

Portugal: Strong Southern European performance, and plenty of work ahead

After joining the European Community in 1986, Portugal experienced a period of real convergence with its European partners until 2000. Since then, with the single currency, its economic performance deteriorated to the point that, after the 2008-10 crisis, it had to call upon external aid to meet its commitments. Today Portugal grows below the E.U. average, it is not competitive, and it is one of the most indebted member states, heavily dependent on the external sector - tourism in particular.

Despite this economic context, Portuguese elites have a middling score (rank 14th) in the group of the sampled countries, ranking better than others in southern Europe such as Italy (rank 17th) or Spain (rank 18th) and even better than France (rank 15th). This could be a catalyst for a new phase of real convergence with the E.U., already initiated before the current pandemic crisis, but which has caused a major setback in such endeavour.

However, this overall score hides great disparities in the four Index Areas, revealing a better performance in terms of Value Creation by the economic elites (iv, rank 10th) and worse in terms of Political Value (iii, rank 25th).

Emphasis should be placed on the good performance in terms of *Trade freedom* (TRF, iv, 10, rank 6th), *Barriers to entry* (BTE, iv, 10, rank 7th), foreign direct investment attraction (FDI and BTF, iv, 10, rank 7th and 1st, respectively) and *Economic globalization* (EGL, iv, rank 6th). These results are in line with the fact that Portugal is a small economy open to the exterior, that promoted a series of privatizations (SOE, iii, 9, rank 9th) and a "golden visa" programme as a form of external financing. The country has also been able to attract several technological investments due to the competitive value of its qualified labour.

Despite the good performance in terms of Economic Value, there are still great opportunities for improvement such as unemployment (EMU, iv, 12, rank 22nd), and in particular *Youth unemployment* (YUN, iv, 12, rank 20th), and the health care services (DHC, iv, 10, rank 20th). The covid-19 pandemic crisis has made the need to correct the weaknesses of the health system all the more evident.

The worse performance in terms of Political Value stems from significant regional disparities (REG, iii, 7, rank 25th), the low quality of public services (GPS, iii, 7, rank 19th), the huge corporate tax burden (DCT, iii, 7, rank 25th), all which contribute to the weak competitiveness of the Portuguese economy and low level of investment along with the high and extractive general tax burden (DTR, iii, 7, rank 21st). In this respect, the mediocre nature of public expenditure (DBT, iii, 9, rank 29th), which represents a strong extraction of value from future taxpayers' generations, should also be highlighted.

As for political and the economic power, Portugal outperforms the average of surveyed countries. Small countries are often at risk to be at the mercy of powerful elites, yet Portugal boasts high competition due to the good firm entry and exit dynamics in several markets. In this context, the number of large companies is small, contributing to a low concentration of the economic power.

The results at the level of Political Power derive mainly from E.U. membership (*Political globalization* (PGL, i, 1), rank 8th) and from the effective institutional arrangements of municipalism, regional coordination commissions and its autonomous regions (*Political decentralization* (PDE, i, 1), rank 8th). Additionally, the imposition of quotas for gender diversity in public offices, in the state-owned business sector and in public companies contributes to the good performance in this area (WBL, i, 3, rank 4th).

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Visual 34: Portugal performance overview by EQx Pillar vs overall distribution

