively little old-age poverty risks, as means-testing is only partly used to determine the degree of public support for home and institutionalised care (Llena-Nozal, Araki and Killmeier, 2025[32]; OECD, 2024[29]). To reduce financial pressures and improve effectiveness, public support for long-term care should be better targeted towards low-income individuals. For example, Germany introduced a new definition of long-term care needs in 2017 which allows a comprehensive assessment of support needs, including for physical and cognitive impairments (Llena-Nozal, Araki and Killmeier, 2025[32]). Moreover, in Germany as other OECD countries such as Austria, Finland, France and the Netherlands, older people with higher incomes contribute more to the cost of their institutional care (OECD, 2024[29]). Such design would mitigate old age poverty risks and encourage personal savings for care-related expenses for those able to afford it. Prioritising professional home-based and community care models by expanding the current training and supervision of care workers assisting the nurses that are currently in high shortages (OECD, 2023[1]) could also help. Integrated community care system, as developed in Japan, could emphasise preventive care and activities to promote longer healthy life expectancy (OECD, 2024[29]). At the same time, exploring voluntary private contribution options, such as group insurance by employers, and pre-funding mechanisms that build up wealth to ease future ageing-related cost pressures, could help support the delivery of services for medium and higher-income households and complement the public long-term care pillar (OECD, 2024[29]).

Figure 1.15. Structural reforms will help keep public debt on a declining path

Gross government debt as a % of GDP, Maastricht definition



Note: 1. Scenario (A) is based on the OECD Long Term Model as described in Guillemette and Turner (2021). Nominal GDP growth is assumed to average at 3.8% over 2027-60 and the nominal long-term interest rate at 3.6%. The scenario sets the primary deficit at 1.1% of GDP on average over the 2027-60 and adds the costs of ageing as described in EC (2024), Table II.1.135. As a result, the primary balance deteriorates by 3.9 percentage points of GDP over 2027-47, before improving by 3 percentage points of GDP by 2060.
2. The "OECD recommendations" scenario (B) adds to the assumptions in (A) the estimated effects of the reforms recommended in this Survey (Tables 1.7 and 1.8). It does not account for potential improvements in the primary balance due to higher GDP growth as simulated in Table 1.8.
3. Portugal fiscal plan until 2038 (C) displays the public debt path over 2028-38 as projected in Portugal's Medium-Term Plan published in 2024 (República Portuguesa, 2025).
4. In the "Higher interest rates" scenario, interest rates increase by 100 basis points relative to scenario (B). In the "Lower GDP growth rates" scenario, nominal GDP growth is lowered by 0.5 percentage point relative to scenario (B).
Source: OECD calculations based on OECD (2025), OECD Economic Outlook: Statistics and Projections (database), May; República Portuguesa (2025), Orçamento do Estado 2026; and EC (2024), "The 2024 Ageing Report: Economic and budgetary projections for the EU Member States (2022-2070)"; Guillemette and Turner (2021), "The long game: Fiscal outlooks to 2060 underline need for structural reform", OECD Economic Policy Papers. Source: OECD calculations based on OECD (2025), OECD Economic Outlook: Statistics and Projections (database), May; República Portuguesa (2025), Orçamento do Estado 2026; and EC (2024), "The 2021 Ageing Report: Economic and budgetary projections for the EU Member States (2019-2070)"; Guillemette and Turner (2021), "The long game: Fiscal outlooks to 2060 underline need for structural reform", OECD Economic Policy Papers.

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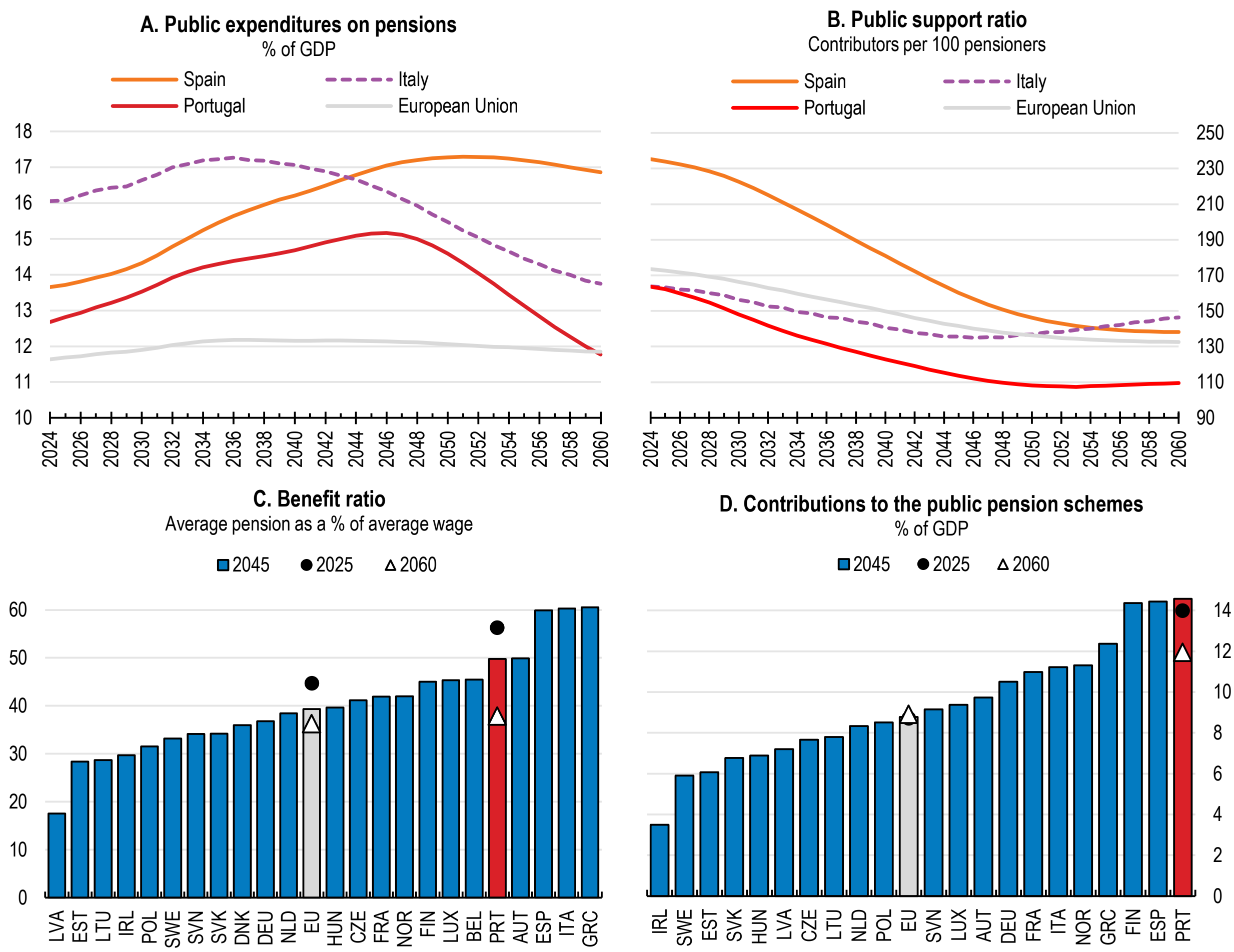
Addressing rising pension spending

Public expenditures on pensions are set to rise markedly in the coming two decades (Figure 1.16, Panel A and Table 1.5). Portugal has a public pay-as-you-go pension scheme and a small voluntary private pension system. Over the years, Portugal has implemented a wide range of reforms that improve the sustainability of the pension system: the statutory retirement age increases in line with the evolution of life expectancy and pathways into early retirement have been restricted (OECD, 2019[33]). Yet, the European Commission's projections foresee continuous increases in the public pension expenditures up to the late 2040s (Table 1.5), before they gradually start to decrease towards the European Union average (EC, 2024[25]; GPEARI, 2024[34]).

The projected decline in pension spending is due to the foreseen stabilisation of the number of contributors per pensioners (Figure 1.16, Panel B), declining average pensions compared to wages (Panel C), and a rapid decrease in new pensioners under the public subsystem for workers who began public work before 2005 (*Caixa Geral de Aposentações*) (Panel D). However, the uncertain global outlook calls for caution, as weak growth, reduced social security contributions and labour market instability could prolong fiscal pressures. These challenges come on top of the already high number of older workers eligible to minimum pensions (OECD, 2019[33]). Portugal has set up a working group on pensions in January 2025 to further analyse its long-term sustainability and propose measures to strengthen the pension system.

Figure 1.16 Public expenditure on pensions is set to increase until the mid-2040s, while pension benefits will fall



Note: The EU corresponds to the composition of European Union as of 2020.
Source: EC (2024), The 2024 Ageing Report: Economic and Budgetary Projections for the EU Member States (2022-2070).

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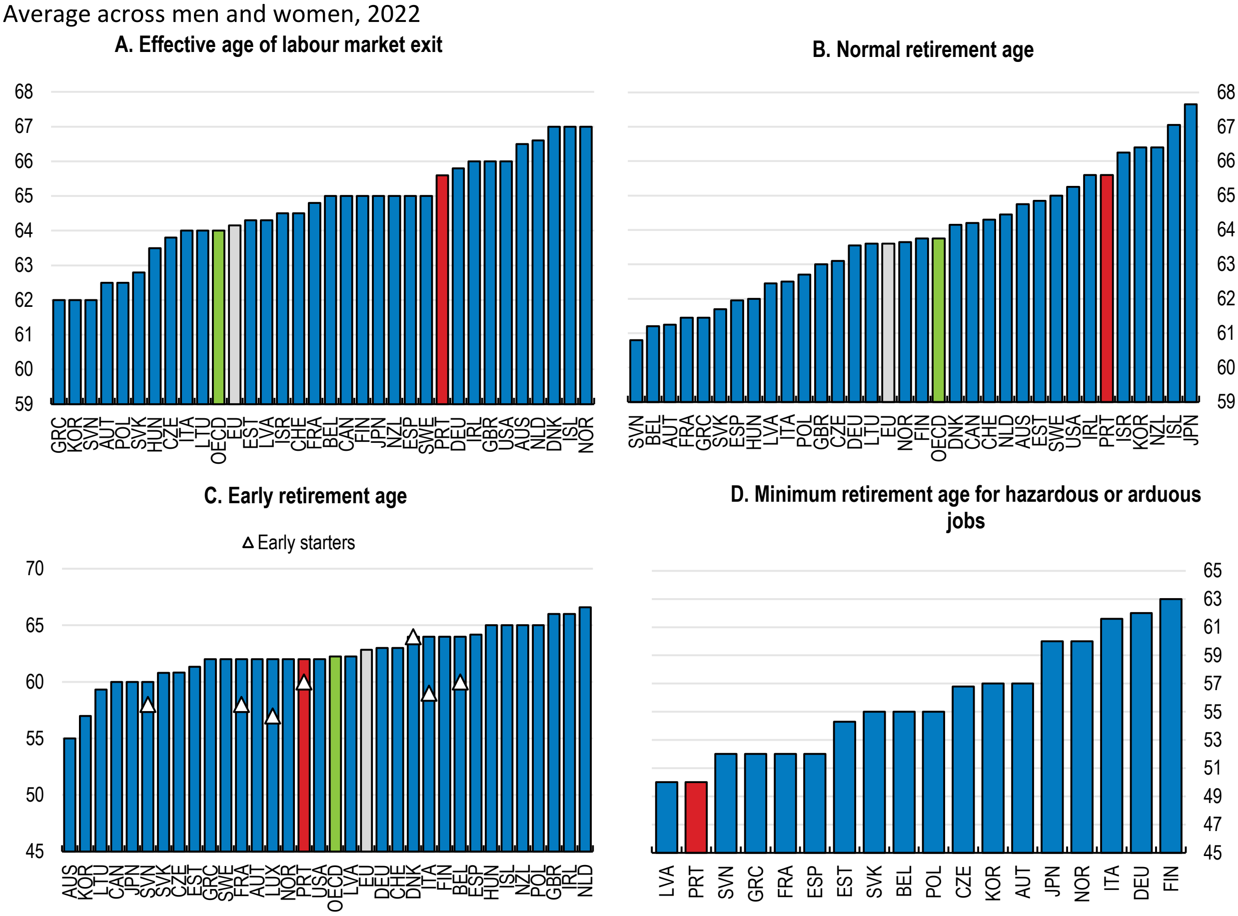
Efforts to further strengthen the sustainability of the pension system should ensure sufficient incentives to work longer and adequate retirement incomes, while minimising adverse effects on employment. This points to a limited scope for further increases in the social security contributions, as higher rates might harm employment, so adjusting the retirement age is seen as the main way to ensure long term fiscal sustainability (OECD, 2023[1]). Although both the statutory and the effective retirement age are already above the OECD average in Portugal (Figure 1.17), further reforms could still be considered. The statutory retirement age is already indexed to changes in life expectancy, but the minimum age for early retirement, set at 60 for individuals with a full contribution record, is not. One reform option would be to apply the same life expectancy indexation to the minimum age for early retirement. In 2023, around 20% of new retirees with full careers retired before 60 years old, though most retire when they approach the legal retirement age (INE, 2024[35]).

Increasing the minimum retirement age and adjusting early retirement ages for some specific professions could help strengthen the pension system's sustainability as life expectancy increases. This would reduce the share of early retirees, while avoiding excessively large pension penalties for those who must retire early (OECD, 2019[33]). To support this, policies should better reflect the needs of low-income and physically demanding occupations, with a focus on improving working conditions and promoting lifelong learning. These reforms would also help limit early exit from the labour market for health reasons, which is common in Portugal (Chapter 2). The minimum pension age and retirement ages for specific professions should be regularly reassessed, as is currently done by the working group on pension, to ensure they are supported by solid evidence, especially since the gap between the normal and early retirement ages appear relatively high (Figure 1.17, Panels C and D) (OECD, 2023[36]).

Figure 1.17. The effective and statutory retirement ages are relatively high

Average across men and women, 2022



Note: Panel A: The average effective age of labour market exit is defined as the average age of exit from the labour force for workers aged 40 and over. Panel B: The normal retirement age is the age of eligibility of all pension schemes combined without penalty, based on a full career after labour market entry at age 22. Panel C: The early retirement age is the first age at which a pension can be claimed. In some countries, for individuals who started their full career from an early age, it is possible to retire at a very early age. Panel D: Workers in hazardous or arduous jobs may retire before the early retirement age that applies in general. The displayed minimum retirement age excludes ballet dancers and artists. In Austria and Poland, women can retire earlier than men, and shown values apply to men only. Panel A, B & C: The EU corresponds to the composition of European Union as of 2020.
Source: OECD, Pension at a glance 2023.

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Moreover, few pensioners choose to defer retirement after the normal retirement age. In 2023, only 4.7% of old-age pension recipients benefited from a bonus for having postponed the age of receipt of their first old-age pension (INE, 2024[35]). In Portugal, relatively high bonus rates occur for each month of work after the personal pensionable age and depend on the contribution history. However, pension entitlements before any bonus applies are limited to the best 40 years of contributions and pension benefits with bonuses for deferment are capped at 92% of the reference wage at the personal pensionable age. This means that an average-wage worker receives less than in most other countries by deferring pension by one year (OECD, 2019[33]) and increasing the pace of additional benefit entitlements for each month of postponed retirement could help, as recently done in Spain. The current pathway to early retirement that allows the long-term unemployed over the age of 62 (or 57 if they have sufficiently long contribution periods) to retire is being reviewed as it may disincentivise the reintegration of older workers into the labour market (OECD, 2019[33]). Gradually withdrawing this pathway should be paired with stronger active labour market policies to help older workers return to work, notably effective support for active job-search efforts (Chapter 2).

Other options could include to shift part of the financing of pensions away from labour and reviewing the benefits formula. Diversifying the financing of the Portuguese system could be done by strengthening the Portuguese reserve fund for public pension schemes (FEFSS) which is holding and managing assets equivalent to pension expenditure of at least 2 years through additional property and corporate income tax revenues (CSSS, 2024[37]). Additional revenues from property taxes (see below) could help contain or lower the high average labour tax wedge and social security contributions. Further developing the capitalisation system, that is limited in international comparison, is being studied and could also raise alternative financing sources for retirement (OECD, 2024[38]). Given the high levels of benefits relative to the income of workers for public schemes (Figure 1.16, Panel C) and the relatively tight dependence of benefits to past wages compared to other European countries (EC, 2024[39])adjusting further the initial levels of pensions could also be considered, notably for higher-level pensions. The ongoing working group on pensions could help to adjust benefit formulas, to preserve adequacy and sustainability.

Improving the effectiveness of social protection

The social benefit system is fragmented and not well targeted and does not seem to significantly reduce poverty and income inequality (OECD, forthcoming[40]). Income inequality as measured by the Gini coefficient is above the OECD and relative poverty is close to the OECD average, but higher for children (OECD, 2025[41]). The complexity and overlap of Portugal's 27 different national means-tested social benefits reduces accessibility and hinders its effectiveness (EC, 2024[42]; OECD, forthcoming[40]). The creation of a unified social benefit that combines several benefits, aimed at simplifying the system and reducing overlaps, is being studied for implementation by the Portuguese government.

Portugal's main minimum income scheme (RSI or *Rendimento Social de Inserção*) has low benefit adequacy and limited reach. While it is effectively means tested, its low reference income threshold (EUR 242 for a single person in 2025, at 36% of the 2022 OECD poverty threshold) and the complexity of regulations and procedures to access the support (OECD, forthcoming[40]; forthcoming[43]) hinder access, with the system covering only around 20% of poor households in 2016, well below the OECD average (Hyee et al., 2020[44])

To ensure an efficient safety net and work incentives for their recipients, it will be key to better monitor and coordinate housing allowances and social housing programmes, including local ones (Chapter 4), with other social benefits. There is a large number of other social and means-tested benefits directed to vulnerable groups (e.g. *Complemento Solidário para idosos, Prestação social para a inclusão, Pensão social, Complemento por dependência*), often with overlapping entitlement provisions (OECD, forthcoming[40]). Moreover, while widely used in Portugal, national and local housing programmes are not systematically monitored (Tribunal de Contas, 2024[45]).

Streamlining and reducing the large number of means-tested benefits in Portugal is essential, as planned under Portugal's revised RRP (Portuguese Republic, 2023[46]). Consolidating small overlapping schemes, as currently evaluated under the Social Unified Benefit project (PSU), should be a priority (OECD, forthcoming[40]; forthcoming[43]). Establishing a one-stop shop application within the public employment system as done in Austria, simplifying the eligibility criteria, and using data-linking to identify eligible non-applicants would also support take-up (OECD, 2023[1]), as well as making mandatory regular survey of the take-up rates of the new scheme. This would help to reevaluate the amount of solidarity support and reduce the risk of poverty (OECD, forthcoming[43]). More broadly, reducing fragmentation in the social protection system would help strengthen incentives to work and better align social benefits with active labour market policies and unemployment benefits. The proliferation of overlapping benefits is associated with high marginal effective tax rates on labour income, while offering limited support for the working poor (OECD, forthcoming[40]; forthcoming[43]).

Further strengthening the fiscal framework to ensure better quality expenditures

Continuing to strengthen the budgetary framework and ensuring its effective implementation would raise the efficiency of public spending and improve spending quality to face Portugal's increasing spending pressures. The integration of spending reviews in the budgetary process, as committed through the Portuguese RRP, the development of their use and the expansion of the programme budgeting exercise are welcome (Box 1.3) (OECD, 2024[47]; CFP, 2024[48]). However, more remains to be done to ensure strengthened expenditure control, cost-efficiency, and appropriate budgeting to prioritise growth-enhancing expenditures and facilitate the rechannelling of public resources to strategic priorities, such as ensuring a better functioning of the health system and delivering on the green and digital transitions.

Box 1.3. Portugal is working on strengthening spending reviews

Portugal has been conducting spending reviews since 2010. From 2010 to 2016, under Portugal IIMF's economic and financial adjustment program, the implementation of an expenditure review process focused on the main expenditure areas, such as social protection and health, leading to expenditure cuts and efficiency gains. However, implementation had mixed results and lacked monitoring (CFP, 2021[49]). Despite Portugal pursued further efforts to institutionalise spending reviews, weaknesses remained notably concerning the complexity of the process, the oversight and monitoring of results achieved; and the incentives for line ministries to participate (OECD, 2024[47]; Tribunal de Contas, 2024[50]).

As part of its RRP, Portugal has committed to integrate the spending review exercise into the regular budget process, including an ex-post evaluation of past efficiency gains. Assisted by the OECD via a Technical Support Instrument (TSI) Programme of the European Union, which lasted from May 2023 until October 2024, Portugal progressed significantly in the implementation of spending reviews. According to the September 2024 implementation report (OECD, 2024[47]), the Ministry of Finance has made significant progress in implementing the action plan prepared by the OECD. The Ministry of Finance has now the leading role, while line ministries have more room for involvement. A new framework has been established to better define methodologies and processes. Trainings and workshops also strengthened capacity for spending reviews. A follow-up TSI project supported by the EU is ongoing and aims to strengthen policy costing methodologies and medium-term budgeting practices (EC, 2025[51]). Nevertheless, challenges remain to maintain this momentum, while engaging line ministries, and to publish spending reviews (OECD, 2024[47]).

In 2024, the spending review exercise focused on the health sector and the energy efficiency programme in the public administration (Ministry of Finance, 2024[52]). In 2025, the reviews are focusing on public grants of national origin; operating expenses of the Tax and Customs Authority (AT), and interest charges associated with the payment of Traditional Own Resources of the European Union. In 2026, the scope of the spending review will include more topics on the health sector and tax expenditures, covering around 9% of eligible public expenditures. The implementation and monitoring phase of the measures planned to improve the efficiency of these expenses is ongoing (Ministry of Finance, 2024[53]).

Source: OECD (2024[47]), *Supporting the implementation of spending reviews in Portugal - Final Report - September 2024* , OECD Publishing, Paris; Ministry of Finance (2024[52]), *Spending Review - Revisão de Despesa Pública em Portugal - Maio 2024*; EC (2025[51]), *Strengthening policy costing methodologies and medium-term budgeting Practices in Portugal*, European Commission; CFP (2021[49]), *Riscos Orçamentais e Sustentabilidade das Finanças Públicas 2021*, Conselho das Finanças Públicas; Tribunal de Contas (2024[50]), *Auditoria ao Exercício de Revisão da Despesa (Spending Review)*.

The development and integration of spending reviews in the budgetary process requires further progress in terms of administrative capacity and data collection. The development of the foreseen new accrual-based public accounting system by all government sectors and bodies is still lagging (Tribunal de Contas, 2022[54]; IMF, 2024[55]). Broadening the collection of performance information and developing evaluation capacity is a necessary condition for the success of the foreseen future spending reviews (Box 1.3). Performance information is unevenly collected, and data are not sufficiently used as a strategic asset to serve citizens (OECD, 2023[1]). The implementation of the 2015 Budgetary Framework Law (BFL) has a clear potential to strengthen overall budgetary planning and monitoring. However, it has experienced systematic delays since its adoption (OECD, 2021[56]; Tribunal de Contas, 2022[57]).

Strengthening medium-term budgeting would also help achieve fiscal objectives. In Portugal, medium-term fiscal plans are not binding, temporarily due to a transitional rule of the Budgetary Framework Law, and deviations from plans within a year were frequent even before the pandemic (OECD, 2021[56]). The national multi-annual framework still has several weaknesses regarding budget transparency and accountability (Tribunal de Contas, 2021[58]). Its updates are presented at the same time as the annual budget which makes it subject to frequent changes, the coverage of expenditure limits is not transparent about the inclusion of capital increases and transfers, and the prospective expenditure path is insufficiently documented (CFP, 2022[59]; Raudla, Douglas and MacCarthaigh, 2022[60]; UTAO, 2022[61]). Furthermore, estimated impacts of policy decisions on the budget are not detailed (UTAO, 2022[62]). The Fiscal Council (CFP) and the Parliamentary Budget Office (UTAO) regularly point to the lack of information and incoherence in budget documentation, including after the implementation of the new European framework (CFP, 2025[63]). The budget administration needs to devote more resources to the provision of timely, transparent and comprehensive information on the draft budget (OECD, 2019[64]). The implementation of medium-term budgeting by programmes, in addition to the current breakdown by economic function, will also help for evaluation and prioritisation and would allow linking medium-term targets to the government's annual fiscal management (Tribunal de Contas, 2021[58]): after pilot-projects in 2022 to 2024, programme budgeting is set to be applied in all ministries from 2026 and medium-term budgeting by programmes is planned to be implemented from 2029.

1.3.3. Simplifying the tax system to ensure broader tax bases and fairness

Portugal's tax system remains complex, fragmented and heavily reliant on labour and consumption taxes, while tax expenditures and exemptions limit fairness and efficiency. Tax revenues, including social contributions, have increased from 30.9% of GDP in 2000 to 35.7% in 2024 slightly above the OECD average (Figure 1.18) (OECD, 2024[65]), but the system is complex and imposes high compliance costs especially on small and medium-sized firms. At the same time, the preferential treatment of inheritance taxes benefits mostly high-income households.

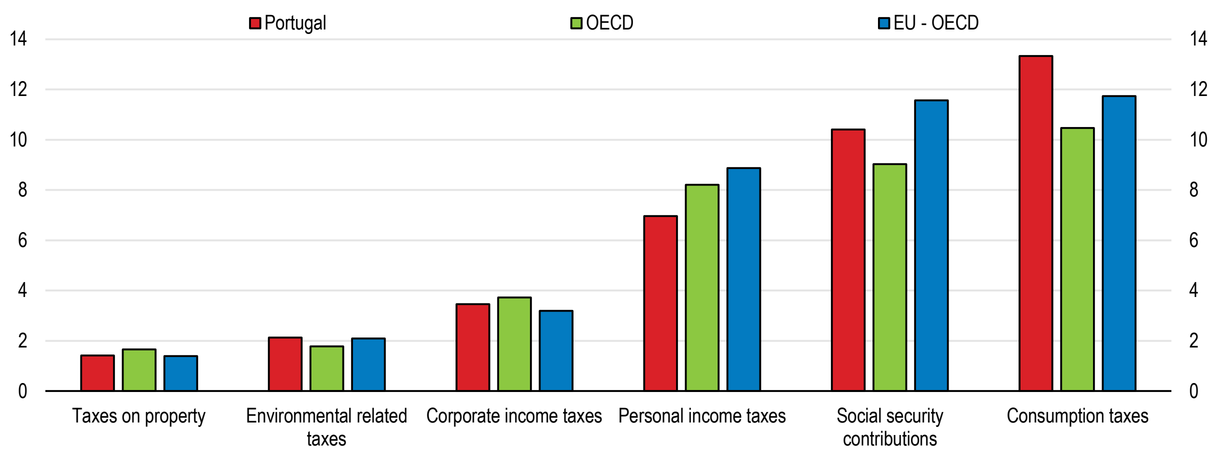
Broadening the tax base by reducing tax expenditures, notably for recurrent property and environmental taxes and improving the design of income and consumption taxes would support fiscal sustainability and more inclusive growth, as the ageing of the population will put labour related tax revenues under pressure. Aligning emission prices across sectors, phasing out fossil fuel subsidies and promoting clean transport and energy renovations can make large inroads to reduce reducing greenhouse gas emissions (Chapter 3). At the same time, shifting from taxing transactions towards taxing property ownership and imposing higher effective taxes on underused properties could bolster supply and promote a more efficient allocation of housing (Chapter 4). This would help make room for needed investment and potential reductions of the relatively high labour tax wedge around the minimum-wage, which could raise employment (Chapter 2).

Streamlining tax expenditures

Tax expenditures accounted for 7.2% of GDP in foregone tax revenues in 2024, which is high in international comparison (Redonda, von Haldenwang and Aliu, 2024[66]). According to the government's estimates, the VAT tax system (61%), the personal income tax (14%) and the corporate income tax (11%) concentrate most of the current tax expenditures (República Portuguesa, 2025[67]). Out of more than 500 identified tax expenditures, 120 do not appear to have a clear objective (Grupo de Trabalho para o Estudo dos Benefícios Fiscais, 2019[68]). Previous Economic Surveys pointed to the need to simplify the tax system. The tax system could be simplified including by broadening tax bases by reducing tax allowances, credits, exemptions and reduced tax rates. Tax expenditures can also make the tax system complex and some of them may undermine the green transition (OECD, 2019[69]; 2021[56]; Tribunal de Contas, 2022[57]). Reforms to broaden the tax base and evaluate whether all tax expenditures are cost-effective and meet their desired objectives should be considered. As recommended by the OECD, Portugal has set up a unit (U-TAX) to regularly monitor and assess tax benefits in September 2024 which published an assessment of the main tax expenditures in June 2025. Going forward, it should regularly monitor these through public reports which would assess their effects to help to reform the tax system.

Figure 1.18. Tax revenues rely on labour and consumption taxes

Revenues as a share of GDP, 2023



Note: Data for environmental related taxes category refer to 2022. The EU- OECD aggregate corresponds to the OECD countries members of the European Union. The OECD and the EU- OECD aggregates refer to the unweighted average of member countries.
Source: OECD Comparative tables of Revenue Statistics in OECD member countries (2025) and OECD Environmental Related Tax Revenue Database.

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Reforming the corporate income tax

There is scope to strengthen the design of the corporate income tax system (CIT). Portugal's corporate tax system is complex, with multiple layers of rates and surcharges that raise compliance costs and create distortions. There is a state surtax ranging from 3 to 9% depending on firms' profits, applying to less than 1% of firms, reduced rates for small and medium-sized enterprises depending on their location, as well as municipal surcharges at rates of up to 1.5%. In addition, extensive use of tax incentives (accounting for close to 20% of the CIT revenues), narrows the base, decrease tax liabilities and increases the administrative burden. Direct tax withholdings are often too high, resulting in sizeable refund claims in the subsequent year, whose overall volume was close to 1% of GDP in 2024. This entails considerable additional costs for businesses (EC, 2024[42]). Reducing ineffective tax expenditures could help financing the phase out of the state surtax. In addition, there may be a case for reviewing size-contingent tax rates that were extended in 2025, as they may hamper the growth of small firms (Garicano, Lelarge and Van Reenen, 2016[70]).

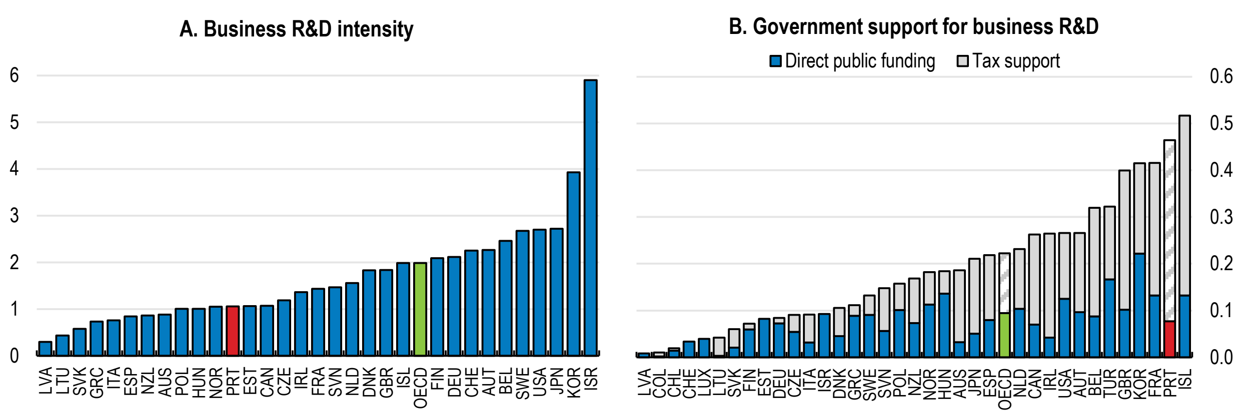
The effects of tax incentives to stimulate R&D and investment should be carefully evaluated. The tax incentive for business R&D and innovation (SIFIDE) represents the main tax expenditures of the CIT system in 2024, followed by tax incentives for investment (RFAI) and business capitalisation (ICE) (Ruano, 2025[71]; Banco de Portugal, 2024[72]; República Portuguesa, 2025[67]). However, the growing support to business R&D over the past decade from 0.1% of GDP in 2008 to close to 0.4% of GDP in 2023 has not yet translated into a significant improvement in Portugal's innovation performance (Figure 1.19). The indirect part of the tax R&D incentive

(SIFIDE II, worth 0.18% of GDP in 2023) is set to be phased out from 2026. To foster innovative activities, the government offers generous tax credits to business R&D expenditures and a preferential tax treatment to small firms. This is welcome since small firms are more responsive to tax incentives than larger firms (OECD, 2020[73]). Unused tax credits can be carried forward over twelve years, which is particularly important for young innovative firms, that often are unprofitable and do not have any corporate income tax liabilities in the first years.

Further targeting R&D tax incentives could increase their effectiveness, as there is currently no threshold or ceiling in the Portuguese scheme. Across OECD countries, R&D tax incentives often target firms and activities to induce larger R&D investment for a given tax expenditure. In particular, the R&D tax incentives could target more young firms and SMEs, given that the R&D investment by large firms is generally less responsive to tax incentives. An OECD study based on firm-level data on R&D found that across 20 OECD countries, one euro of R&D tax credit induces 1.4 euros of R&D by firms with less than 50 employees whereas it induces only about 0.4 euros of R&D by firms with 250 or more employees (OECD, 2020[73]; 2023[74]). One option could be to directly target the tax credits to smaller firms as in the United Kingdom. Alternatively, an upper bound on the amount of R&D spending that qualifies for R&D tax incentives could be set, as done in many OECD countries, and, following Germany, the tax subsidy could be increased below that threshold (Aghion, Chanut and Jaravel, 2022[75]). Some countries like Korea, Spain or Portugal also offer hybrids of a volume-based R&D tax incentive topped by an incremental one (OECD, 2022[76]). Moreover, in contrast to the strong tax incentives, and despite increases since 2016, direct public support to business R&D remains low by OECD standards, while it seems particularly important for encouraging basic research and in principle better suited for young and innovative firms (OECD, 2020[73]).

Figure 1.19. Business R&D intensity is relatively low, despite significant policy support

% of GDP, 2023 or latest available year



Note: Panel A: R&D investment, excluding real estate activities, public administration and defence, compulsory social security and education, human health and social work activities, and activities of households as employers. Panel A & B: Data refer to 2023 or latest available year.
Source: OECD (2025), R&D Tax Incentives Database; OECD (2025), Main Science and Technology Indicators Database.

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Reviewing the personal income tax and inheritance taxes

The personal income tax system is progressive in design, but weakened by widespread deductions and exemptions, which reduce revenue and increase complexity. Though marginal PIT tax rates have increased since 2009, PIT revenues remain lower than the OECD average (Figure 1.18) (AT, 2024[77]). The average effective rate of personal income tax is low, despite the maximum rate of 48% being one of the highest in the OECD (Banco de Portugal, 2023[78]; OECD, 2025[79]). Deductions and allowances are close to 32% of total income (Banco de Portugal, 2024[72]) and have increased in recent years. Moreover, youth exemptions (reinforced in 2025 with an estimated cost of 0.2% of GDP) (Ministry of Finance, 2024[80]; 2024[81]) and local waivers (Municipalities may waive all or part of their 5% share of PIT) create variation without strong justification. A comprehensive review of PIT expenditures through the U-TAX system should be conducted to evaluate which exemptions can be eliminated without increasing the relatively high labour tax wedge of low- and middle-wage workers (Chapter 2). The government should phase out or cap high-cost exemptions, especially those poorly targeted.

Under the personal income tax system, most capital income, including interest income, dividends and capital gains, is taxed at a flat rate of 28% below the top marginal rate for labour income. As a result, dividend income is tax at a lower effective rate than wage income even after integrating firm-level taxes (Hourani et al., 2023[82]). While this can reduce distortions to saving, even if there is limited international evidence supporting the view that capital gains tax relief significantly increases aggregate savings and domestic investment, the preferential treatment primarily benefits high income households, as savings are highly concentrated and capital gains are lightly taxed, especially for housing. The option for taxpayers to choose to be taxed under the progressive schedule creates further complexity and scope for income planning. In addition, income shifting from businesses to personal consumption remains a concern particularly among owner managers (Leite, 2024[83]). To strengthen equity and reduce avoidance, Portugal should gradually align the taxation of capital income with that of labour, review exemptions for housing capital gains and strengthen enforcement against income reclassification.

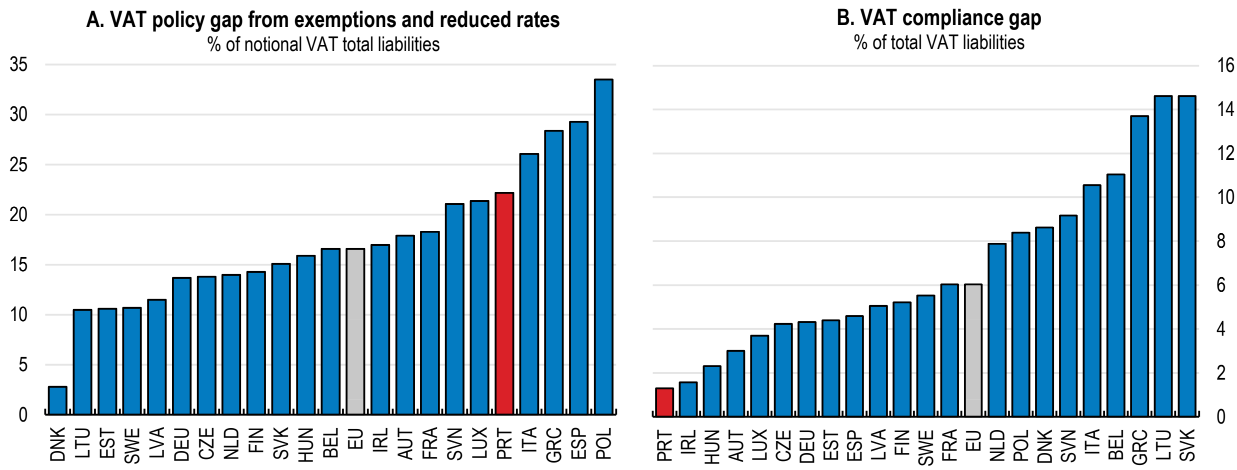
Portugal does not tax transfers between close relatives, which significantly limit taxation of intergenerational wealth transfers. Since the abrogation of the inheritance tax (worth 0.2% of GDP) in 2003, children, grandchildren, spouses, parents or grandparents are exempted from a stamp duty with a 10% flat rate on the inherited assets. As a result, inheritance tax revenues are close to zero, among the lowest in the OECD, despite rising wealth concentration. Eliminating exemptions to immediate family members for large transfers and introducing progressive inheritance or lifetime wealth transfer could help reduce inequality and raise revenue (OECD, 2021[84]). This reform could start by using existing tax declarations to assess the distributional impact of inheritance wealth and design appropriate thresholds and rates. International experience suggests that such taxes can be made administratively feasible and socially acceptable when targeted at large transfers and paired with exemptions for modest inheritances.

Broadening the VAT base

The design of the Value Added Tax (VAT) needs to improve. Though Portugal displays a high headline rate of 23% in 2025, compared to an OECD average of 19.3% in 2024, and a low compliance gap, numerous reduced rates and exemptions tend to significantly lower VAT revenues (Figure 1.20).

Figure 1.20. Tax expenditures limit VAT revenues

2022



Note: The (actionable) VAT policy gap is the difference between revenues from applying a uniform VAT rate and total tax liabilities, excluding services and notional values that are unlikely to be taxed, provision of public goods and services, and financial services. The VAT compliance gap is the overall difference between the expected VAT revenue and the amount actually collected. It is expressed as a percentage of the VAT Total Tax Liabilities. The EU corresponds to the composition of European Union as of 2020.
Source: EC (2024), VAT gap in the EU – report 2024.

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The multiple reduced rates increase the affordability of some goods and services but do not appear to significantly contribute to reducing income inequality (Braz and Da Cunha, 2009[85]; Banco de Portugal, 2025[86]). In particular, the reduced rates on hotels and restaurants should be reviewed as, in other OECD countries, they tend to largely benefit the owners of these businesses, tourists and the most affluent households (Benzarti and Carloni, 2019[87]). Moreover, the reduced rate on housing maintenance and renovation work do not target the most efficient renovations, tend to benefit the wealthiest households, and do not appear as the most effective tool to reach low-income households (Chapter 4), while evidence about the cost-effectiveness of such scheme is lacking (Cour des Comptes, 2019[88]). Broadening the VAT base by reducing or eliminating reduced rates on domestic consumption while compensating poorer households through well-targeted and simplified social benefits (see above), could help to reduce distortions and make the tax system more efficient and effective.

Table 1.6. Past OECD recommendations on improving fiscal sustainability and effectiveness

Recommendations in past surveys	Actions taken since 2023
Simplify the tax system by reducing the use of special provisions (e.g. tax exemptions, special rates) and ambiguity in the tax language.	Portugal has set up a unit to regularly monitor and assess tax expenditures. Yet, Personal Income Tax cuts for younger workers were reinforced and a new exemption from housing transaction taxes were introduced in 2025.
Ensure the transparent and effective implementation of programmes financed with EU funds. Prioritise projects that have the strongest economic and social impact by relying on cost-benefit analysis.	Portugal is implementing its Recovery and Resilience Plan. Supply-side disruptions, inflation, the size of the planned investments and the ambitious timeline present challenges.
Accelerate the implementation of the 2015 budget reform. Allocate adequate resources for the development of data collection, data interoperability, and analytical capacity.	The Recovery and Resilience Plan foresees the modernisation and simplification of public financial management, notably though the full implementation of the 2015 budget reform.
Duly implement the link between increases in the retirement age and life expectancy gains to continue to ensure the long-term financial sustainability of the pension system. Extend that link to the minimum age of early retirement.	In December 2024, the standard age to access retirement pension in increased to 66 years and 7 months in 2025 in line with life expectancy developments. In 2026, it is set to increase to 66 years and 9 months.
Increase the level and coverage of the minimum income benefits.	Portugal is working on the design of simplified minimum income benefits. The Social Support Index (IAS), the reference value for many social support programmes, has been updated by 2.6% in 2025.

Box 1.4. Illustrative fiscal impacts of selected reforms

The *potential* fiscal impacts of policy recommendations made in this Survey are presented below (Table 1.7). These estimates do not consider indirect effects, such as those induced by the positive impact of the reforms on growth (see Box 1.5) and public revenues, and some recommendations are not quantifiable.

Table 1.7. Illustrative fiscal impacts of selected reforms

Reform	Medium-term fiscal impact (savings (+)/ costs (-)) (% of GDP)
Revenues	
Increasing environmental taxes	+1.0
Strengthening the design of the VAT, PIT and CIT systems:	
Streamlining reduced rates;	+1.5
Increasing capital taxes, notably on inheritance and capital gains;	+0.4
Lowering headline rates for PIT and CIT.	-0.7
Increasing taxes on immovable property while lowering the labour tax wedge:	
Increasing taxes on immovable property;	+0.5
Decreasing transaction taxes;	-0.3
Lowering the labour tax wedge targeted at low-wage workers.	-0.1
Total estimated impact on revenues	**+2.3**
Spending	
Improving public spending efficiency	+0.6
Limiting the foreseen increase in ageing costs, notably on pensions	+0.9
Additional support to the most vulnerable households to accelerate investment in green mobility	-0.5
Increasing direct R&D support targeted at SMEs	-0.2
Increasing spending on active labour market policies	-0.1
Streamlining minimum income benefits programmes	0.1
Increasing coverage and generosity of minimum income benefits	-0.3
Increasing family benefits in kind	-0.2
Increasing the social housing stock	-0.2
Increasing housing allowances	-0.2
Increasing financial support for energy renovations	-0.2
Total estimated impact on spending	**-0.3**
Total estimated impact on fiscal balance	**+2.0**

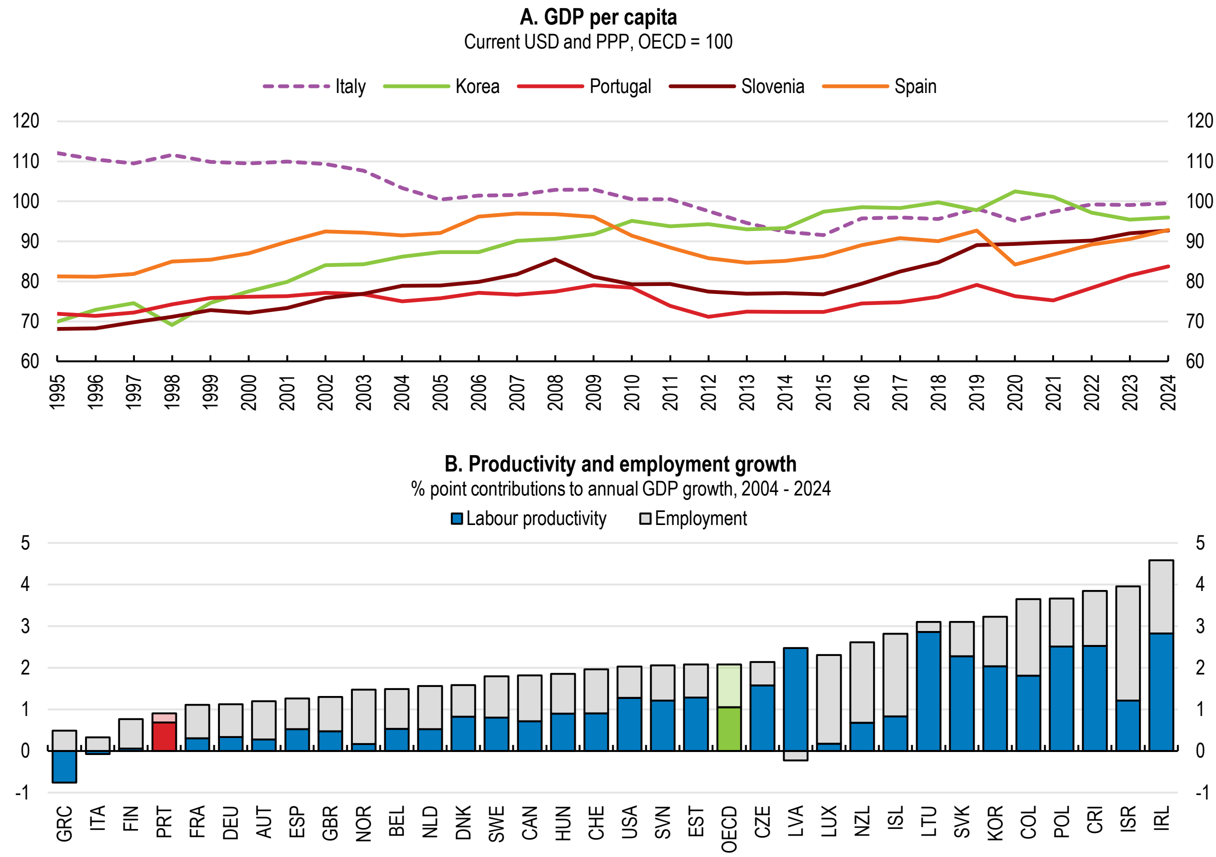
Note: These estimates roughly quantify the medium-term annual fiscal impact of selected recommendations in this Survey. They are based on the following assumptions: i) improving public spending efficiency as in OECD (2021); ii) an increase in subsidies to business R&D as a share of GDP by 0.2 percentage points and rebalancing existing support by 0.2 percentage points; iii) an increase in active labour market spending as a share of GDP by 0.1 percentage point; iv) an increase of family in kind benefits by 0.2 percentage points; v) an increase in environmental taxation as a share of GDP to the average of the top quintile of the OECD (from 2.6% to 3.6% of GDP), with most of the revenues used to compensate poor households and to invest in electric mobility and public transportation; vi) a reduction of headline VAT and CIT rates financed through the streamlining of reduced rates and exemptions; and vii) an increase of taxes on immovable property by 0.5 percentage points while lowering the tax wedge.
Source: OECD (2023), OECD Economic Surveys Portugal, OECD publishing, Paris and OECD calculations.

1.4. Policy reforms to raise productivity and longer-term growth

The long-term fiscal situation and gain in living standards will crucially depend on further productivity and employment growth. Although Portugal has recovered strongly from recent shocks, long term convergence in living standards has stalled. Over the past two decades, GDP per capita has remained far below the OECD average (Figure 1.21), driven by persistently weak labour productivity and limited investment. Multi-factor productivity, which measures the efficiency with which production factors are combined and is more closely related to innovation, has accelerated since 2015 but it has increased slowly for the past two decades. Despite recent gains in employment, the labour market remains unequal, with the widespread use of temporary contracts for the youth and the high share of long-term unemployed workers (Chapter 2).

According to illustrative OECD simulations, the key recommendations made in this Survey could generate further gains of 4.1% in GDP per capita GDP after 10 years and 9.4% in the long term, through higher employment and productivity growth (Box 1.5). Measures to improve the institutional environment, such as those to ease regulatory barriers, would generate stronger growth, largely through higher productivity growth and investment. Labour market reforms to improve skills and lifelong training, prolong working lives, promote hiring on permanent contracts, reduce labour taxes and increase the provision of early childcare services would help to further increase employment, reduce gender disparities and curb long-term unemployment rates as described in Chapter 2.

Figure 1.21. Stronger growth is needed to support gains in living standards



Note: Panel B: Data refer to 2024 or latest available year. Labour productivity is defined as real output per worker. The OECD aggregate is the unweighted average of 33 countries.
Source: OECD (2025), National account database.

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1.4.1. Boosting productivity growth in the longer term

Labour productivity growth has accelerated over the last five years, mostly due to private services sectors, but productivity remains 17% below the OECD average (Figure 1.6). Portugal's laggard firms, as defined by the least productive firms within a sector, still tend to have very low productivity compared to their OECD and European peers (OECD, 2021[89]). Compared to European firms, fewer Portuguese firms are investing (EIB, 2025[90]) and many firms suffer from a legacy of relatively low investment. Cumbersome regulations are partly to blame, as they tend to hinder the flow of resources towards more efficient incumbent firms. In international comparison, productivity and R&D investment gaps between small and large firms and at the regional level are significant, (EC, 2024[42]).

Helping small and innovative firms to grow

The productivity gap of Portuguese businesses relative to other OECD economies is particularly large for micro and small firms. Micro and small firms are markedly less productive than larger ones (Figure 1.22). Start-ups and young firms grow slower than in other OECD countries, while employment is concentrated in micro firms and SMEs (OECD, 2019[91]; forthcoming[92]): micro firms (those with up to nine employees) account for 39% of total business employment and those with up to 50 employees for around 60%, significantly more than in most OECD countries. Portugal also counts relatively more self-employed workers compared to the rest of the OECD. On the other hand, medium-sized and large firms account for only 17% and 25% of employment respectively, below the shares seen in many other OECD countries. While this is partly due to Portugal's economic structure, small firms also account for relatively high shares of total employment in the manufacturing and knowledge-intensive services sectors.

Box 1.5. Potential impact on growth of the OECD-recommended reforms

The estimated impact of some of the key structural reforms proposed in this Survey is calculated using historical relationships between reforms and growth in OECD countries (Table 1.8). These estimates assume a full and swift implementation of reforms.

Table 1.8. Potential impact of some reforms proposed in this Survey on GDP per capita

	Impact on GDP per capita[1] %			Decomposition of the long-term effect[1]	
	After 5 years	After 10 years	Long-term effect	Through employment	Through productivity
Strengthening active labour market policies (by 0.1% of GDP) and rebalancing them towards training and counselling	0.3	0.5	0.6	0.2	0.4
Increasing direct R&D support targeted at SMEs (by 0.1% of GDP)[2]	0.0	0.2	0.4	0.0	0.4
Improving judicial efficiencyt[2]	0.1	0.4	0.8	0.0	0.8
Reviewing regulations in retail and professional services[3]	0.0	0.1	0.1	0.0	0.1
Rebalancing of Employment contract protection[4]	0.1	0.2	0.6	0.1	0.5
Increasing property and environmental taxes, while reducing labour taxes[5]	0.1	0.1	0.1	0.1	0.0
Increasing the effective retirement age, through additional training and reduced early retirement options, to reach 3 months by 2050[6]	0.6	1.4	3.1	3.1	0
Bridging half of the gender gap in participation and working hours, notably by increasing in-kind family benefits[7]	0.3	0.7	2.5	2.5	0.0
Total impact on GDP per capita	**1.5**	**3.6**	**8.2**	**6.0**	**2.2**

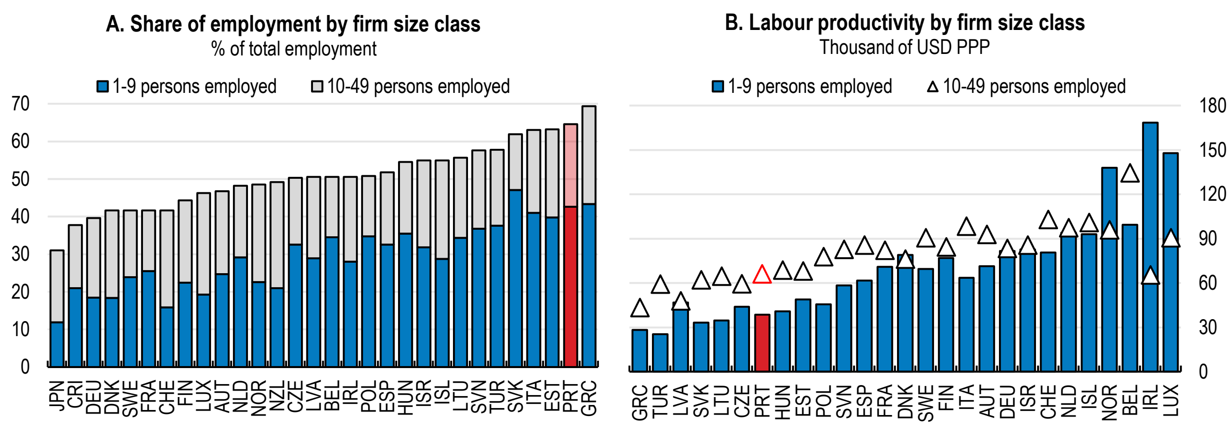
Note: 1. All figures are rounded to the nearest decimal point. The estimates assume full implementation of the reforms. 2. The estimate for judicial efficiency corresponds to increasing the Rule of Law indicator from the World Bank "Worldwide Governance Indicators" from 1.1 to 1.2, bridging half of the gap with the OECD median. 3. Reforms in regulations in regulated professions are assumed to reduce the OECD sub-indicator of "barriers to entry in service sectors" by 0.2 point. 4. Reforms are assumed to help ensure a more predictable and lower compensation for unfair dismissals. This is assumed to reduce the related OECD Employment Protection Legislation indicator for compensation for unfair dismissals from 20 months to 12.4 months (as in France). 5. Increased in property taxes environmental taxes are assumed to lower the tax wedge by 0.6 percentage points. 6. Based on Guillemette and Chateau (2023), this corresponds to a raise of 3.5 percentage points of the employment rate of the 55 and older workers. 7. Based on bridging half of the gap in Fluchtmann et al. (2024), Tables A.6 and A.7, and subtracting the impact of the increase in family benefits. The long-term effect is the effect estimated in 2060.

Source: OECD estimates based on based on B. Égert and P. Gal (2017), "The quantification of structural reforms in OECD countries: A new framework", OECD Journal: Economic Studies, Vol. 2016/1; OECD (2021 and 2023), OECD Economic Surveys Portugal, OECD publishing, Paris; Guillemette, Y. and J. Château (2023), "Long-term scenarios: incorporating the energy transition", OECD Economic Policy Papers, No. 33, OECD Publishing, Paris; Fluchtmann, J., W. Adema and M. Keese (eds.) (2024), "Gender equality and economic growth: Past progress and future potential", *OECD Social, Employment and Migration Working Papers*, No. 304, OECD Publishing, Paris.

Portugal has a reasonably supportive regulatory and incentive environment for entrepreneurs overall, strengthened by recent reforms. Portugal ranks relatively well on average in the OECD Product Market Regulation (PMR) indicator, which measures regulatory barriers to firm entry and competition as of January 2023, although the detailed sub-indicators point to specific sectors where regulations remain relatively stringent, including some professions and the retail (Figure 1.23) (OECD, 2024[93]). Further progress has been made in several areas in 2023 and 2024 (Table 1.9). For example, the 2023 reforms of professional associations and multidisciplinary firms eased many unnecessary regulatory restrictions to access and exercise, as advocated by the Portuguese Competition Authority and the OECD (AdC, 2024[94]; 2023[95]; OECD, 2018[96]). This also helped foreign practitioners' access to professions related to construction, legal and accounting services, abolishing explicit nationality requirements to practice law and accounting, and introducing recognition for qualifications gained abroad (OECD, 2025[97]).

Figure 1.22. Micro and small firms employ most workers but their productivity is low

2023



Note: Data refer to the ISIC Rev4 economic activity K, division 66 (Business sector excluding financial and insurance activities). Panel A: Data refer to 2023 apart from Costa Rica (2022), Israel and Japan (2021) and New Zealand (2020). Data for 10-49 category for Czech Republic and Slovenia refer to 2022. Panel B: Data refer to 2023 apart from Switzerland (2020), Israel, Luxembourg and Slovenia (2021). Data for 10-49 category for Czech Republic, France, Latvia and Slovak Republic refer to 2021.
Source: OECD (2025), Structural Statistics on Industry and Services and Business Statistics by Size Class and National account database.

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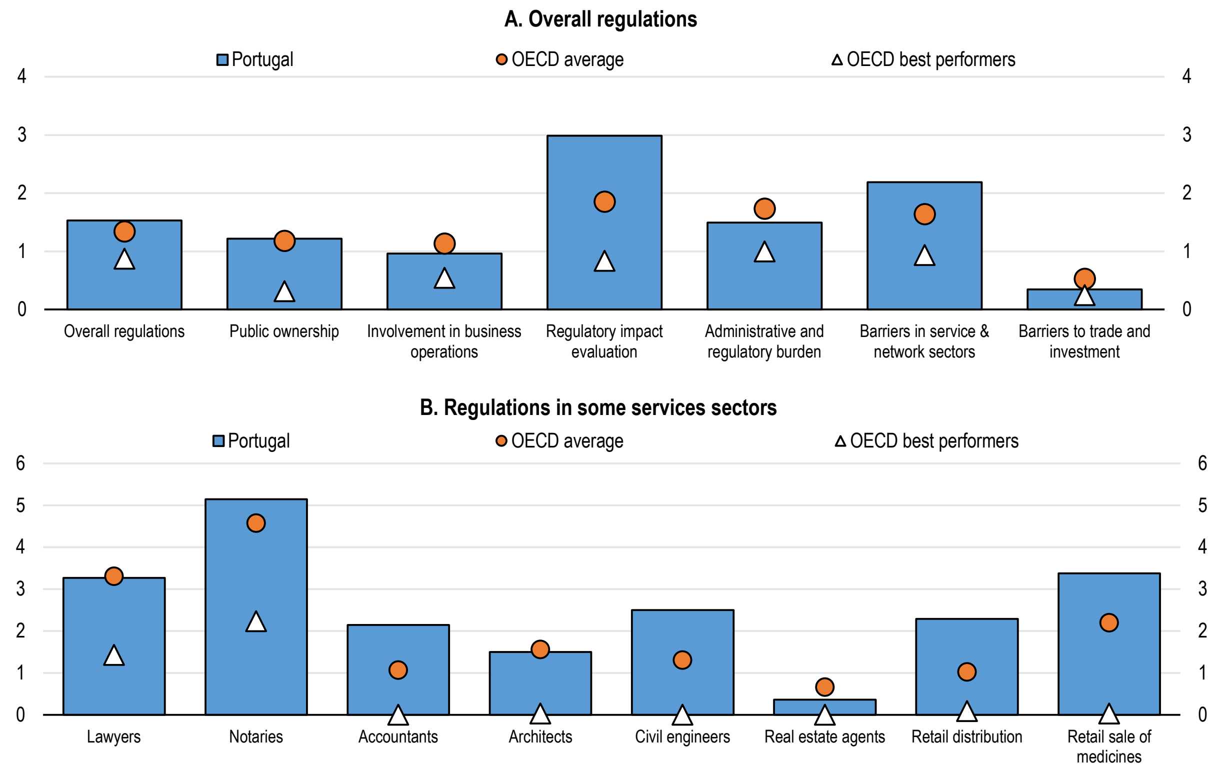
Nevertheless, some regulatory settings still do not sufficiently promote competition in important industries that produce intermediate inputs, such as professional services, which can raise costs to firms and hamper growth. Legal barriers remain for some reserved technical activities, as well as for the capital and management of professional societies and the establishment of notaries (AdC, 2024[94]; 2023[95]). In addition, regulatory settings in retail distribution are more restrictive than in most other OECD economies due to relatively strict registration and licencing requirements (Figure 1.23). Further simplifying procedures by reducing the number of permits, the number of entities involved, shortening procedural deadlines by using more tacit approval and reducing the cost of expanding businesses should contribute to supporting firm growth. The Ministry of State Reform, created in 2025, aims at streamlining administrative processes, notably licensing procedures.

Further use of regulatory impact assessments would also strengthen evidence-based policymaking (OECD, 2025[98]). The Government of Portugal has undertaken a range of key reforms to implement and strengthen regulatory impact assessments (RIA). Although the role of RIA has expanded, they are not yet used in consultations on regulatory proposals with stakeholders and preliminary RIA and RIA could be shared at various stages of consultations, as in Canada (OECD, 2016[99]). Moreover, there is no mandatory requirement for consultation with the general public or for conducting regulatory impact assessments for the numerous primary laws initiated by the parliament. More extensive use of ex post reviews would also help to ensure that existing rules remain up to date and continue to deliver their policy objectives, for example by introducing "in-depth" reviews in particular sectors or policy areas (OECD, 2021[100]; 2023[101]).

Another factor holding back productivity growth is a lack of skills (Chapter 2), particularly management skills. The large productivity gap between small and large firms is partly linked to the skills of their workers (Criscuolo, Gal and Freund, 2024[102]). Portugal has one of the highest proportions of managers without a secondary diploma and managerial practices in medium-sized and large firms appear to be lagging behind those in other countries (OECD, 2023[1]). As in other OECD countries, these shortcomings have consequences for the allocation of resources, the ability to find appropriate staff, the adoption of new technologies and the development of skills (Baltrunaite, Bovini and Mocetti, 2021[103]). Surveys of management quality and organisational practices among industrial firms show that Portugal is significantly behind in adopting successful organisational delegation practices (Eurofound and Cedefop, 2020[104]).

Figure 1.23. Product market regulations remain stringent in some sectors

Index scale from 0 (most competition-friendly regulatory set-up) to 6 (least competition-friendly)



Note: "OECD best performers" is the average of the five OECD countries with the least distortive regulations. "Entry regulations" refer to the regulation of new entrants to the profession while "Conduct regulations" refer to the regulation of the conduct of existing professionals.
Source: OECD (2024), Product Market Regulation indicators.

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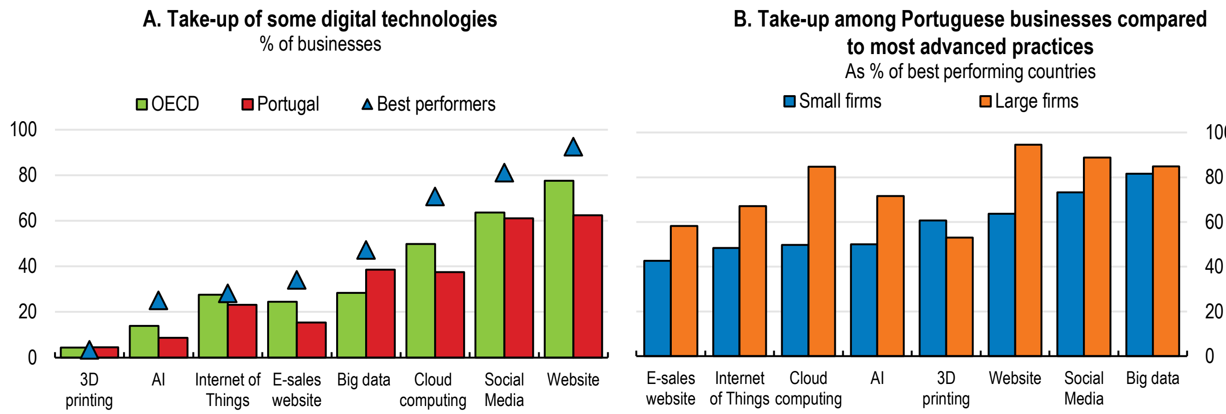
Stimulating technology diffusion and innovation

The broader diffusion of digital technologies could also enhance the efficiency of business processes. Portuguese firms, notably smaller ones, lag in adopting information and communication technologies, especially those that are well-suited to small firms, such as cloud computing (Figure 1.24). R&D expenditures are also concentrated in the capital and Norte regions (EC, 2024[42]; OECD, 2025[105]), including for European innovation funds (Santos and Conte, 2024[106]). In a welcome move, Portugal's 2022-25 "Mobilising Agenda for Business Innovation" in the RRP aimed at accelerating the diffusion of technology and innovation, through collaborative projects. However, further progress is needed. Though Portugal's communication infrastructure is well developed with fast and ultrafast broadband connectivity in most areas (ANACOM, 2024[107]), in small businesses, a lack of training among managers and employees and poor knowledge of support mechanisms acts as a barrier to the take-up of digital technologies (see above). Lowering the high and rapidly increasing costs of broadband and telecommunications use would also ease access for smaller firms, as broadband prices appeared above the OECD average in 2023 (OECD, 2024[108]) and continued to outpace inflation and the European average in 2024. As recommended in past Surveys, reducing switching costs and lock-in periods for consumers, as well as providing information on the quality of services could spur competition. In addition, public support could increase its focus on subsidising the cost of cloud computing and other efficiency-enhancing technologies.

Figure 1.24. The diffusion of digital technologies is uneven

2023, or latest available year



Note: Data refer to 2023 or latest available year. "Best performers" category corresponds to the average of the five countries where take-up rates are the highest.
Source: OECD calculations using OECD (2025) ICT Access and Use by Businesses (database).

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Table 1.9. Past OECD recommendations to boost productivity

Recommendations in past surveys	Actions taken since 2023
Remove constraints to consumer mobility across telecommunication providers, for example by restricting the use of loyalty clauses in contracts and providing clearer information on the quality of services.	No action taken.
Accelerate and expand the provision of adequate digital resources to schools and teachers, including regular in-service training on ICT use.	The Recovery and Resilience Plan foresees investments of EUR 666 million for the modernisation of vocational education and training institutions.
Expand the coverage of programmes for small companies to acquire digital training, advisory services and information on security and privacy after a thorough evaluation of their impact.	The Recovery and Resilience Plan foresees investments of EUR 650 million to boost the digitalisation of small companies through training and support to adopt digital technologies.

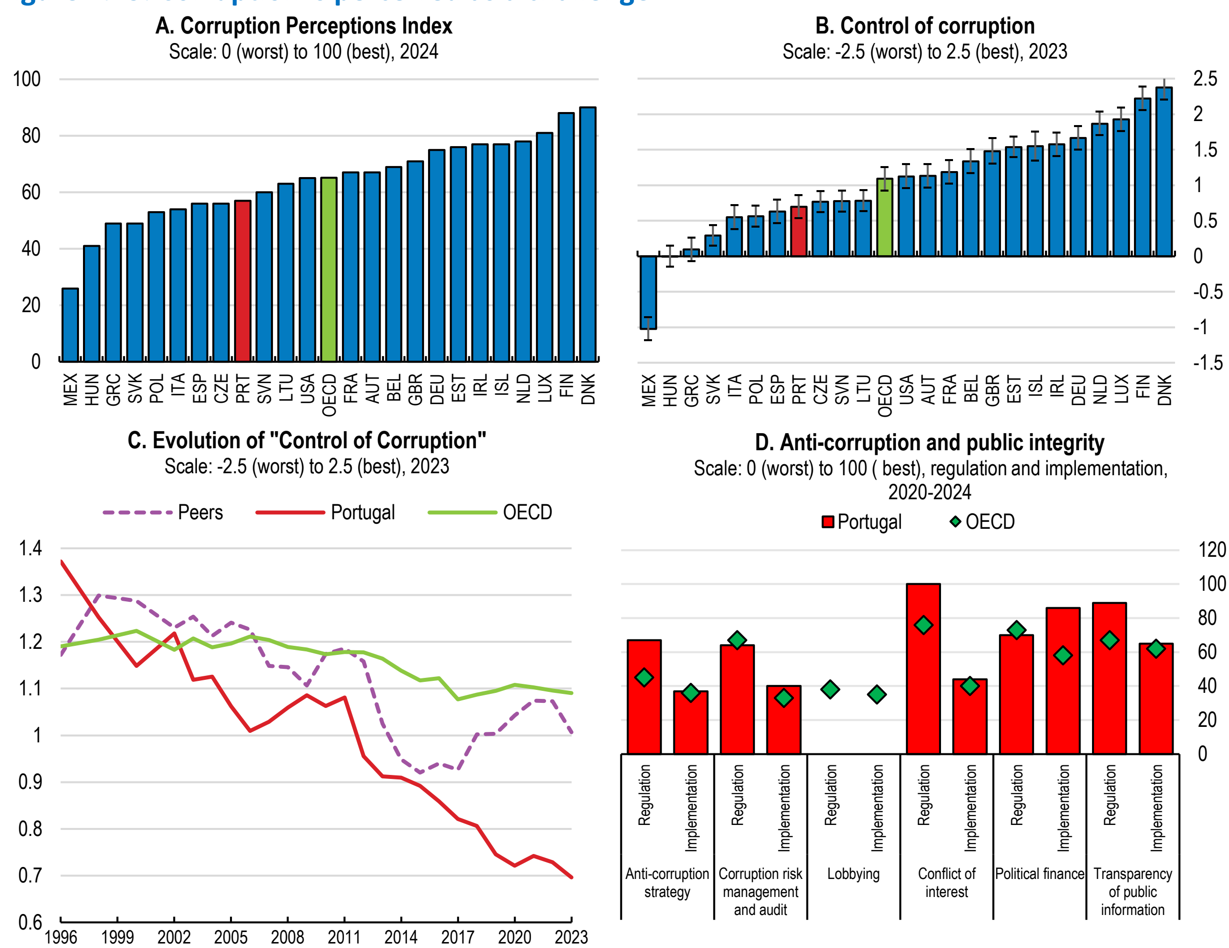
1.4.2. Continuing efforts to reduce corruption

Continuing the efforts to control corruption is important to improve the business environment. Transparency International's Corruption Perceptions Index and the World Bank's Corruption Control Indicator placed Portugal below the median of OECD countries in 2023 and 2024 (Figure 1.25, Panels A to C). A recent survey suggests that 51% of Portuguese firms considered corruption a problem when doing business, above the EU average of 37% (Eurobarometer, 2024[109]). Moreover, business and citizens tend to have low confidence that the police or prosecutors will deal effectively with corruption (Eurobarometer, 2024[109]; 2024[110]).

Progress in the implementation of the national anti-corruption strategy for 2020-24, which aims to improve the levels of prevention, detection and prosecution of corruption, is welcome (OECD, 2024[111]; EC, 2025[112]; GRECO, 2024[113]). Overall, the OECD Public Integrity Indicators show that Portugal's strategic framework has a broad coverage and was elaborated in a relatively participative way, but weaknesses remain in terms of adequacy of implementation structures and evaluation practices, despite a still weak lobbying framework (Figure 1.25, Panel D) (OECD, 2024[114]). Over the past two years, the new Anti-Corruption Mechanism (MENAC) has taken up the majority of its tasks. Steps were taken to ensure sufficient resources for preventing, investigating, and prosecuting corruption. New legislation on revolving doors introduced stricter penalties, a new Code of Conduct applicable to high-level officials was adopted and regulatory compliance programmes in the public sector and in private entities with fifty or more employees became mandatory (EC, 2025[112]; GRECO, 2024[113]) (Table 1.10). Portugal also established a committee for the monitoring of the implementation and implementation of the Anti-Corruption Agenda in 2024.

Going forward, Portugal should build on these efforts to further strengthen the prosecution mechanism and the capacity of the judicial system to address domestic and foreign corruption cases (Figure 1.1). Portugal has prioritised prosecuting corruption and foreign bribery cases and indicted eight natural persons and one company in two complex ongoing foreign bribery cases but never sanctioned a foreign bribery case (FATF, 2024[115]). Whistleblower protection, self-reporting, waiver of sanctions, and the mechanism for suspension of proceedings also appear perfectible (FATF, 2024[115]). Moreover, continuing efforts to ensure adequate human resources of the justice system and improve its efficiency, notably Administrative and Tax Courts, should remain a priority (GRECO, 2024[113]; EC, 2025[112]). The fines applicable to legal persons for foreign bribery should also be reviewed to ensure that they are effective, proportionate and dissuasive (FATF, 2024[115]). Though the authorities announced 32 additional intended measures to fight corruption in June 2024, which notably foresees higher fines, a strengthened whistleblower protection and increased control of lobbying activities (República Portuguesa, 2024[116]), they remain to be implemented.

Figure 1.25. Corruption is perceived as a challenge



Note: Panel B shows the point estimate and the margin of error. Panel C: Peers corresponds to the simple average of France, Italy, Germany and Spain. Panel D: The national anti-corruption mechanism (MENAC) is the central co-ordination function responsible for coordinating the implementation, monitoring, reporting and evaluation activities of the action plan of the National Strategy to Combat Corruption. No institution responsible for monitoring lobbying activities.

Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: OECD anti-corruption and integrity outlook 2024.

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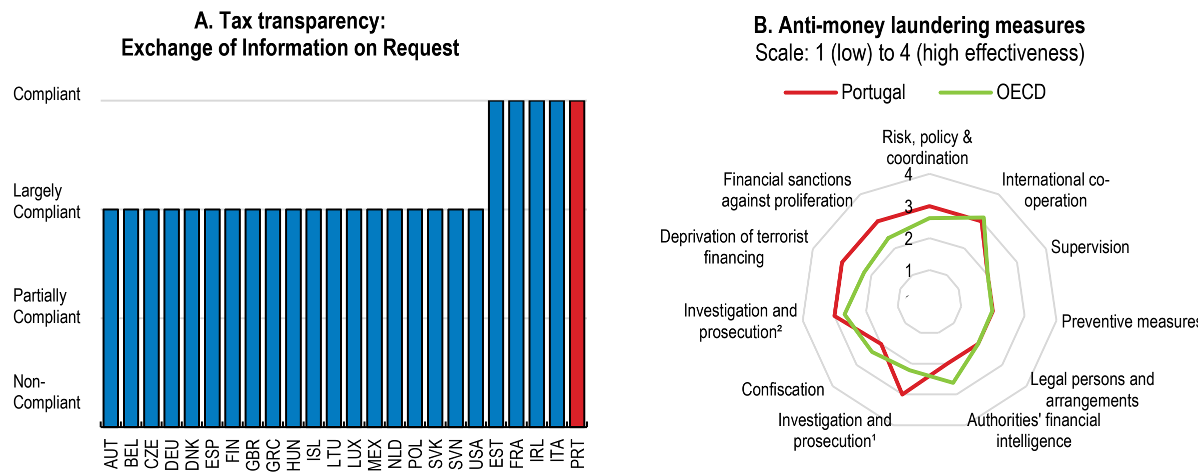
Further measures to improve the accountability and integrity of senior public officials would also help. In particular, the effective prevention and management of conflict of interest should be made stricter, as there have been repeated reports of engagement of high-ranking public officials in the private sector, especially practicing law, while holding office due to the non-exclusive nature of their mandate (Lisi et al., 2022[117]; GRECO, 2024[113]). The Authority for Transparency, which is responsible for assessing compliance by holders of political and high public offices with rules on declarations of interest and assets, has been set up but further progress remains needed to ensure the effective monitoring and verification of asset declarations (EC, 2025[112]; GRECO, 2024[113]). After a pilot project on the legislative footprint on lobbying during the legislative process, draft laws on lobbying have been approved by the Parliament in July 2025. The approval of a Law on lobbying would be another step forward to ensure transparency in the decision-making process. A broad mechanism should be set up to ensure the transparency of all lobbying activities, in which interest groups would disclose their activities and certain categories of public officials (ministers, members of cabinet, appointed advisors, members of Parliament) would disclose their meetings with interest groups. As announced, rules and codes of conduct on how Members of Parliament engage with lobbyists and other third parties who seek to influence the legislative process should be introduced (OECD, 2021[118]).

Figure 1.26. Anti-money laundering efforts need to strengthen further



Note: Panel A summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows results from the ongoing second round when available, otherwise first round results are displayed. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution¹" refers to money laundering. "Investigation and prosecution²" refers to terrorist financing.
Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

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Table 1.10. Past OECD recommendations on Anti-Corruption Policies

Recommendations in past surveys	Actions taken since 2023
Continue to enhance the capacity of the Public Prosecution Office to address economic and financial crime, including corruption. Public prosecutors should continue to undertake specialised training in this area.	Prosecutors undertook specialised training in 2024-25, but significant efforts are still needed.
Introduce codes of conduct on how to engage with lobbyists including a lobbying register.	The authorities plan to introduce a permanent legislative footprint on lobbying during the legislative process and a code of conduct. The Parliament approved in July 2025 six draft bills aiming to regulate lobbying activities, which would notably create of a register of lobbyists.

Table 1.11. Policy recommendations

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Improving macroeconomic policy and ensuring financial stability	
Portugal has achieved primary surpluses since 2022 and significantly reduced its public debt to 94.9% of GDP in 2024. The fiscal stance is set to be expansionary in 2025-26, partly due to the acceleration of the implementation of the Recovery and Resilience Plan.	**Ensure the effective and timely implementation of the Recovery and Resilience Plan by prioritising high impact public investment supporting potential growth.**
The fiscal stance is set to be procyclical over 2025-26. Further expansionary measures could fuel inflation and lower fiscal space.	**Carefully consider any further fiscal expansionary measures.**
Household debt has declined, but many mortgages remain exposed to interest rate fluctuations due to variable-rate contracts. Housing prices have increased rapidly, outpacing disposable income growth. Macroprudential tools have been reinforced, but vulnerabilities persist.	Continue implementing and reviewing borrower-based macroprudential tools, including the systemic risk buffer for the banking sector and closely monitor the evolution of housing prices and mortgages.
Maintaining fiscal sustainability over the longer term	
Portugal has committed to maintain significant primary surpluses until 2038, which would lower public debt towards 60% of GDP. However, this will require strong efforts to maintain significant primary surpluses and there are currently no detailed plans on how to achieve these targets. Moreover, there are rising long term aging expenditures.	**Continue to ensure the implementation of the medium-term fiscal strategy to reduce further public debt by enhancing spending efficiency, containing ageing-related expenditures and prioritising growth-enhancing investment, while phasing out inefficient tax expenditures.**
Public investment has lagged, while social expenditures have increased rapidly in recent years. Inconsistent accounting standards across public entities hinder effective oversight.	Ensure that spending reviews recently integrated into the annual budget process support expenditures prioritisation, improve efficiency and relocate resources toward high impact investment. Roll out new accounting standards and further develop performance budgeting.
Population ageing is expected to increase pension expenditures, despite the link between the normal retirement age and life expectancy. Employment rates decline rapidly with age. The ratio of pension benefits to wages is projected to fall.	**Consider improving incentives for delayed retirement, including by withdrawing gradually early retirement options for the long-term unemployed, and adjusting benefit formulas to preserve adequacy and sustainability.**
Minimum early retirement age has fallen below the normal retirement age, which could reduce employment incentives at older age.	Establish an automatic link between the minimum early retirement age and rising life expectancy.
Ageing will increase health care and long-term care expenditures. However, there is no clear strategy on how to address these costs. Old-age care is predominantly informal and carried out by women, reducing their formal labour market participation.	Expand access to formal, home-base care targeted by income and need. Rebalance health spending towards prevention and primary care.
The social safety net is fragmented, and some benefits suffer from low take up. Reforms are planned to consolidate benefits.	**Consolidate means-tested benefits into a simplified and better-targeted system with harmonised rules.**
Local governments operate a range of income and housing support schemes, which lead to fragmentation of the social protection system.	Improve coordination between national and local income and housing support schemes via data sharing and harmonised eligibility criteria.
The tax system remains complex and numerous tax expenditures reduce public revenues. While a Tax Unit has been established, the 2025 budget introduced new tax exemptions.	**Simplify the tax system and broaden the tax base, by reducing inefficient tax expenditures and consider using this fiscal space to lower tax rates.**
The corporate income tax remains complex, with numerous exemptions as well as municipal surcharges and a state surtax, despite a recent cut in the headline rate. The reduced CIT rate for SMEs may discourage firm growth, and encourages firm splitting, weighing on productivity.	Consider phasing out the state surtax by eliminating ineffective or distortionary tax exemptions.
Capital income is taxed at lower rates than labour income, and capital and inheritance tax revenues are low due to extensive exemptions which tend to benefit wealthy households.	Assess the impact of the current tax design on wealth inequality and consider the introduction of an inheritance tax for large inheritances.
Direct public support to business R&D is low. Tax incentives are generous, but do not reach young innovative firms.	Reconsider the balance between R&D grants and tax credits, while developing rigorous and regular evaluations of their impact.
Boosting productivity and long-term growth	
Competitive pressures are weak in some sectors. The OECD 2023 Product Market Regulation Indicators point at significant regulatory barriers in professional services and the retail sector.	**Lower entry barriers and streamline regulations in professional services and the retail sector.** Further expand the use of Regulatory Impact Assessments for new regulations and undertake sectoral reviews of existing policies.
Lobbying activities and potential conflict of interest are not monitored systematically. Draft laws on rules on how Members of Parliament engage with lobbyists have been approved in July 2025.	**Approve legislation introducing a permanent lobbying registry and codes of conduct on how to engage with lobbyists, and ensure effective enforcement.**

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2 Strengthening labour market resilience in the face of skill shortages and ageing

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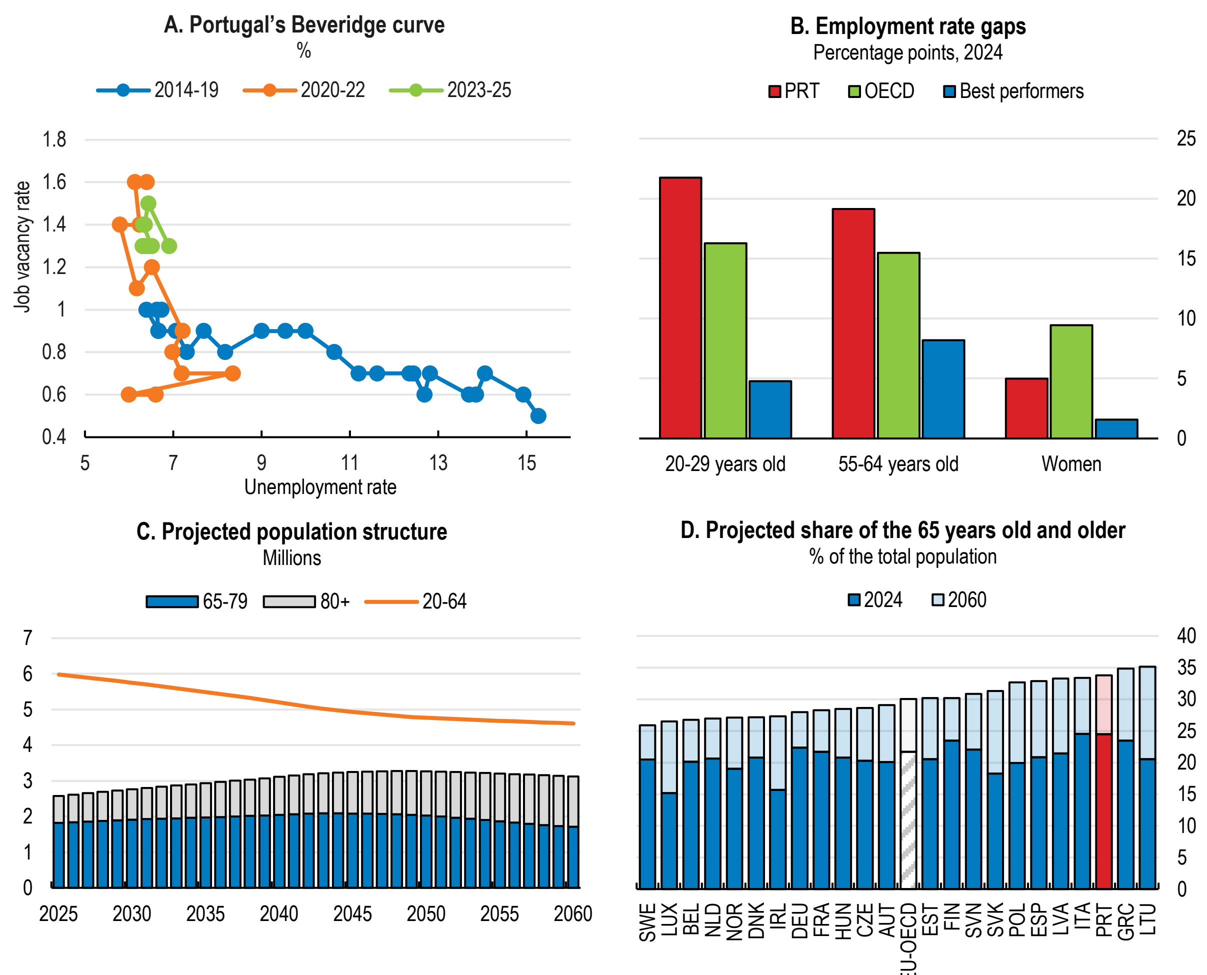
Labour shortages and population ageing are expected to weigh on Portugal's economic growth, despite recent high inflows of foreign workers. Improving the quality and governance of adult education and vocational training should be a priority. Establishing national quality standards for lifelong training courses and enhancing coordination in the lifelong learning system would support take up and better alignment of skills with labour market needs. Strengthening training for older workers, improving working conditions, through more flexible work arrangements and stronger occupational health policies would help extend working lives. Reducing the still high use of temporary contracts would also raise incentives for training. Easing the labour market integration of migrants, women and older workers would support higher employment rates and reduce income inequalities.

2.1. Introduction

Portugal's labour market has recovered strongly from the COVID-19 shock with employment reaching record highs and unemployment near historical lows (Chapter 1). These gains reflect the economy's resilience, but signs of structural strains are emerging. Labour shortages have increased across key sectors, notably in the manufacturing, construction and health sectors, as well as in seasonal sectors (GEP, 2024[1]) and many firms report difficulties finding suitable skilled workers, leading to sizeable skill gaps within firms' workforce (OECD, 2024[2]). The steep slope of the Beveridge curve points at structural mismatches between vacancies and available labour (Figure 2.1, Panel A).

Figure 2.1. The strong labour market faces structural difficulties



Note: Panel B: Data correspond to the percentage of working age population in the same subgroup, calendar and seasonally adjusted. The employment rate gaps of the 20-29 and 55-64 years old are relative to prime-age workers (25-54 years old). Women's employment rate gap is the difference with respect to men for the 15-64 years old. The best performers average the five best performing OECD countries. Panel D: The EU - OECD aggregate corresponds to the OECD countries members of the European Union.
Source: Eurostat Labour Market Statistics (2025), EC (2024), The 2024 Ageing Report: Economic and Budgetary Projections for the EU Member States (2022-2070), OECD Employment indicators (database).

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At the same time, long-standing labour market segmentation persists. Employment rates are comparatively low for some disadvantaged groups, particularly youth and older workers, and, despite high women's employment, there is also some room to raise further their employment rate (Figure 2.1, Panel B). Temporary and non-standard contracts remain widespread, particularly among youth and less skilled workers, limiting job stability, training opportunities and productivity. Looking ahead, Portugal faces profound demographic headwinds: the share of the population aged 65 and over is projected to increase from 25%, to close to 34% by the late 2040s (Panels C and D). This demographic shift will weigh on labour supply and put pressure on public finances, unless offset by higher participation among underutilised groups and migrants, as well as better activation of the long term unemployed and improved workforce skills.

Sustaining growth and fiscal stability in the face of these challenges will require a comprehensive strategy to strengthen labour market resilience. Policy action will need to balance urgent responses to current shortages with longer term strategies. Priorities include reducing labour market segmentation and easing the integration of youth in the labour market, strengthening adult learning, lifelong learning and vocational education, reducing long-term unemployment and making better use of the skills of migrant workers, and further increasing women's employment from its relatively high level.

2.2. Upskilling and activating the current workforce

While overall employment rates are high and unemployment is low, persistent challenges remain in mobilising all segments of the workforce. Youth employment rates are low and the employment rate declines with age (Figure 2.2, Panel A). Although the youth employment rate (for those age 20-29) has partly recovered since the financial and euro area crises, it was also negatively affected by the COVID-19 pandemic. Moreover, the youth labour market integration is affected by the high incidence of temporary contracts and a difficult school-to-work transition, despite the decrease in the share of young people (aged 15-29) neither in employment nor in education and training (NEET) from 16.5% in 2013 to 8.7% in 2024 (Eurostat, 2025[3]). Over the past two decades, most job gains have come from prime-age workers and the 50-59 years old, whereas youth employment has weakened and employment for those aged 60 and over has been concentrated among the 60-64 years old, despite increasing life expectancy. At the same time, long-term unemployment remains elevated. Older workers above 55 years old and less educated jobseekers are particularly likely to remain in unemployment for more than a year (Panel B), pointing to barriers to re-entry and skills obsolescence.

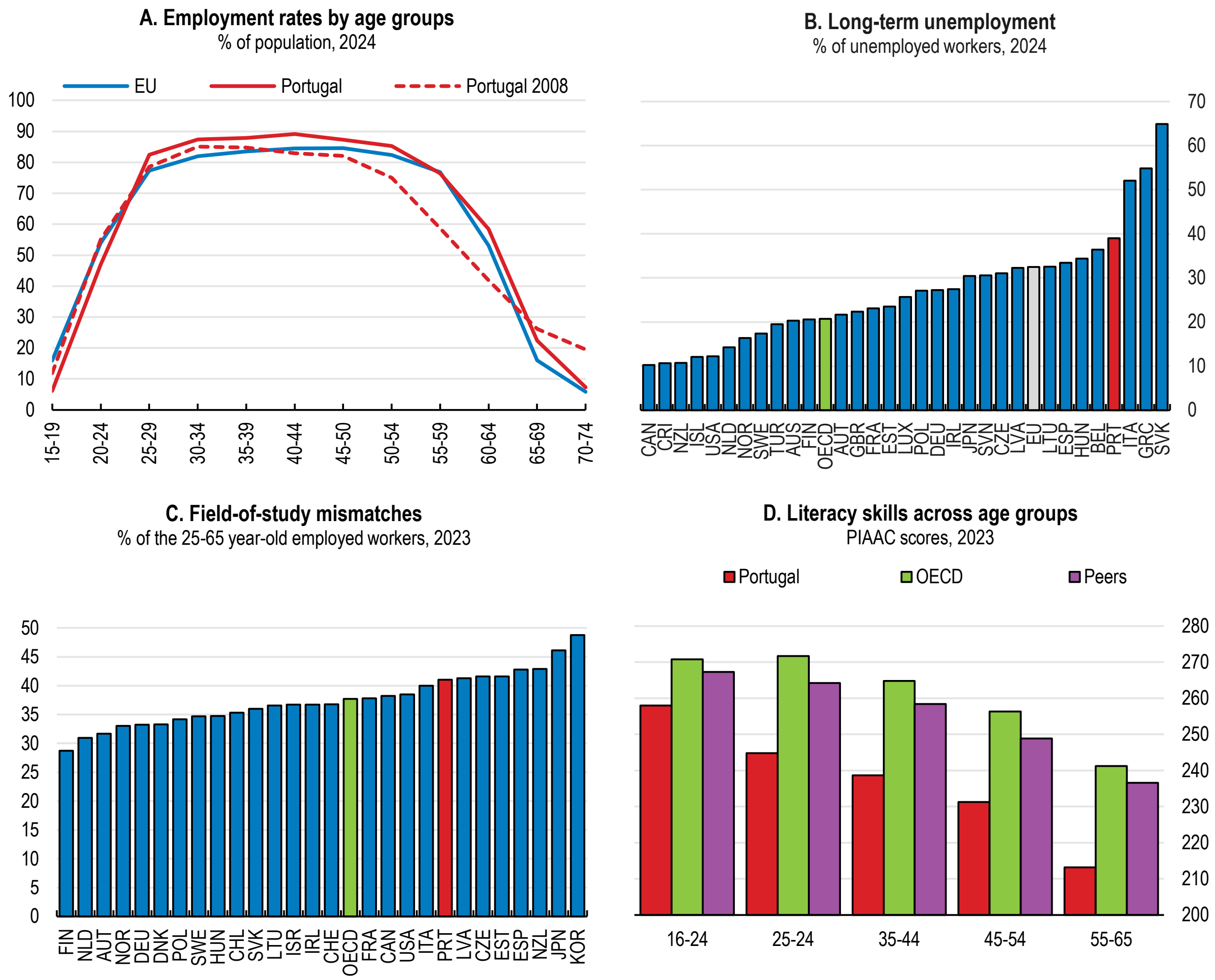
These structural issues are reinforced by significant mismatches between education and labour market needs. Many workers are employed in fields unrelated to their qualifications, with Portugal showing relatively high rates of field-to-study mismatches (Figure 2.2, Panel C) (Cedefop, 2025[4]). Basic and digital skills are also low, especially among older workers undermining their employability (Panel D) (OECD, 2024[2]) and, despite the recent significant increase in educational attainment, a significant share of young workers still has low levels of education, for instance close to 20% of the 30-34 have lower secondary education, according to Eurostat. In addition, a large share of small and medium-sized firms is run by managers with limited or low educational attainment, which may hinder the adoption of productivity enhancing technologies and effective organisational practices.

2.2.1. Equipping workers with digital and foundational skills

Participation in lifelong learning remains low in Portugal, especially among older, unemployed and inactive workers, despite significant improvements in the past decade, driven by strong political willingness to upskill the adult population (Figure 2.3). Structural barriers often prevent those in need from accessing training. According to the 2022 Eurostat Adult Education Survey, the lack of suitable training offer, the lack of support from employers and the Public Employment services related to training, and incompatible work schedule, are the most salient constraints to participate in lifelong learning in Portugal. These barriers appear relatively stronger than in other European Union countries, notably for those with lower educational attainment and older workers (Eurostat, 2025[5]).

The provision of lifelong learning relies on a wide range of actors. The Portuguese Public Employment Service (IEFP) operates a network of both employment centres and vocational training centres and manages some training programmes for employed workers, as well as Active Labour Market Policies.

Figure 2.2. Activating and upskilling the workforce remains a key challenge



Note: Panel A & B: The EU corresponds to the composition of European Union as of 2020. Panel B&C: The OECD aggregate corresponds to the simple average of the OECD countries. Panel B: Unemployment duration corresponds to 1 year or over. Panel C: Excluding self-employed workers. Field-of-study mismatched workers have their highest qualification not in the field that is most relevant to their job. Panel D: Peers is the unweighted average of France, Germany, Italy and Spain. Adults age group covers 16-65 years old. The category includes adults who were only administered the doorstep interview due to a language barrier. Caution is required in interpreting results due to the high share of respondents with unusual response patterns.
Source: Eurostat Labour Market Statistics (2025); OECD Labour Market Statistics (2025); OECD PIAAC (2023).

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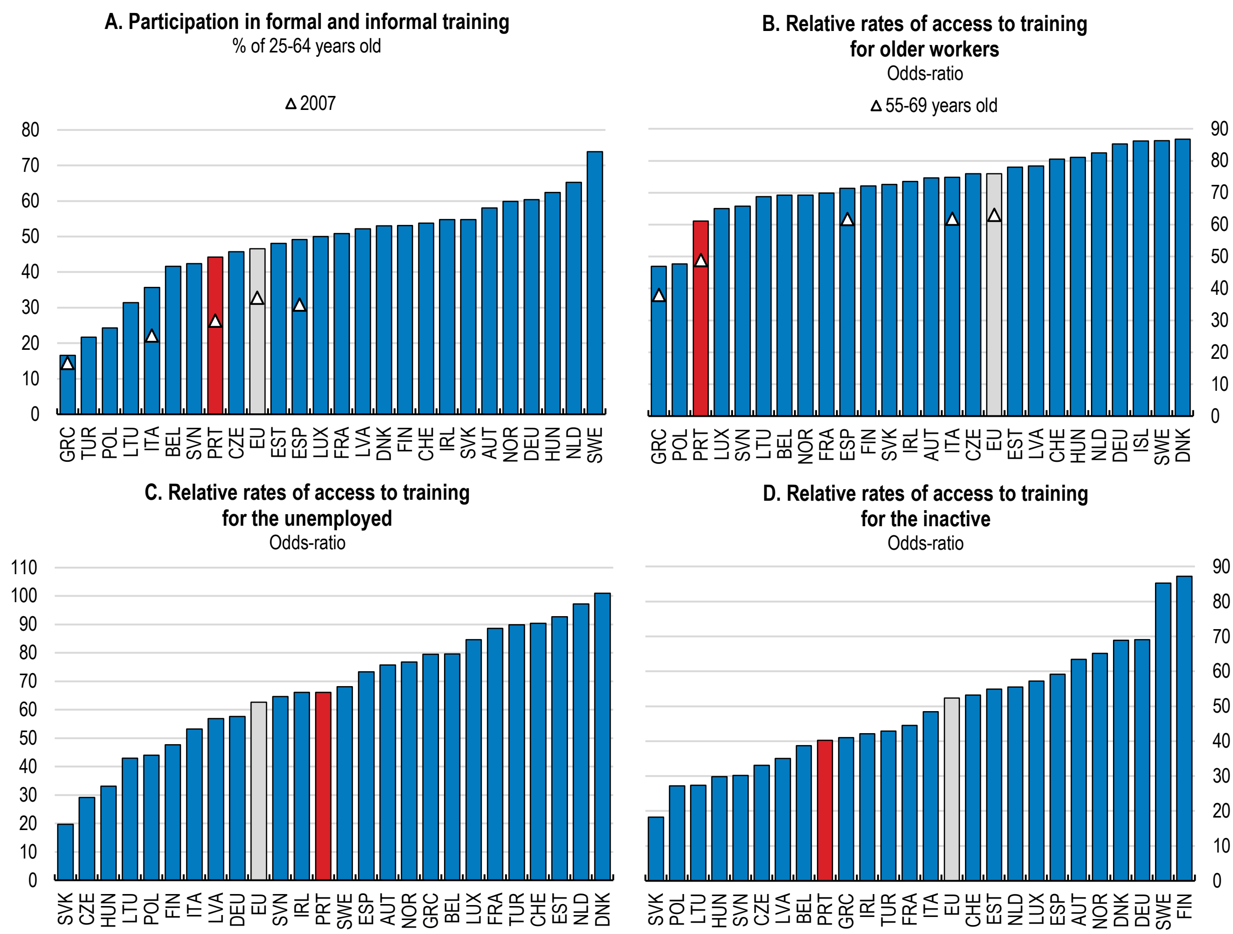
In December 2024, the specialised adult qualification centres' (*Centros Qualifica)* network was made up of 309 centres (Eurydice, 2025[6]). In addition, other bodies provide adult education and training courses (*Cursos de educação e formação de adultos* - EFA Courses) and modular training included in the National Qualifications Catalogue (*Catálogo Nacional de Qualificações*). The main adult education programmes are funded by the state budget and European Funds. Social partners participate in advisory and social coordination bodies (tripartite composition). However, there is no single budget for adult learning which would allow a more complete tracking and evaluation of this policy (OECD, 2018[7]). In addition, many certifying entities are responsible for providing different certifications to adult education and training providers or specific courses and their monitoring remains perfectible. For example, the main instrument to monitor the quality of private providers is an audit, which is constrained by the large number of certified private providers and limited public human resources (OECD, 2021[8]).

Figure 2.3. The take-up of adult training remained low and unequal in 2022



Note: The EU corresponds to the composition of European Union as of 2020. Panel A: Adults aged between 25 and 64 enrolled in education or training over the last twelve months. Panel B, C & D: Participation rate of adults who are 55-64 years old or 55-69 years old (unemployed or inactive in Panels C and D) compared to the participation rate of all adults.
Source: Eurostat (2025), "Adult Education Survey", Eurostat database.

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Enhancing information and quality control of training programmes would improve their targeting and effectiveness. In the Recovery and Resilience Plan, the planned design of additional VET programmes that focus on adult literacy and the upscaling of the National Plan for Adult Literacy, including more projects and financial support for equipment, staff and participants, worth EUR 225 million are helping to support lifelong learning. Vocational and higher education institutions could play a greater role by offering more diversified and flexible study opportunities and programmes aligned with current and future skill needs (OECD, 2022[9]). Improving the certification system could increase quality and help employers and employees better assess the quality of training providers. The standards should be easily operationalised through well-defined quality guidelines helping providers interpret them. For example, Austria's quality framework for adult education providers (Ö-Cert) outlines five basic certification requirements, while Switzerland's quality label (eduQua) defines six common certification criteria for adult education providers (OECD, 2021[10]).

To strengthen lifelong learning, programmes should also be more closely tailored to labour market needs, for instance by improving existing skills forecasting tool and the system's responsiveness to forecasting information. Better targeted toward disadvantaged groups, including through active labour market policies and targeting smaller firms that may lack capacity to effectively managed their human resources, would also help (see below). In particular, further efforts should target older workers whose take up of training is 50% to 60% lower than the whole population (Figure 2.3, Panel B). In Portugal, older workers report that the lack of employer support and engagement from the Public Employment Services limit their access to lifelong learning (Eurostat, 2025[5]).

2.2.2. Strengthening active labour market policies

Portugal continues to struggle with rates of long-term unemployment above the European average, particularly among older and less-educated workers. Strengthening activation policies is essential to bring these groups back into the labour force and reduce structural unemployment. This should go hand in hand with a simplification of social benefits, as discussed in Chapter 1, which would help to ensure more consistent work incentives for those receiving these benefits, notably long-term unemployed workers (OECD, forthcoming[11]; forthcoming[12]).

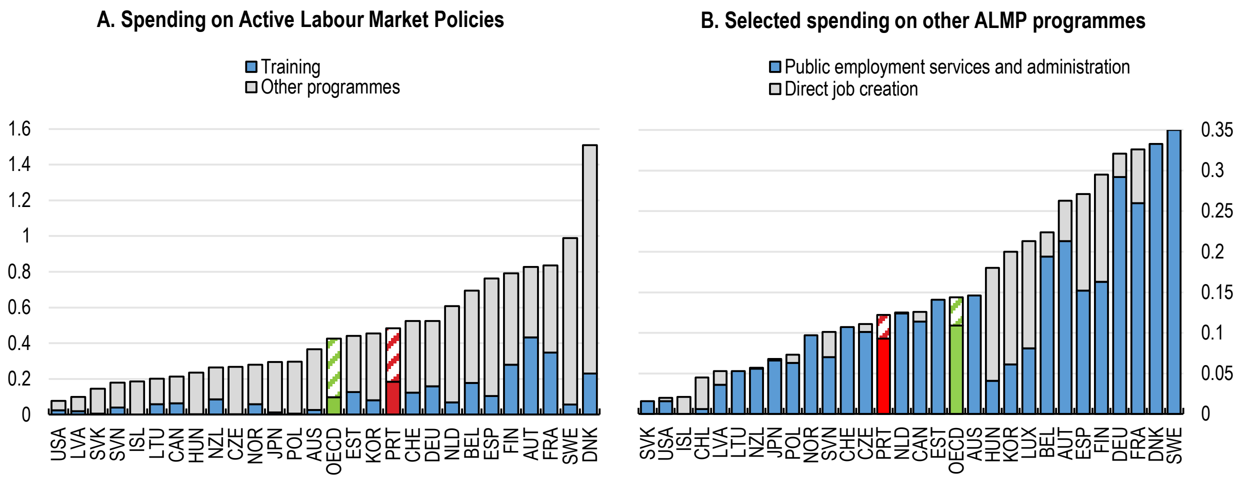
As Portugal expands its training and labour market policies, ensuring quality and effectiveness is crucial. Though many active labour market policies are planned to be evaluated (ADC, 2023[13]), an evidence-based approach has long lagged, despite relatively high spending, notably on training (Figure 2.4, Panel A). A recent OECD (2024[14]) evaluation shows that the ATIVAR.PT internship programme targeted at young workers in response to the COVID-19 pandemic has been successful in terms of employment and earnings. Rich administrative data from the Public Employment Services (IEFP) and the Social Security Institute (ISS) could support more systematic evaluation. Publishing training providers and courses performance scores for public and private training centres, as done in countries like Denmark, France and the Netherlands would promote transparency. Over time, Portugal could also consider linking funding to outcomes to incentivise high-quality, results driven training provision.

Spending on active labour market policies is partly skewed towards less effective spending (Figure 2.4). Expenditures, notably on training, have been highly volatile: between 2017 and 2023, training expenditure averaged 0.18% of GDP compared to 0.29% between 2004 and 2016. Spending on Public Employment Services and administration, often considered to be the most cost-effective intervention, is also 0.03 percentage points below the OECD average of 0.11% of GDP in 2023 (OECD, 2024[14]). As a result, counsellors face relatively high caseloads, making it hard to meet jobseekers' needs, provide tailored support and to implement job-search requirements. By contrast, support for direct job creation (public works) still accounted for 0.02% of GDP in 2023, while international evidence shows that such support is generally not effective in bringing participants back to the open labour market (Card, Kluve and Weber, 2017[15]). Portugal should therefore rebalance this spending towards counselling and training.

Strengthening incentives for longer active life is crucial and encouraging firms to hire and retain older workers, and to improve their employability through skills, health and job quality. Early retirement schemes should be carefully evaluated, the minimum early retirement age progressively raised in line with life expectancy and the special scheme for the long-term unemployment above 62 years old or 57 years old, depending on contribution history, should be reconsidered (Chapter 1). OECD experience shows that, in general, entitlement criteria to non-pension welfare benefits that are explicitly based on age may be detrimental, as these rules can reinforce damaging stereotypes and social norms about older workers and do not reflect the diversity of labour market situations that they face (OECD, 2019[16]). By contrast, a more effective mobilisation of ALMP measures for older workers would help raise their labour market integration. In Portugal, priority access to a range of employment and training measures is given to socially disadvantaged groups, including the unemployed aged 45 and over. Measures include enhanced opportunities for work placements, support hiring the unemployed and integration into social work. However, many measures had a low take up by older workers (OECD, 2018[17]) and, as in many other OECD countries, specific Active Labour Market Policies targeted at older workers are partly lacking. A more specific approach to older workers has been shown to be positive in Germany (Box 2.1).

Figure 2.4. Spending on active labour market policies should focus more on training and counselling

% of GDP, 2023



Note: The OECD aggregate corresponds to the simple average of the OECD countries.
Source: OECD Labour Market Policy (database).

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Management training programmes could also help to increase the take up of training among Portugal's numerous small firms. Frictions in information sharing appear to prevent small firms from accessing relevant active labour market policies (Custodio, Hansman and Mendes, 2021[18]). Public employment services could therefore increasingly target its efforts at small and medium-sized enterprises, notably by raising awareness about their employment services. Moreover, addressing the current high costs of recruiting staff, for example by developing free targeted recruitment services for SMEs, could lead to increasing job offers (Algan, Crepon and Glover, 2020[19]). More ambitiously, the establishment of local one-stop shops including public employment services for businesses combining training, recruitment and human resources services would provide better guidance to businesses in search of information and support. For example, public employment centres and vocational training centres are already often co-located, but these are often not fully integrated from the employer's perspective.

Box 2.1. Germany's active labour market programme for older workers

In 2005, the Federal Ministry of Labour and Social Affairs launched and financed the *Perspektive 50 Plus* - Employment Pacts for Older Workers. The programme ran from 2005 to 2015 and aimed to re-activate and integrate older workers (50+), predominantly those who are low- or semi-skilled and long-term unemployed, into employment.

The programme included coaching, profiling, training in communication skills and job application training, job training, internships, and wage subsidies. The evaluation of the first phase conducted in 2007 showed that the success of the programme rested on the combination of individualised counselling and coaching as well as on proactive outreach to employers. The most recent evaluation showed that placement results were better than in the case of more traditional approaches.

Source: OECD (2024), Promoting Better Career Mobility for Longer Working Lives in the United Kingdom, Ageing and Employment Policies, OECD Publishing, Paris; OECD (2019), Working Better with Age, Ageing and Employment Policies, OECD Publishing, Paris.

2.2.3. Reducing labour market segmentation to ease workers' transitions

Portugal's continued high reliance on fixed term contracts not only weakens job quality by causing potentially excessive job turnover across multiple fixed-term contracts but may also lower productivity by undermining incentives for investment in firm-specific human capital. Temporary workers often receive less training and face unstable employment trajectories, making it harder to accumulate the skills and experience needed in a tight labour market. Despite recent declines, temporary employment remains widespread particularly among younger workers (Figure 2.5, Panels A and B), in seasonal sectors, such as tourism and accommodation, but also in sectors without seasonal demand fluctuations, such as manufacturing and information and communication. A shift-share decomposition suggests that this pattern is not explained by Portugal's industrial structure, but rather by a higher within sector use of temporary employment (Panels C and D).

Recent reforms, including a cap on successive temporary contracts and increased termination costs (Box 2.2), aim to reduce reliance on temporary work. While such steps may help to reduce the reliance on temporary contracts, it must be accompanied by reforms that make permanent hiring less risky and more attractive for employers. Dismissal costs for permanent contracts remain high by OECD standards: compensations granted for unfair dismissals averages 20 monthly salaries, and reinstatement is still frequently granted in court decisions. These features create a strong disincentive for firms to offer a permanent position. Reducing legal uncertainty and aligning the compensation for dismissal that are deemed unfair more closely with OECD peers, such as France (around 12 monthly wages), the Netherlands (7 months) or Norway (12 months), could help narrow the gap between contract types. Making receipt of severance pay conditional on the renunciation of litigation rights, as in other countries, could also help. In addition, simplifying dismissal procedures that remain cumbersome, would help to narrow the gap with temporary contracts, where no such requirements are set. However, these reforms should be designed carefully to avoid deterring hiring altogether.

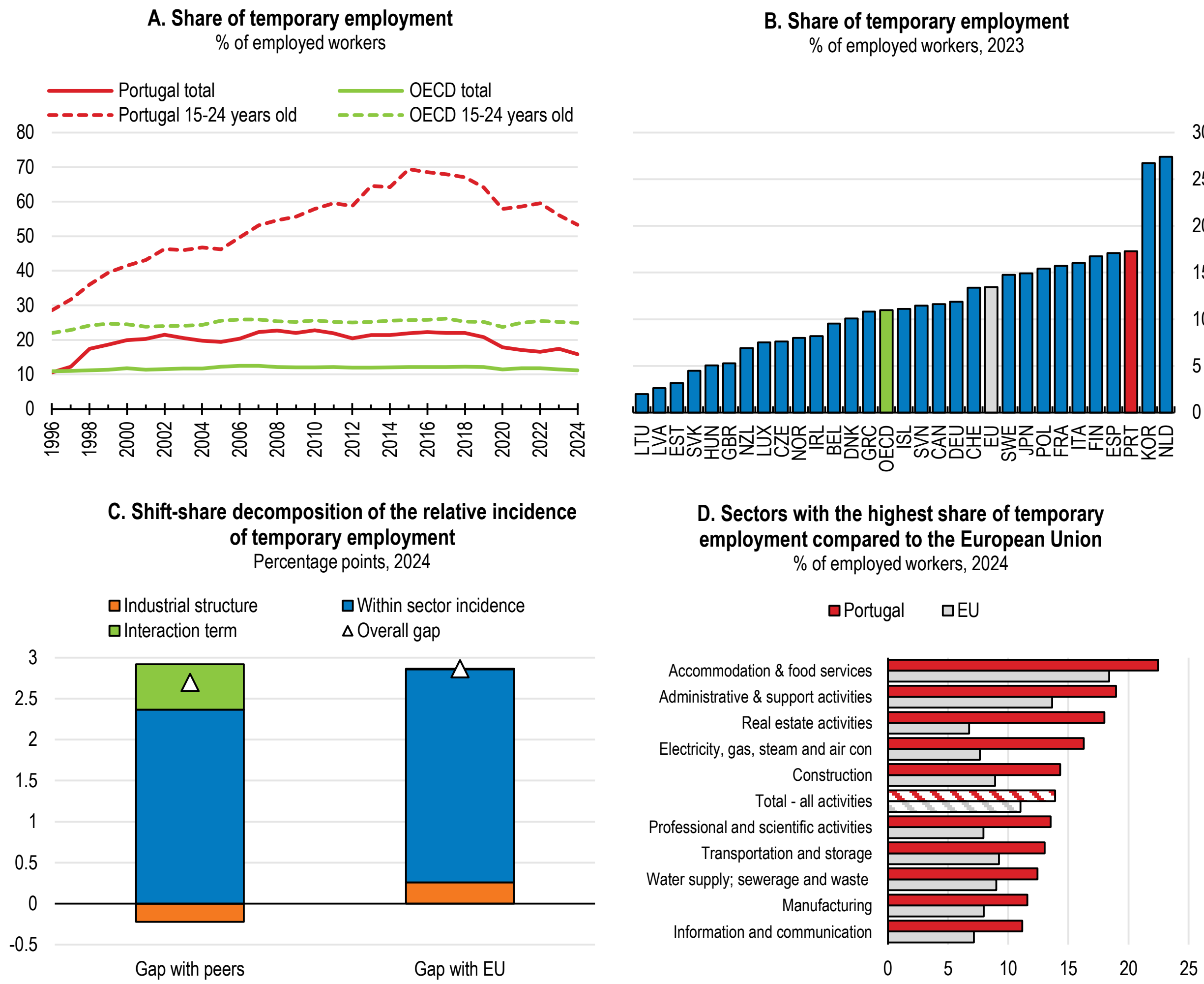
Box 2.2. Key measures in Portugal's 2023 decent work agenda

The Portuguese Government launched in 2023 a Decent Work Agenda (*Agenda do Trabalho Digno*), containing around 70 measures to improve working conditions. The main measures aim at continuing to reduce labour market segmentation and the share of precarious jobs, extending parents' and caregivers' rights and the reconciliation of work with family life, improving participation in collective bargaining and updating the legal framework for platform workers. The key measures include:

- Limiting the successive use of temporary contracts, increasing compensation in the event of termination and reinforcing the responsibilities around the use of temporary contracts.
- Defining the sharing of parental leave between mothers and fathers.
- Granting support and incentives to companies with recently concluded or revised collective agreements.
- Presuming the existence of an employment contract for work developed in digital platforms to help increase the labour rights and access to social protection of platform workers.

Source: Governo da República Portuguesa (2021), *Principais medidas da Agenda do Trabalho Digno e de Valorização dos Jovens no Mercado de Trabalho*; Government of Portugal (2023), *Agenda do Trabalho Digno – saiba tudo o que vai mudar*.

Figure 2.5. Temporary employment remains widespread



Note: Panel A & B: The OECD aggregate corresponds to the simple average of the OECD countries. Panel C: The shift-share decomposition of the incidence of temporary contracts in Portugal with respect to two benchmark aggregates is based on the NACE industrial structure in 22 sectors. It refers to the 16-65 years old employed population. The industrial structure term assumes that Portugal would have the same use of temporary contract than the EU or the peer country average (France, Germany, Greece, Italy and Spain) in each industry. The within sector incidence term assumes that Portugal has the same industrial structure than the EU or the peer country average in each industry. Panel B, C & D: The EU corresponds to the composition of European Union as of 2020.

Source: OECD Employment indicators (database), Eurostat Labour Market Statistics (2025) and OECD calculations.

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2.2.4. Ensuring sustainable minimum-wage developments

Portugal's sustained minimum wage increases, rising by 7.8% in 2023, 7.9% in 2024 and most recently by 6.1% in 2025 to EUR 870 have significantly bolstered low-income household earnings. The authorities plan further annual increases to reach EUR 1020 by 2028. Minimum wages can be an important tool to protect the standard of living of low-paid workers, but they also risk disincentivising the hiring of low-skill or other vulnerable workers, notably when the minimum wage is relatively high compared to the median wage. At the level set in most OECD countries, minimum wage increases, even large ones, have had positive effects on low incomes but no or limited negative effects on employment (Dube, 2019[20]). The available evidence for Portugal also did not find significant detrimental effects of minimum wage hikes on aggregate employment (Oliveira, 2023[21]; Alexandre et al., 2022[22]). Yet, at around 59% of the gross median wage in 2024, Portugal's minimum wage and relative labour costs at the minimum wage appear relatively high (OECD, 2023[23]; 2025[24]).

Moreover, around 23% of employees earn the minimum wage (Banco de Portugal, 2024[25]), while SMEs employed around 72% of the labour force in 2019 in Portugal and typically have low profit margins.

In the less favourable macroeconomic context of the coming years (Chapter 1), attention should be paid to ensuring that increases in labour costs do not deter employers from hiring low-wage workers or encourage them to use more precarious forms of employment, such as temporary contracts or self-employment. As recommended in previous Surveys, a thorough analysis and regular evaluation of the minimum-wage policy would help to minimise these risks. This could be completed by a revision of the process of setting minimum wages to include a permanent and independent Commission, mandated to evaluate its potential impact and publish recommendations. As labour costs at the minimum wage are elevated, the authorities could also consider reducing employer social security contributions for low-wage workers to mitigate the impact of the minimum wage increases on labour costs. This could build on the evaluation of the current policy framework that offers 50% temporary reduction on the employer social security contribution, for a maximum period of 5 years (in case of young people looking for a first job) or 3 years (in the case of hiring of long-term unemployed people) irrespective of the level of wages and the available international evidence which points at significant employment effects of such policy around the minimum-wage levels (Bozio and Wasmer, 2023[26]).

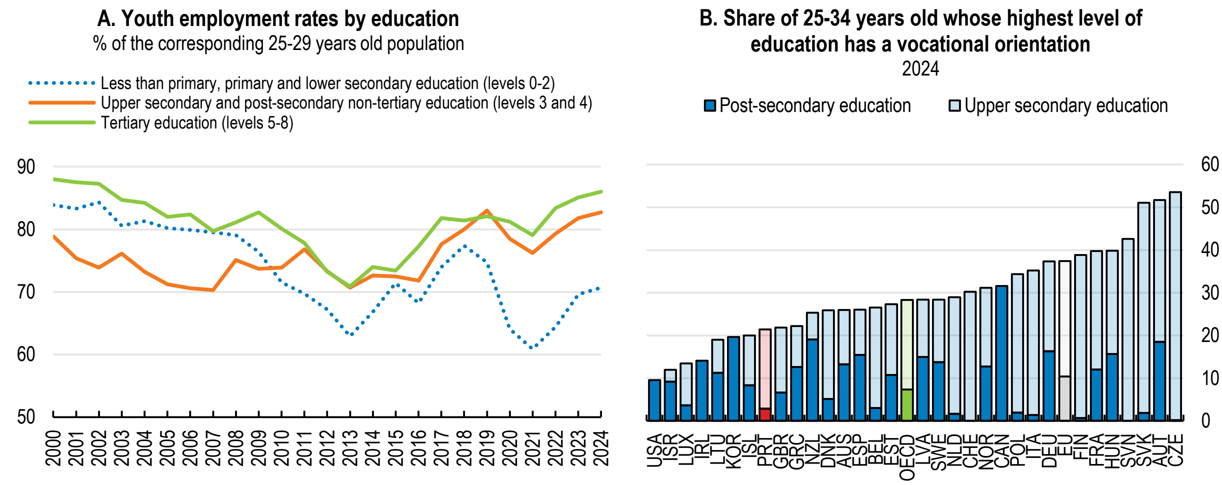
2.3. Mobilising untapped labour market potential

2.3.1. Improving the school to work transition

Portugal has made significant progress in increasing educational attainment, with upper secondary and tertiary education completion rates approaching OECD averages and youth employment rates are now above the European average. However, many young graduates continue to face difficulties in finding jobs matching their qualifications (Figure 2.6). Skill mismatches remain high, the employment rates of young graduates, even with tertiary education, lags the EU average in their first years after graduation (OECD, 2023[23]; Goulart and Peralta, 2024[27]) and temporary employment is widespread among youth (see above). Vocational education and training (VET) programmes have expanded, notably with the launch of short-cycle vocational oriented tertiary courses (CTeSPs) in 2014, but quality and relevance to labour market needs remain uneven. Work-based learning opportunities are often short in duration, and employer involvement in curriculum development is limited. Strengthening partnerships between schools and firms, expanding dual training models and improving career guidance during school could help align education with labour market needs and improve school to work transitions.

On-going reforms under the RRP aim to modernise VET programmes and the school to work transition. They aim at aligning programmes with forward looking labour market forecasts, with a new skills anticipation system being developed with the OECD. Investments worth EUR 710 million are upgrading facilities across secondary schools with professional courses, vocational schools and training centres (Cedefop, 2024[28]). Planned reforms to better distribute the offering of VET programmes across regions are also welcome. However, students still face difficulties accessing clear and comparative information about the academic requirements and labour market prospects of programmes. While online tools such as the *InfoCursos, ofertaformativa.gov.pt* and the *Brighter Future* web portals have improved data availability (DGEEC, 2022[29]), their visibility, data quality and user-friendliness could be improved. Enhanced career guidance in secondary schools and further development of digital portals, linking programmes with employment outcomes and career pathways, would help inform student choices and reduce mismatches.

Figure 2.6. Developing further vocational education could ease youth labour market entry



Note: Panel B: The EU corresponds to the composition of European Union as of 2020. The OECD aggregate corresponds to the simple average of the OECD countries.
Source: Eurostat Labour Market Statistics (2025), OECD Education at a Glance (2025).

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The duration and structure of work-based components in VET programmes also needs improvement. In Portugal, most recent VET graduates report work experience of less than seven months, often unpaid (Cedefop, 2025[30]). By contrast, countries like Germany and Switzerland offer longer, paid apprenticeships as part of dual education systems, with apprenticeship contracts of an average of 24 to 36 months and close coordination between schools and employers (OECD, 2023[31]; 2020[32]). These models facilitate smoother transitions into the labour market. Expanding dual training programmes, strengthening partnerships with firms and aligning VET offerings regionally with economic needs can help Portugal better integrate young people into the workforce.

2.3.2. Creating enabling work environments for older workers

While the statutory retirement age in Portugal is linked to life expectancy and the effective retirement age is above the OECD average, employment rates drop sharply after age 55 (Figure 2.2). This appears mostly due to the low employment opportunities of older workers as a low share of the 50-74 and 60-74 years old already receive an old-age pension (Eurostat, 2024[33]). Poor health, limited opportunities for reskilling and lack of flexible work conditions contribute to early labour market exits. Moreover, as in other OECD countries, job mobility typically declines with age, yet with longer working lives, the green and digital transitions, strengthening training opportunities and supporting mobility and career adaptability among mid-to-late career workers will be crucial (OECD, 2024[34]). Supporting longer and healthier working lives will also require adapting workplaces to older workers' needs and promoting flexible work. Increasing incentives for later retirement (Chapter 1), could also mitigate the demographic drag on labour supply.

Improving working conditions and health at work

Adapting work conditions to older workers is essential. Flexible work arrangements, better job quality are key to retain older workers (Göbel and Zwick, 2013[35]). In principle, the Portuguese pension system allows flexible retirement and the combination of part-time activity with a pension (OECD, 2017[36]). However, the uptake of part-time work among older workers in Portugal is well below the EU average, and only those with caregiving responsibilities have the right to request reduce hours (Figure 2.7). Extending the right to request part-time or flexible working hours to all employees in larger firms, as in France, Germany, the Netherlands and the United Kingdom, would provide workers with greater bargaining power and reduce the risk of discrimination against certain groups (OECD, 2016[37]). In a context of rising legal retirement age and with the need to reduce further early retirement schemes (Chapter 1), more flexible employment conditions could allow to increase labour market participation as workers age, however, it could also encourage some workers to shift from full-time to part-time work.

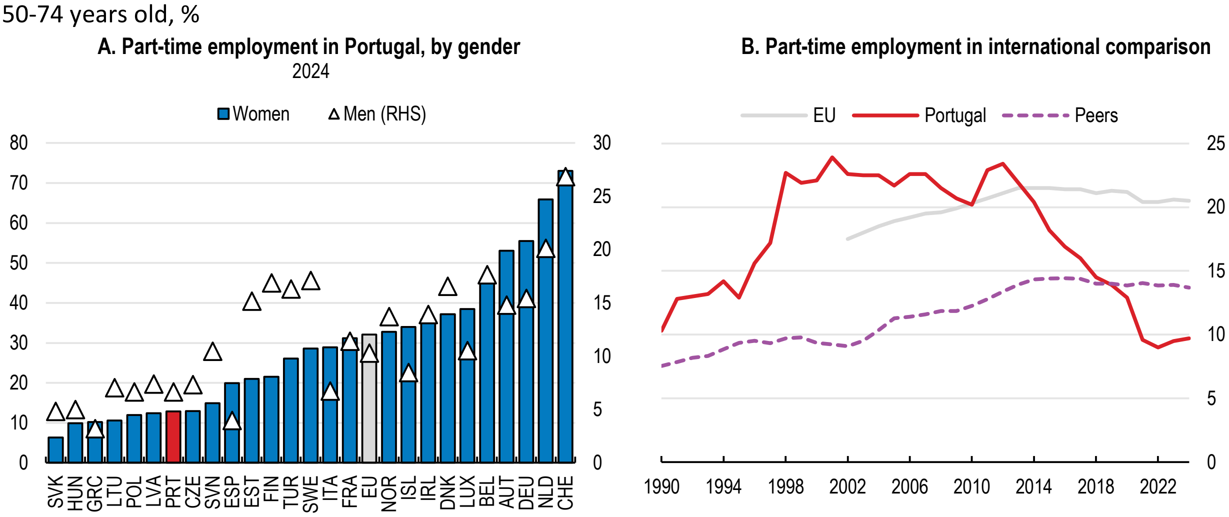
Chronic health conditions are widespread: in 2024, 42% aged 16 and over reported a longstanding illness or health problem – above the EU average (Eurostat, 2025[38]). These health issues, along with limited flexibility and reskilling options, restrict older workers ability to stay in employment. Occupational risks at work are a leading cause of early labour market exit. Despite progress, Portugal continues to report a relatively high incidence of work-related accidents, particularly among micro and small firms (Figure 2.8). Self-reported exposure to physical health risks is also high. Strengthening health and safety measures, especially in SMEs, will be critical.

Better targeting and monitoring of prevention programmes could lower occupational risks, while supporting workers to return to work as soon as possible is key to avoid they become detached from the labour market. In Portugal, all employers must provide Occupational Safety and Health (OSH) services and subscribe to insurance for work-related and commuting accidents. Occupational diseases are covered by a public insurance scheme. Yet preventive efforts are often minimal, especially in small firms that rely on external OSH services (Monjardino T. et al., 2016[39]). Many firms treat training as a compliance formality, limiting its effectiveness (Franklin, P. et al, 2021[40]; OECD, 2018[7]). The 2015-20 Occupational Health Plan introduced targeted prevention for SMEs, notably through information campaigns, but implementation has lagged due to limited resources (ACT, 2015[41]; 2016[42]; DGS, 2022[43]). Further progress requires promoting a prevention culture, supported by high-quality OSH services for SMEs, risk based inspections and financial incentives, such as insurer driven prevention schemes like in Germany and France (Box 2.1) and (OECD, 2022[44]).

Additional resources for the Authority for Working Conditions (ACT) would help scale up preventive actions While inspection activity and hiring of labour inspectors increased substantially over 2020-21, preventive services remain underdeveloped (ACT, 2022[45]). Reviving workplace health promotion campaigns and supporting healthy lifestyles, through initiatives to address sedentary behaviour and poor diet, can improve work ability and reduce sickness related absences (OECD, 2019[46]; 2022[44]).

Figure 2.7. Age management practices appear lagging

50-74 years old, %



Note: The EU corresponds to the composition of European Union as of 2020. Panel B: Peers is the unweighted average of France, Germany, Italy and Spain.
Source: Eurostat Labour Market Statistics (2025), OECD Education at a Glance (2023).

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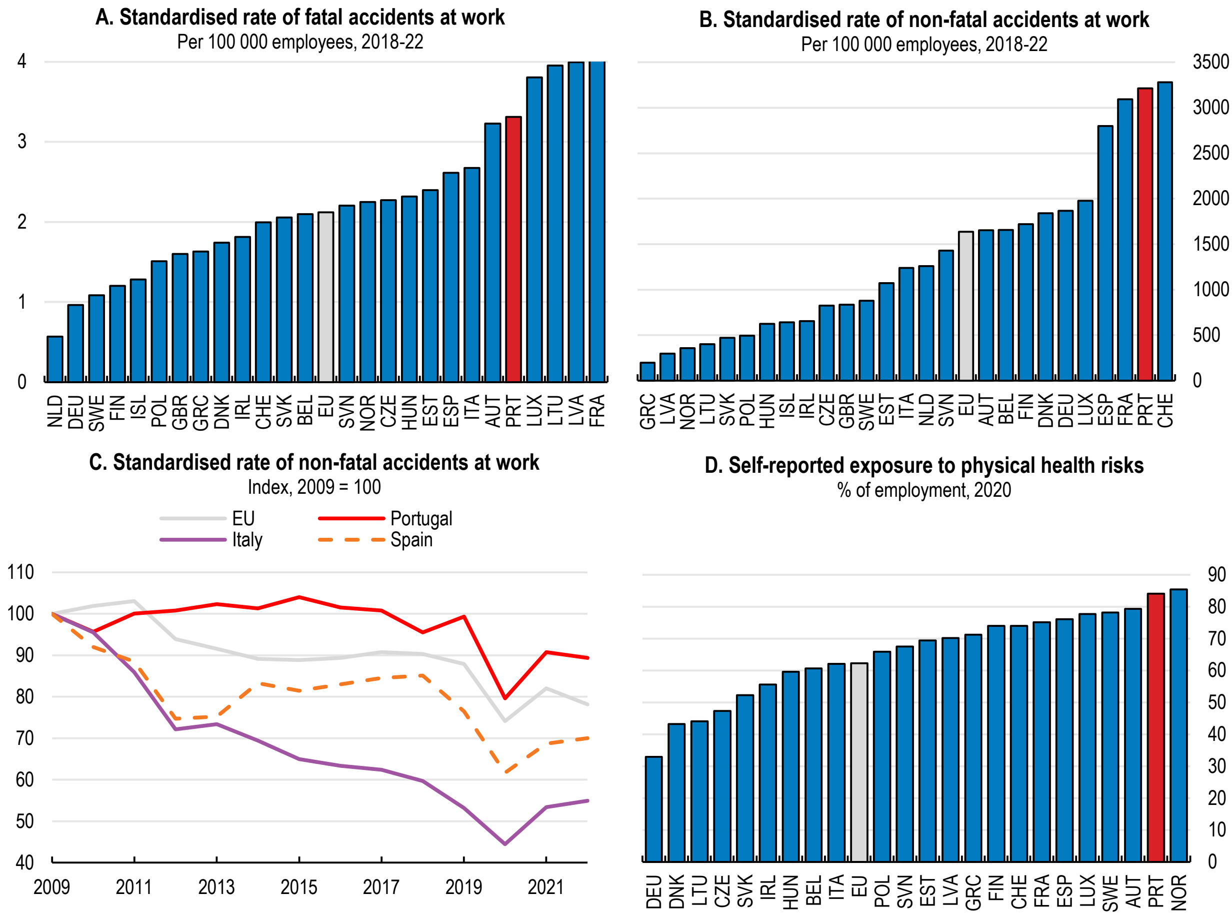
Figure 2.8. Occupational risks are relatively high



Note: EU corresponds to the European Union composition as from 2020. Panel A, B and C: Data covers the NACE rev 2. activity A, C-N, corresponding to agriculture; industry and construction (except mining), and services of the business economy; data age class corresponds to 15-74 years old. Panel B & C: Non-fatal accidents are defined with a severity of 4 or more workdays lost. Panel D: Data age class corresponds to 15-64 years old.
Source: Eurostat Accidents at work statistics (2025).

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Box 2.3 Measures against work-related accidents in Germany and France

In Germany, prevention of work-related accidents and health hazards is embedded as the key objective of accident insurance institutions by government regulation. The 2015 Prevention Act requires health insurance funds to spend a minimum amount per insured person on prevention. The introduction of this act coincided with a more than three-fold increase in expenditure per insured person on workplace health promotion between 2015 and 2019 by health insurance funds (Gerlinger, 2021). Health insurance funds have been required to spend a minimum of EUR 7 (USD 8.28) per insured person per year on prevention measures, of which at least EUR 2 (USD 2.37) have to be spent on workplace measures (OECD, 2022). Insurance institutions typically offer prizes, awards and recognition of high-performing companies, as well as services, such as counselling and training, and even subsidies for employers implementing prevention measures to fulfil their obligations.

In France, public accident insurance has subsidies for SMEs with fewer than 50 employees that are investing in equipment or actions to avoid work-related accidents. SMEs with fewer than 200 employees in France can also apply for a prevention contract. Under this contract employers are able to receive an advance on expenditure relating to preventing accidents and ill-health, which is converted into a grant if employers meet the agreed objectives.

Source: OECD (2022), Promoting Health and Well-being at Work: Policy and Practices, OECD Health Policy Studies, OECD Publishing, Paris; Gerlinger, T. (2021), Prevention Act [Präventionsgesetz], Federal Centre for Health Education (BZgA).

2.3.3. Maximizing the labour market contribution of foreign workers

Immigration has become a key driver of labour supply in Portugal, with the foreign-born share of the population rising to 16% in 2024 (Figure 2.9), concentrated among working-age groups. However, despite high employment rates, migrants' skills are often underutilised (Figure 2.10). A high share of foreign-born workers, especially those with tertiary education, are in low or medium skilled jobs, resulting in one of the highest rates of overqualification for migrants in the OECD (2024[2]).

Portugal has regularly taken steps to strengthen its integration policy and attract skilled migrants. The authorities created a new Agency for Integration, Migration and Asylum (AIMA) in 2023 and launched a new Action Plan for Migration in 2024 with the aim to better regulate migration, attract foreign talent, strengthen integration, and reorganise institutional services. Portugal's current system of work-related migration is relatively open. It allows entry either through a valid job offer, subject to minimum wage requirements, or through a job-seeking visa. Nationals of the Community of Portuguese Language Countries (CPLP) are exempt from the requirement to prove sufficient means of subsistence, provided they submit a sponsorship letter from a Portuguese citizen or legal resident. Portugal has also seen a sharp rise in the number of international students enrolling in its higher education institutions over the past five years. This trend has been supported by a streamlined study visa process, which includes a fast-track channel for international student applications. Nonetheless, until recently, administrative bottlenecks, particularly for visa issuance, student permits and qualifications recognition, continue to delay labour market entry and reduce efficiency of the migration system.

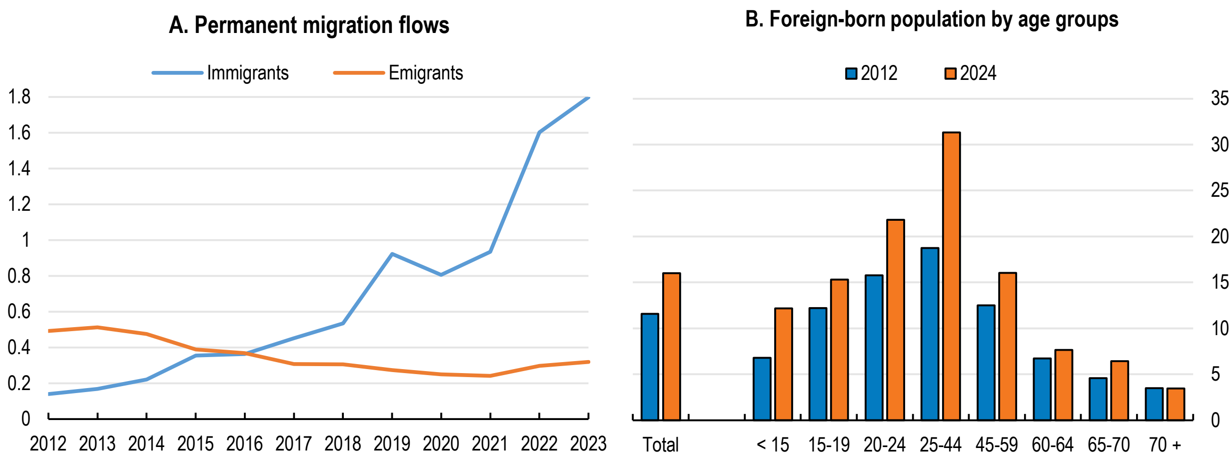
To attract and retain skilled workers, notably in areas of skill shortages, Portugal should build on its 2024 Action Plan for Migration to simplify further administrative procedures, digitalise visa systems and ensure coherence across agencies. Specific improvements are needed in the student visa track, which could be expanded to serve as a pathway to long term retention (OECD, 2024[47]). Recognition of professional qualifications also remains a bottleneck, particularly in regulated professions, despite broad reforms in recent years (Chapter 1). For example, obtaining a license to practice as an engineer remains subject to a nationality requirement, with exemptions accorded to third-country nationals based on reciprocity (OECD, 2025[48]). Some prioritisations of work visa could also help. For example, Germany has extended the EU Blue Card to shortage occupations beyond ICT, and Canada and Sweden use of shortage occupation lists to prioritise visa processing. Portugal has already used targeted partnerships in the health sector, such as cooperation agreements with Lusophone countries and foreign associations to mitigate shortages. This experience could inform the development of fast-track channels for other sectors. Integrating the fast-track channels with a national shortage occupation list, could enable a more proactive migration strategy.

Making better use of foreign-trained professionals also requires more effective anti-discrimination policies in both the workplace and broader society. While self-reported discrimination rates are low (OECD, 2025[49]), discrimination persists, concerning immigrants and on the grounds of racial or ethnic origin at work, as well as age (OECD/EC, 2023[50]; INE, 2025[51]) and complaints have increased. Moreover, institutional responses remain fragmented and weak and few cases reach the courts (EC, 2024[52]). The Commission for equality and against racial discrimination (CICDR) was made independent in 2024 and its budget is now dependent of the parliament. However, the foreseen 2023 and 2024 annual reports have not yet been published. Several equality bodies are responsible for other forms of discrimination and this fragmentation may limit access to information and the effective handling of multiple discrimination cases (EC, 2024[52]). Consolidating anti-discrimination mandates across institutions and expanding data collection, including through field testing would support fairer labour market outcomes. This could build on the Statistical Institute's (INE) work that directly collects data on ethnicity through the Survey on Living Conditions, Origins and Trajectories.

Further strengthening ties with the large Portuguese expatriate community, and helping return migration, notably for high-skilled youth, may be another way to enhance firms' access to skills. Returning emigrants could bring skills, networks and financial capital. Since 2019, Portugal has introduced the return scheme (*Regressar*), which includes return incentives such as tax cuts, in-cash benefits for relocation and labour market reintegration assistance. In addition, the tax incentive for scientific research and innovation (IFICI) introduced in 2024 offers PIT tax cuts to highly qualified professionals, entrepreneurs, innovators, directors of approved start-ups, and academic researchers who become Portuguese taxpayers. The 2024 Action Plan for Migration also foresees further measures to ease the recognition of foreign skills and experience which will facilitate the entry of foreign talent into Portugal and the return of emigrants who have obtained an education or experience abroad.

Figure 2.9. Migration has helped contain labour market pressures

% of total population



Source: Eurostat (2025), Population on 1 January by age group, sex and country of birth; International migration statistics.

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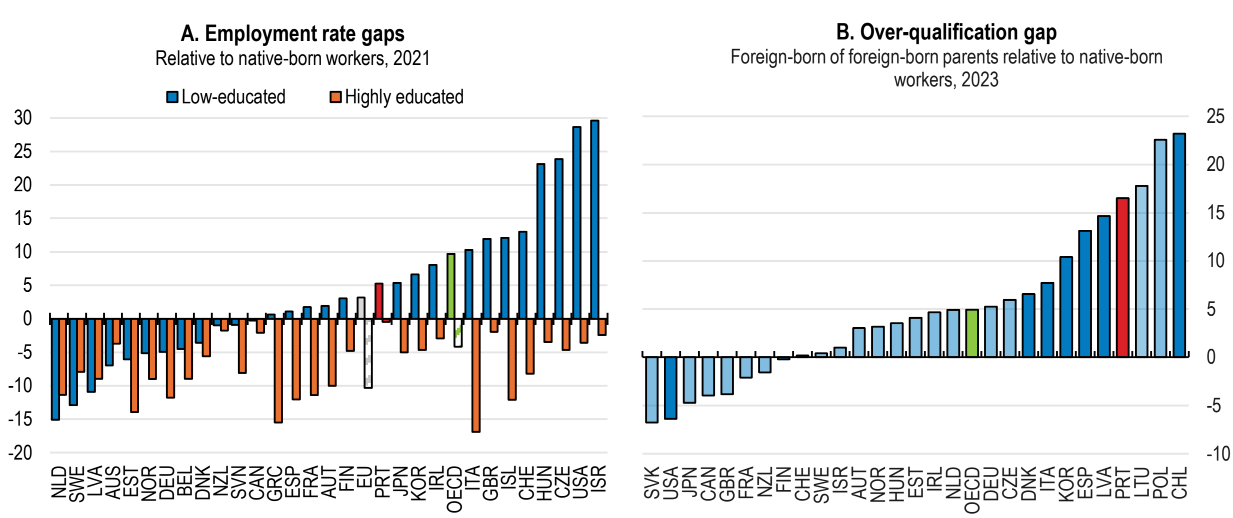
Figure 2.10. Migrants' skills are often underutilised, especially those with tertiary education

Percentage points



Note: The OECD aggregate corresponds to the simple average of the OECD countries. Panel A: Differences in percentage points between foreign and native-born, 15 to 64 years old not in education. Panel B: Employed adults aged 25-65 who are not self-employed; does not include adults who were only administered the doorstep interview due to a language barrier. A worker is classified as over-qualified when the level of their highest qualification is above the qualification level required for their job. The figure shows the estimated change in likelihood of over-qualification relative to the reference category. Estimates account for years of education, numeracy proficiency, age, the interaction of gender and partner, immigrant status, firm size, contract type, full- or part-time status, and occupation. Darker blue colour denotes differences that are statistically significant at the 5% level. Caution is required in interpreting results due to the high share of respondents with unusual response patterns.
Source: OECD-EC (2023), Indicators of Immigrant Integration 2023: Settling In, OECD Publishing, Paris; PIAAC OECD (2024).

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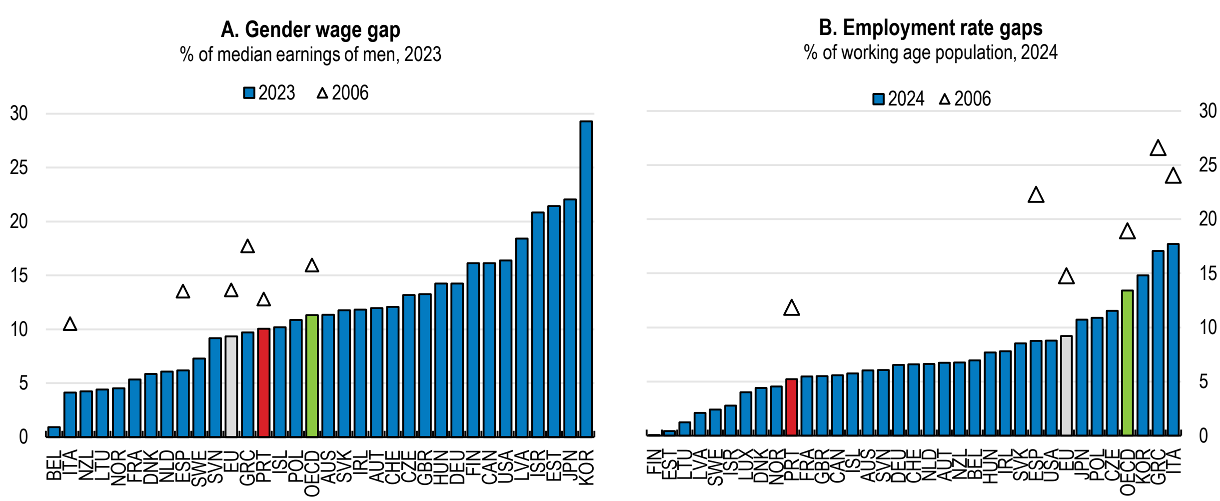
2.3.4. Strengthening the labour market participation of women

Employment rates for women are high, but there remains some scope to further improve women's labour market outcomes. Although gender gaps in employment, wages and hours worked are moderate compared to OECD standards (Figure 2.11) and the mother penalty appears contained in international comparison (Kleven, Landais and Leite-Mariante, 2024[53]), further progress could bring economic gains. OECD simulations suggest that closing remaining gender gaps in labour force participation and working hours could raise GDP per capita by approximately 5% in 2060 (Fluchtmann, Keese and Adema, 2024[54]). In particular, expanding access to high-quality and affordable childcare could help reduce further the motherhood penalty in the labour market and support employment. Similarly, increasing the supply of formal long-term care services could ease the burden of informal caregiving, which disproportionally falls on women (Chapter 1).

The family support system is fragmented and provides limited support for low-income households with young children, with comparatively weak family and child benefits (Figure 2.12). As part of a broad family policy framework of parental leave policies, family cash benefits, early childhood education and care provisions, as well as out-of-school-hours support, such policies could support families' choices to have (more) children and a greater gender balance (OECD, 2011[55]). Although enrolment in pre-school childcare in Portugal stood at around 94% for the 3-5 years-old and offer long average weekly hours in 2023, around half of it occurs in private institutions and the enrolment rate in early childhood education and care services for 0-2-year-olds remains much lower, at close to 50%, with a large enrolment gap between the first and second family income tertiles and the third one where it reaches 70% (OECD, 2024[56]; 2025[57]).

Continuing to broaden access to early free childhood education and care provision, as planned, could help low-income parents combine a return to full- or part-time work with ensuring care for their child. The authorities have been rolling out free access for children born after September 2021 and, as of May 2025, a total of 127 022 children are benefiting from free daycare. Since 2022, 30% of vacancies in the non-profit day care centres are being prioritised for low-income beneficiaries and vouchers for accessing for-profit private centres also help prioritise low-income households. In the longer term, consolidating the existing cash benefits that amounted to two thirds of public spending on family and children benefits in 2022 and extend up to age 24 and refocusing this spending on early childhood and low-income households through a unique household benefit integrating the numerous other housing and social assistance benefits would raise awareness and lower upfront costs (OECD, forthcoming[12]).

Figure 2.11. Gender disparities in employment and earnings are persistent



Note: Panel A: Difference between median earnings of men and women relative to median earnings of men. The OECD unweighted average does not include data for Luxembourg and Türkiye. EU corresponds to the European Union composition as from 2020. Panel B: Working age population corresponds to the 16-64 years old and the OECD average for 2006 corresponds to 2007.
Source: OECD Gender wage gap (database), OECD Employment and Labour Market Statistics (database).

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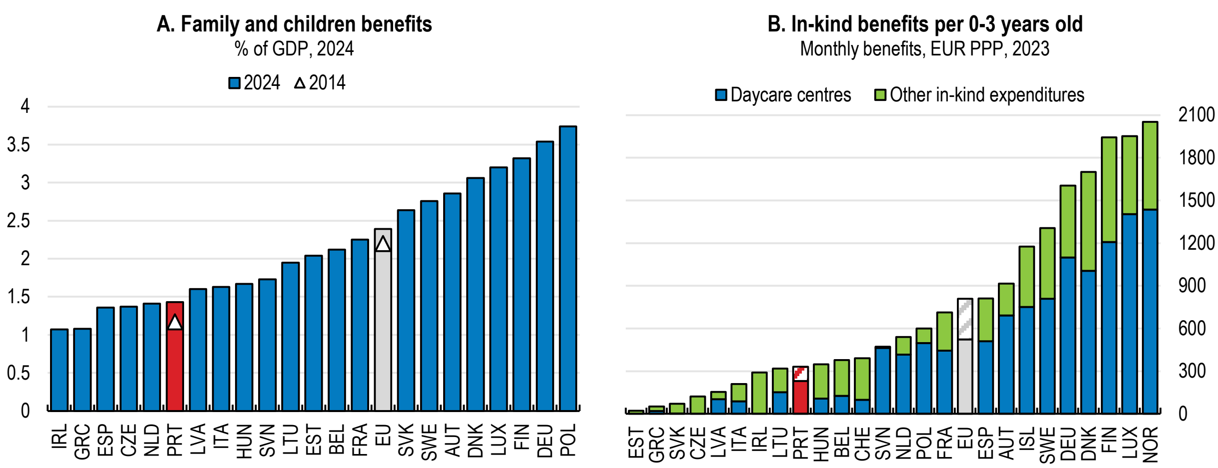
In addition, there is scope to encourage a more balanced take up of parental leave. Through the combination of the different types of paid leave around childbirth available in Portugal, 23.3 weeks of leave is earmarked exclusively for mothers, which is relatively close to the OECD average of 24.6 weeks. With 22.3 weeks, fathers have a noticeably longer period of earmarked leave than the OECD average (10.4 weeks). The remaining 6.9 weeks of fully shareable leave is below the OECD average of 25.4 weeks (Adema et al., 2023[58]). Though the take-up among fathers remains low (CES, 2022[59]), it is significantly higher than the OECD average (OECD, 2025[57]). Existing measures, such as an electronic platform to complete administrative arrangements and additional bonus leave days when both parents participate, are welcome but further steps could strengthen incentives and help shift persistent social norms, as average payment rates across paid father-specific leave remain relatively low as a share of earnings (OECD, 2025[60]; 2025[57]).

Tackling gender wage inequality requires continued strengthening of the antidiscrimination framework. While Portugal's gender-wage gap stood at around 10% in 2023, near the OECD average (Figure 2.11), recent policy efforts have increased transparency. Mandatory gender-disaggregated pay reporting and comprehensive equal pay audits for firms over 50 employees have improved transparency, in part linked to the mandatory follow-ups on the causes and possible remedies to gender gaps. Public awareness campaigns and award schemes to promote best practices across companies (the Equal Pay Seal) are supporting awareness and compliance. However, limited resources at the Authority for Working Conditions (ACT) (see above) may constrain enforcement. Full transposition of the European Pay Transparency Directive by 2026 will also be key to promote further gender-neutral job classifications and job evaluations and address gender pay gaps driven by unequal pay for work of equal value (OECD, 2023[61]).

Figure 2.12 Family and child benefits are low



Note: The EU corresponds to the composition of European Union as of 2020. Panel B: Total in-kind benefits are not necessarily targeted at 0-3-years old. In-kind benefits include child day care, accommodation, home help and other benefits in kind such as leisure centres and price reductions for children.
Source: Eurostat (2025), Social protection statistics - family and children's benefits.

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As in other OECD countries, a substantial part of the gender pay gap stems from women overrepresentation in lower paying firms and occupations. Women are more likely to work in firms that pay lower wages, and firms with high rates of part time work tend to offer lower pay (Bertheau et al., 2025[62]). To reduce these disparities, Portugal should promote more widespread use of flexible work arrangements, including telework and part-time work, across sectors and employee groups, not only those with caregiving responsibilities. Portugal has already made good progress on the representativeness of women in corporate boards with gender quotas on boards for listed companies in place since 2018 and a share of women on the board of the largest companies reaching 36.6% in early 2025 (EIGE, 2025[63]). However, strengthening the target as foreseen in the 2022 European Gender Balance Directive and encouraging a broader set of firms to set voluntary gender-balanced targets and good management practices that make managers accountable for diversity in leadership of private companies could help to further promote women access to better paying jobs, while at the same time fostering social norms that support gender equality (OECD, 2022[64]).

Table 2.1. Policy recommendations

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Activating and upskilling the current workforce	
Enrolment in vocational education has declined at the secondary level and the work experience of recent graduates remains relatively short, despite investment through the Recovery and Resilience Plan.	**Expand vocational education and training at the upper secondary level and strengthen work-based training components, ensuring strong involvement of employer bodies.**
Employers report difficulties in finding workers with right skills and youth labour market integration remains difficult, despite efforts to develop information through public web portals.	Improve access to reliable and user-friendly information on training and career pathways, building on school career services and existing public web portals. Build on improved forecasting tool to better align education and training to labour market needs.
The lack of common quality standards and certification in lifelong learning reduces transparency and weighs on training quality.	Develop national quality certifications standards for lifelong learning programmes that set clear benchmarks for content, teaching quality, and learning outcomes.
Many adults, particularly older and low qualified workers, lack foundational and digital skills, limiting their employability and ability to upskill.	Expand targeted training in digital and foundational skills, especially for low qualified and older adults, using accessible modular formats.
Long-term unemployment is high, especially among older workers. Spending on active labour market policies has increased but funding for public employment services remains comparatively low.	**Strengthen targeted activation policies for older workers and rebalance spending towards training and counseling.**
Temporary labour contracts remain widespread and used for relatively long periods, particularly for youth, while permanent hiring is discouraged by costly legal processes.	Enhance the balance of protection across contract types by continuing efforts to promote the use of permanent contracts and reducing the cost of dismissals.
The minimum wage as a share of the median wage is high, and planned increases will further add to labour costs. Employers benefit from reduced social security contributions when hiring certain groups such as first-time job seekers and the long-term unemployed.	Continue to closely monitor the effects of the minimum wage on employment and regularly evaluate its impact. Evaluate the impact of existing employer social security contribution reductions for young and long-term unemployed workers on employment.
Increase the participation of underutilised groups	
Flexible work and training options remain underused, while local public employment services and vocational training centres are not fully integrated.	**Support longer working lives, including by targeted upskilling, notably for digital skills, promoting flexible work arrangements and integrating local public employment services and vocational training centres.**
Occupational accidents have been high, and SMEs lack prevention.	Improve access to high-quality occupational health and safety services for SMEs and ensure adequate resources for the Authority for Working Conditions (ACT).
Gender gaps concerning employment are generally below the OECD average, but there remains room for further improvements. Take up of parental leave among men remains low.	Consider strengthening monetary incentives to ensure fathers take their parental leave.
Access to early childhood and care at an early age has improved. Yet, access remains significantly weaker for low-income households, constraining women's labour participation.	Expand further access to affordable, quality childcare, prioritising low-income households and underserved areas.
The gender wage gap remains significant and segregation across firms is high.	Require the publication of information on salary or salary range in job advertisements.
Complex and slow administrative procedures and a lack of digitalisation have slowed down the process of visa issuance until recently, including in higher-education institutions. The 2024 Action Plan for Migration aims at further attracting foreign skilled workers.	Accelerate and digitalise visa and residence permit procedures, especially for students and skilled labour.
Despite the comprehensive 2023 reform of regulated professions, the recognition of qualifications in some regulated professions is still a barrier for skilled migration.	Eliminate nationality-based restrictions for engineers and simplify recognition procedures for regulated professions.

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3 Promoting decarbonisation and adapting to a warming climate

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Portugal has made important progress in reducing greenhouse gas (GHG) emissions, driven by its successful scale-up of renewable energy sources. Yet, to meet its climate targets its economy will need to decouple faster, while the growing reliance on intermittent energy sources adds challenges for a stable energy supply. Continued expansion of renewable sources will need to be accompanied by substantial investments in the energy grid and storage. Mitigation efforts beyond the energy producing sector need to step up, notably to adapt energy use in consuming sectors, especially transport. Aligning emission prices across sectors, phasing out fossil fuel subsidies and promoting clean transport and energy renovations can make large inroads. With high and growing risks from wildfires, heat waves, droughts and sea level rise, adapting to a hotter climate will likewise be critical. Stronger coordination, stable funding and promoting private insurance will be key to better protect people and the economy from climate impacts.

3.1. Introduction

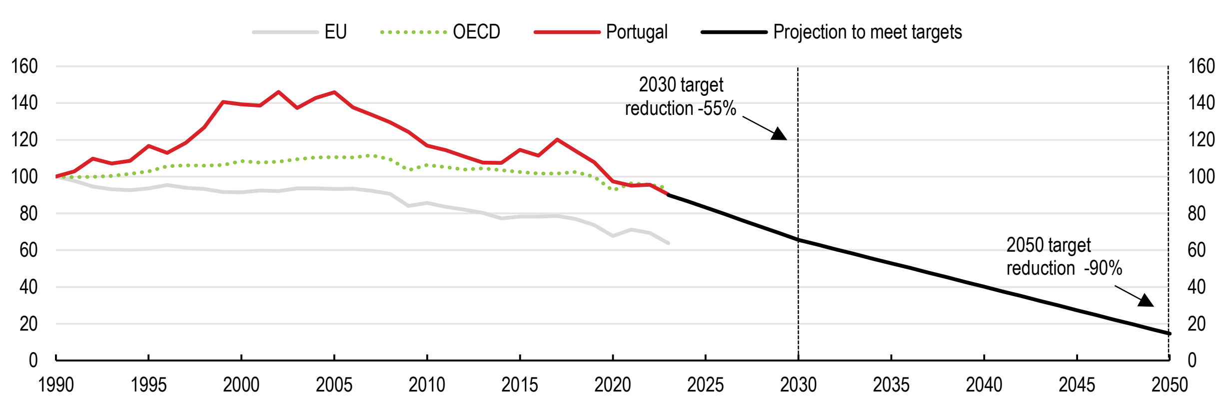
Portugal has made substantial progress in reducing greenhouse gas (GHG) emissions. Since 2005, emissions declined by over 30%, faster than in the EU and the OECD on average (Figure 3.1). The country adopted legally binding targets to cut emissions by 55% from 2005 levels by 2030, and 90% by 2050 to reach net zero after accounting for carbon sinks, and has recently strengthened its commitment by aiming to reach carbon neutrality by 2045 (Table 3.1). Given its high exposure to climate change impacts – including through wildfires, heatwaves, droughts and coastal erosion – mitigation efforts will need to be accompanied by measures to adapt to a hotter and more volatile climate.

Important challenges remain for 2030 and beyond. Meeting climate targets in 2030 as well as the climate neutrality commitment by 2045 requires sustaining the rapid pace of emissions reductions that in the past has largely been achieved by phasing-out of fossil fuels from electricity generation, while – following Portugal's economic crisis – growth was subdued (Figure 3.2, Panel A and B). As the economy has returned to stronger growth, it will need to decouple faster. Mitigation efforts will additionally need to broaden to sectors with higher abatement costs (Figure 3.2, Panel C). This notably includes transport, the largest emitting sector (Figure 3.3). While renewable energy capacity is expected to grow substantially, the increasing reliance on intermittent sources, such as solar and wind, raises challenges for grid stability.

The government has outlined an ambitious agenda to meet its climate goals, including the expansion of offshore renewables, the phase out of energy subsidies, and improving public transport. Yet, additional reforms and investments are needed to strengthen emission pricing, accelerate car fleet greening, and boost energy renovations. Strong coordination across levels of government and targeted support for vulnerable households will be key to address implementation risks, ranging from administrative capacity constraints to political resistance. To promote climate change adaptation, Portugal has stepped up its policy tools by defining measures to be implemented, supervising institutions, as well as processes to monitor progress (OECD, 2023[1]). A comprehensive strategy has been carried out to address wildfire risks that has significantly improved prevention and wildfire management practices, including through the completion of a national wildfire hazard map, forbidding development in high-risk areas, and establishing buffer zones (OECD, 2023[2]). However, lack of stable funding and weak coordination at the local level have held back further progress, while low insurance coverage for extreme weather events weakens incentives to take protective measures and implies high contingent fiscal liabilities.

Figure 3.1. Reaching emission targets requires to sustain the fast pace of past reductions

Total emissions excluding land use, land-use change and forestry, in tonnes of CO2-equivalent, 1990 = 100



Note: The OECD aggregate corresponds to the simple average of the OECD countries. The EU aggregate corresponds to the OECD countries members of the European Union. Data for the EU aggregate are up to 2022.
Source: OECD Air emissions - Greenhouse gas emissions Inventories (database).

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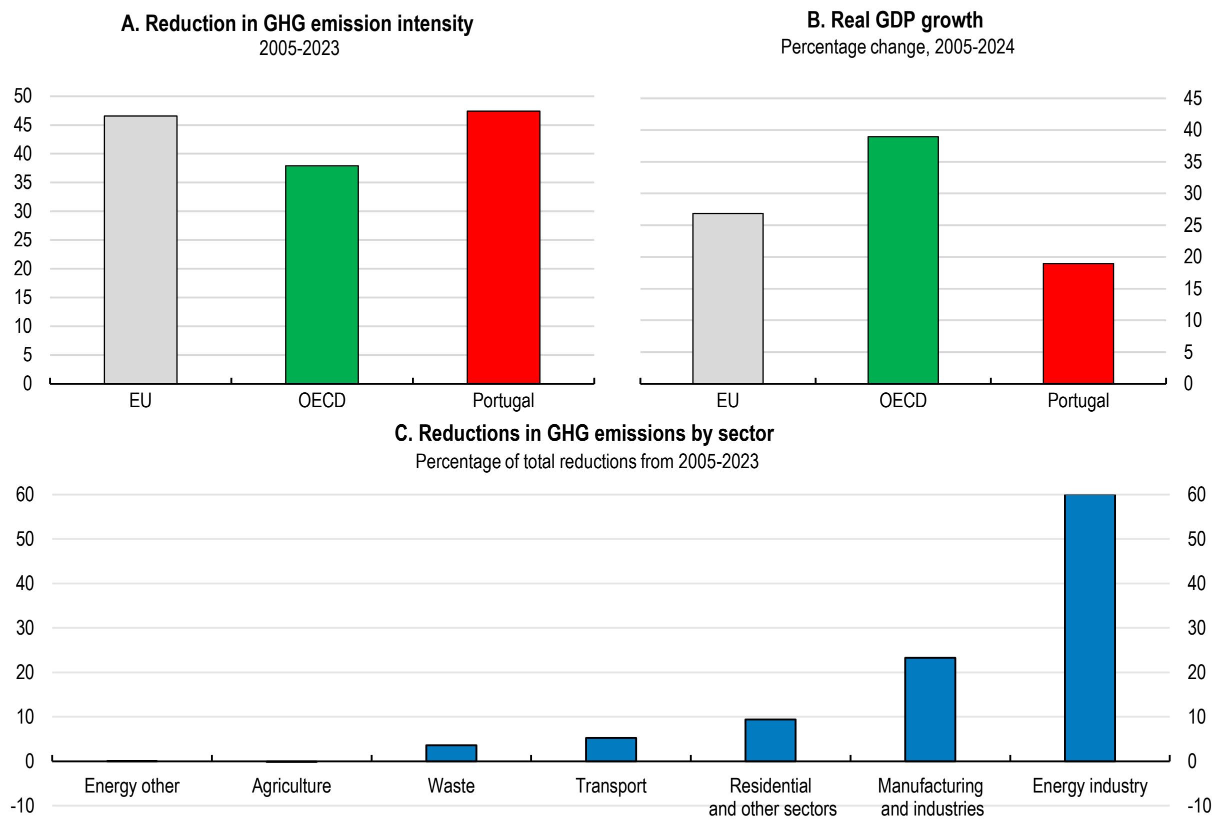
Figure 3.2. Faster decoupling and more broad-based emissions reductions are needed

Percentage



Note: Panel A & B: The EU corresponds to the composition of European Union as of 2020. The OECD aggregate corresponds to the simple average of the OECD countries. Panel A & C: GHG emission intensity measured as kilogrammes of CO2-equivalent per 1 000 US dollars; adjusted for purchasing power parity (PPP). Panel C: Contributions are computed on total emissions excluding land use, land-use change and forestry (LULUCF).
Source: OECD Air emissions - Greenhouse gas emissions Inventories (database); Eurostat.

StatLink https://stat.link/ng5vzu

Table 3.1. Portugal has adopted ambitious climate targets

Selected climate targets

	2022 or latest year available	2030	2050
Greenhouse gas emissions excluding LULUCF, reduction compared to 2005 level	-35%	-55%	n.a. [1]
Share of renewable energy in gross final energy consumption	34.7%	51%	85%
Share of renewable energy sources in electricity	61%	93%	100%
Share of renewable energy in transport	10% (2020)	29%	90%

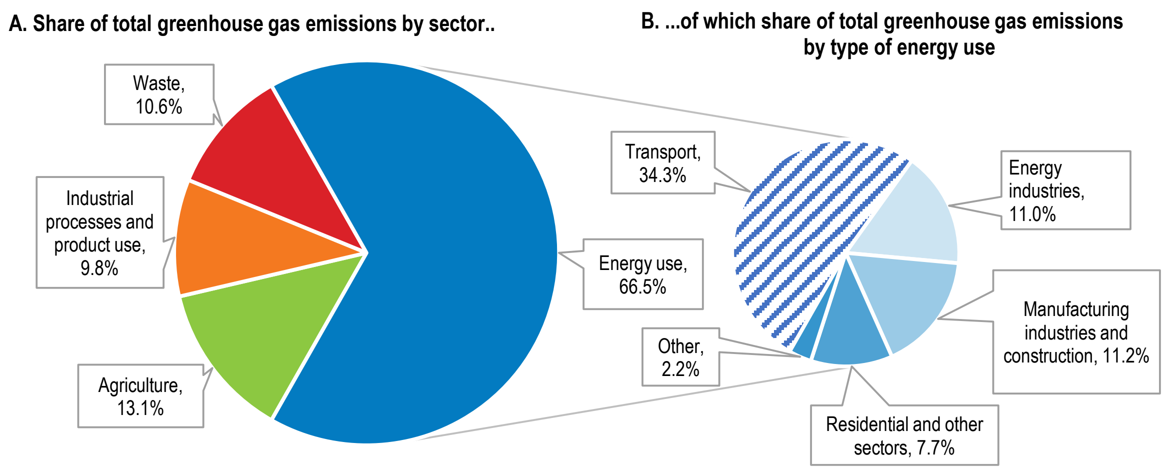
Notes: 1: The 2021 National Climate Law sets a legally binding target to reduce greenhouse gas emissions relative to 2005 levels by 90% in 2050 with the option to advance the target for climate neutrality to 2045, which was stated as a commitment in the 2024 updated National Energy and Climate Plan.
Source: (República Portuguesa, 2024[3]); (República Portuguesa, 2019[4]).

This chapter reviews Portugal's recent progress in meeting its climate goals and proposes policies to accelerate and broaden decarbonisation efforts and improve adaptation. Section 3.2 focuses on strengthening price signals to boost broad-based emission cuts across sectors. Sections 3.3 addresses the central role of clean energy production through continued expansion of renewables while ensuring stable energy supply. This will need to be done alongside adapting energy use in key sectors, notably transport and buildings (Figure 3.3).

These sectors accounted for over half of final energy consumption in 2023 and will require accelerated electrification of transport (Section 3.4) and energy efficiency upgrades, often through deep building renovations (Chapter 4). Finally, Section 3.5 turns to climate adaptation, underlining the importance of strengthening resilience to rising physical climate risks.

Figure 3.3. Energy use accounts for most emissions and transport is the largest single emitter

Portugal, %, 2023



Note: Panel B: Category "Other" corresponds to fugitive emissions from fuel and energy-other. Data refer to total emissions of CO2 (emissions from energy use and industrial processes, e.g. cement production), CH4(methane emissions from solid waste, livestock, mining of hard coal and lignite, rice paddies, agriculture and leaks from natural gas pipelines), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF6) and nitrogen trifluoride (NF3). Data exclude indirect CO2. For UNCCCC Annex I countries, data follow the IPCC 2006 guidelines.
Source: OECD Air emissions - Greenhouse gas emissions Inventories (database).

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Table 3.2. Past recommendations on supporting the green transition

Recommendations in past surveys	Actions taken since 2023
Swiftly implement the Framework Climate Law. Clarify the measures envisaged to achieve the 2030 goals, quantify their mitigation impact and specify how they will be financed.	The final updated National Energy and Climate Plan provides additional details on existing and planned policies to meet EU Effort Sharing Regulation targets by 2030. Additional measures foreseen in the Climate Law, including the development of sectoral mitigation and adaptation plans, municipal and regional climate action plans, and the design of carbon budgets, are being implemented.
Gradually increase environmental taxes for sectors outside of the EU Emissions Trading System (ETS), including excise taxes on fuels, while protecting low-income households.	By the beginning of 2025, the Carbon tax was adjusted to fully reflect the price of carbon in the EU ETS.
Accelerate the retrofitting and renovation of buildings, using a mix of regulation, grants and loans.	Measures include support for energy efficiency renovations of buildings via the Recovery and Resilience Plan worth EUR 130 million; approval of the National Strategy to Fight Energy Poverty (with a strong focus on housing); new version of Vale Eficiência (targeting low-income families); deployment of local energy one-stop shops.

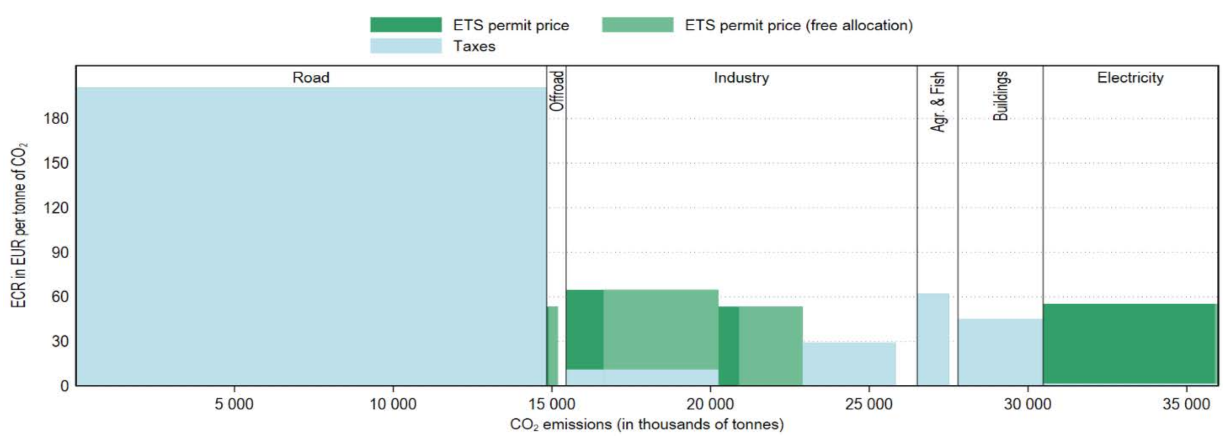
3.2. Accelerating emission cuts across sectors through stronger price signals

To reach Portugal's climate targets cost effectively, stronger and more uniform carbon pricing across sectors is essential. Portugal uses a mix of carbon taxes, energy taxes and the EU Emissions Trading Scheme (ETS) to price greenhouse gas emissions. In 2023, these tools covered approximately 69% of GHG emissions, and nearly all CO2 emissions from energy use (Figure 3.4) (OECD, 2023[5]). While average net effective carbon rates, at EUR 77.32 per tonne of CO_2 in 2023, are in line with the OECD and European average, pricing remains uneven across sectors and fuel types. Price signals are additionally weakened by sizeable fossil fuel subsidies amounting to 0.8% of GDP in 2023 (Figure 3.4, Panel B) (EEA, 2025[6]; OECD, 2023[1]).

Upcoming reforms present an opportunity to align and strengthen carbon pricing. Portugal has committed to phasing-out all direct and indirect fossil fuels subsidies by 2030, supported by green budgeting practices, which is commendable. Introducing the EU's new ETS2 will expand emission pricing to buildings and road transport. While carbon prices in transport are already relatively high, they remain low in the building sector (Figure 3.4). Portugal is currently in the process of transposing ETS2 into national law. Ensuring that in the resulting system all major sources of emissions are subject to at least a minimum emission price that is consistent with climate targets would strengthen incentives for cost-effective emission cuts. Aligning and raising emission prices thereby entails implementation risks, including political resistance to higher energy prices and distributional impacts on low-income households, while fuel suppliers will be required to monitor and report emissions (European Commission, 2025[7]). To prevent overlapping taxes and ensure policy coherence, fuel excise and carbon taxes may need to be revised. Lower income households will be disproportionately affected by price rises and require additional support (Bulman and Blake, 2022[8]). Portugal is currently developing its Social Climate Plan, which will be mostly financed through revenues from auctioning ETS and ETS2 allowances through the EU Social Climate Fund, to address the impact of carbon pricing on vulnerable households and micro firms. Building on these efforts, Portugal could follow Canada that accompanied higher carbon prices with targeted support to vulnerable households as part of a wider reform of social transfers (Section 1.3). This should be complemented with additional support for energy-efficiency improving renovations, especially for low-income owners, to reduce high energy poverty (Chapter 4).

Figure 3.4. Harmonising emission prices across sectors would accelerate broad and cost-effective emission reductions

Average effective carbon rates for CO_2 emissions from energy use by sector in Portugal, 2021



Source: OECD (2023) Effective Carbon Rates.

3.3. Ensuring secure and diversified renewable electricity supply

Portugal progressed well with greening electricity production. It phased-out coal in 2021, nine years ahead of its 2030 target, and renewables supplied 63% of electricity production and 35% of final energy consumption in 2023, above most EU and OECD countries (Figure 3.5). Targets are ambitious and foresee to produce 93% of electricity from renewable sources by 2030, and 100% by 2050 (Table 3.1). Portugal has also committed to closing gas-fired power plants before 2040 provided that security of supply is ensured. The planned electrification of energy use, for example in transport, alongside rising living standards are expected to increase demand for electricity and thus demand for clean electricity production (IEA, 2024[9]).

Portugal plans to accelerate its transition towards renewable by diversifying sources away from hydropower towards solar and wind (AICEP, 2024[10]; European Commission, 2023[11]; República Portuguesa, 2024[3]).

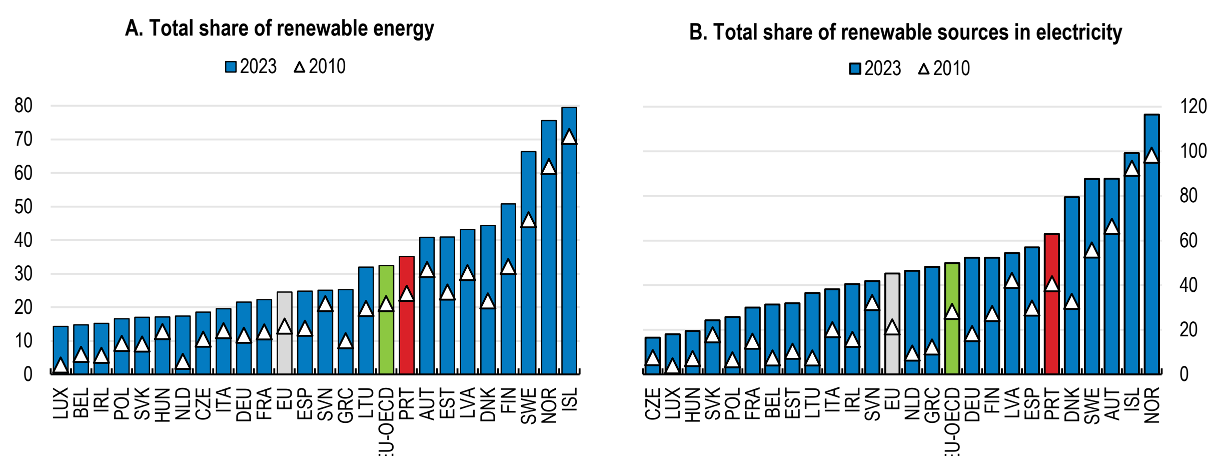
Upscaling generation capacity from renewable sources supports decarbonisation goals and reduces dependence on fossil fuels, but increases the challenge of maintaining reliable electricity supply given the intermittent nature of solar and wind power.

Recent assessments by the IEA and the European Commission indicate that, like in many other OECD countries, the status of Portugal's grid is a critical bottleneck for further renewable integration and system flexibility and will require massive investment (OECD, 2023[1]; IEA, 2021[12]). The same holds for the limited cross border interconnection capacity with Spain and the rest of Europe. Providing stable conditions for investments to improve the electricity grids capacity as well as improving system flexibility is therefore essential. Large scale generation projects currently rely on obtaining network capacity rights, either through direct agreements or competitive auctions, before production licences can be granted. It remains unclear whether planned auction schedules are sufficient to meet ambitious renewable targets. To address this, the government should publish a clear multi-year auction schedule with transparent bidding procedures, ensure timely grid connections for awarded projects and establish auctions for storage capacity to better balance intermittent energy supply (OECD, 2023[1]; IEA, 2021[12]). An additional bottleneck to investing in infrastructure and further scaling up renewable energy sources are complex environmental permitting processes raising uncertainty and leading to delays, as for example authorities disagree about how to interpret legislation or with fragmented impact assessments failing to identify full impacts (European Commission, 2025[13]). Standardising and clarifying assessment criteria, strengthening the role of single points of contacts for applications, and considering simplified procedures for renewable capacity and grid projects in the public interest could help accelerate procedures (Euroepan Commission, 2025[14]).

Coordinated planning is needed to strengthen interconnections and use their full potential to balance supply and demand. Strengthening integration to the European electricity market, notably with France, would help to further improve balancing capacity but will depend on strong and reliable interconnections through Spain. Building on a high degree of market integration, joint measures with Spain to strengthen the electricity grid, align reserve capacities and ensure overall system resilience would help improve balancing capacity from both Spain and the rest of Europe. Complementary measures, such as boosting the still limited deployment of dynamic pricing contracts to shift peak demand would further enhance grid flexibility (ACER, 2025[15]).

Figure 3.5. Portugal progressed well with expanding energy production from renewable sources

Percentage



Note: The EU-OECD aggregate corresponds to the OECD countries members of the European Union. The EU corresponds to the composition of European Union as of 2020.
Source: Eurostat.

StatLink https://stat.link/8g1i0a

To further expand renewable energy, Portugal aims to scale up ocean-based renewable energy. Ocean-based renewable energy technologies (e.g. floating offshore wind and solar, wave, tidal) offer large potential.

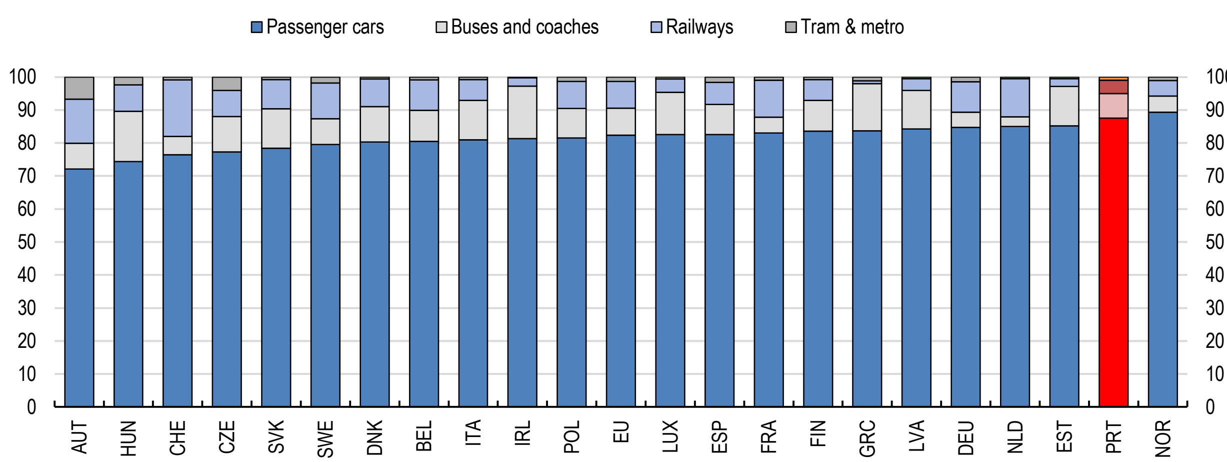
Planned projects are expected to add at least 2 GW of offshore wind by 2030, while additional projects may add up to 9.4 GW (20% of total planned capacity in 2030) (OECD, 2025[16]). Innovation zones for wave energy, with designated areas to test new technologies, support these efforts. Meanwhile, expanding ocean-based renewable energy can lead to spatial conflicts, for example with preserving fish stocks and biodiversity. Addressing these conflicts within a stable regulatory framework will also be key to provide certainty to investors. This could be done as part of a comprehensive strategy for developing ocean-based renewable energy that also clarifies funding sources for investments. Portugal has recognised the challenge and is taking measures, including through the establishment of a task force and stakeholder consultations. However, the Directorate-General for Natural Resources Safety and Maritime Services which leads maritime spatial planning and licensing lacks sufficient staff and resources (OECD, 2025[17]). Strengthening its capacity and coordination role will be crucial to balance energy development with biodiversity protection.

3.4. Supporting the transition to net zero transport

Reliance on passenger cars in Portugal is among the highest in Europe (Figure 3.6), and road transport accounted for 96% of land transport emissions in 2021 (ITF, 2025[18]). Both decarbonising road transport and shifting transport off the road will thus be key to cut transport emissions. As discussed below, this requires stronger incentives to electric vehicles (EV) and making public transport more attractive (ITF, 2021[19]), coupled with policies to limit urban sprawl, discussed in Chapter 4, to reduce distances.

Figure 3.6. Greening the fleet and reducing reliance on cars are key to decarbonising transport

Modal split of passenger transport on land, %, 2022



Source: Eurostat.

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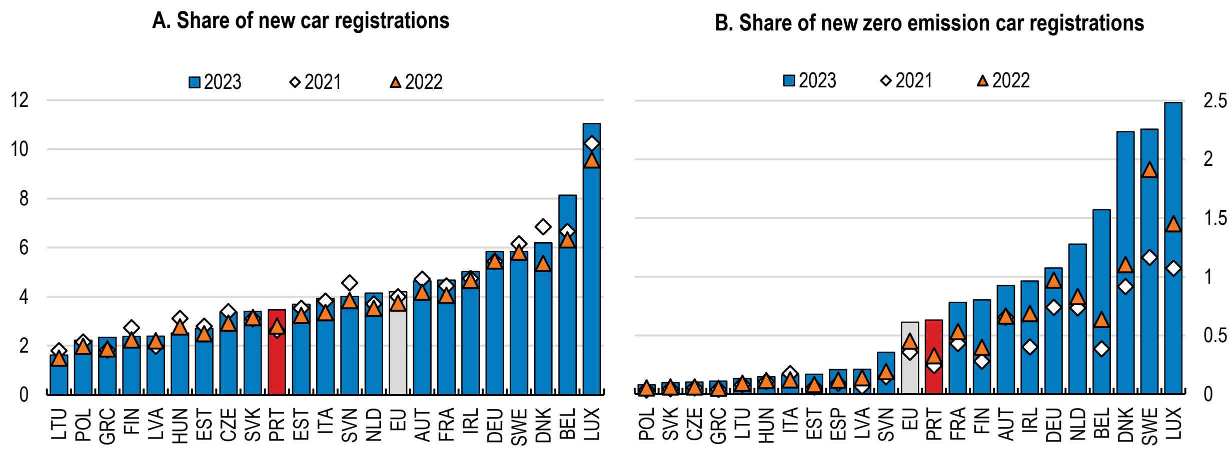
3.4.1. Cutting emissions from road transport

Portugal needs to further boost the greening of its car fleet to achieve substantial emission cuts from transport over the following years. The passenger car fleet is relatively old, with an average vehicle age of 14 years (ACEA, 2024[20]) and heavily powered by diesel (OECD, 2023[1]). The country focuses on electrification of transport to cut emissions until 2030 but lacks specific targets for EV uptake or recharging infrastructure. While the share of new zero emission vehicle registrations is rising and stood just above the EU average in 2023 (Figure 3.7, Panel A and B), the overall pace of fleet renewal and greening remains slow. Clearer policy signals, including defined EV targets and a comprehensive infrastructure strategy, would help accelerate the transition.

Figure 3.7. There is room to accelerate the greening of the car fleet

% of passenger car fleet



Note: The EU corresponds to the composition of European Union as of 2020. Share of new car registrations computed as % of passenger car fleet in previous year. 2023 figures are provisional.
Source: Eurostat, European Alternative Fuel Observatory (EAFO), Association des Constructeurs Européens d'Automobiles (ACEA) for data until 2013.

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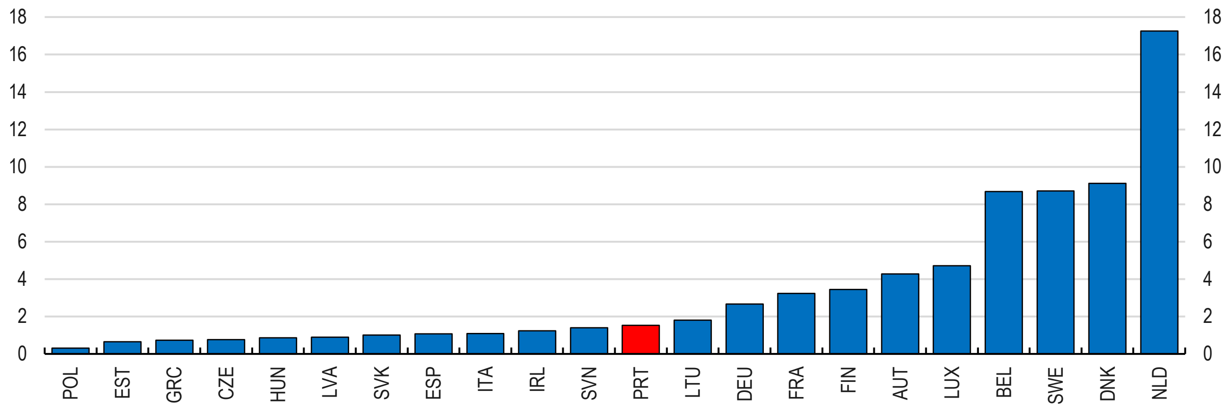
Financial incentives to replace fossil fuelled cars could be made more effective. High upfront costs of EVs – still 10 to 50% more expensive than combustion engine equivalents in Europe – remain an obstacle for EV adoption (IEA, 2024[9]). Portugal provides EV purchase subsidies of up to EUR 5000 for vehicles worth up to EUR 38 500 or EUR 55 000 if vehicles have more than four seats as part of a EUR 20 million support programme for zero-emission mobility, which also includes incentives for EV charger and bicycles. The EV purchase subsidy requires scrapping an old passenger vehicle, which is welcome to remove more polluting vehicles from the market. Experience from the United States, Germany and France shows that such scrapping schemes, if well-designed and well targeted, can lower emissions effectively. However, many higher income households who benefit from purchase subsidies may choose to shift to EVs regardless. Experience from the United States suggests that the impact of subsidies on accelerating fleet greening could be doubled by targeting support to lower income households, for whom subsidies are more likely to make a difference (Sheldon, 2022[21]). To be effective with lower income households – who may have less access to private charging points, e.g. if they lack a personal garage – providing a dense charging infrastructure, as discussed below, will be essential. Given high fiscal costs for such purchase subsidies and narrowing price differentials, support should be regularly evaluated for effectiveness and revised as needed.

Several tax benefits to zero or low emission cars, including exemptions from acquisition and ownership taxes, are offered in Portugal. Still, the tax system could more strongly support fleet renewal by closing the gap between diesel and petrol taxation and removing preferential circulation tax treatment for older vehicles (OECD, 2023[1]; Tax Foundation Europe, 2023[22]; ACEA, 2022[23]). To enlarge the fiscal space for financial support for EVs, Portugal could consider a feebate system, as in France or New Zealand, whereby higher taxes on polluting cars fund lower taxes on EVs.

Expanding the charging infrastructure for EVs will be key to boost uptake. Despite progress, Portugal's charging infrastructure remains limited compared to other OECD countries, with only 1.6 charging points per 1 000 registered passenger cars in 2024 (Figure 3.8). While the Recovery and Resilience Plan aims to deploy 15 000 charging points by 2025 (European Commission, 2025[24]), meeting the high density already observed in Belgium or the Netherlands would require from 40 000 up to 140 000 additional charging points. Additional public support, such as targeted subsidies or tax incentives and simplified permitting, could accelerate infrastructure rollout and ensure alignment with the pace of fleet electrification.

Figure 3.8. Electric vehicle charging infrastructure needs to be expanded

Number of charging points per 1000 registered passenger cars, 2024



Note: Data for recharging points refer to 2024Q1; data for registered passenger cars refer to 2023.
Source: OECD calculations based on Eurostat (2024) and EFAO (2024).

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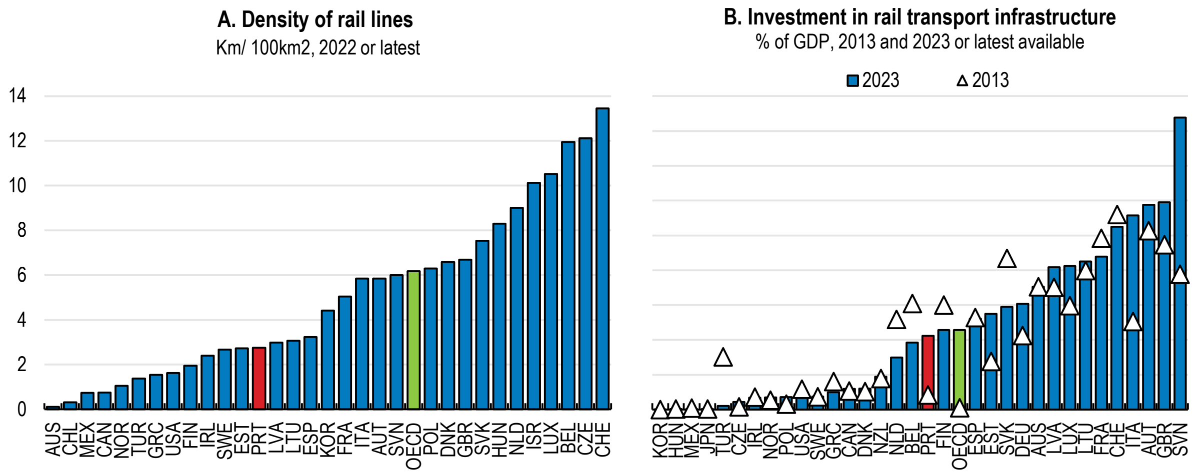
Achieving a timely phase-out of fossil fuel cars may require additional restrictions on their use. Even with increased financial support and a denser charging infrastructure, total fleet renewal may progress too slowly to meet emissions targets. At the current pace, it would take until about 2054 to replace the entire passenger car fleet with new – either fossil-fuelled or EV – cars. In line with EU plans to ban the sale of new fossil-fuelled cars, Portugal's Climate Law prohibits the sale of new light-duty vehicles powered exclusively by fossil fuels from 2035 onwards, which will help to steer fleet renewal towards EVs. However, many households may continue to use existing fossil-fuelled cars for some time beyond 2035. Setting out a timeline for expanding the use of congestion charges, priority lanes, or low emission zones in cities can strengthen incentives to shift to EVs sooner. This could involve strengthening enforcement of existing low emission zones, such as Lisbon's low emission zone (LEZ) introduced in 2011, for example through camera controls as used in Amsterdam (Krok, 2023[25]; OECD, 2023[1]). Portugal could also consider gradually introducing zero-emission zones in urban centres, accompanied by investments in public transport (ICCT, 2022[26]).

3.4.2. Moving transport off the road

Strengthening public transport will be key to reducing transport emissions by shifting transport off the road. Portugal is investing around EUR 1.2 billion (0.5% of 2024 GDP) from the Recovery and Resilience Plan to improve public transport by extending the Lisbon and Porto metro networks, constructing a light rail system, creating a bus rapid transit system and purchasing of zero-emission buses. While these projects can significantly cut emissions, their impact so far has been impaired by implementation delays (European Commission, 2024[27]). Complementary measures, such as the Green Rail Pass introduced in 2024 to reduce public transport fares, can stimulate demand, but their long-term effectiveness will depend on strengthening capacities to provide reliable and frequent services.

Sustained investments, especially in rail, are needed to expand the public transport network beyond urban centres. Around 90% Recovery and Resilience funded projects target metro systems, yet most passenger transport occurs outside of urban areas (ITF, 2021[19]). Meanwhile, Portugal's railway density is low compared to other OECD countries (Figure 3.9, Panel A) and, though increasing in recent years, investment in rail has historically been low (Figure 3.9, Panel B) (OECD, 2023[1]). Train usage relative to network size is close to the EU average, suggesting robust demand. Expanding rail infrastructure is a necessity, while it should be ensured that fare subsidies do not crowd out funds available for investment and maintenance.

Figure 3.9. More investment is needed to expand rail infrastructure



Note: Panel A: OECD unweighted average excludes Colombia, Costa Rica, Germany, Iceland, Japan, New Zealand and Norway. Panel B: OECD unweighted average excludes Colombia, Costa Rica, Chile, Iceland and Israel. The lack of common definitions and practices to measure transport infrastructure spending hinders comparisons between countries. While the ITF survey covers all sources of financing, several countries do not include private spending. Caution is therefore required when comparing investment data between countries.
Source: OECD Transport database; OECD calculations.

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While improving public transport should be the main priority, strengthening distance-based charges could be used to further reduce car reliance and traffic (ITF, 2023[28]). Portugal's motorway tolls already vary by distance and vehicle type (OECD, 2023[1]). Extending distance-based pricing to more roads and vehicles, and varying toll prices based on location and time of day, could reduce traffic and environmental externalities, such as noise and congestion, especially as EV uptake erodes fuel tax revenues. This would complement existing carbon pricing and provide more efficient and sustainable transport funding.

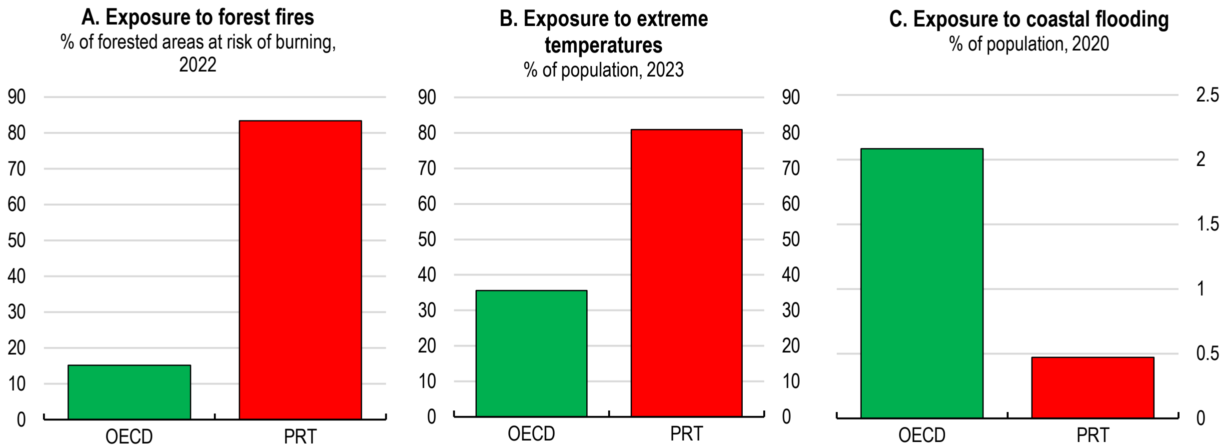
3.5. Strengthening measures to adapt to climate change

3.5.1. Portugal is highly exposed to climate risks

Portugal's geographical position and characteristics – alongside the Atlantic Ocean, close to the Mediterranean Sea, with a warm climate and large forest areas – imply the country is particularly exposed to climate risks (OECD, 2023[2]; OECD, 2023[1]). As global emissions continue to rise, businesses and people will be impacted by hotter average temperatures, growing water scarcity, salinisation and erosion of coastal areas, and more frequent and intense extreme weather events, notably wildfires, heat waves and floods (Figure 3.10). Impacts will be spatially concentrated. Wildfires, for example, are most likely to affect mainland northeastern regions and inland areas (República Portuguesa, 2023[29]), while Autonomous Regions Madeira and the Azores are particularly vulnerable to coastal erosion (OECD, 2023[1]).

Climate change is expected to entail significant costs for people and businesses as well as risks to people's lives. On the one side, costs arise as businesses are forced to adjust to slow-moving changes. For example, businesses in tourism may have to relocate to adjust to rising sea levels and coastline erosion; businesses in agriculture may have to switch to crops less dependent on irrigation as they face greater losses from plagues (OECD, 2023[1]). Increased extreme weather events are also costly. From 1980 to 2023, weather- and climate-related extreme events in Portugal led to 20 339 fatalities and EUR 17.6 billion in economic losses (EEA, 2024[30]). Just the wildfires in June and October 2017 caused more than 100 casualties and cost nearly EUR 1.5 billion (OECD, 2023[2]). While assessing future costs is inherently difficult, existing estimates suggest large prospective damages. For example, in a business-as-usual scenario, the duration of the wildfire season in Portugal is projected to grow by one month by 2040 (OECD, 2023[2]), and the impact of heat stress alone could reduce Portuguese GDP per capita by 0.8% in 2050, and by 4.5% in 2100 (Unsal and Baptista, 2025[31]).

Figure 3.10. Portugal is particularly exposed to risks from wildfires and heat waves



Note: Panel A: Forest exposure to burning is the annual percentage of forest exposed to very high or extreme wildfire danger for more than three consecutive days. Panel B: Share of population exposed to extreme temperatures for up to two weeks per year. Extreme temperatures are defined by the mean number of days when the daily maximum/ minimum temperature is above/ below the 95th percentile of the reference period. Panel C: Coastal flooding exposure data correspond to period of return of 10 years; OECD average only for countries with coastal zone.
Source: OECD Environment and climate change (database).

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Proactively adapting to climate change – for example by reducing exposure, improving emergency preparedness, and adjusting business models – can reduce damages. While adaptation measures incur costs, these are expected to be compensated for by fewer losses. For example, for the worst case scenario the 2024 National Adaptation Roadmap estimates that optimal adaptation measures could reduce economic damages by up to 1.4% of GDP in 2100 against adaptation costs of 0.7% of GDP, and by up to 0.6% against costs of 0.4% in a more benign scenario (República Portuguesa, 2023[32]). Improving the governance of adaptation policies and insuring against extreme weather events are main challenges (OECD, 2023[1]).

3.5.2. Ensuring effective implementation of adaptation measures

The governance framework for adaptation policies is overall strong (OECD, 2023[1]). Political coordination of Portugal's adaptation policy and monitoring is established by the Commission for Climate Action (CAC), headed by the Ministry of Environment and Climate Action and including representatives of other ministries. Technical coordination is established by a dedicated coordination group chaired by the Climate Agency and including representatives of sectoral entities, autonomous regions and municipalities. Policy measures, based on assessments of main impacts and vulnerabilities, are defined by the National Climate Change Adaptation Strategy (ENAAC 2020), which is updated every five years. An ongoing update aims to further foster policy alignment across sectoral, regional and EU-level plans and articulate goals for developing financing instruments, spatial planning and monitoring (República Portuguesa, 2025[33]). Municipal and sectoral strategies for tourism and agriculture as ones of the most affected sectors complement the national strategy. Measures are implemented through the Action Programme for Adaptation to Climate Change (P-3AC). Progress is foreseen to be monitored annually based on indicators on both the coverage of measures and climate impacts. For years for which results are already available, monitoring has shown good implementation (OECD, 2023[1]). Following devastating fires in 2017, Portugal established a new cross-governmental agency AGIF to coordinate and foster implementation of its wildfire strategy at the national level and across levels of government (OECD, 2023[2]).

Portugal should ensure sufficient and predictable funding for adaptation measures. For many measures, funding is provided through EU Cohesion Funds and the Recovery and Resilience Plan as well as the Environmental Fund (Fundo Ambiental) (European Commission, 2023[34]). However, for some measures, notably the updating of P- 3AC indicators, implementation has been held back by lack of stable funding (OECD, 2023[1]). For wildfire risk management, fragmented funding poses a challenge notably for municipalities at risk in depopulated rural areas, particularly in the North and the East. Ensuring long-term funding for planned measures, including from the EU as well as national and private sources, and beyond the Recovery and Resilience Fund ending in 2026, will be key to addressing all priorities in the adaptation strategies.

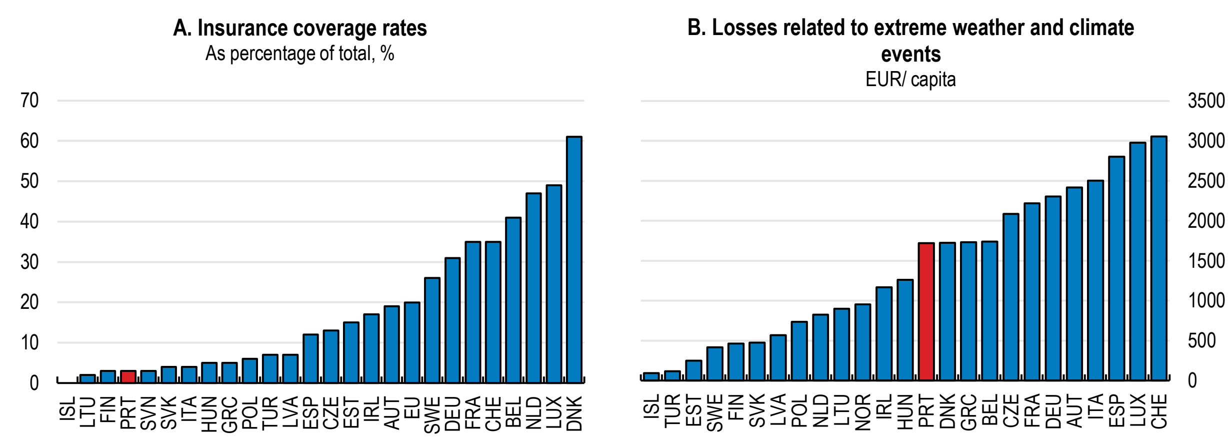
The successful implementation of adaptation measures will hinge on empowering municipalities. Municipal and intermunicipal Climate Action plans have been made mandatory under the 2021 Climate Law to assess risks and implement adaptation measures at the local level. However, several factors are hindering municipalities from taking effective action (OECD, 2023[1]). A mechanism to coordinate policy action among municipalities and with other sectors is lacking. There is no statutory requirement for policy alignment between these actors, although action in one area can impact vulnerability to climate change risk in others. Besides issuing plans, responsibilities are not always well defined. In some policy areas, notably coastal management, responsibilities are shared among dozens of entities, including local governments, which has led to inconsistent measures or prevented measures from being taken (Oliveira, Moura and Boski, 2020[35]). Municipalities are also not required to monitor progress of their Climate Action plans or report on implemented actions in a centralised way. Some municipalities also lack funds for adaptation measures. Improving coordination and promoting monitoring among local actors – while ensuring that capacities match responsibilities – would support effective implementation (OECD, 2023[36]).

3.5.3. Leveraging private insurance to address extreme weather events

Insurance coverage against climate risks is low, with about 3% of losses incurred between 1980 and 2024 having been insured. This is despite high historical risks set to increase with more frequent and intense extreme weather events (Figure 3.11). For past damages, the government and the European Union provided public funds to compensate victims of disasters, notably through the EU Solidarity Fund. Providing ad hoc support to affected firms and households can discourage the take-up of private insurance and implies high contingent liabilities. Limited coverage makes private insurance less effective by reducing risk pooling. For example, most insurance schemes that cover wildfire risk in Portugal are available in less risk-prone areas, while insurance premiums are high (OECD, 2023[2]).

Figure 3.11. Insurance coverage is low while damages from extreme weather events are high

1980-2024



Source: EEA (2024).

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Expanding insurance coverage against climate risks could lessen the macroeconomic impact of disasters. To increase climate-related risks insurance coverage, Portugal could follow other OECD countries in making property insurance mandatory (OECD, 2023[37]; OECD, 2024[38]). For example, Greece mandates property insurance against climate-related risks for businesses with an annual turnover above EUR 2 million, and encourages insurance take up among smaller businesses and households through property tax discounts (OECD, 2024[39]). Switzerland mandates building insurance against natural catastrophes in most of its cantons, while in France the CATNAT scheme provides insurance for all individuals and businesses against certain extreme events, including flooding, financed by a 12% tax on property and motor vehicle insurance contracts. Alternatively, Australia aims to promote insurance coverage by ensuring that insurance remains affordable, while New Zealand considers focusing on strengthening data collection and communication to empower people and businesses to make informed decisions about risk taking (Box 3.1). Requirements should be carefully designed to assure affordability also for low-income households, considering public support for example through re-insurance, and monitoring insurance markets to assure competitive pricing (OECD, 2023[37]). Besides limiting contingent liabilities, promoting insurance can encourage investments and behaviours to reduce exposure, e.g. by offering lower premia contingent on investments in fire-resistant decking and clearing and pruning vegetation close to buildings (ECB/EIOPA, 2024[40]).

Box 3.1. Approaches to risk-sharing in Australia and New Zealand

Achieving high insurance coverage is key to **Australia**'s approach to risk-sharing, and rising insurance costs from growing climate risks have been identified as a challenge. Several recent measures aim at making insurance more affordable by reducing underlying risks. In 2023 the Hazard Insurance Partnership was established to bring together the government and insurance industry to lower risks and improve data collection and sharing, including through a newly developed National Insurance Database. In 2024, a complementary taskforce on Insurance Affordability and Natural Hazards Risk Reduction was formed to develop an integrated, cross-government approach to minimising the impacts of disaster on the community. These initiatives are in line with findings from the 2024 Independent Review of Commonwealth Disaster Funding, which emphasised the need for improved data collection, develop a nation-wide National Disaster Risk Profile, and leverage land use planning and building codes to contain risks.

New Zealand is building on the report of the Independent Reference Group on Climate Adaptation, released in July 2025, to develop its adaptation framework. The report recommends emphasising personal responsibility based on clear communication and a comprehensive information base and sufficient time to adjust. It suggests a transition phase, tentatively set to last until 2045, to collect and make readily available quality and timely information about exposure to natural hazards, and to set out and communicate whether, when and how much financial assistance and investment support will be provided. After the transition period, support for those affected by major events would be decoupled from their property value. Investments reducing risks should be financed following the principle `who benefits most contributes more', limiting contributions from the central government to protect public assets, realise broad national benefits and support those with less ability to pay.

Source: (Independent Reference Group on Climate Adaptation, 2025[41]; Australian Government, 2025[42]; Colvin, 2024[43])

Table 3.3 Policy recommendations

MAIN FINDINGS	RECOMMENDATIONS (key ones in bold)
Despite important progress, decoupling needs to accelerate to meet 2030 targets in a growing economy. Emission prices remain uneven across fuels and sectors and fossil fuel subsidies undermine incentives to cut emissions cost-effectively.	**Gradually align and increase effective carbon prices across sectors by fully implementing the expanded EU Emission Trading System and completing the planned phase out fossil fuel subsidies, while addressing potential impacts on vulnerable households.**
Energy production from renewable energy sources is set to expand further, while increased reliance on intermittent energy sources poses risks for reliable energy supply.	Continue expanding and diversifying renewable energy production by improving investor certainty through clear auction timelines. Enhance balancing capacity through coordinated planning with Spain to strengthen the electricity grid and storage, align reserve capacities, and ensure overall system resilience.
Plans to expand ocean-based renewable energy may lead to spatial conflicts. The Directorate-General for Natural Resources, Safety and Maritime Services (DGRM) in charge of coordinating maritime spatial planning has limited capacity.	Strengthen the coordination between institutions with competences over the management of maritime spatial planning, enhancing human and financial capacity of DGRM, to get a more balanced approach over renewable offshore energies.
Emissions in transport remain high and the car fleet is relatively old and dominated by fossil fuel vehicles, making a faster transition to zero emission vehicles critical for meeting climate targets. Improving but still limited charging infrastructure hinders adoption of electric vehicles.	Increase support for fleet greening, including through more public investment and financial support for charging infrastructure and more targeted EV subsidies for low-income households, while regularly reviewing their cost effectiveness.
Transport is now the largest source of emissions. Passenger transport is highly reliant on cars, while low railway density and limited investment constrain the expansion of public transport.	Increase investment in expanding and maintaining public transport infrastructure based on cost-benefit analysis, prioritising rail investments in high demand corridors.
Risks from climate change are high. While the government has stepped up policy tools to promote adaptation, some planned measures have been held back by lack of reliable funding and inadequate coordination at the local level.	Ensure stable funding to track the progress of the adaptation strategy on a yearly basis and improve coordination among local actors.
Insurance coverage for climate-related risks, such as floods and wildfires, is low, while public-private risk sharing mechanisms are fragmented and lack a formal framework.	**Establish a formal public-private risk-sharing mechanism, for example by making property insurance for natural catastrophes compulsory for all buildings and aligning premiums with risk exposure.**

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4 Tackling Portugal’s housing affordability challenge: promoting sustainable and inclusive housing

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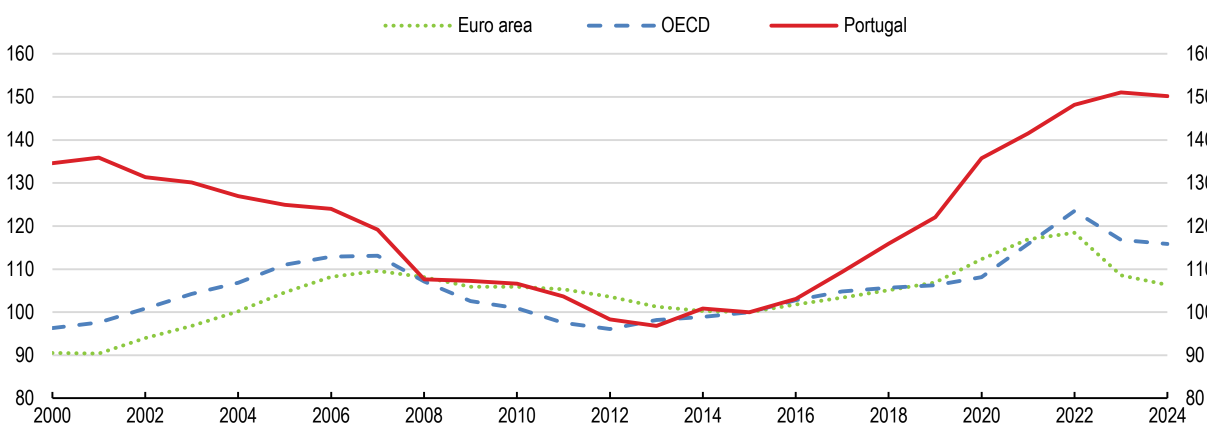
Structural challenges in Portugal’s housing market, compounded by resurging demand, have undermined housing affordability. Many people struggle to buy or rent a home, pay off their mortgage, move, or invest to improve poor housing quality. Young people are disproportionately affected. Improving access to housing will require comprehensive reforms to remove investment obstacles and use existing housing more effectively. Building regulations and spatial planning can be made more flexible. Gradually shifting from taxing transactions towards taxing property ownership and imposing higher effective taxes on underused properties can bolster supply, promote a more efficient allocation of housing, and improve equity. Developing weak rental markets will be important to expand the supply of more flexible housing. Complementing such market reforms with greater investments in social housing and more targeted housing allowances can better protect low- and middle-income households. To improve poor housing quality, tackle energy poverty, and meet climate goals, stronger incentives and support for energy renovations will be key.

4.1. Structural challenges and rising demand have undermined housing affordability

Many people struggle to access affordable and quality housing in Portugal. Housing markets face several structural challenges, including regulatory barriers to housing investment, weakly developed rental markets, and limited support for vulnerable households. Economic developments in the early 2000's and 2010's – first a mostly debt-financed housing boom amidst declining borrowing costs and rising incomes, and later weakening housing demand during Portugal's economic crisis – mitigated these challenges (Lourenço, Moura and Rodrigues, 2025[1]; Rodrigues, 2022[2]). From 2000 until 2013 house prices declined (Figure 4.1). When demand began to pick up again, the constraints imposed by deficiencies in the housing market became more visible. Since 2013, growth in house prices has outpaced most other euro area and OECD countries. With sluggish investment in new dwellings, weak incentives to use available housing efficiently, a segmented rental market offering limited options for new tenants, low support for people who cannot afford housing at market prices, and often poor housing quality, this left many – often young – people struggling to afford adequate housing. This chapter documents the main structural challenges facing the Portuguese housing market and proposes solutions to boost its efficiency, promote affordability and inclusiveness, and accelerate building renovations.

Figure 4.1. After a period of sustained decline house prices have risen sharply

Price-to-income ratio, 2015 = 100



Note: The OECD aggregate corresponds to the simple average of the OECD countries. The Euro area aggregate corresponds to the 20 OECD members countries of the European Union. Data correspond to an index base 2015, seasonally adjusted not calendar adjusted.
Source: OECD Affordable Housing (database).

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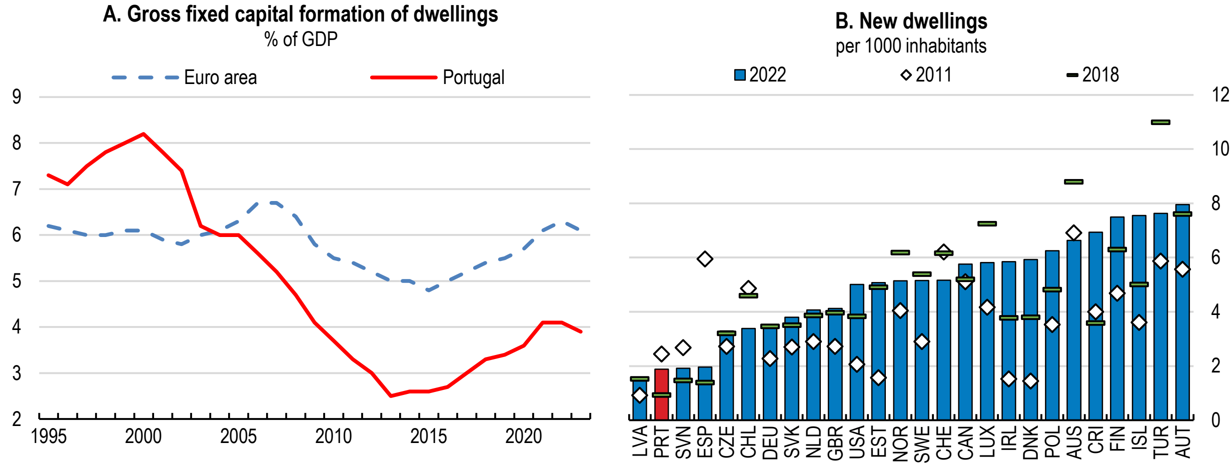
4.1.1. The housing market faces many structural challenges

Housing investment over the last two decades has been weak (Figure 4.2). The sluggish response of supply to growing demand (see Section 4.1.2) suggests structural investment barriers. Labour productivity in construction is low (Figure 4.3). This points to weak competition, likely resulting from high construction costs and reflecting perceived regulatory barriers (EIB, 2024[3]; IMF, 2024[4]). Following the 2000's economic crisis, business dynamism and the number of construction firms declined (Lourenço and Rodrigues, 2017[5]). Skill shortages have contributed to rising construction costs (Figure 4.3). Meanwhile, long delays in obtaining building permits weigh particularly on small and young firms, while changes to spatial planning restricted land for development and likely led to rising land prices (see Section 4.2.1).

Figure 4.2. Investment in housing has been low over the last decades



Note: Panel A: The Euro area aggregate corresponds to the 20 OECD members countries of the European Union.
Source: Panel A: Eurostat; Panel B: OECD Affordable Housing (database).

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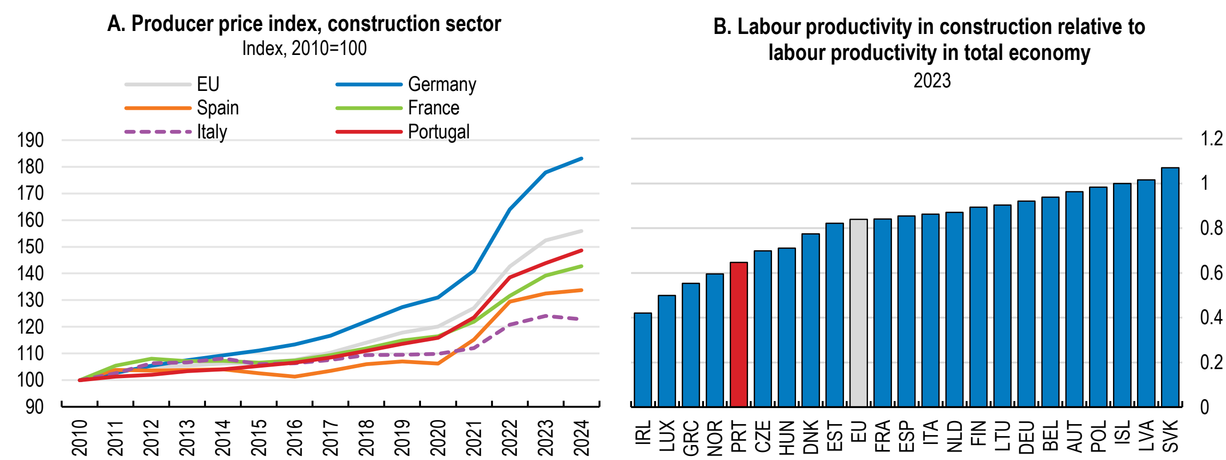
Figure 4.3. Rising costs and low productivity in construction weigh on housing investment



Note: The EU corresponds to the composition of European Union as of 2020. Panel A: Graph shows data on residential buildings, except residences for communities. 2023 figures for EU and France refer to 2022. Panel B: Labour productivity measured as gross-value added divided by total employment by sector (1-digit NACE Rev. 2).
Source: Eurostat.

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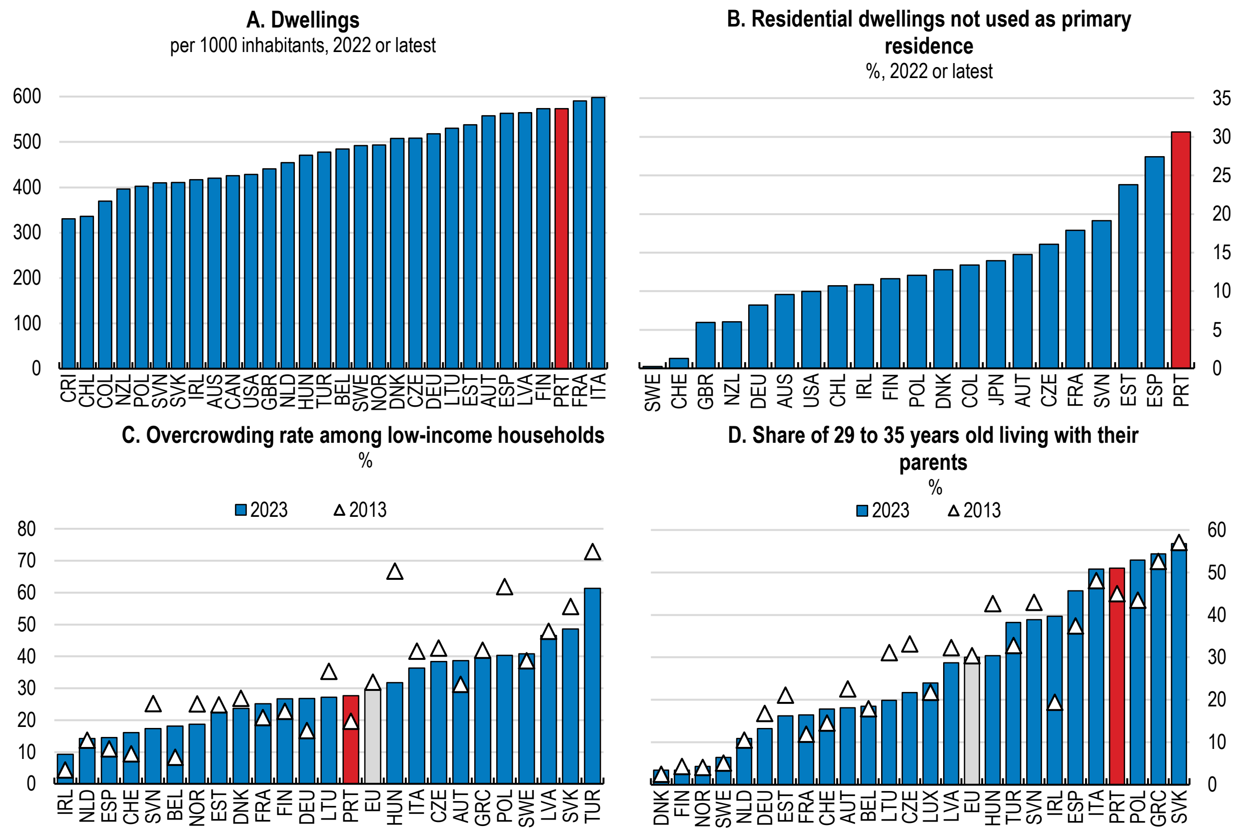
An additional challenge is that the large housing stock is used inefficiently. Portugal has one of the largest housing stocks relative to its population in the OECD (Figure 4.4, Panel A). At the same time, the share of dwellings not used for primary residences – being either vacant (12% of dwellings in 2021) or used as holiday homes (19%) – is highest among the OECD (Figure 4.4, Panel B). Thus, despite the large number of dwellings, overcrowding grew strongly over the last decade and was close to the EU average in 2023 (Figure 4.4, Panel C). The share of young adults aged 29 to 35 years old still living with their parents is among the highest in the EU (Figure 4.4, Panel D). While underused housing may not be located where demand is high and, as discussed below, many dwellings require renovations to become inhabitable, relatively high shares of both vacant and holiday housing across regions suggest potential for improvement. For example, the share of vacant housing ranged from 10 to 16% across regions in 2021, and from 10 to 38% for holiday housing, being high also in Lisbon’s city centre (14.9% vacant and 9.3% holiday homes in 2021). Using the existing housing stock effectively to meet housing needs thereby hinges on residential mobility. However, tax incentives to bring vacant buildings to the market or free up underused dwellings are weak (see Section 4.2.2). Residential mobility is further hindered by underdeveloped rental markets (see Section 4.2.3). Besides undermining an effective allocation of housing, low residential mobility exacerbates skill mismatches, contributing to skill shortages and making labour markets less resilient (OECD, 2021[6]).

Figure 4.4. The large housing stock could be used more efficiently



Note: Panel A: Data refer to the responses as in the 2023 and 2021 OECD Questionnaire on Affordable and Social Housing (QuASH) except for Czech Republic, Hungary and Italy where data refer to RESH - Structural Housing Indicators - ECB Statistical Data Warehouse (europa.eu). Panel B: Dwellings not used as primary residence are either vacant or used seasonally. Panel C: Data refer to households' income group below 60% of median equivalised income. Panel D: Data refer to persons living with their parents or contributing/ benefiting from the household income (population aged 18 to 34 years old). Panel C & D: The EU corresponds to the composition of European Union as of 2020.
Source: Panel A & B: OECD Questionnaire on Affordable and Social Housing (2021 and 2023); Panel C & D: Eurostat.

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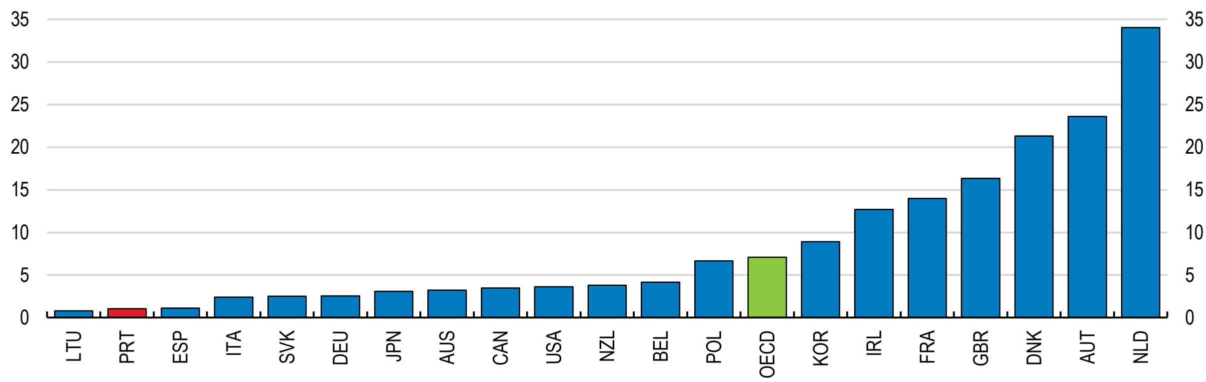
People who cannot afford housing at market prices often receive limited support. The government and many municipalities significantly raised investment in social housing in recent years. Still, the social housing stock was among the smallest in the OECD in 2022 (Figure 4.5). Spending on housing allowances is limited and appears poorly targeted, suggesting that many vulnerable households lack adequate support (Section 4.3). Limited social housing and housing allowances also pose a barrier to developing the private rental market. To assure affordable housing for older tenants, subsequent governments repeatedly prolonged strict rental regulations for contracts signed before 1990, after which rent controls and tenancy protection for new contracts were significantly eased (see Section 4.2.3). Supporting sitting tenants by preventing landlords from adjusting rents to market levels – rather than by providing social housing or housing allowances – discouraged investments in the rental market and so raised rents for prospective tenants, while failing to offer adequate support for people without a low-rent contract.

Figure 4.5. The stock of social rental housing is low

Social rental housing stock, % total number of dwellings, 2022



Note: The OECD aggregate corresponds to the simple average of the OECD countries.
Source: OECD Affordable Housing (database).

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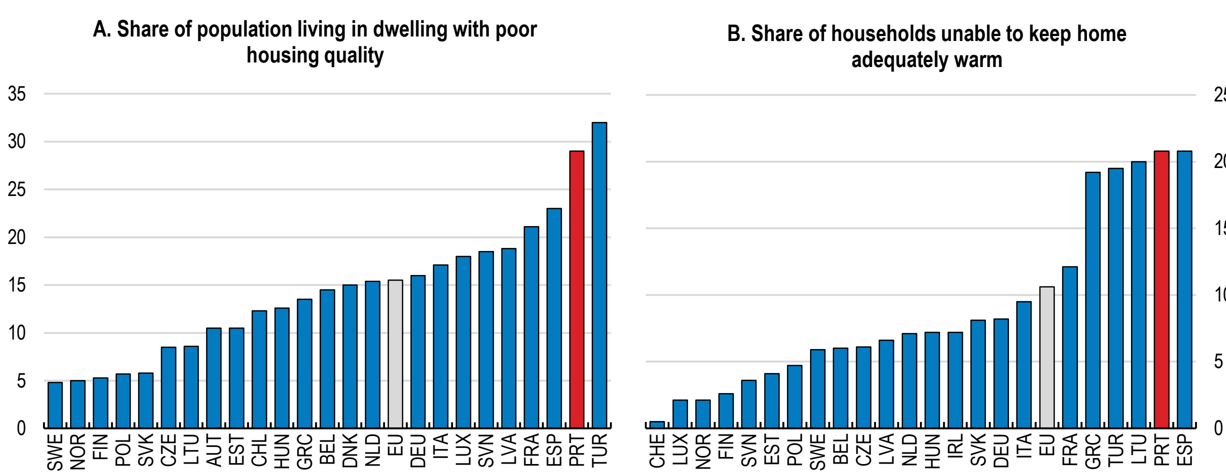
The quality of the housing stock is often poor. The share of people living in a dwelling with a leaking roof, damp walls or rot in windows is among the highest in the EU (Figure 4.6, Panel A). Low housing quality contributes to high levels of energy poverty, despite Portugal's warm climate and overall low energy demand for housing, and undermines people's health and well-being (Section 4.4) (Republica Portuguesa, 2021[7]). Investment barriers discussed above, as well as limited incentives for landlords to pay for refurbishments (Section 4.2.3), contribute to low housing quality (Alves et al., 2023[8]; Mendes, 2022[9]).

Figure 4.6. Housing quality and energy efficiency are often poor

%, 2023



Note: The EU corresponds to the composition of European Union as of 2020. Panel A: Poor housing quality is defined as dwelling with leaking roof, damp walls, floors or foundation, or rot in window frames of floor.
Source : Eurostat- EU-SILC Survey.

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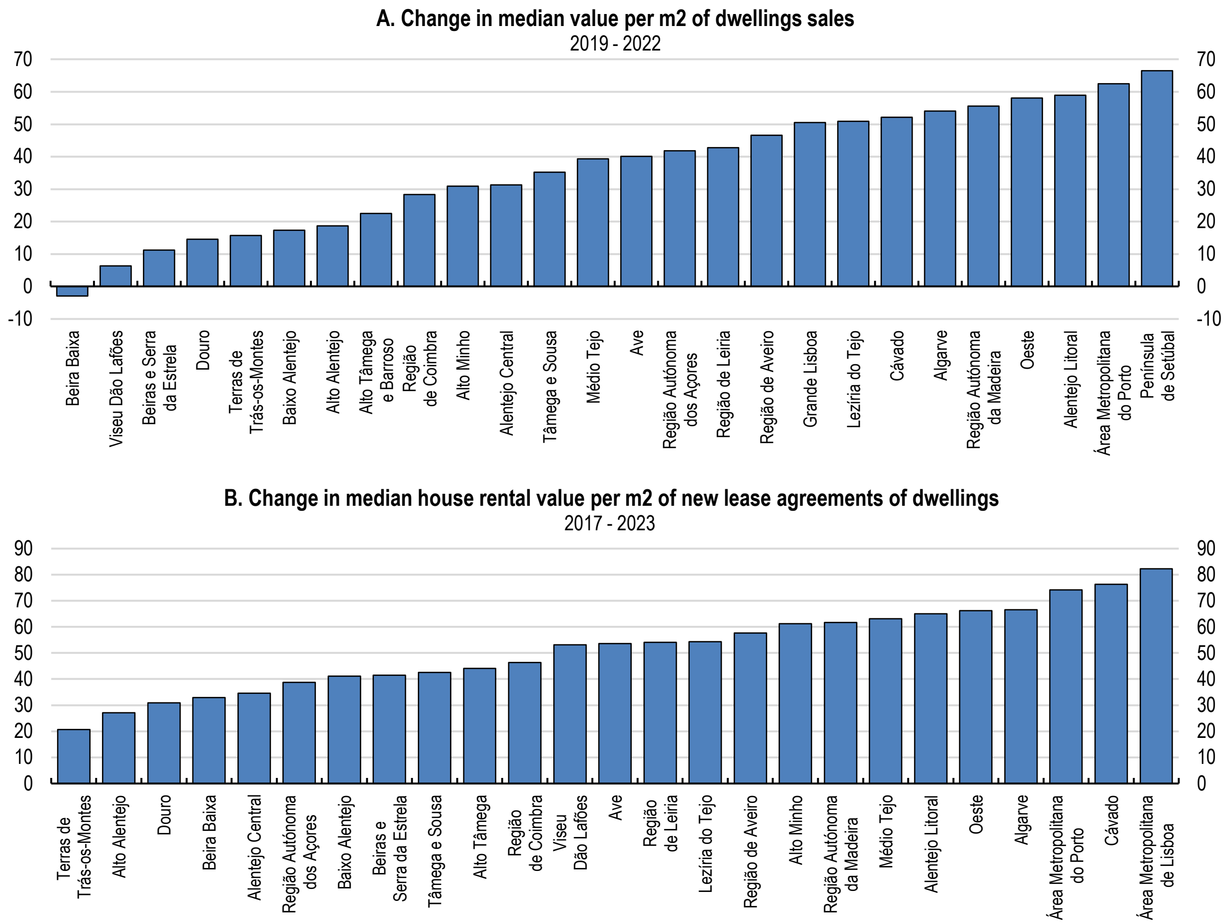
4.1.2. Recent growth in demand has exacerbated housing challenges

Renewed growth in overall housing demand – both domestically and from abroad – met with the structural challenges discussed above and led to a surge in housing prices (Rodrigues, 2022[2]; Lourenço, Moura and Rodrigues, 2025[1]). While some regions saw stronger growth, the latest available data indicate that the increase was widespread across the country (Figure 4.7). Coastal and urban regions, where most people live and most tourism and economic activities are concentrated, generally experienced the strongest increases (Bank of Portugal, 2024[10]). Internal migration patterns added to country-wide price pressures at the local level.

Figure 4.7. Housing cost increased in nearly all regions but in some regions more than in others



Note: Dwelling is normally intended to accommodate only one family, on the condition that it is not being used for other purposes at the period of reference. Panel A: Geographical breakdown at the parish level occurs only in the municipalities of the metropolitan areas of Lisboa and Porto, the Algarve region and other municipalities with more than 100 thousand inhabitants (2021 Census). Panel B: Parish's geographical level is available only in the metropolitan areas of Lisboa and Porto.
Source: INE.

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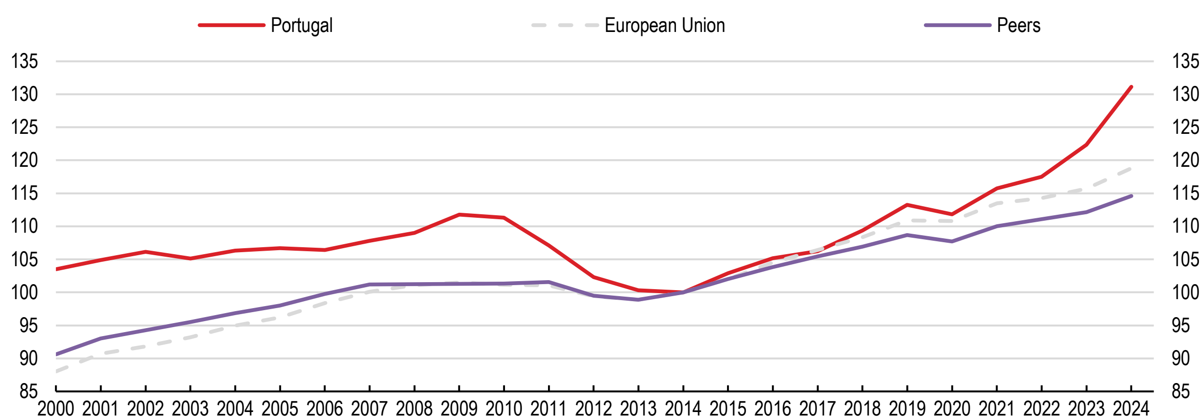
The main drivers of housing demand include household income and demographic changes (Alvarez-Roman and Garcia-Posada, 2021[11]). Real disposable income declined after the Great Financial Crisis but returned to grow from 2014 onwards, outpacing the EU average and peer economies (Figure 4.8). Portugal's population rebounded beginning in 2018, as population ageing and emigration was compensated for by rising immigration both from EU and non-EU countries (Figure 4.9). The share of people with foreign citizenship increased from 3.5% in 2014 to 9.8% in 2024 (Eurostat, 2025[12]). While some migrants appear relatively wealthy compared to the domestic population, many migrants work in low-skilled jobs, likely demanding low-price and often rental housing (Reis Oliveira, 2023[13]). Although population growth was modest, the number of households increased more strongly, by 13% from 2010 to 2023, reflecting a trend towards smaller households (Figure 4.9).

Government programmes increased demand from abroad, but their impact on housing prices has yet to be assessed fully. With a view to boost the Portuguese economy after the Global Financial Crisis, subsequent governments offered tax benefits or residency to skilled workers, pensioners and foreign investors (Box 4.1). Comparatively low real estate prices by international standards may have further added to Portugal's attractiveness (Martins et al., 2021[14]). Housing demand from foreigners was sizeable – accounting for about 10% of the value of housing all housing transactions between 2019 and 2024 – and focused on more expensive properties, likely reflecting their relatively higher purchasing power and minimum investment requirements (Figure 4.10). Empirical analysis using data from 2007 to 2019 links the Portuguese Golden Visa programme to stronger price growth for properties around the minimum investment threshold of EUR 500,000 (Pereira dos Santos and Strohmaier, 2024[15]). However, the average price of real estate sold is much smaller and amounted to about EUR 113,000 in 2020 (INE, 2024[16]). The impact of foreign demand on price segments below EUR 500,000 has not yet been quantified. Making administrative data available for research could allow assessing by how much programmes affected housing demand and investment across market segments and regions. This could inform future policy measures and assess to what extent recent revisions to these programmes may contribute to easing demand pressures.

Figure 4.8. Income started to grow strongly in 2014 after more than a decade of stagnation

Gross real disposable household income, 2014 = 100



Note: The EU corresponds to the composition of European Union as of 2020. Peers is the unweighted average of Germany, France, Italy and Spain.
Source: OECD ADB.

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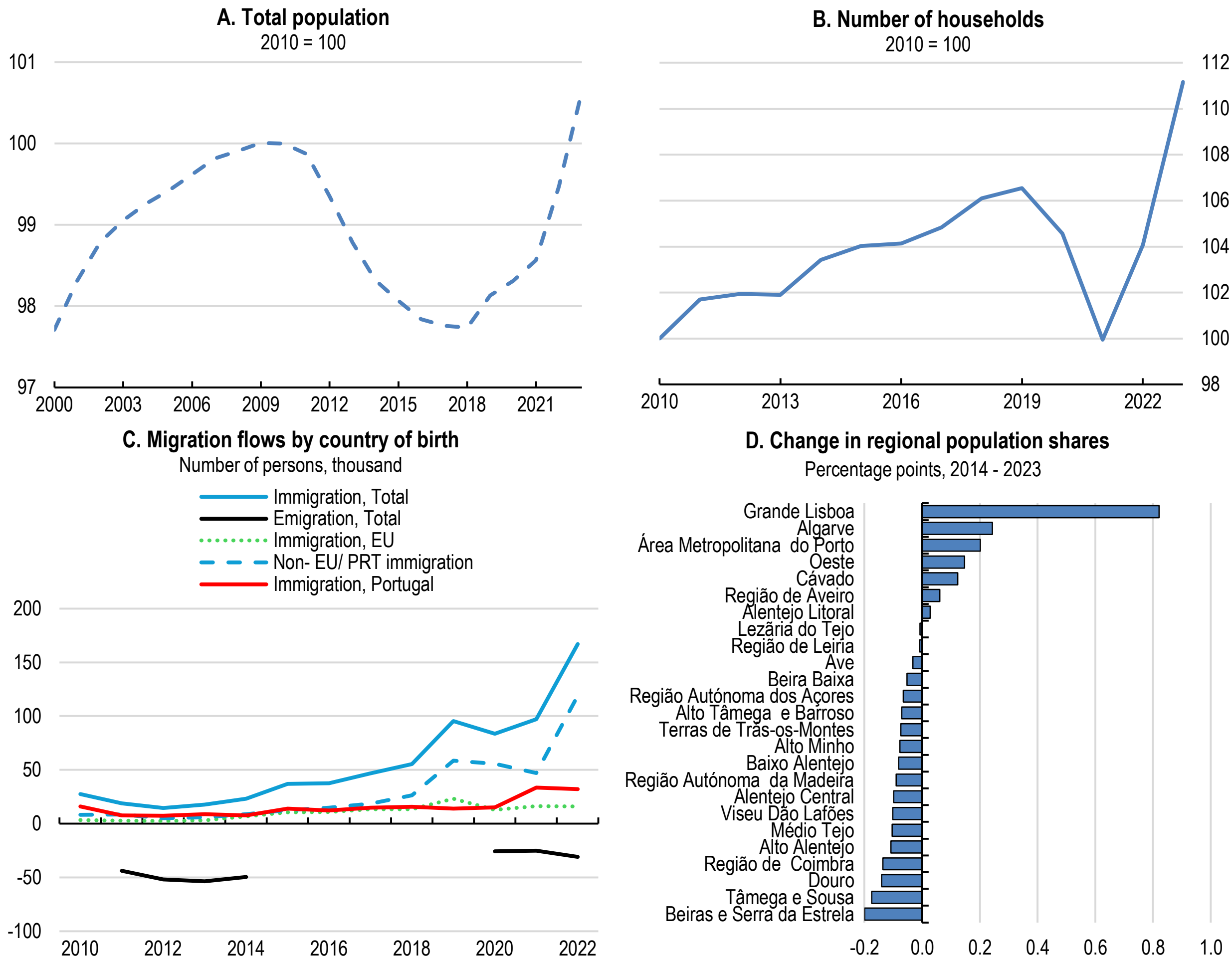
Growing tourism has added to housing demand. Overnight stays increased by 15% from 2019 to 2024, and total revenue from tourist accommodations increased by 55% over the same period (Turismo de Portugal, 2023[17]). The spread of short-term rentals may have had large impacts in some areas. In Lisbon, for example, the number of listed AirBnBs rose from 18,277 in September 2019 to 21,181 in December 2024, corresponding to about 7.6% of all dwellings in the urban area (Inside Airbnb, 2024[18]; Garha and Azevedo, 2021[19]). Research has found a close link between the number of short-term rentals and housing prices in Lisbon at the local level (Batalha et al., 2022[20]; Goncalves, Peralta and dos Santos, 2020[21]). Effects are likely highly spatially concentrated, however. In Lisbon, for example, most AirBnBs are concentrated in the historic city centre (Garha and Azevedo, 2021[19]). While neighbouring areas may be affected through spillovers to a limited extent, rent price increases in the wider metropolitan area outpaced increases in the city centre, including districts such as Santa Maria Maior where many short-term rentals are located (INE, 2024[16]).

Figure 4.9. Demographic change increased housing demand



Note: Panel C: The EU corresponds to the composition of European Union as of 2020. Data for emigration total for 2014-2020 are missing from source.

Source: Panel A: INE. Panel B, C & D: Eurostat.

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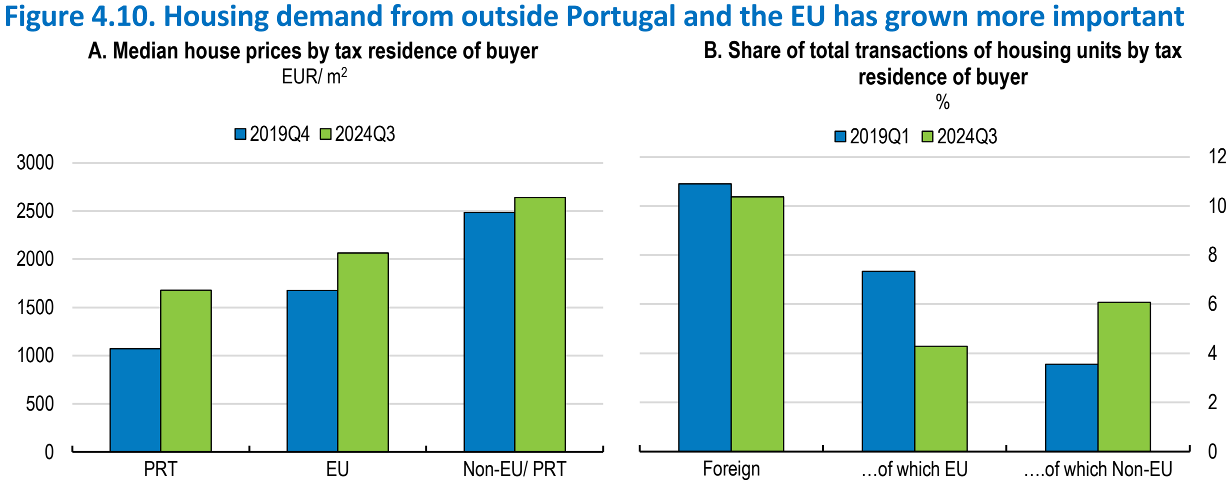
Figure 4.10. Housing demand from outside Portugal and the EU has grown more important



Note: The EU corresponds to the composition of European Union as of 2020. Panel A: Prices for dwelling sales in last 12 months. Panel B: Share of total value of transactions in EUR.

Source: INE.

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Box 4.1. Portugal's programmes to attract investment, spending and skills from abroad

In the wake of the 2008 Global Financial Crisis and ensuing economic crisis, Portugal instigated several measures to attract investment, spending and skills from abroad:

- In 2009, the government first launched the **Non-habitual Resident programme** (NHR) which ran until the first half of 2025. It offered tax benefits on foreign-source income (if covered by a double taxation agreement) for up to 10 years for people becoming tax residents, i.e. spending at least 183 days per year, in Portugal. For pensioners, the programme first offered a tax exemption on foreign-sourced pension income and was later revised to offer a reduced tax rate at 10%; professionals working in certain high-value added activities (e.g. R&D, Medicine Doctors, ICT Technicians) paid a reduced tax rate of 20% on employment or self-employment income gained in Portugal. In 2023, 114.645 NHR beneficiaries resided in Portugal.
- In 2012, the government launched the **Residence Permit for Investment Activity programme** (ARI). The programme, also referred to as **Golden Visa** programme, offers residency permits to investors in real estate, private equity or entrepreneurship. The minimum spending for real estate purchases ranged from EUR 350.000 to 500.000. Investments in real estate were excluded from the programme as off October 2023. Between 2012 and 2023, 11.382 residence permits were issued to real estate investors.
- In 2024, the incumbent government launched the **Fiscal Incentive for Scientific Research and Innovation programme** (IFICI). It builds on the NHR but abolishes tax benefits on pension income to focus exclusively on attracting highly educated or experienced professionals working in specific fields (e.g. R&D, higher education, start-ups, health, management). As in the NHR, income gained in Portugal from these activities will be taxed at 20%.

Source: (IMF, 2024[4])

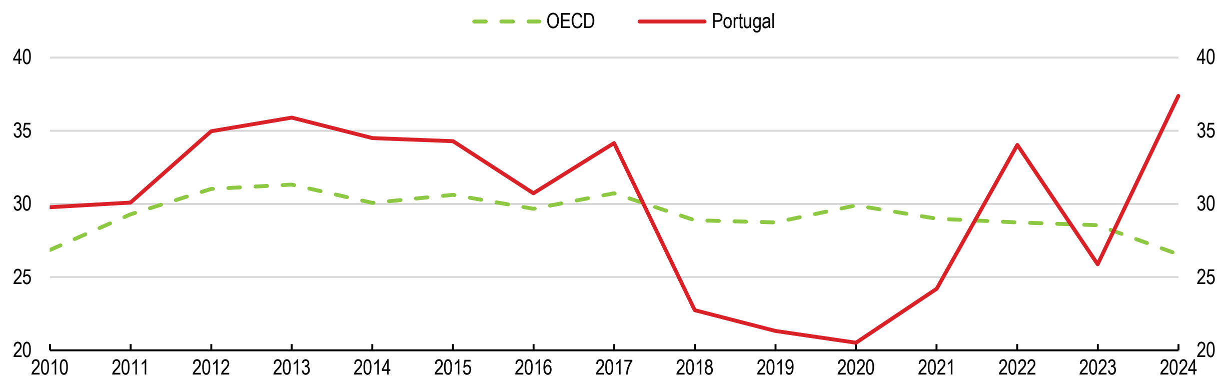
4.1.3. The impacts of rising housing prices have been unequal

Rising housing prices have weighed on households' purchasing power, with mortgage holders and tenants most vulnerable to rising housing costs (Lourenço, Rodrigues and Vilares, 2023[22]). House prices have outgrown incomes since 2013 (Figure 4.1). Many low-income households are overburdened by housing costs (Figure 4.11). How people have been affected generally depended on their tenancy situation (Figure 4.12):

- Full homeowners – about 46% in 2022 – were mostly shielded from higher costs while seeing the value of their home increase.
- Homeowners with a mortgage – about 30% in 2022 – faced rising mortgage costs, after they had benefitted earlier from low interest rates. Loans with variable interest rates are common in Portugal and accounted for 62% of the mortgage stock in late 2024, meaning that monetary tightening was quickly passed on to mortgage holders (Figure 4.13). Several government measures helped contain the rise in mortgage costs in 2023 and 2024 (IMF, 2024[4]). Going forward, a combination of elevated housing prices, high household indebtedness, and high use of variable rate mortgages requires on-going monitoring (Chapter 1).
- Tenants renting their home – about 22% of households – often faced higher rents. How much rents increased varied depending on the type of rental agreement (Section 4.2.3). Rental caps for existing leases limited increases to 2% and 7% in 2023 and 2024 respectively, and rent increases for new leases were exceptionally limited to 2% of the previous rent in 2023.

Figure 4.11. Many low-income households are overburdened

Share of households in bottom-quintile of income distribution spending more than 40% of disposable income on rent and mortgage costs, %



Note: The OECD aggregate corresponds to the simple average of the OECD available countries (New Zealand data are missing). Housing costs cover only those relating to mortgage costs (principal repayment and interest payments) and rental costs (for both private market and subsidised rental housing).
Source: OECD Affordable Housing (database).

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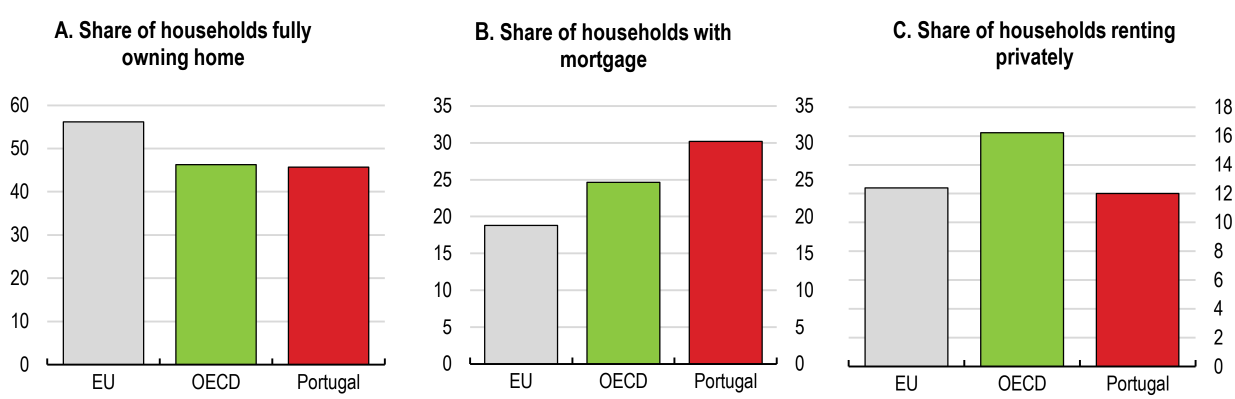
Figure 4.12. Homeownership with mortgages is widespread

%, 2022

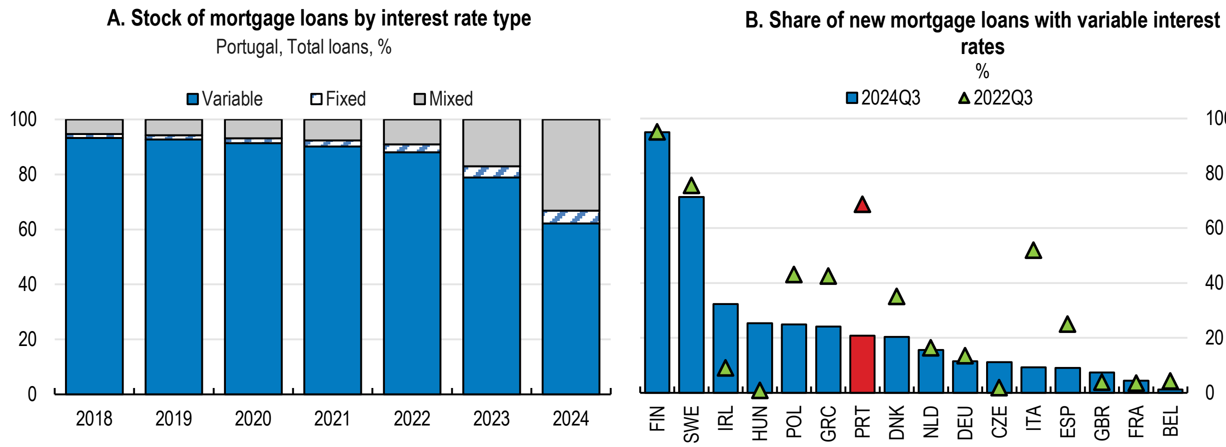


Note: The EU corresponds to the composition of European Union as of 2020. OECD and EU averages refer to countries for which all tenure types are available.
Source: OECD Affordable Housing (database).

StatLink https://stat.link/omre80

With most full homeowners being old, the burden from higher housing costs often fell on the young. People who wanted to buy or rent a home for the first time, or people who wished to move, either faced higher costs or abstained from moving, thus remaining in unsuitable accommodation or missing out on opportunities such as a better paying job. Many young people – who are less settled and often can earn higher wages abroad – may be driven to emigrate. In a 2023 survey, 44% of respondents considered leaving Portugal due to difficulties in finding affordable housing (FFMS, 2023[23]).

Figure 4.13. A high share of variable interest rates mortgages led to rising housing costs



Note: Panel A: Data refer to stock of loans for purchase or construction of personal and permanent residential property granted by banks (other monetary financial institutions) to residents in monetary union (households and non-profit institutions serving households) as of December 31st of the reference year. Panel B: Variable rate is defined for up to 1Y initial rate fixation. 2024 data for Finland refer to Q2.
Source: Panel A: Banco de Portugal; Panel B: European Mortgage Federation.

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4.1.4. Comprehensive housing market reforms are needed

Portugal launched multiple policy packages to tackle the housing affordability challenge in recent years (Box 4.2), aiming to stimulate housing supply and supporting access to affordable housing. Measures, discussed in more detail throughout the chapter, notably comprised tax incentives for construction, supply of long-term rentals, and residential mobility; support for young first-time buyers through tax exemptions; investments and reforms to boost social and affordable housing; as well as direct support for tenants through rent caps and housing allowances.

Given the scale of housing needs, however, additional reforms are needed. Further increasing the supply of affordable housing and improving housing allocation remain central. Section 4.2 discusses how simplifying building permits and spatial planning, reforming housing taxation and re-balancing rental regulation can remove barriers to housing investment and promote residential mobility. Such reforms take time to show an effect on supply and may not address the needs of vulnerable households in the short term. Section 4.3 therefore discusses how further expanding social housing and better targeting housing allowances can ensure more households can access adequate housing. The poor quality of much of the existing housing stock also undermines living standards and hinders achieving climate goals. Section 4.4 thus focuses on measures to scale up energy renovations.

Exploiting policy complementarities will be essential to make reforms more effective (Table 4.1). For example, re-balancing rental regulations to attract more private investment will need to be accompanied by sufficient and well-targeted housing allowances to protect low-income tenants. But to avoid these allowances fuelling price pressures, a more responsive housing supply is needed. Ensuring adequate funding for public investment to maintain and develop public spaces will be important to complement residential construction. Measures discussed in this Survey to reduce economy-wide regulatory burdens (Chapter 1) and ease labour shortages (Chapter 2) would support private and public investment. Similarly, removing investment barriers would stimulate competition and productivity in the construction sector, lowering costs for social housing, renovations and developing the rental market. Clear rules allowing landlords to recover costs from upgrading dwellings would also boost energy renovations, especially if combined with financial support to mitigate cost pressures on tenants.

Table 4.1. Complementary across housing policies can strengthen effectiveness and equity

Complementarities of housing policies between selected policy areas

Main policy area	How it supports other policy areas
Housing supply and allocation (Sections 4.2.1 and 4.2.2)	Eases price pressures from demand side policies such as housing allowances; lowers costs of social housing and renovations through improved market conditions.
Housing allowances (Section 4.3)	Enhances equity and political support to rental regulation reforms; helps low-income households afford adequate housing while other reforms take effect.
Rental markets (Section 4.2.3)	Improves residential mobility and allocative efficiency, strengthens incentives for landlords to invest in energy efficiency upgrades.
Renovations (Section 4.5)	Financial support can contain cost increases for tenants and owners; housing upgrades improve housing quality and contribute to climate goals.

Source: OECD.

Box 4.2. Recent government measures aiming to promote affordable housing

In October 2023 **"Mais Habitação"** programme was passed. Main measures include:

- the personal income tax rate (PIT) on income from long-term rentals was reduced; rental income until 2029 for owners switching from short- to long-term rentals was fully exempted from PIT; land purchases for affordable rental construction were exempted from the transaction tax (IMT) and the recurrent property tax (IMI). In 2024, measures to restrict the issuance of new licenses for short-term rentals across Portugal were revoked while restrictions at the local level were allowed.
- rent increases for new contracts were capped at 2% of the previous rent to slow down rent adjustments.
- gains from selling residential property to the state, or gains re-invested in owner-occupied and permanent housing of the seller or a member of his family, were exempted from capital gains tax.
- municipalities were allowed to further raise the aggravated rate for the recurrent property tax IMI on vacant buildings and undeveloped parcels of land for construction in urban pressure areas. Measures to force vacant buildings to be rented out under certain conditions had been issued but were revoked in 2024.

In May 2024 the **"Construir Portugal"** programme was passed. Main measures include:

- simplification of procedures to transfer rural to urban land for construction of residential properties with at least 70% of the construction area being allocated to social or affordable housing.
- first-time buyers up to 35 years old are fully exempt from the transaction tax and stamp duty when purchasing their first permanent home up to EUR 324,058, and partially exempt for properties to EUR 648,022; young buyers with low- to middle-income benefit from a public guarantee of 15% of mortgage (for property values up to EUR 450,000).

Source: (República Portuguesa, 2023[24]; PWC, 2023[25]; República Portuguesa, 2024[26]).

4.2. Making housing markets more effective to improve supply and allocation

4.2.1. Making building regulations more investment friendly

Land use regulation – including spatial planning and permitting systems – is a key determinant of housing supply (OECD, 2021[6]). Portugal's legal framework provides the basis for investment-friendly regulations, for example by avoiding overlap between local and national actors and concentrating strategic decision-making at the central level (Ziemann, 2024[27]). Likewise, the formal regulatory framework for building permits is generally well-aligned with best practices, requiring for example a certified engineer or architect to oversee compliance (OECD, 2023[28]; World Bank, 2024[29]). These advantages notwithstanding, perceived regulatory burdens appear to weigh on housing investment (IMF, 2024[4]; EIB, 2024[3]; ESCO, 2021[30]; OECD, 2023[31]). Remaining obstacles may reflect issues with implementing the generally pro-competitive regulatory framework, e.g. weak enforcement of existing rules, lack of administrative capacity, or cumbersome secondary regulations (OECD, 2023[31]; World Bank, 2024[29]). While Chapter 1 discusses policies to reduce regulatory burdens in the wider economy – which can help to also foster housing investment – this section focuses on policies to improve regulations specific to construction, notably for obtaining building permits and on land-use.

Simplifying building permits

Procedures to obtain building permits are often burdensome and lengthy. While the national government sets the framework for building regulations, municipalities are key actors to set local building standards and issue permits. Although overall it takes long to obtain a building permit, differences in transparency, digitalisation of procedures and administrative capacities lead to significant differences in delays across municipalities (World Bank, 2018[32]; World Bank, 2024[29]; OECD, 2023[31]). In 2023, the number of days for obtaining a building permit ranged from 272 (Funchal) to 548 (Coimbra), taking long also in Lisbon (545) and Porto (453) (World Bank, 2024[29]).

Recent measures aimed to speed up permitting procedures. Fixed timescales and tacit approvals for construction projects to simplify processes were introduced in 2024. The occupancy permit needed after construction to use the building – which took between 65 to 155 days processing – was abolished (World Bank, 2024[29]). The government is also preparing reforms under the Simplex Urbanístico initiative that aim to improve transparency and streamline and simplify permitting processes further. While these measures are welcome, effective implementation will be key. Previous experiences with tacit approval for industrial and environmental licensing have had limited effectiveness (OECD, 2023[31]). For example, some public entities have been reported to send multiple requests for additional information to extend time limits; processes were put on hold while responses from other public bodies were pending; or it was difficult to prove that deadlines justifying tacit approval had passed. Investors partly attributed resulting delays to insufficient civil staff in public administration (OECD, 2023[31]). Strengthening capacities of agencies involved in issuing permits, e.g. by bolstering human or financial resources, may be needed to assure that statutory deadlines can be met. Portugal could also follow the Netherlands who, based on stakeholder consultations during a housing summit in 2024, announced plans to speed up permitting procedures by setting parallel planning as a standard, for example to run environmental assessments and engineering reviews simultaneously rather than sequentially (OECD, Forthcoming[33]).

There is room to standardise requirements and make information more easily accessible. To request a building permit, developers need to consult various regulations and standards and obtain preapprovals from utilities, with requirements and fees generally differing across municipalities. Reports suggest that local regulations can be difficult to navigate and documentation requirements can be excessive and require specialists to fulfill, or lead to errors in project documentation that cause delays; similarly, building permit fees are often complex to calculate (World Bank, 2018[32]; OECD, 2023[31]). Additional burdens can arise because information about requirements is difficult to access. Information on preapprovals required from specialised agencies is generally lacking, and information on building fees is sometimes outdated (World Bank, 2024[29]). Making information more easily accessible across municipalities – for example by following Porto, which offers a detailed online manual for going through the construction permitting process – would make the process less burdensome. Harmonising requirements across municipalities would additionally increase predictability for investors (OECD, 2023[31]).

Efforts to streamline procedures should be complemented by promoting a more widespread adoption of digital services. While applications in Porto and Lisbon have been fully digitalised, several municipalities still require physical submissions on paper or disks and do not permit online payments or provide notifications on status of the application (World Bank, 2024[29]). Portugal is currently developing a national platform (Plataforma Eletrónica de Procedimentos Urbanísticos - PEPU) designed to unify and simplify urban planning and building procedures across municipalities. Such a platform could act as a digital one-stop-shop – to request building permits while providing information on requirements and fees through a single website – to improve processing times and efficiency (World Bank, 2024[34]). Similar platforms have been introduced in several countries, for example in Croatia, Hungary and Estonia. Doing so may require improving coordination among stakeholders, e.g. to assure that all agencies involved in the permitting process can access all relevant information.

Additionally, small municipalities may struggle to deal with spatial planning and issuing building permits effectively. While overall municipalities in Portugal tend to be large, population size varies considerably across municipalities, with 38% of municipalities having less than 10,000 inhabitants (OECD, 2020[35]). Promoting coordination among smaller municipalities, e.g. by establishing inter-municipal bodies dedicated to spatial planning, could save on fixed costs for setting up services, and allow greater staff specialization. In Mexico, for instance, municipalities can delegate technical tasks related to the implementation of spatial planning to a Municipal Urban Planning institute, while retaining competencies to decide about local building regulations and spatial plans (OECD, 2024[36]).

Improving spatial plans

Recent measures aim at making more land available for development. A 2024 reform of the land use law (Lei dos Solos) introduces a time-limited (four year) mechanism to allow municipalities to reclassify rural land for housing, under strict affordability, infrastructure, financial feasibility, urban adjacency and environmental protection rules (República Portuguesa, 2025[37]). At least 70% of the developed land must be dedicated to public housing, affordable rentals or controlled-cost housing. Municipalities can via simplified amendments to municipal plans facilitate the availability of land.

While promising, the impact of the reform remains to be seen and will depend on municipal implementation capacity and the extent to which it addresses longer-standing challenges, discussed below, to respond flexibly to changes in housing demand. Municipalities have greater autonomy, but also greater burden for technical review and economic justification. Environmental protected areas remain prohibited, but there are concerns around enforcement and speculative pressures near rural-urban boundaries.

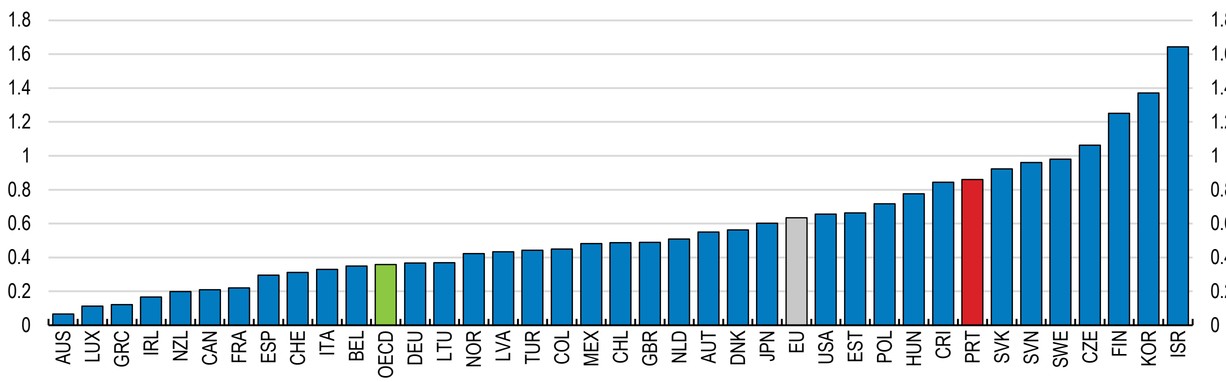
Several longer-standing challenges have characterised spatial planning in Portugal in the past. Large and persistent discrepancies between the number of planning permits approved and developed suggest that land is frequently held in the hope that land prices rise (de Deus et al., 2023[38]). An additional challenge is urban sprawl, which is common particularly around metropolitan Lisbon, Porto, and Algarve (Abreu e Silva and Correia, 2023[39]; Cavaco et al., 2021[40]). Reforms in 2014 and 2015 aimed at countering speculation and densifying developments, but the resulting land planning system has been criticised as rigid and complex (Jorge et al., 2022[41]; OECD, 2017[42]). These reforms also reduced land for development, including by abolishing the land use category of "land for development", which was reverted back to rural land, as well as reverting back urban land in case of investment delays (Cavaco et al., 2021[40]). However, land conversion has remained comparatively high during a period of low construction of new dwellings, suggesting that land may continue to be used inefficiently (Figure 4.14). This may reflect weak compliance. A study focusing on a municipality in Algarve found high shares of development occurring outside of designated areas (de Deus et al., 2023[38]).

A comprehensive review of spatial planning is needed. This review should identify any remaining bottlenecks in spatial planning regimes that hinder expanding development in areas where unmet housing needs are high and containing urban sprawl, and assess whether competing concerns between land use and environmental protection are safeguarded by the current planning system. Promoting more compact development would also support cutting emissions from transport, by making public transport infrastructure more efficient and reducing driving times (Chapter 3).

Ensuring that municipalities have sufficient capacities to regularly revise spatial plans and strengthening enforcement mechanisms to prevent unauthorized developments will be needed for effective implementation. Revising spatial regulations could additionally be complemented by incentives set by municipalities to counter speculation and foster compact development, e.g. by applying the additional real estate tax aggravation for undeveloped land designated for construction in urban pressure areas (see Section 4.2.2) and adjusting development charges – i.e. one-off levies charged on developers to finance costs associated with new development – to reflect the true costs of providing infrastructure in more remote or less densely populated areas (OECD, 2017[43]).

Figure 4.14. Land conversion remained high despite reforms in 2014 and 2015 to limit urban sprawl

Loss of natural and semi-natural vegetated land from 2015 to 2020, percentage point change from base in 2000



Note: The OECD aggregate corresponds to the simple average of the OECD countries. The EU corresponds to the composition of European Union as of 2020.
Source: OECD Land cover change in countries and regions (database).

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4.2.2. Housing tax reforms to improve equity and housing dynamism

Portugal's housing tax mix lowers mobility, weakens incentives to bring underused properties to the market, and contributes to intergenerational inequality. Recent tax policies have aimed to strengthen incentives to expand housing supply and better support vulnerable groups, notably the young (Box 4.2), and are complementing rental subsidies and a growing but still limited social housing stock (Section 4.3). However, there remains scope for additional tax reforms to raise revenue more efficiently and equitably, including by gradually shifting from transaction towards recurrent property taxes, tightening rules for taxing capital gains, and strengthening taxes for underutilised homes in high demand areas.

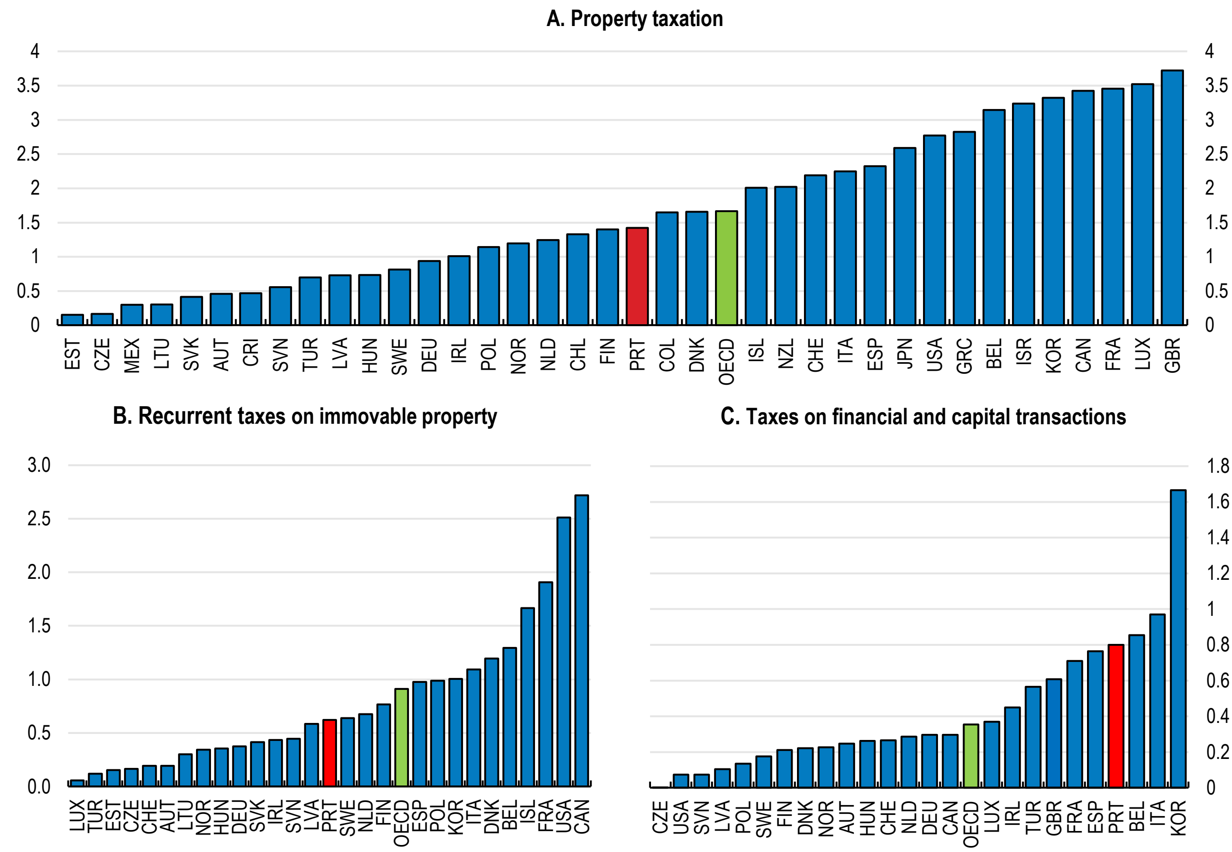
Shifting towards recurrent taxes on immovable property ownership

Portugal's reliance on transaction taxes impedes an effective use of its large housing stock. While the overall tax burden is low, revenues from taxing property transactions account for a larger share of total public revenues than on average in the OECD, while the share from recurrent taxes on property ownership is relatively low (Figure 4.15). Transaction taxes penalise downsizing and reallocation, with higher transaction taxes being correlated with lower residential mobility across the OECD (Andrews, Caldera Sánchez and Johannson, 2011[44]; OECD, 2022[45]). By contrast, recurrent property taxes are generally considered less distortive than taxes on transactions and to be one of the most growth-friendly forms of taxation (Arnold et al., 2011[46]; OECD, 2022[45]). Reducing transaction taxes while strengthening recurrent taxes on immovable property as part of a broader reform package would help make housing markets more efficient and could provide fiscal room for investments or lower other taxes (see Chapter 2).

Outdated property values for recurrent taxes are a main factor driving low taxation of homeownership. The main tax for owning immovable property is the Municipal Real Estate Tax (IMI). The tax rate is set by municipalities within a range determined by the national government (0.3-0.45% of tax base for urban real estate) (Leodolter, Princen and Rutkowski, 2022[47]). Owners of very high-value properties worth more than EUR 600,000 additionally pay a real estate wealth tax (AIMI) of at least 0.7%. The tax base for IMI and AIMI is based on cadastral values, which were last reviewed in 2015, and is updated annually based on national inflation and local coefficients to align with market values. In practice, however, the adjustment process appears insufficient. As real estate prices soared – and despite minimum and maximum tax rates remaining largely constant – revenues from recurrent taxes stagnated (Figure 4.16). Basing annual property valuations on recent sales or rent data, combined with property-specific data to compare similar properties, would strengthen the effective taxation of ownership. Experience from Canada, the Netherlands and the USA suggests that computer-assisted mass appraisals (CAMA) can help to contain administrative costs of regularly updating property values based on market data (OECD, 2021[48]).

Figure 4.15. Housing transaction taxes are high while recurrent property taxation is low

% of GDP, 2023



Note: The OECD average is computed based on preliminary data. Data for Australia are missing. Panel B: Data for Greece are missing. Panel B & C: A selection of OECD countries is shown. Panel C: Includes taxes on the issue, transfer, purchase and sale of non-financial and financial assets, taxes on forms of payment, and taxes levied on specific legal transactions such as validation of contracts and the sale of immovable property; excludes capital gains tax.
Source: OECD Revenue Statistics (Database).

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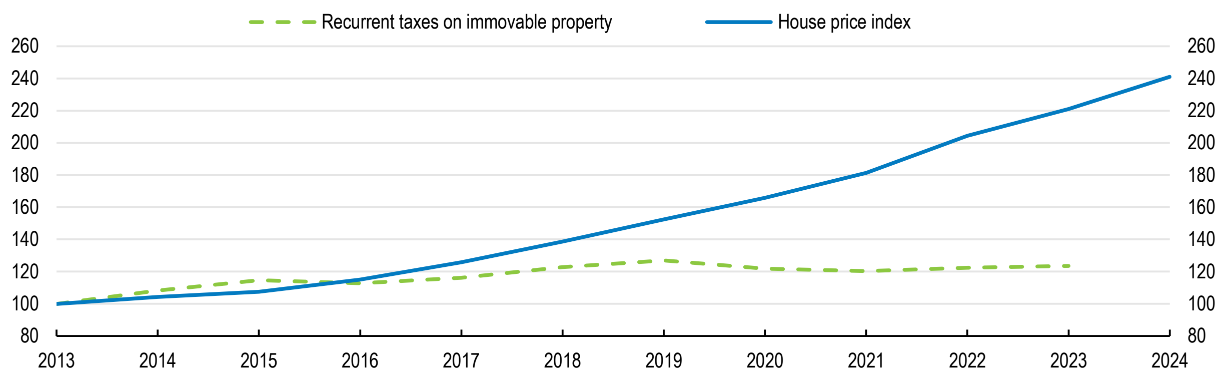
To enhance political acceptability, strengthening taxation of property ownership should be done gradually and consider transitional measures to protect taxpayers from significant increases in property tax obligations (OECD, 2022[45]). Shifting the tax mix from transaction towards recurrent property taxes could impose an undue tax burden on those who paid high transaction taxes before the reform and need to pay high recurrent taxes thereafter. Given the strong price increase in recent years, aligning outdated property tax values with market prices could also lead to liquidity issues, especially for asset-rich households with low income. To address this, Portugal could follow Canada and Denmark in offering targeted tax deferrals to delay payments for low-income and older homeowners until they have greater liquidity, e.g. when their house is sold or transferred (Box 4.3).

Figure 4.16. Revenues from taxing ownership have decoupled from housing values

Revenues from recurrent taxes on immovable property and nominal house prices (2013 = 100)



Source: Eurostat; OECD Revenue Statistics (database).

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Limiting capital gains tax exemptions

Capital gain tax exemptions on primary residences contribute to high windfall gains on house price increases and increase intergenerational inequality. Selling property is in principle subject to capital gains tax. However, for real estate only 50% of the gains are taxed, and owner-occupiers who re-invest gains in another primary residence are fully exempt. Capital gains tax exemptions, combined with low effective recurrent taxes on immovable property, mean that mostly older homeowners saw sizeable and largely untaxed wealth increases. By contrast, young people who did not yet own any property saw no corresponding rise in wealth but faced higher barriers to homeownership. The government is supporting young people through lower transaction taxes and guarantees, which helps to mitigate the rise in intergenerational inequality (Box 4.2). For example, exemptions on transaction taxes for young buyers for an average sized house, worth about EUR 200,000 at 2024 median prices, amounts to about EUR 5600.

Exemptions also contribute to the preferred tax treatment of owner-occupied housing, which OECD analysis suggests can hinder the development of rental markets by distorting investment incentives (see Section 4.2.3) (Arnold et al., 2011[46]; OECD, 2022[45]). Portugal phased out regular programmes for mortgage tax relief, the most common form of support for homeownership in OECD countries, in 2011 (Barrios Cobos et al., 2019[49]). However, partly reflecting capital gains tax exemptions, returns on investments in owner-occupied housing continue to be taxed at lower effective rates than returns from investments in rented residential property (Millar-Powell et al., 2022[50]).

Portugal could consider revising capital gains taxation and exemptions. While capital gains tax exemptions on primary residences are often justified as support for homeownership, their effectiveness may be limited as benefits only apply when the home is sold (OECD, 2022[45]). Capping the capital gains tax exemption on the sale of main residences, to ensure that gains above a certain value are taxed, could strengthen progressivity and create fiscal space, while still exempting capital gains for most households.

Box 4.3. Property tax deferrals in Canada and Denmark

Several OECD countries provide property tax deferral schemes, which are commonly restricted to certain types of taxpayers, including seniors and low-income households. Deferrals can also be used as transitional measures during reforms to protect taxpayers from significant increases in property tax obligations.

In **Canada**, provincial and local governments administer tax deferral schemes, which are commonly restricted to seniors, widowed and disabled taxpayers. Tax deferrals are commonly capped and interest (at or below market rate) is charged on the unpaid amount. The province of Alberta offers a "Seniors Property Tax Deferral Program" providing taxpayers with a low-interest equity loan on their primary residence, which covers property tax payments until the sale of the house (or any earlier date), at which point the loan is repaid plus interest (the programme charges simple instead of compound interest). Only taxpayers over 65 are eligible under the condition that they hold at least 25% equity in their primary residence and the property is covered by insurance.

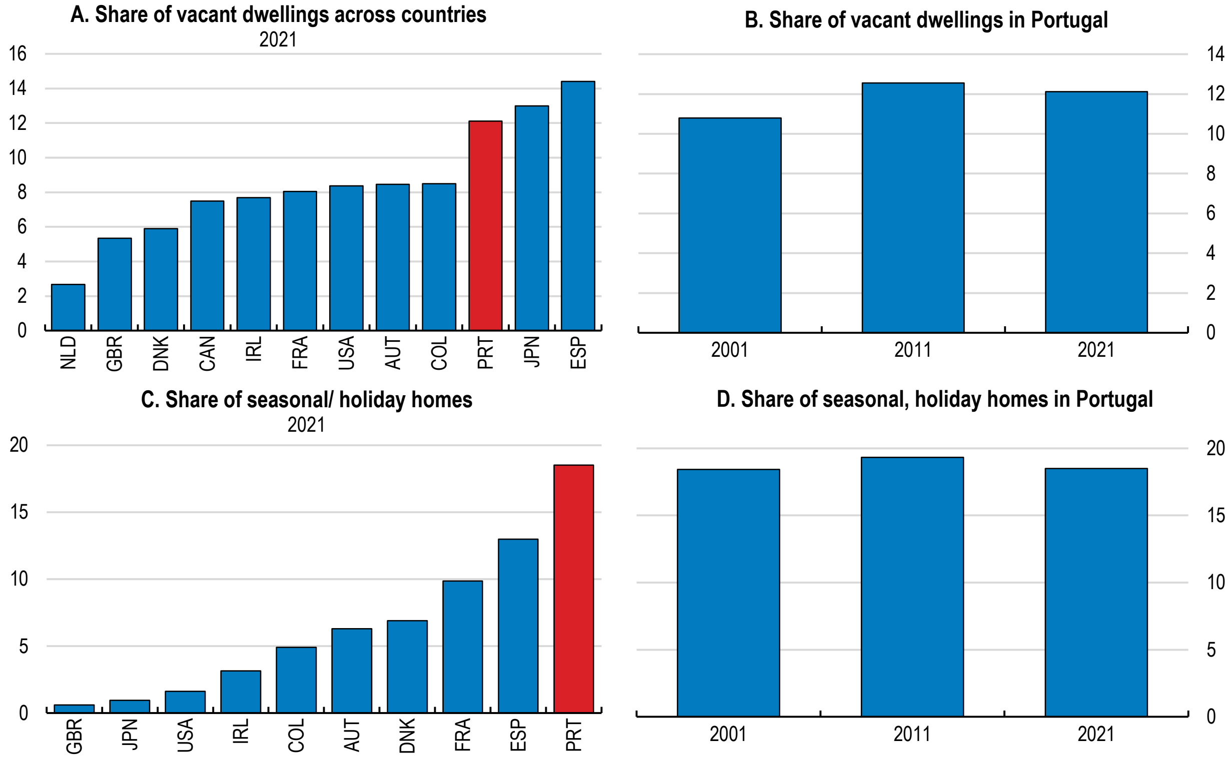
In **Denmark** property tax values had been frozen over 2002-17, which contributed to booming housing prices and a fall in effective tax rates. In 2017, a major property tax reform was passed which entailed a reassessment of properties' tax values towards market values. Updated tax liability assessments began to be issued in 2021. Given the nearly two decade-long tax freeze, reassessments had been expected to significantly raise tax obligations. To cushion the increase in tax liabilities, alleviate liquidity concerns and increase political support, this tax reform included a property tax deferral scheme that allowed deferring increases in tax liabilities until the sale of the property.

Source: (OECD, 2021[48]; OECD, 2022[45]).

Strengthening taxation of vacant real estate

Portugal's vacant property tax regime has strong design elements de jure but is undermined by weak enforcement and outdated cadastral values. Despite a levy on buildings that have been unoccupied for more than one year since 2005, a persistently high share of vacant dwellings – including in high demand areas like Lisbon – suggests weak effectiveness (Figure 4.17, Panel A and B). More than half of vacant dwellings – about 350.000 units – are thought to require medium-scale renovations to become inhabitable. Many owners may lack funds for these works. The government is currently preparing a financing scheme for urban renovation and affordable housing development. This could complement fiscal incentives to bring these properties back to the market. Portugal's levy is applied in the form of aggravated rates of recurrent tax on immovable property (IMI). While minimum aggravated rates for vacant dwellings correspond to 3 times the IMI rate, municipalities have the option to declare urban pressure areas to impose up to 20 times IMI rates, with additional incremental increases for each year the dwelling remains vacant, capped at 30 times IMI rates (PWC, 2025[51]). However, while potential rates are high, effective taxation may be low because of either low tax bases, only minimum rates being applied, or vacant buildings not being identified as such.

Figure 4.17. A large and persistent share of dwellings is rarely used or vacant



Source: OECD Affordable Housing (database); INE.

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Updating the tax base for aggravate IMI to reflect current values would go a long way to significantly increase the effective financial cost of keeping dwellings vacant. Aligning property values with 2024 market prices could more than double aggravated taxes, to up to EUR 11,900 annually for an average sized dwelling in Lisbon. Moreover, raising the minimum rate in urban pressure zones could also help. The current minimum rate (e.g. 0.9% in Lisbon) may not be dissuasive enough. The City of Vancouver saw a more pronounced decline in vacant buildings after raising their Empty Homes Tax from 1.25% to 3% of taxable property value for dwellings (Box 4.4) (Housing Vancouver, 2024[52]).

Enforcement to identify vacant buildings should be strengthened. In 2023 municipalities had identified 12,803 vacant dwellings. However, census data from 2021 suggest a substantially larger number of vacant dwellings. While part of the dwellings identified as vacant in the census may have been rented informally or have been vacant for less than one year (see Section 4.2.3), the large discrepancy suggests that many vacant dwellings are not subject to aggravated tax rates. Experience from OECD countries suggests that levies have a limited effect on reducing the number of vacant dwellings unless they are backed up by robust monitoring (OECD, 2022[45]). Since 2019, Portugal allows using data from water and electricity consumption to identify vacant buildings, which is welcome. Efforts to identify vacant buildings could be further expanded by drawing on various data sources, including for example tax databases and the land registry. Additional inspections may be necessary to verify information. As described in Box 4.4, the City of Vancouver has greatly reduced the number of vacant buildings through high tax rates coupled with frequent audits and hefty penalties for non-compliance.

The definition of vacant buildings could also be strengthened to raise effective taxation on under-used properties in high-demand areas. For example, Vancouver defines dwellings as vacant when they are used less than 6 months in the preceding year, as opposed to dwellings that have been unoccupied for more than one year in Portugal (Box 4.4) (República Portuguesa, 2019[53]). This could entail imposing aggravated rates on the high share of secondary homes (Figure 4.17, Panel C and D). Given that secondary real estate is predominantly owned by wealthy households, this would make Portugal's tax mix more progressive (OECD, 2022[45]). Some landlords may also circumvent paying aggravated rates by converting their dwelling into short-term rentals. This could be addressed by only considering long-term tenancies when assessing whether a unit has been occupied (OECD, 2022[45]). Similarly, charging higher taxes on undeveloped land would discourage holding land as an asset for speculation and help to boost construction (see Section 4.2.1). In Finland, for example, allowing municipalities to impose higher tax rates on undeveloped versus developed land zoned for construction was associated with a sizeable increase in residential developments (Lyytikäinen, 2009[54]). In Portugal, municipalities can choose to apply aggravated tax rates on undeveloped land in urban areas under the current legal framework by declaring them as urban pressure zones.

Box 4.4. Vancouver's Empty Homes Tax

In 2017 the City of Vancouver, Canada, introduced the Empty Homes Tax to bring more vacant buildings to the market. While some exemptions apply, the levy is generally applied to vacant residential dwellings that have not been used as a primary residence for at least six months of the preceding year. It was gradually raised from initially 1% of the taxable property per year to 3% in 2021.

To assess which dwellings are vacant, residential property owners are required to declare the status of their property every year. Dwellings can also be deemed as vacant if no declaration was submitted or through audits. A false declaration can be fined up to CAD 10 000 per day (about EUR 6600).

To enforce compliance, the city uses risk-based as well as random audits. The number of audits completed in 2024 – which may verify declarations for earlier vacancy reference years – corresponded to about 7.8% of existing dwellings that year. The number of vacant buildings as well as non-compliance – i.e. declarations that have been falsified through audits – have been steadily decreasing (Table 4.2).

Table 4.2. Audits and compliance in Vancouver's Empty Home Tax scheme

	2020	2021	2022	2023
Audits completed[1]	9289	9876	12806	14219
Non-compliance rate[2]	4.8%	2.4%	1.5%	0.4%
Vacant properties	1755	1398	1156	1073

Note: Numbers refer to vacancy reference years. 1: Audits completed by 1 November of respective year. 2: Non-compliance rate refers to share of non-compliant audits by reference vacancy year.
Source: (Housing Vancouver, 2023[55]; Housing Vancouver, 2024[52]; OECD, 2022[45]).

4.2.3. Developing private rental markets

Portugal's rental market remains underdeveloped and fragmented. Only 12% of households rented in 2022 (Figure 4.18, Panel A), among the lowest share in the OECD. Informal rentals remain widespread, with fiscal audits suggesting that up to 60% of leases may go undeclared (República Portuguesa, 2024[56]). This limits tenant protection and reduces fiscal revenues. The resulting shortages of formal rental housing particularly affect young and low-income people, who are less likely to own property and face limited affordable options (Figure 4.18, Panel B).

Past reforms aimed at boosting rental supply have achieved only limited success due to persistent regulatory fragmentation, with leases signed before 1990 continuing to be subject to much stricter regulations compared to leases signed afterwards, and frequent policy changes creating uncertainty for investors (Box 4.5). Portugal has taken steps to make renting more attractive in recent years, including through tax incentives for long term leases (Box 4.2), its Affordable Rental programme offering time-limited full tax exemptions on income earned from leases renting at 80% of the local median rent per m^2, and by offering compensation to landlords with pre-1990 contracts which in December 2024 amounted to about EUR 150 per month and lease. However, more comprehensive reforms are needed to provide stable and balanced regulations and revise rent-setting mechanisms to promote investment and contain informal and short-term rentals. These efforts should be combined with improved housing support to ensure equity and political feasibility.

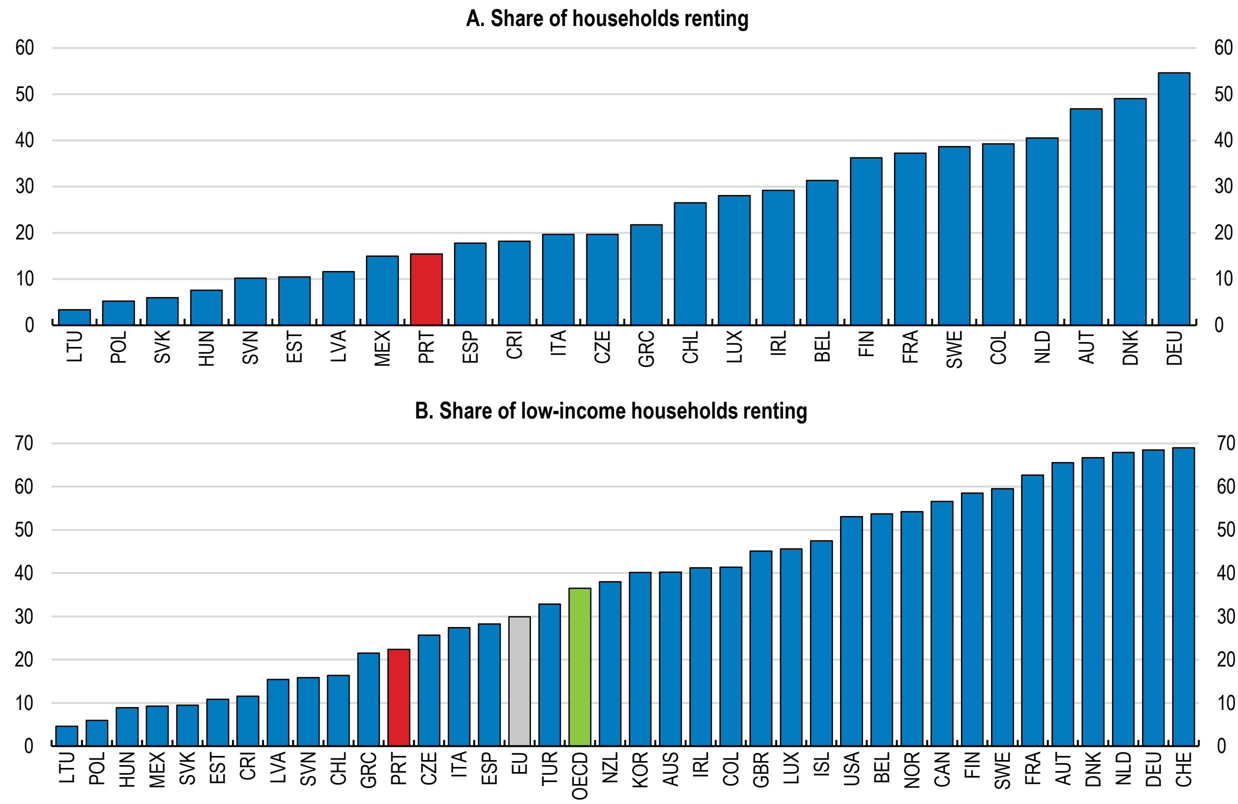
Box 4.5. A brief history of rental regulation in Portugal

- **From 1910 to 1990:** Rent controls date back to 1910. In 1948, rent freezes introduced in Lisbon and Porto were extended across the entire country. In 1975, rent ceilings were added on new contracts in old buildings. In 1981, rent schemes were introduced to establish criteria for rent increases. However, permitted annual increases were often below inflation. In 1966, rental agreements were extended indefinitely. Reasons to terminate rental leases were generally restrictive, excluding for example the death of the owner. As a result, lease agreements signed up until 1990 were generally open-ended contracts with tight rent control.
- **From 1990 to 2006:** In 1990, several changes were introduced for new leases, including the possibility for limited duration contracts, strengthening owner rights to terminate the contract in case of non-payment, and increasing rents in line with consumer price inflation. Changes did not apply to existing contracts, leading to a split in rental regulations for contracts signed before 1990 and after.
- **From 2006 until 2012:** In 2006 the New Urban Tenancy Regime made provisions to adjust rents for pre-1990 contracts, while maintaining tenancy security regulations. With rent increases capped and often conditioned on costly renovations for housing with poor quality, success for adjusting rents was limited.
- **From 2012 until 2017:** In 2012 the Revision of the New Urban Tenancy Regime abolished minimum duration requirements for new leases, extended reasons for terminating contracts, and facilitated eviction procedures to take on average three to four months. Rents for pre-1990 contracts could in principle be adjusted and leases terminated, while a transitional regime protected old, disabled and low-income tenants and was repeatedly extended.
- **From 2017 until present:** Several changes extended minimum lease durations and automatic renewal, while restrictions were introduced to terminate contracts for tenants above 65 years living under fixed term leases for over 15 to 20 years. In 2023, transitions for pre-1990 contracts towards new regulations were abolished and replaced by compensations to the landlords on the difference between the annual rent and 1/15th of the property tax value (República Portuguesa, 2024[26]).

Source: (Mendes, 2022[9]; Alves et al., 2023[8]; Rodrigues, 2022[2]).

Figure 4.18. Rental markets play a limited role also for low-income households

%, 2022, or latest available year



Note: Panel A: Data for the United States are calculated using experimental weights due to the lack of representativeness of the pandemic edition of the ACS. Panel A & B: Tenants renting at subsidized rent are lumped together with tenants renting at private rent in Australia, Austria, Canada, Chile, Colombia, Costa Rica, Denmark, Mexico, New Zealand, Türkiye and the United States, and are not capturing the full extent of coverage in Sweden due to data limitations. Data for Australia, Korea, New Zealand, Switzerland, United Kingdom and the United States refer to 2021, for Norway and Türkiye to 2020, for Canada to 2019, for Iceland to 2018. OECD and EU averages refer to countries for which all tenure types are available.
Source: OECD calculations based on the European Survey on Income and Living Conditions.

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Providing predictable and uniform rental regulations

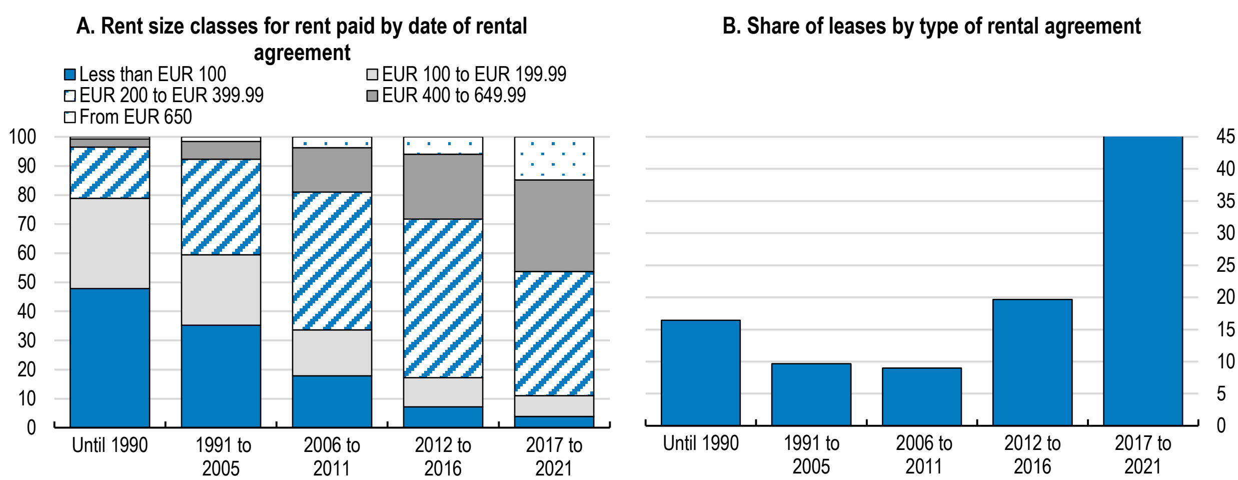
Rental markets have become less regulated over time, but progress has been incomplete. For new contracts, rental regulations are broadly aligned with other OECD countries. For example, landlords can raise rents in line with inflation and end contracts if tenants fail to meet their obligations, and in the case of open-ended contracts, also in case of major renovations, if landlords need the dwelling for themselves, or with five-years advance notice (Table 4.3). However, pre-1990 contracts – accounting for about 15% of active leases in 2021 and decreasing due to the age of tenants – are still rent-controlled and nearly impossible to terminate (Box 4.5) (Figure 4.19). Several reform attempts have failed to align regulations across old and new rental contracts, with planned measures sometimes postponed or later rolled back, which may have fostered a perception of policy uncertainty and deterred investors. Reforms in 2006 and 2012 may have introduced additional regulatory breaks.

Regulatory differences between contracts signed at different times are accompanied by large and persistent discrepancies in rent levels (Figure 4.19). In 2021, 35% of leases signed until 2005 still had rents below EUR 100, while only 4% of contracts signed after 2016 had such low rent levels. Large differences in rent levels create lock-in effects for older tenants and discourage downsizing and residential mobility. Landlords gaining low rent levels on contracts they cannot terminate are also unlikely to invest in their property, aggravating poor quality challenges. The resulting shortage in housing supply in turn makes it more difficult for prospective tenants, often young people, to find rental housing at affordable prices (Franco, Fernanders and Francisco, 2025[57]).

Mapping out how many old contracts remain as part of an ongoing review of rental market regulations and, if applicable, phasing out restrictive regulations by transitioning pre-1990 leases into the Affordable Rental Programme could help create a uniform regulatory framework that balances owner rights with tenant protection and allows for regulatory stability. Such a reform should be informed by a thorough analysis of social and budgetary impacts. By making rental markets more attractive for investors, while ensuring access to affordable housing as well as expanding social housing rather than restrictive rent caps and indeterminate contracts for a subset of leases, would protect sitting tenants and improve access to housing for prospective tenants and those wishing to move (de Boer and Bitetti, 2014[58]).

Figure 4.19. Incomplete de-regulation led to segmented rental markets

%, 2021



Source: INE.

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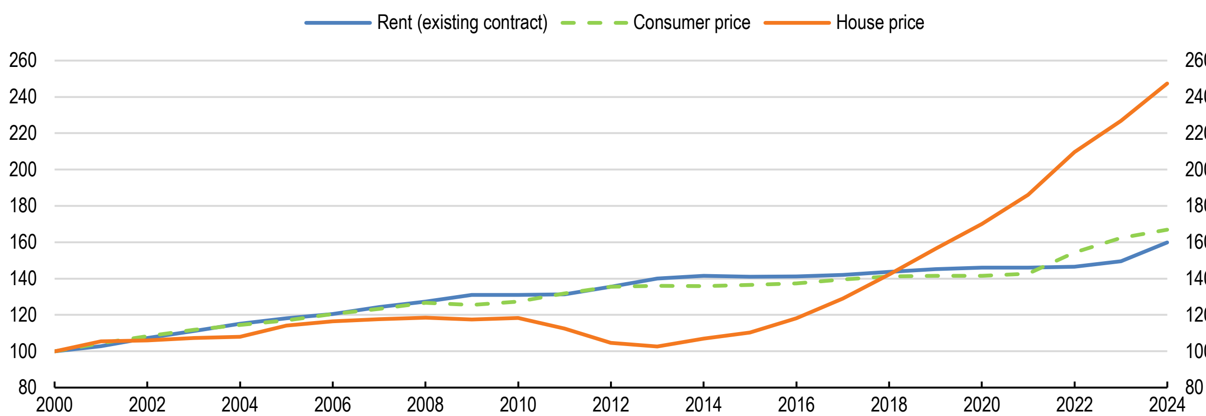
Better aligning rents with market developments

Portugal generally imposes no restrictions for setting rent levels when signing a new lease, although in 2023 rent increases for new leases were exceptionally limited to 2% (Box 4.2). Rents for existing contracts (signed after 1990) can be increased in line with consumer price inflation. Such indexing protects tenants against large rent increases and is applied in several OECD countries (Table 4.3). However, raising rents in line with headline inflation does not reflect increases in input costs for rental markets – notably house prices – and does not account for local developments (Figure 4.20). This can restrict supply especially in areas where high demand is leading to strong increases in house prices. Relatedly, landlords are not permitted to adjust existing rents to reflect increases in costs – including for maintenance and renovations. This increases risks and limits incentives to invest in housing quality or energy-efficiency improving renovations (Section 4.4) (OECD, 2025[59]). Meanwhile, with about 70% of rented dwellings located in houses built before 1990, when energy-efficiency standards were first introduced, renovation needs are high (IHRU, 2023[60]).

Rent setting could be improved to better reflect market developments. Germany, for example, used local reference rents – based on average prices of new leases and rent increases in existing contracts for comparable dwellings – to cap rent increases. This would allow adjusting to market developments while protecting tenants against excessive rent increases (de Boer and Bitetti, 2014[58]). To balance incentives for renovations with security for tenants, countries such as France and Ireland introduced exemptions from indexed rent increases for house upgrades (Whitehead and Williams, 2018[61]).

Figure 4.20. Rent caps could better reflect market developments

Price indices for existing rent contracts versus consumer and house prices, 2000 = 100



Note: Price indices computed as cumulative change based on annual rates of change. Rent price index for existing contracts based on rent adjustment coefficients. Consumer price index based on headline inflation measured as annual average rate of change. House price index captures price changes of all new and existing residential properties purchased by households.
Source: www.portaldahabitacao.pt and Eurostat.

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Tackling informal and short-term rentals

Informal renting reinforces market segmentation, undermines tenant security and can subtract from supply for long-term renting, for example when landlords shift to informal short-term rentals. It can be difficult to detect, with income from both long-term and short-term rentals involving relatively small amounts spread over many taxpayers who are not typically subject to third party remittance or reporting (OECD, 2022[45]). Measures discussed in Section 4.2.2 – to identify and mobilise vacant or underused dwellings – would help to detect and deter informal renting, for example by raising taxation on informally rented dwellings declared as vacant, or by strengthening compliance through more frequent audits. In 2024, Portugal also introduced measures allowing tenants to register rental contacts with the tax authority, which is welcome. Introducing third-party reporting requirements – for example for digital platforms, as recently done in Denmark and France – could further enable the tax authority's ability to detect potential tax evasion (OECD, 2022[45]). Additionally, Portugal could consider requiring registering a tax ID when signing a rental contract, and link information gained from municipalities enforcing vacancy taxes with national tax authorities.

The rise of short-term rentals poses additional regulatory challenges. Relatively stronger regulations for long-term rentals can make it more attractive for landlords to rent dwellings on a short-term basis. In 2023, Portugal prohibited issuing any new licenses for short-term rentals. Measures were revoked in 2024, giving municipalities the power to restrict or suspend issuance of new licenses based on local conditions (República Portuguesa, 2025[37]). As short-term rentals are highly spatially concentrated, allowing for discretion at the local level is welcome (Garha and Azevedo, 2021[19]).

Table 4.3. Rental regulation in selected OECD countries

	Typical minimum rental contract duration	Reasons for the landlord to terminate the rental contract	Legally required notice period for the landlord to terminate the rental contracts	Caps on regular rental increases	Restrictions on increasing rents when costs increase
Australia	No minimum duration – negotiable between landlord and tenants	Varies by province; in general: failure to pay rent; renovation; occupation by landlord; sale of dwelling	Varies by state and type of rental contract	Some states set a minimum period where rental rates cannot change (between 6 and 12 months) and rent rate changes in some states must be accompanied by a minimum period of notice	Landlords can pass on increasing costs from upgrades, maintenance, taxes or financial charges
Canada	In most provinces, landlords and tenants are not required to sign a formal lease and many contracts are month-to-month	Varies by province; in general failure to pay rent; renovation; occupation by landlord; sale of dwelling	Varies by province and type of rental contract from minimum 7 days to maximum 120 days	Rent can be increased by a designated amount for sitting tenants annually. In some provinces rent can be increased by any amount for sitting tenants once or twice per year. In most private rental housing, rent can be increased by any amount when tenants vacate the property, and a new household moves in.	In certain circumstances, and especially in some regions of Canada landlords can pass on their increased costs, including for upgrades, through rent
Czechia	12 months	Varies by province; in general: failure to pay rent; occupation by landlord	3 months	Rent increases for existing contracts and in case of renovation are limited to 20 % in 3 years	Landlords can pass on increasing costs for upgrades based on negotiations and up to a limit of 20% over three years
Finland	12 months	Failure to pay rent; renovation; occupation by landlord; sale of dwelling	3 months	Landlords may increase rent levels as they wish; rents are typically increased annually based on index	Landlords can pass on increasing costs from upgrades, maintenance, taxes or financial charges, typically once a year
France	36 months	Failure to pay rent; occupation by landlord; sale of dwellings	6 months	Rent level increases are indexed; index corresponds to average evolution over last twelve months of consumer prices excluding tobacco and excluding rents	Rental caps are not applied in case of renovations
Poland	6-12 months	Failure to pay rent; renovation; occupation by landlord	1 month	Rent increases are typically made after end/renewal of the contract; no more than once in six months	Increase of rent or other charges higher than 3% of replacement value per year requires justification, i.e. to cover expenses for maintenance; ensure return of capital, or cover inflation
Portugal	**12 months**	**In general, failure to pay rent and other breaches of contract. Additionally: for fixed-term contracts, end of term without renewal; for open-ended contracts, renovation works, housing need of the landlord, or by a five-year advance notice**	**4 months (maximum early notice term for fixed-term contracts) to 12 months (in renewable fixed-term lease contracts, the landlord's refusal to renew the contract only takes effect after 36 months of contract duration)**	**Rent can be increased based on annually published coefficients**	**Landlords are not allowed to increase rents when costs increase**

Spain	No minimum duration, but tenant can freely extend the contract during the first five to seven years	n.a.	n.a.	Rent caps are applied in designated stressed areas declared by regional authorities; it is not allowed to increase rent for improvements during the first five to seven years of new contract unless tenants agree	It is not allowed to increase the rent for improvements during the first five years of the contract (or seven years if the landlord is a legal entity), unless it is by agreement between the parties

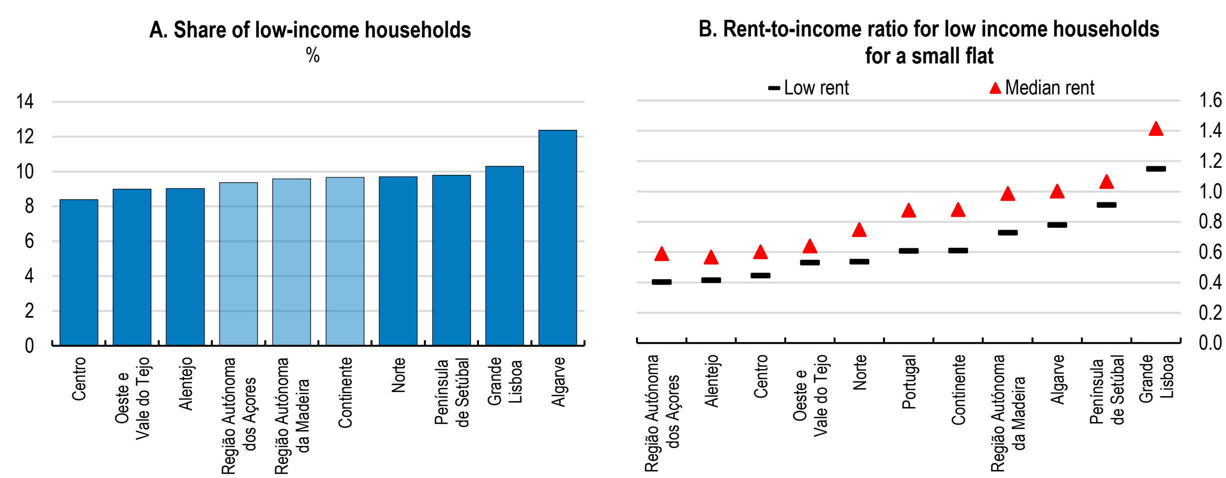
Source: OECD Questionnaire on Affordable and Social Housing (QuASH) (2021).

4.3. Improving housing support for vulnerable groups

As in other OECD countries, many people cannot afford adequate housing at market prices (OECD, 2021[6]; OECD, 2023[62]). Households with very low incomes and those living in dynamic metropolitan and touristic areas are particularly affected. In many Portuguese regions, rental costs for a relatively small flat would consume most of – and in metropolitan Lisbon even exceed – their net income (Figure 4.21). The share of overburdened low-income households is correspondingly high (Figure 4.22, Panel A). In addition, Portugal appears to exhibit a "missing middle", i.e. low- to middle-income households who are not eligible for social housing but who cannot afford adequate housing at market prices (Figure 4.22, Panel B and C) (OECD, 2023[63]). Owners with a mortgage, who accounted for 28% and 35% of households in the second- and third income quintile in 2022, seem to be particularly affected (OECD, 2025[59]). Providing targeted support to low-income households as well as promoting the development of social and affordable housing will be key to complement policies improving housing market functioning.

Figure 4.21. Many poor households cannot afford to rent even at low market prices

2022



Note: Panel A: Bars in light blue correspond to subdivision NUTS1 (National); Bars in dark blue correspond to subdivision NUTS2 (Regions). Panel B: a small flat is defined as the half of an average sized flat, corresponding to 112 sqm.
Source: OECD calculations based on INE data.

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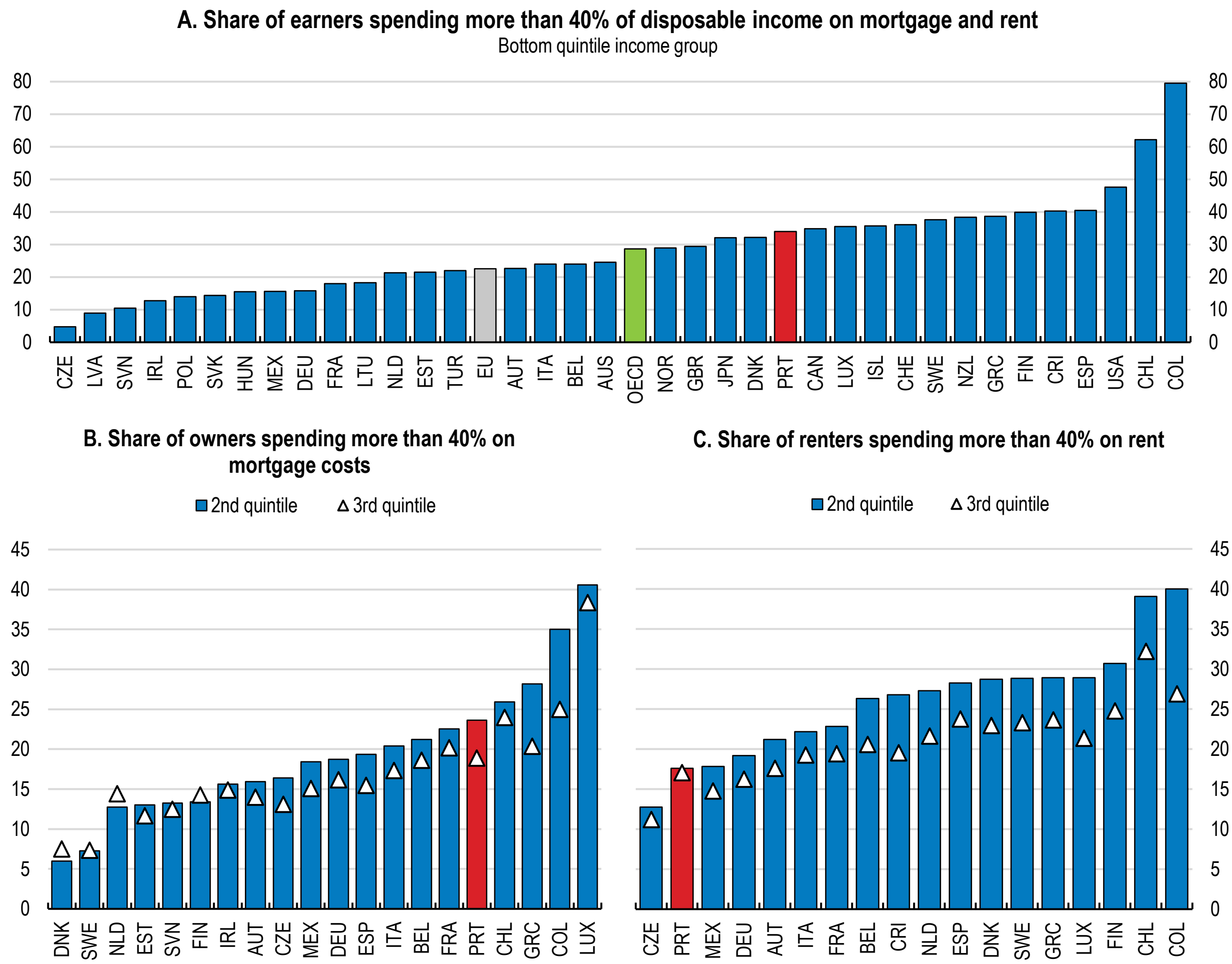
Figure 4.22. Households with low to middle incomes are overburdened by housing costs

%, 2022, or latest available year



Note: Panel A: The OECD aggregate corresponds to the simple average of the OECD countries. The EU corresponds to the composition of European Union as of 2020. Housing costs are considered as a share of household disposable income, which includes social transfers (such as housing allowances) and excludes taxes. Panel B: Includes mortgage principal repayment and interest payments; Panel C: Includes private and subsidised rent.
Source: OECD Affordable Housing (database).

StatLink https://stat.link/6v4fy1

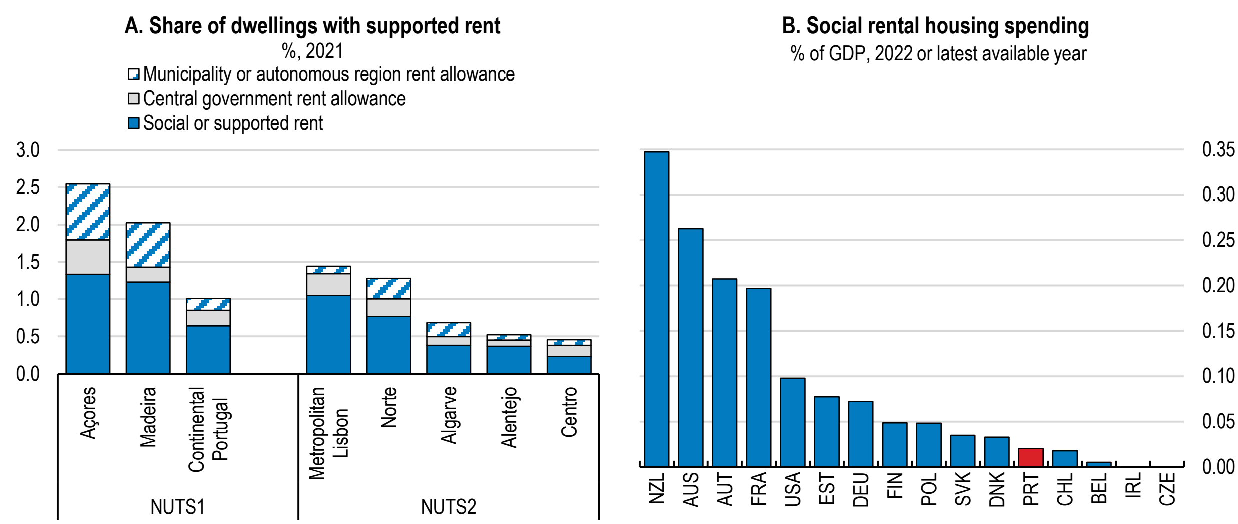
4.3.1. Providing more social and affordable housing

Portugal's social housing stock is small. Social housing accounts for a much lower share of the housing market than the OECD average (Figure 4.23). Historically focused on supporting the poorest households, access is managed through waiting lists that imply long delays. In Porto, for example, average rents for social housing correspond to one fifth of average rents in the city. With about 1000 families applying for 300 available flats per year, they need to wait on average over 3 years to get access.

Low public investment over decades has contributed to the shortage. Although public spending in housing has increased in recent years, it remains low. In 2022, Portugal spent only about 0.1% of GDP on social housing (Figure 4.23). Recovery and Resilience Plan (RRP) funding of over EUR 1.2 billion is expected to provide housing for around 26,000 households by 2026 through construction and purchasing and renovating existing dwellings (European Commission, 2024[64]), a welcome step but still far below the scale needed to significantly reduce waiting lists. Indeed, municipalities have identified more than 125,000 households living in conditions of housing deprivation (IHRU, 2023[65]). For comparison, catching up to the average share of social housing in OECD countries which, like Portugal, use a targeted approach – with a comparatively small stock aimed at very low income households – would require about seven times the increase foreseen in the RRP (OECD, 2020[66]).

Municipalities will need to play an important role in scaling up provision but many lack the means to do so. While they provide the bulk of social housing today (84%) (Figure 4.23), their investment capacity and administrative capabilities vary widely. National support through loans and grants has been helpful, but to meet future targets, the central government should consider setting municipal level investment targets based on local housing needs and existing supply. To avoid crowding out other housing, targets could prioritise newly constructed social housing (Boulhol, 2011[67]). Such targets should be accompanied by sustained funding and technical assistance. This could be supported by plans to introduce an Emergency Housing Fund, financed by allocating 25% of stamp duty revenue to housing support. The current legal framework allows municipalities to require developers to allocate parcels of land to social and affordable housing, comparable to what is done in cities like London, New York, Paris, and Vienna (OECD, 2023[68]). With several actors involved in providing housing support, coordination between national and local providers will be key to ensure that all those in need are reached, avoid overlaps, and facilitate assessing the effectiveness of programmes.

Figure 4.23. Portugal’s social housing stock is small and spending is low



Note: Panel A: Conventional dwellings rented of usual residence (No.) by Geographic location at Census date [2021] (NUTS - 2013). Panel B: Data for Australia, Czechia and the United States are based on the fiscal year, rather than the calendar year. GDP is adjusted to reflect this. Data refer to 2022, except for Poland (2023); Czechia and the United States (FY 2022-2023); Australia (FY 2021-2022); Austria and Germany (2021); New Zealand, Estonia, Denmark, and Belgium (2020), Ireland (2019); France (2018); Finland (2017). GDP data for Czechia, Poland and the United States are estimated using approximations from the OECD Economic Outlook. For France, the figure represents spending by national government only, even though other levels of government also contribute to the financing of social housing; these amounts were not available.
Source: Panel A: INE; Panel B: OECD Affordable Housing (database).

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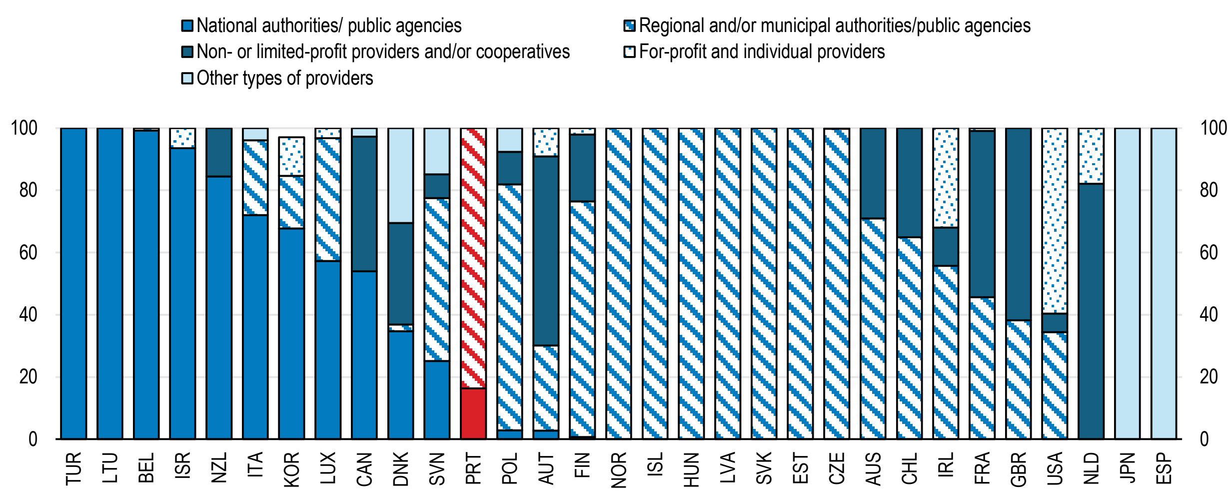
Improving the use of the existing stock will be essential for equity and efficiency. In much of the country, eligibility criteria for social housing are not reassessed systematically and rents are not regularly updated, even when a tenant’s financial situation improves (OECD, 2025[59]). In Porto, for instance, surveys are conducted but leases are not terminated when tenants no longer qualify. In Lisbon, contracts are supposed to be reviewed every three to five years, but enforcement is unclear (Camara Municipal de Lisboa, 2012[69]; Camara Municipal de Lisboa, 2013[70]). Very low rent levels thereby imply high fiscal costs for providing social housing (Republica Portuguesa, 2025[71]), meaning fewer resources are available for adding new capacities. OECD countries such as Belgium, Czech Republic, or Latvia regularly review eligibility criteria to terminate the lease if conditions are no longer met. While this frees up limited capacities for those most in need, potential costs entail disruptions for previous tenants as well as the risk of overconcentration of deprivation in social housing. The government is currently reviewing eligibility criteria and rent adjustments for social housing. To preserve leases for tenants who may no longer qualify but increase revenues from social housing, which can be used to re-invest in expanding capacities or covering operational costs, it could consider following OECD countries such as Canada, Poland, Japan or France to enforce regular reassessments of eligibility conditions and, if applicable, adjust rents (OECD, 2025[59]). In either case, such measures should be designed carefully to avoid adverse work incentives or undermining the social mix.

Municipalities such as Lisbon and Porto have started to additionally provide affordable housing. These programs aim to reach the "missing middle" (Lisboa Camara Municipal, 2023[72]) excluded from both social housing and private rental markets. In Lisbon and Porto lottery-based schemes now offer price controlled five-year rental contracts to eligible applicants. Around 6800 households are expected to be covered by 2026 under the Recovery and Resilience Fund (European Commission, 2024[64]). While helpful additions, these efforts will need to be scaled up and better integrated with broader housing policy.

Leveraging private and non-profit actors could help expand social and affordable housing more sustainably. Portugal lacks a tradition of limited profit housing providers, which play a crucial role in other OECD countries - e.g. in Austria, Canada, Denmark (Figure 4.24). In Austria and the Netherlands, such actors deliver most affordable housing. Setting up such schemes at scale would, however, take a long time. To broaden supply and reduce reliance on public social housing construction in the longer term, Portugal could pilot revolving funds, e.g. by setting up a scheme as a "proof of concept", which have proven successful to develop affordable housing in several OECD countries (Box 4.6) (OECD, 2023[63]). Portugal could also pilot tax incentives, as seen in the United States to crowd in private investment.

Figure 4.24. Municipalities are currently the main providers for social rental housing

Share of total social renting stock by providers, %, 2022



Source: OECD Affordable Housing (database).

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Box 4.6. Support for private social and affordable housing in selected OECD countries

Several OECD countries support the provision of affordable and social rental housing by non- or limited profit providers through financial support.

- In **Austria**, development and maintenance of the social housing stock is supported by revolving funds. Approximately 40% of a typical project is financed through bank mortgage loans, with the remainder financed through public loans at favourable conditions and equity contributions from housing associations. The Limited-Profit Housing Act sets out the key governance principles for housing associations, including a limitation of nominal capital paid out to shareholders of 3.5%, a calculation of prices based on actual costs, a continuous reinvestment of capital and a regular audit of the efficient use of resources. Core activities of housing associations are exempted from corporation tax. The business model is based on cost-recovery and re-investment of surpluses into new construction or renovation. This means that a housing association is legally required to charge the cost it takes to build and maintain a house.
- In **Denmark**, the National Building Fund provides social and affordable housing as an independent institution outside the state budget. Funding is based on a share of tenants' rents in addition to housing associations' contributions to mortgage loans. A share of tenants' rent is used to pay off the housing agency's mortgage loan for the first approximately 30 years, at which point the share is allocated to the state for another ten years. Once this period is over, the share is allocated to the National Building Fund. Approximately one-third of the Fund's resources are used to support the construction of new social housing. Municipalities approve rent schemes, administer rent subsidies, organize the production and maintenance of schemes, and have a key role in monitoring and regulating associations. They also decide whether housing associations can build in their municipality and which types of dwellings will be built.

In some countries, for-profit providers of social and affordable housing are common and are supported through tax incentives.

- In the **United States**, the development of social housing units through private investors is supported through the Low-income Housing Tax Credit programme (LIHTC). Participating developers are offered an annual income tax credit of either 30% or 70% of their project's costs spread over a ten-year period. The extent of the reduction is determined by a set of criteria linked to the project's scope. Larger credits are applied to new construction or substantial rehabilitation and smaller credits are applied to properties acquired for rehabilitation and for projects funded using tax-exempt bonds. To qualify, owners or developers must ensure that sufficient shares of tenants earn below specified income thresholds and must rent the units at below-market rates over a 15-year period.

Source: Adapted from (OECD, 2020[66]), (OECD, 2023[63]) and (OECD, 2022[45]).

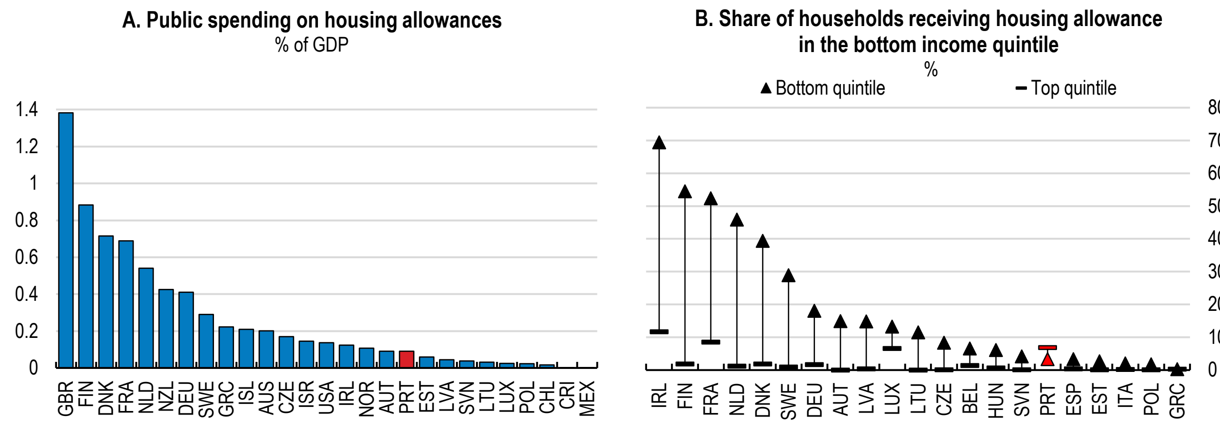
4.3.2. Expanding and better targeting housing allowances

With the stock of social and affordable housing still limited and only gradually expanding, housing allowances play an important role in helping low- and middle-income households afford rental payments and in supporting the development of the rental market. Portugal offers several housing allowance programmes that contribute to rent payments (Box 4.7). However, overall spending on housing allowances as well as the share of recipients is low and targeting appears weak. In 2022, a larger share of upper income households received support compared to low-income households (Figure 4.25). Most existing programmes are available for households with gross annual incomes above EUR 40,000, even though 80% of tax households earned below EUR 28,650 in 2022 (INE, 2024[16]). The newly introduced PAER programme, which is automatically granted based on tax data and runs until 2028, expanded coverage to 5.7% of all households in 2023 (Box 4.7).

To ensure equitable support, housing allowances for vulnerable households should be increased and better targeted. A review of existing programmes is needed to simplify the system, focus benefits on lower income households and ensure that support levels are adequate to meet housing costs. One point could be the introduction of housing vouchers for private rentals, as done for example in Belgium and Lithuania, while social housing is being expanded (OECD, 2023[68]). Any expansion of housing allowances should be coordinated with measures to boost housing supply, as poorly targeted subsidies in a tight housing market risk driving up house prices and rents, disproportionally benefitting landlords who capture a significant share of the subsidy through increased rents (Chapelle, Arumi and Gobbi, 2023[73]).

Figure 4.25. Spending on housing allowances has been low and poorly targeted

2022



Source: OECD Affordable Housing (database).

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Box 4.7. Portugal’s housing allowance programmes

Authorities initiated several programmes to support vulnerable households struggling to pay housing costs. All housing allowance programmes are thereby aligned with other social benefits, and data on total income is cross-referenced via the Tax Authority and social security. Allocation of support is reassessed annually.

The **Porta 65 – Youth Programme (P65)** covers a share of the rent for up to 5 years, with support decreasing gradually over time. The programme is targeted towards young people, aged between 18 and 35 years old, whose monthly income is less than four times the national minimum wage (corresponding to EUR 3280 in 2024). Conditions apply, regarding for example the size and rent of the dwellings. In 2023, 28 133 young people received support.

The **Porta 65+ Programme** covers a share of the rent for up to 5 years, with support decreasing gradually over time. It is targeted to single-parent families or households who experienced an income reduction of more than 20% compared to the reference period, accounting also for income reductions due to changes in the household composition. The household income of applicants must be in the six lowest tax brackets (corresponding to up to EUR 41 629 annual income in 2024).

The **Extraordinary rent support Programme (PAER)** provides monthly financial support of up to EUR 200 to aid with rent payments. The programme is targeted to families whose previous rental contract had been terminated by the landlord, whose income is in the six lowest tax brackets (i.e. up to EUR 41 629 annual income in 2024), and whose rent payments account for at least 35% of disposable income. Support, which is paid automatically based on information from the Tax Authority, will be provided until end-2028. 236 862 families received support in 2023.

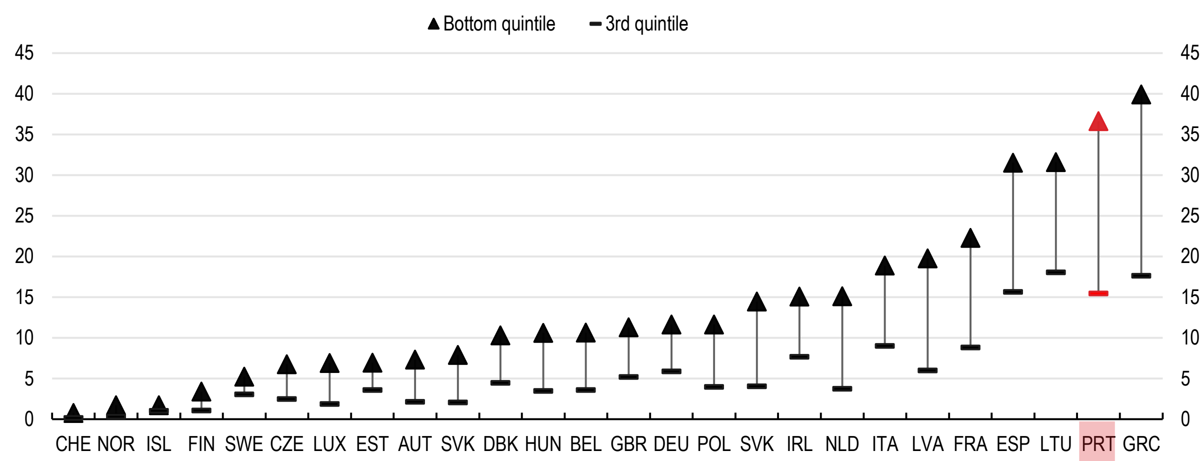
Source: (República Portuguesa, 2025[37]).

4.4. Upscaling energy renovations to improve housing quality and cut emissions

Portugal must significantly accelerate energy renovations to meet climate goals, cut emissions and improve housing quality, especially for the energy poor. Energy poverty is among the highest in the EU. While particularly affecting low-income households, energy poverty extends well into medium income groups (Figure 4.26). High energy poverty does not appear to reflect high energy costs. Rather, it can be explained by low housing quality and a lack of modern heating, ventilation and air conditioning systems in many buildings that prevents people from properly heating or cooling their homes (República Portuguesa, 2021[74]). Indeed, poor housing quality has been recognised to pose severe health risks to the population, notably during winter (República Portuguesa, 2021[74]). Meanwhile, prices for gas and electricity are similar or even lower compared to other EU countries, and households overall spend relatively little on heating and cooling their homes (Figure 4.26, Panel A, C and D). Meanwhile, energy demand for cooling – which currently accounts for about 1% of final energy consumption in housing in Portugal – is set to increase significantly with continued global warming (Chapter 3) (SATO, 2025[75]). By 2050, cooling may account for up to 9% of residential energy use in the EU on average, with likely much higher shares in Portugal (EEA, 2022[76]). Energy renovations can improve housing quality and upgrade heating and cooling systems, while helping to contain energy costs as emission pricing is extended to the housing sector (Chapter 3).

Figure 4.26. Low housing quality contributes to high energy poverty

Share of households that cannot afford to keep dwelling adequately warm, by quintiles of disposable income distribution, %, 2022 or latest year available



Note: Data refer to 2021 for Switzerland, 2020 for Norway and 2018 for Iceland and the United Kingdom (no data available for the United Kingdom after 2018 due to data limitations). No data available for Australia, Canada, Chile, Colombia, Costa Rica, Israel, Japan, Korea, Mexico, New Zealand, Türkiye or the United States due to data limitations.
Source: OECD calculations based on European Survey on Income and Living Conditions (EU-SILC).

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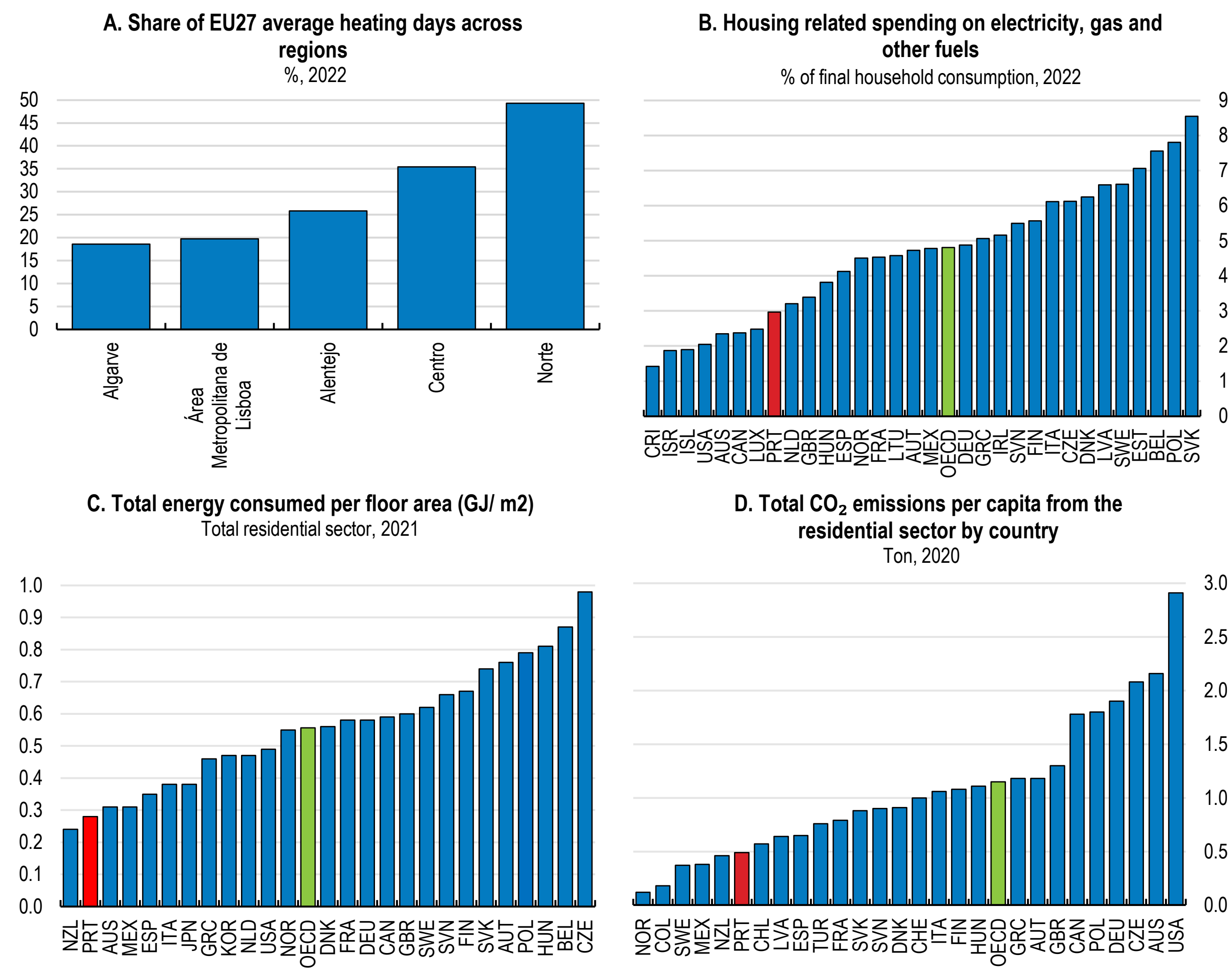
The current pace of renovations is too low to meet Portugal's climate ambitions. Complying with the EU's 2024 Energy Performance of Buildings Directive (EPBD) will require reductions in primary energy consumption in residential buildings from 2020 levels by 16% in 2030 and by 20% in 2035, mostly by improving the energy efficiency of the worst performing buildings (European Commission, 2025[77]). This requires raising the renovation rate from currently less than 2% to 3% of the floor area (República Portuguesa, 2025[37]). An even faster pace may be needed to reach 2050 targets. The 2021 Long-term Renovation Strategy aims to achieve a net zero building stock by 2050 (República Portuguesa, 2021[78]). Most buildings may need to be renovated to achieve this goal. According to the latest available data, 12.4% of dwellings that have been issued an energy performance certificate exhibited a high energy performance that would be consistent with a net zero building stock (República Portuguesa, 2021[74]; República Portuguesa, 2021[78]). Renovation needs may however be higher, as many older buildings have not been issued a certificate yet. Indeed, three quarters of buildings have been constructed before energy-efficiency standards were introduced in 1990 and are likely to have very low energy performance. Assuming that all buildings built before 2013 – when stringent energy efficiency standards were introduced – would need to be renovated implies an annual renovation rate of about 228 000 dwellings, or 3.8% of the building stock, from now until 2050 (República Portuguesa, 2021[78]).

Figure 4.27. A warm climate contributes to low energy demand and emissions from buildings



Note: Panel A: Data for the Área Metropolitana de Lisboa, Alentejo and Centro refer to NUTS 2021 definition. Data for the autonomous regions of Madeira and Acores are missing. Panel B: Data refer to 2021 for Norway. Panel C: Data refer to 2019 for Slovenia. OECD is an unweighted average of the available countries, shown in the figure. Panel C & D: A selection of OECD countries is shown.
Source: Panel A: Eurostat; Panel B: OECD Annual National Accounts Database; Panel C & D: IEA (2021), Energy Efficiency Indicators Database; and IEA (2021), Emission Factors Database and OECD calculations.

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Boosting renovations requires a comprehensive policy mix (D'Arcangelo et al., 2022[79]). Setting a clear and predictable regulatory path for renovations obligations in line with climate targets would give owners and contractors times to anticipate renovations. Expanding targeted financial support will be needed to address high upfront costs for renovations and enable lower-income households to meet renovation obligations. Finally, additional measures will be needed to address renovation obstacles for rented and multi-owner housing and overcome information gaps.

4.4.1. Setting out a clear and predictable regulatory path

The government is planning to raise awareness about renovation needs through a renovation passport. A renovation passport provides a tailored roadmap to significantly improve energy performance either at once, i.e. through a deep renovation, or in steps. Such information is important to complement energy performance certificates (EPC), which provide information about how energy-efficient a building is at present. In Portugal, EPCs need to be issued for all new buildings, as well as for existing buildings that are being sold or rented. EPC quality and roll-out – certificates issued until 2023 covered about 40% of the building stock – are more advanced than in most EU countries (Carvalho et al., 2024[80]). Introducing renovation passports is an effective way to build on this successful implementation of EPCs to trigger more deep and staged renovations while optimising energy savings (BPIE, 2023[81]).

However, even with renovation passports owners are still uncertain if and when dwellings must be renovated. Like most OECD countries, Portugal currently imposes no mandatory energy-efficiency minimum standards for existing residential buildings, while EPCs are mandatory for owner-occupied buildings only if they are sold or rented. Newly constructed buildings must meet stringent nearly-zero energy and zero emissions standards. Such standards can add up to 15% to construction costs, thus adding to the challenge to provide affordable housing (Republica Portuguesa, 2025[71]). To meet current ambitions for a net zero building stock, many dwellings will likely need to be renovated that will not be sold or rented. Aligning regulations with renovation needs to meet climate targets would give households and investors policy certainty. This could involve expanding requirements to have an EPC, so as to better identify and prioritise the worst-performing buildings; aligning recommendations on renovation passports with long-term targets, so as to inform households about which investments, if any, are needed; and setting out a timeline of minimum energy efficiency standards also for existing buildings to clarify by when those works need to be implemented (BPIE, 2023[81]). Portugal could follow other OECD countries in mandating renovations for the worst performing residential buildings when being sold or rented (Box 4.8). Given regional differences in heating needs (Figure 4.27, Panel A), regionally differentiated standards taking into account local and climatic conditions could help to prioritise renovations where the potential for energy savings and addressing energy poverty is highest (ESSC, 2022[82]).

Box 4.8. Minimum energy performance standards in the United Kingdom and France

Several OECD countries impose minimum energy performance standards (MEPS) for residential buildings – alongside requirements for public and commercial buildings – to increase renovation rates.

England and **Wales (UK)** require privately rented dwellings to achieve an Energy Performance Certificate (EPC) level of at least C by 2025 (scoring from A to G), and by 2035 for owner-occupied housing. EPCs are assessed when selling or rending a real estate, and enforcement is done by local authorities who can impose fines for non-compliance.

Scotland (UK) imposes similar MEPS but further differentiates deadlines for single- and mixed-use housing, requiring mixed-use housing to achieve ECP level C by 2045 (scoring from A to G), as opposed 2028 for private rented housing and 2033 for owner-occupied housing. Enforcement is again done by local authorities, while EPC standards need to be achieved when selling or renting the property, after major renovations, or when installing new heating systems.

France imposes MEPs for privately rented dwellings. Since 2023, only dwellings achieving an energy efficiency below 450 kWh/m2 are allowed to be rented. Enforcement is done through a cooperative approach involving local authorities as well as real estate professionals and energy companies, and fines for non-compliance may reach up to EUR 7 500.

Source: (ESSC, 2022[82]).

4.4.2. Expanding and targeting financial support

Financial support for renovations has been low. Lack of financing schemes to leverage private investment has been cited as a major impediment to boosting renovations (European Commission, 2023[83]). Current funding appears to fall short of high investment needs. For example, while the Recovery and Resilience Fund dedicates EUR 300 million to energy renovations for residential buildings, investment needs to fully transform Portugal's building stock are estimated at EUR 4.95 billion per year (about 2% of GDP in 2024) (OECD, 2023[84]; European Commission, 2023[83]). Previous financial support programmes for renovations, such as the energy efficiency voucher programme (PAE+S), were targeted at low-income households, but covered only a small share of renovation costs, and take up was low (OECD, 2023[84]). Most financial support programmes ended in 2024 and the government is currently devising new programmes (República Portuguesa, 2025[37]). Portugal has a reduced VAT on housing maintenance. While this reduces renovations costs in general, targeting support towards energy renovations and low-income households would be more effective (Chapter 1).

Financial support should be significantly expanded, while part of the support should be targeted on deep renovations. Many older buildings may require comprehensive works – such as covering walls, roofs, floors, windows and heating systems. Deep renovations – i.e. achieving the highest energy-efficiency level at once or through a roadmap – are often more effective than a series of disconnected renovations that are more difficult to plan and make lock-ins more likely (BPIE, 2021[85]). Meanwhile, high upfront costs may deter many households from opting for comprehensive renovations. In Belgium, for example, cost estimates for deep renovations range from EUR 30 000 to EUR 75 000 for most buildings (Albrecht and Hamels, 2021[86]). Expanding loan support, while making the level of support conditional on energy savings achieved, would help to promote deeper renovations. However, with homeownership widespread also among low-income households – about 65% of households in the bottom income quintile were owner-occupiers in 2022 – many may struggle to repay subsidised loans over conventional periods. To be able to invest in deep renovations, such households may require financial support with sufficient grant components. Grant support be carefully designed to target low-income homeowners and avoid landlord capture. Landlord capture could occur for example if landlords were able to raise rents after subsidised energy renovations, thus offsetting some or all of the tenants' gains from energy savings.

4.4.3. Addressing remaining renovation obstacles

Many homeowners or landlords may be unaware of financial benefit of renovations, available support programmes, or find renovations too difficult to plan. Lack of information may be a particular problem for older homeowners and in rural areas. Establishing one-stop-shops would make information more easily accessible and help streamline renovations. One-stop-shops can serve as a single point of contact to provide comprehensive services related to all aspects of energy renovations, e.g. from obtaining an EPC to planning renovations and obtaining financing to finding contractors (Iafsco, 2024[87]). They can be particularly suitable to reach low-income households. For example, Barcelona's Energy Advice Points mobilised long-term unemployed to staff one-stop-shops which – in addition to providing information on energy renovations – also offer assistance for managing energy bills and reduce energy consumption (Ajuntament de Barcelona, 2025[88]).

Complementary measures could help address renovation obstacles for rented property and multi-owner buildings (ESSC, 2022[82]). Renovations can be more difficult to implement if the decision to renovate involves several owners – as with multi-owner buildings – or if those deciding and paying for the renovation differ from those benefitting through energy savings – as for rented property. Such split incentives are common. About 41% of dwellings were in multi-owner buildings in 2021 (OECD, 2023[89]), while about 22% of dwellings were rented (INE, 2024[16]). To facilitate decision-making among multi-owner buildings, Portugal could consider revising voting requirements. As in many OECD countries, Portugal requires a two-third majority among owners to agree on building works. Following Austria, which recently relaxed voting requirements from a two-thirds to a simple majority, could make it easier to find agreement (Hoeller et al., 2023[90]). Promoting loan support for on-bill financing schemes – where funds to invest in renovations are financed through future energy savings – may be particularly suited for multi-owner and rented properties as they reduce initial investment costs (Economidou, Todeschi and Bertoldi, 2019[91]).

Table 4.4.Policy recommendations

MAIN FINDINGS	RECOMMENDATIONS (key ones in bold)
Making building regulations more investment friendly	
Processes for obtaining building permits are often complex, lengthy and vary across municipalities. This delays housing development and discourages private investment.	**Simplify and harmonise building permitting procedures across municipalities as planned by expanding digital platforms and simplifying approval rules with clear maximum timeframes.**
Implementation of recently introduced tacit approval mechanisms to accelerate permitting remains uneven and adds to investor uncertainty. Similar rules in other domains showed limited effectiveness.	Clarify and enforce permitting timelines and tacit approval rules through strengthened administrative capacity, legal safeguards and digital tracking systems.
Rigid spatial planning rules limit the timely release of buildable land in high demand areas. A simplified regime focusing on social and affordable housing was recently introduced, but complex requirements remain for conventional projects, and there is a risk of urban sprawl.	Conduct a comprehensive review of spatial planning rules to identify bottlenecks to expanding land supply in high demand areas.
Reforming housing taxes to improve equity and dynamism	
Outdated tax property values reduce revenues from recurrent property taxes, distort investment decisions and favour long-time homeowners. High transaction taxes on housing discourage downsizing and mobility.	**Gradually shift the tax burden from transactions to recurrent taxes on immovable property, including through regular updates of taxable property values to reflect market prices.**
Recent large housing wealth gains have gone largely untaxed due to capital gains exemptions for owner-occupied homes. This limits the progressivity of the tax system and reduces potential revenues.	Reduce capital gain tax exemptions for owner-occupied properties, for example by capping exempted gains.
Many dwellings remain vacant or are used only seasonally, even in high-demand areas. Existing aggravated recurrent property tax rates have been ineffective due to limited enforcement by municipalities, outdated tax values and narrow definitions of vacant property.	**Gradually raise taxation and increase the use of aggravated rates on underutilised dwellings by updating tax values, broadening vacancy definitions, and strengthening enforcement of vacancy declarations by municipalities in high-demand areas.**
Developing private rental markets	
Portugal's rental market remains small, at 12% of households, and an estimated 60% of rental contracts are unregistered. Low formal rental supply reflects a legacy of tight rental regulations and frequent legislative changes undermining investor confidence.	Revise rental regulations to create a unified and stable rental framework that balances landlord and tenant rights and strengthens investor confidence and consider committing to a moratorium for new legislative changes to signal regulatory stability. Assess the social and fiscal impact of phasing-out tightly regulated contracts to inform the reform.
Rental indexation rules based solely on consumer price inflation fail to reflect local housing market developments, rising maintenance and renovation costs or quality improvements. This discourages investment in rental housing and limits incentives for energy efficient upgrades.	Base rent indexation on local rent indexes and allow for exemptions in case of renovations.
Improving housing support for vulnerable groups	
Despite recent investments, the social rental housing stock remains small and waiting times for people in need are long and can exceed several years, particularly in urban areas.	**Expand the social rented housing stock by increasing investment, ensuring adequate funding for construction and operation, and setting targets aligned with local housing needs.** Strengthen ongoing efforts to conduct an inventory of public properties that can be made available for social housing.
Eligibility for social rental housing is not regularly reassessed and rents are not regularly adjusted for inflation or income changes. This can result in households no longer meeting criteria remaining in social housing, limiting availability for those in need.	Reassess eligibility to social rental housing regularly and increase rents based on income, while ensuring appropriate protection for vulnerable households.
Housing allowances are poorly targeted, and support levels are often insufficient to allow access to adequate housing.	**Improve the targeting and adequacy of housing allowances and regularly review benefit levels to ensure they meet housing costs.**
Upscaling energy renovations to improve housing quality and cut emissions	
Housing quality is poor and energy poverty high, despite a generally warm climate. Building regulations and energy efficiency standards are noy yet aligned with Portugal's climate targets. A lack of clear regulatory pathway limits predictability for owners and developers, slowing the pace of renovation.	Set out minimum energy efficiency standards for existing buildings aligned with national climate targets to promote renovations where the potential for energy savings to cut emissions and address energy poverty is highest.
Lack of financial support has been a major impediment to accelerate renovations, especially for low-income households. High upfront costs deepen affordability challenges.	Expand targeted financial support for energy renovations by adjusting support levels with renovation depth and ensuring that grant components allow low-income households to undertake deep renovations.
Many homeowners and landlords are unaware of available financial benefits from renovations, available support programmes, or long-term benefits of energy upgrades. Planning difficulties hinder renovations.	Establish one-stop-shops to make information more accessible and streamline access to renovation programs and conduct public information campaigns to boost uptake of support measures.

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Portugal's economy has been outpacing the euro area average since 2022. The unemployment rate has declined, while public debt relative to GDP fell significantly. Rising disbursements of the Recovery and Resilience Funds in 2026, continuous employment gains, and recent structural reforms are all expected to support growth. However, significant challenges lie ahead. Sustaining primary surpluses and preserving public investment are essential to maintain the debt-to-GDP ratio on a firmly declining path. This requires shifting the structure of public spending towards investment, reducing spending pressures from population ageing, and reducing inefficient tax expenditures. Strengthened vocational education and training, as well as better training support for older workers, are needed to fully mobilise the working-age population, ease labour shortages and strengthen skills. Boosting competition in services sectors and maintaining investment would raise labour productivity and support sustainable gains in living standards. More consistent pricing of carbon across the economy and broader insurance coverage for natural risks would make growth more sustainable and support adaptation to a warming climate. Improving housing affordability requires structural reforms to streamline permitting procedures and spatial planning, improve efficiency and equity of property taxes, and strengthen targeted housing support for vulnerable households.

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