PORTUGAL

Portugal’s economic freedom score is 70.8, making its economy the 31st freest in the 2022 Index. Portugal is ranked 21st among 45 countries in the Europe region, and its overall score is above the regional and world averages.

The Portuguese economy contracted in 2020, but growth resumed in 2021. In the past half-decade, a robust expansion of economic freedom has continued. Aided by substantial score increases for fiscal health and rule of law, Portugal has recorded an impressive 8.2-point overall gain of economic freedom since 2017 and has climbed into the “Mostly Free” category for the first time in the 28-year history of the Index. Monetary freedom and trade freedom are healthy, but the economy continues to be burdened by heavy government spending.

IMPACT OF COVID-19: As of December 1, 2021, 18,458 deaths had been attributed to the pandemic in Portugal, and the government’s response to the crisis ranked 99th among the countries included in this Index in terms of its stringency. The economy contracted by 7.6 percent in 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 2019 elections. Gaining the support of the Communists and other hard-left parties for the passage of legislation has become increasingly difficult. Despite increasing minimum wage and welfare payments, the government has left the economy’s major structural shortcomings unaddressed. Leading economic sectors include financial services, telecommunications, and a tourism industry that is in a historic trough. In 2019, shareholders of Portugal’s largest electrical utility blocked a takeover bid by its largest shareholder, a Chinese state-owned enterprise. A new state-owned development bank, incorporated in November 2020, is handling EU bailout funds.

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 2019 elections. Gaining the support of the Communists and other hard-left parties for the passage of legislation has become increasingly difficult. Despite increasing minimum wage and welfare payments, the government has left the economy’s major structural shortcomings unaddressed. Leading economic sectors include financial services, telecommunications, and a tourism industry that is in a historic trough. In 2019, shareholders of Portugal’s largest electrical utility blocked a takeover bid by its largest shareholder, a Chinese state-owned enterprise. A new state-owned development bank, incorporated in November 2020, is handling EU bailout funds.

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 2019 elections. Gaining the support of the Communists and other hard-left parties for the passage of legislation has become increasingly difficult. Despite increasing minimum wage and welfare payments, the government has left the economy’s major structural shortcomings unaddressed. Leading economic sectors include financial services, telecommunications, and a tourism industry that is in a historic trough. In 2019, shareholders of Portugal’s largest electrical utility blocked a takeover bid by its largest shareholder, a Chinese state-owned enterprise. A new state-owned development bank, incorporated in November 2020, is handling EU bailout funds.
Property rights and secured interests are protected by law, and enforcement by the courts is reliable. The registration system is digitized and efficient, and land registry procedures are being simplified. The judicial system is independent, and reforms are being implemented to modernize it. Public-sector corruption is generally not perceived as a problem, and anticorruption statutes have been toughened.

The top individual income tax rate is 48 percent, and the top corporate tax rate is 21 percent. Other taxes include a value-added tax. The overall tax burden equals 34.8 percent of total domestic income. Government spending has amounted to 44.9 percent of total output (GDP) over the past three years, and budget deficits have averaged 2.1 percent of GDP. Public debt is equivalent to 131.6 percent of GDP.

Portugal’s Agency for Competitiveness and Innovation (IAPMEI) offers financing, training, and other services for small and medium-sized enterprises. Labor reform packages meant to increase productivity were implemented after the 2011 bailout but have not reached their goal. The World Bank estimates that subsidies and transfers amounted to 46 percent of the budget in 2019 (the most recent year for which data are available).

As a member of the EU, Portugal has 46 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 2.9 percent with 640 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.