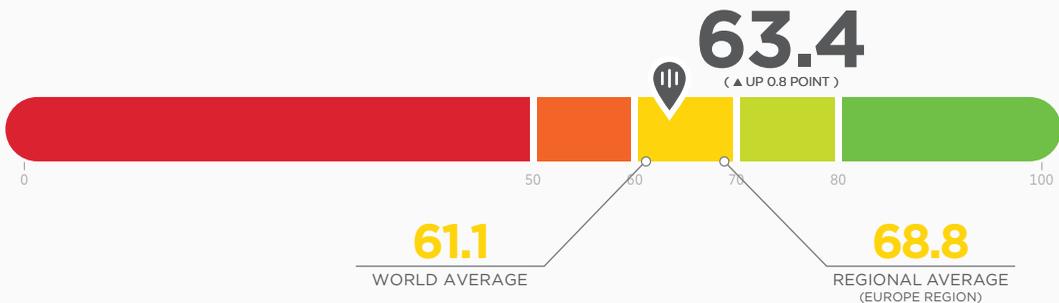# PORTUGAL

Portugal's economic freedom score is 63.4, making its economy the 72nd freest in the 2018 *Index*. Its overall score has increased by 0.8 point, led by significant improvements in scores for the **fiscal health** and **government spending** indicators that offset declines in **property rights** and **business freedom**. Portugal is ranked 35th among 44 countries in the Europe region, and its overall score is below the regional average but above the world average.

Over the years, despite sound institutions that contribute to an efficient business framework and an independent judicial system, Portugal's indebted and inefficient public sector has worn away the dynamism of the private sector and reduced the economy's overall competitiveness. With growth rates now stabilizing in low but positive territory, there are opportunities for freedom-enhancing reforms that can increase foreign investment and create new jobs.

WORLD RANK: **72** | REGIONAL RANK: **35**
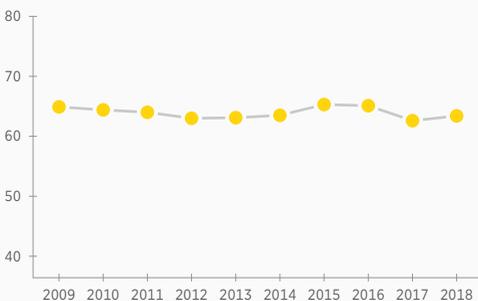
ECONOMIC FREEDOM STATUS:
MODERATELY FREE

ECONOMIC FREEDOM SCORE

63.4
(▲ UP 0.8 POINT)

0   50   60   70   80   100

61.1
WORLD AVERAGE

68.8
REGIONAL AVERAGE
(EUROPE REGION)

NOTABLE SUCCESSES:	CONCERNS:	OVERALL SCORE CHANGE SINCE 2014:
Trade Freedom, Monetary Stability, and Business Freedom	Government Size, Labor Freedom, and Government Integrity	–0.1

FREEDOM TREND

Chart years: 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 (y-axis 40–80)

QUICK FACTS

POPULATION:
10.3 million

GDP (PPP):
$298.7 billion
1.4% growth in 2016
5-year compound annual growth –0.2%
$28,933 per capita
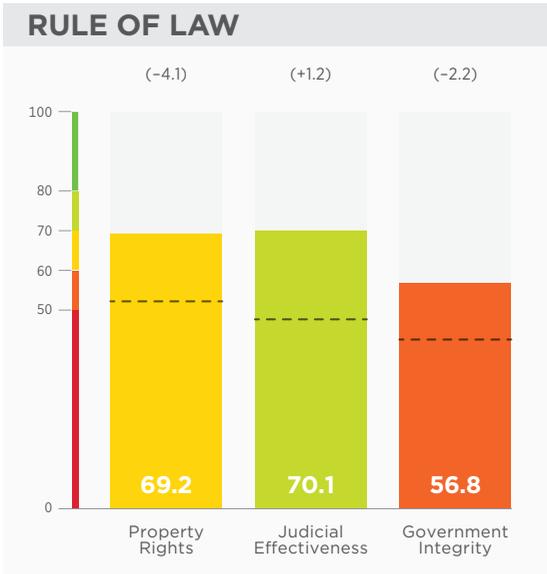
UNEMPLOYMENT:
11.2%

INFLATION (CPI):
0.6%

FDI INFLOW:
$6.1 billion

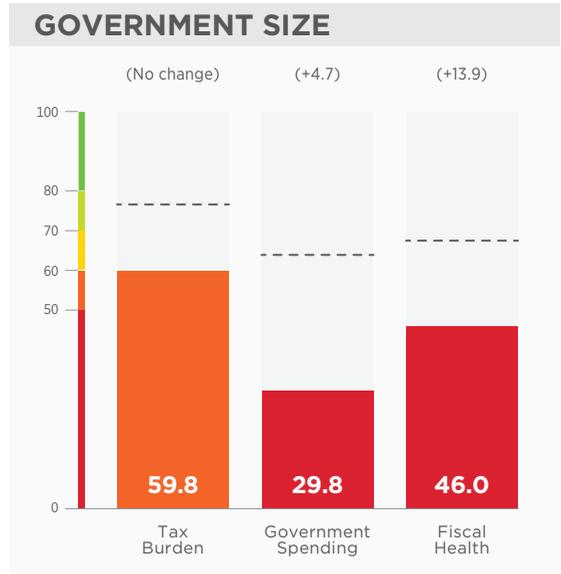**PUBLIC DEBT:**
130.3% of GDP

2016 data unless otherwise noted. Data compiled as of September 2017

BACKGROUND: Portugal returned to democracy in 1976 and joined the European Union in 1986. For two decades, successive governments privatized many state-controlled firms and liberalized key areas of the economy. Former Lisbon Mayor António Costa, a Socialist, has been prime minister since his leftist coalition defeated the governing center-right coalition in 2015 parliamentary elections. Slowdown of his predecessor's austerity reforms has increased his popularity at the expense of rivals. Portugal's increasingly services-based economy continues to recover from the European financial crisis. Leading sectors include financial services, telecommunications, and a buoyant tourism industry. Portugal exited its EU/IMF bailout in 2014. Unemployment has fallen but remains high, especially among younger Portuguese.
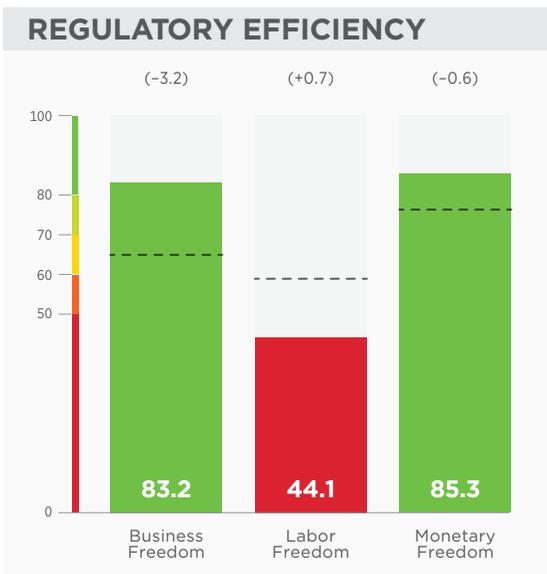
12 ECONOMIC FREEDOMS | PORTUGAL

RULE OF LAW

(−4.1)   (+1.2)   (−2.2)

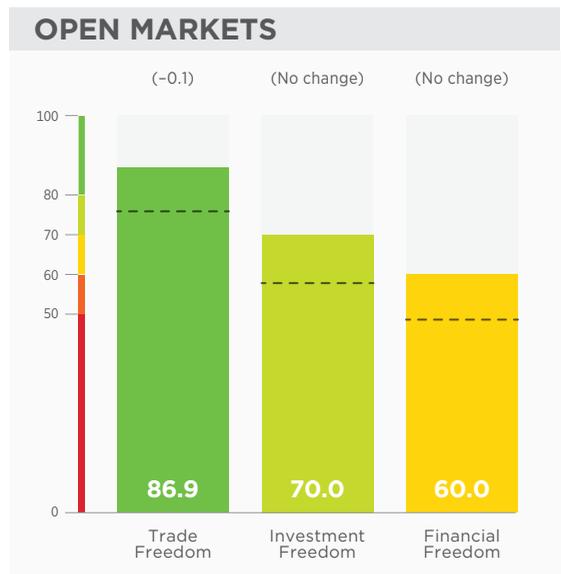|		
69.2	**70.1**	**56.8**
Property Rights	Judicial Effectiveness	Government Integrity

Private property rights are respected and enforced. Registration is fairly easy and can be done quickly online. The government generally respects judicial independence, although staff shortages and inefficiency have contributed to a considerable case backlog. Many Portuguese believe that corruption and other forms of fraud have increased during the past year and blame the increase on the inefficient system of justice.

GOVERNMENT SIZE

(No change)   (+4.7)   (+13.9)

59.8	**29.8**	**46.0**
Tax Burden	Government Spending	Fiscal Health

The top personal income tax rate is 48 percent, and the top corporate tax rate is 23 percent. Other taxes include a value-added tax. The overall tax burden equals 34.5 percent of total domestic income. Over the past three years, government spending has amounted to 48.4 percent of total output (GDP), and budget deficits have averaged 4.6 percent of GDP. Public debt is equivalent to 130.3 percent of GDP.

REGULATORY EFFICIENCY

(−3.2)   (+0.7)   (−0.6)

83.2	**44.1**	**85.3**
Business Freedom	Labor Freedom	Monetary Freedom

In 2016, Portugal made getting an electricity connection faster by reducing the time required to approve electrical connection requests. The expense involved in dismissing employees is a factor in stubbornly high unemployment as it creates a disincentive for new hiring. Portugal reduced the maximum duration of fixed-term contracts in 2016 and is phasing out subsidies for renewable power to reduce high electricity prices.

OPEN MARKETS

(−0.1)   (No change)   (No change)

86.9	**70.0**	**60.0**
Trade Freedom	Investment Freedom	Financial Freedom

Trade is significant for Portugal's economy; the combined value of exports and imports equals 79 percent of GDP. The average applied tariff rate is 1.6 percent. Nontariff barriers impede some trade. Government openness to foreign investment is above average. Despite some progress, the financial sector remains under considerable strain. The level of nonperforming loans continues to be high.