PORTUGAL

WORLD RANK: **52**

REGIONAL RANK: **29**

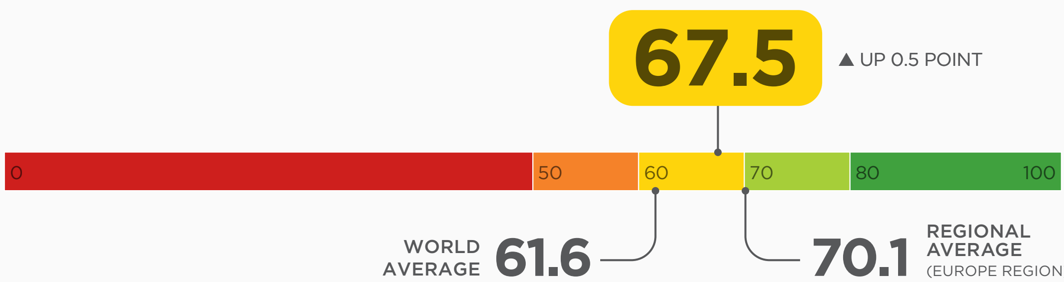
ECONOMIC FREEDOM STATUS: **MODERATELY FREE**

Portugal's economic freedom score is 67.5, making its economy the 52nd freest in the 2021 *Index*. Its overall score has increased by 0.5 point, primarily because of an improvement in **fiscal health**. Portugal is ranked 29th among 45 countries in the Europe region, and its overall score is below the regional average but above the world average.

Portugal's economy has been rated moderately free since the inception of the *Index* in 1995. The two major impediments to greater economic freedom remain the government's long-standing record of overspending and the continuing need for labor market reforms to reduce the number of workers who are forced to take temporary or part-time positions.

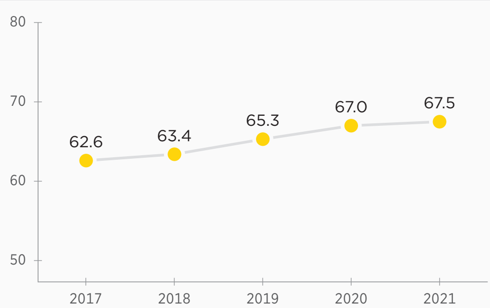
IMPACT OF COVID-19: As of December 1, 2020, 4,577 deaths had been attributed to the pandemic in Portugal, and the economy was forecast to contract by 10.0 percent for the year.

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): +5.1

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
10.3 million

GDP (PPP):
$346.9 billion
2.2% growth in 2019
5-year compound annual growth 2.4%
$36,471 per capita

UNEMPLOYMENT:
6.3%

INFLATION (CPI):
0.3%

FDI INFLOW:
$8.2 billion

PUBLIC DEBT:
117.6% of GDP

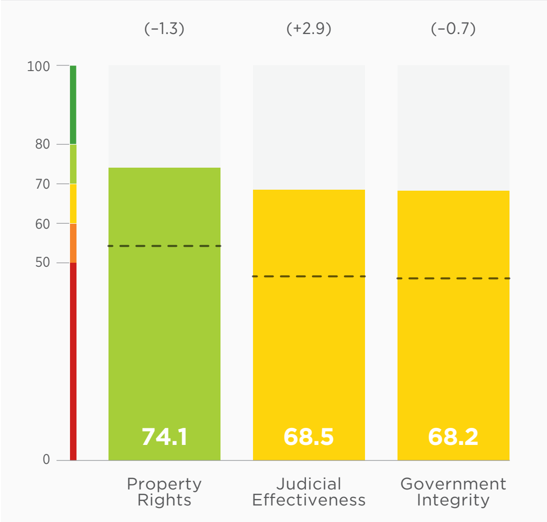
2019 data unless otherwise noted. Data compiled as of September 2020

BACKGROUND: Portugal returned to democracy in 1976 and joined the European Union in 1986. Socialist Prime Minister António Costa, first elected in 2015, was able to form another minority government after October 2019 elections. To pass legislation, he depends on the support of the Communists and other hard-left parties. Costa terminated many of his predecessor's financial and labor reforms. Leading economic sectors include financial services, telecommunications, and a buoyant tourism industry that has been hit hard by the global pandemic. In April 2019, shareholders of Portugal's largest electrical utility blocked a takeover bid by its largest shareholder, a Chinese state-owned enterprise. More than €25 billion in forthcoming EU bailout funds will be handled through a newly created state-owned development bank.

— — WORLD AVERAGE | ONE-YEAR SCORE CHANGE IN PARENTHESES

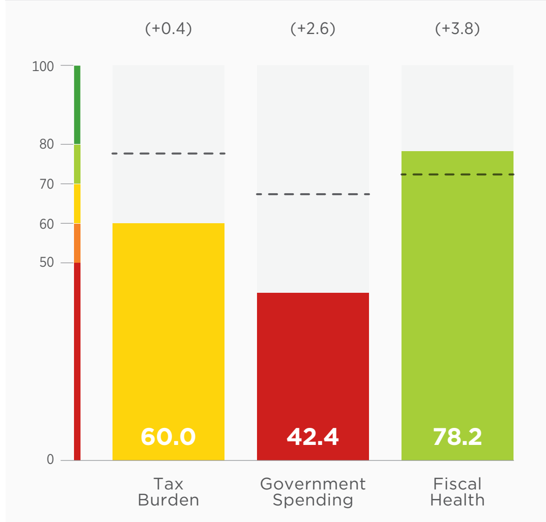
12 ECONOMIC FREEDOMS | PORTUGAL

RULE OF LAW



The Portuguese constitution ensures the right to private property, and the legal system enforces property rights and interests reliably. Property registration is efficient. The judicial system is independent of the executive branch but short-staffed and inefficient. Despite the implementation of additional anticorruption legislation in recent years, high-ranking politicians, officials, and businesspeople have been involved in major corruption scandals.

GOVERNMENT SIZE

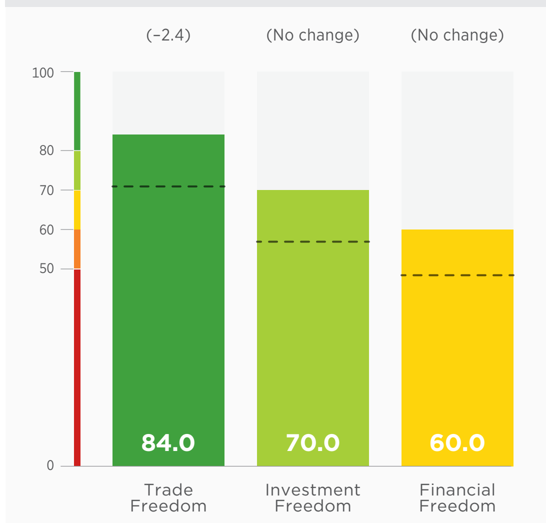


The top individual income tax rate is 48 percent, and the top corporate tax rate has been cut to 21 percent. Other taxes include a value-added tax. The overall tax burden equals 35.4 percent of total domestic income. Government spending has amounted to 43.9 percent of total output (GDP) over the past three years, and budget deficits have averaged 1.1 percent of GDP. Public debt is equivalent to 117.6 percent of GDP.

REGULATORY EFFICIENCY

Portugal's business freedom score has declined for the fourth consecutive year, but the overall business environment is still attractive from a regulatory point of view. However, labor reform packages in recent years have not succeeded in raising labor productivity. According to the IMF, annual subsidies funded in the budget are equivalent to 0.4 percent of GDP.

OPEN MARKETS



As a member of the EU, Portugal has 45 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 3 percent, with 639 EU-mandated nontariff measures in force. The investment regime is conducive to new investment. The financial sector, dominated by banking, has regained stability and offers a range of financial services. The capital market continues to grow and evolve.