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2026 Country Report - Portugal

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Portugal

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Portugal

2026 Country Report

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ECONOMIC DEVELOPMENTS AND KEY POLICY CHALLENGES

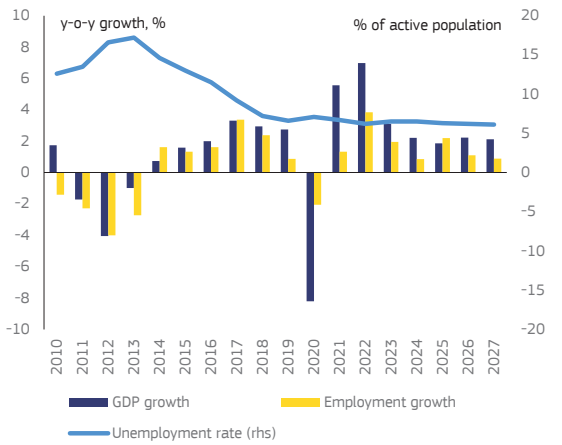
Growth remains solid despite structural challenges

Portugal's economy outperforms EU average with steady growth. Portugal's economy continues to grow solidly, outperforming the EU average for the fourth consecutive year. While economic growth slowed slightly from 2.2% in 2024 to 1.9% in 2025, it remained robust, driven by strong private consumption and investment—both rising by close to 3.5%. However, goods exports stagnated due to weak external demand and global trade uncertainty, and services exports saw only modest growth. Despite imports rising much faster than exports, the country's current account retained a surplus of 1.2%, supported by lower energy prices.

The labour market has strengthened as inflation eases, but risks remain. Employment growth remained rapid, reducing the unemployment rate from 6.5% in 2024 to 6.0% in 2025. With an employment rate of 79.6%, Portugal is close to achieving its 2030 national target. Inflation eased to 2.2%, as falling energy and industrial goods prices offset higher food and services costs. Looking ahead, despite global political and economic risks, Portugal's economy is projected to maintain sound growth of 1.7% in 2026 and 1.8% in 2027. Unemployment is expected to decline slightly, though inflation may face temporary upward pressure from a recent rebound in energy prices.

Structural constraints hold back productivity. Despite recent improvements, Portugal's income levels and productivity remain below the EU average. In purchasing power standards, Portugal's GDP per capita improved from 74% of EU average in 2021 to 81% in 2025 but remained below its historic high of 85% in 2000. Only the capital region is above EU average, while Norte and Madeira were the only regions to experience significant convergence with the EU average in the past 20 years (see Annex 18). Portugal's potential growth reached 2.3% in 2025, relative to 1.4% for the EU, but the long-term outlook remains constrained by an ageing population.

Graph 1.1: **Real GDP growth and selected labour market indicators**



(1) Estimates for 2026 and 2027 are from the European Commission's Spring 2026 forecast.
Source: European Commission

Portugal's economy remains heavily reliant on low value-added services. As of 2025, services made up around 80% of Portugal's economy (compared to the EU average of 76%), with foreign tourism alone accounting for 8% - particularly concentrated in the Algarve and Madeira. While higher value-added sectors like information and communication (5% of GDP vs. the 5.6% EU average) and professional, scientific, and technical activities (9% vs. the 11% EU average) have been narrowing the gap in recent years, their share remains below the European average. Employment in these sectors has grown faster than the broader economy, despite persistent skill shortages.

Low high-tech exports hinder Portugal's economic convergence. Portugal's economic convergence also faces challenges due to its low share of high-technology exports, which stood at just 5% of total exports - the third lowest in the EU, compared to the bloc's average of 17%, according to Eurostat data for 2022. This reliance on lower value-added sectors limits the country's ability to boost productivity and competitiveness, despite progress in reducing gaps in key service industries.

As a small open economy, Portugal is strongly exposed to external risks. Exports accounted for 44% of GDP in 2025. However, more than 70% of goods exports are to EU countries, partly mitigating these risks. The same pattern applies to services, particularly tourism, where the majority of revenue comes from visitors within the EU. Like other EU countries, Portugal is dependent on energy imports. Despite the large percentage of domestically sourced renewables, Portugal's energy trade deficit is close to the EU average at 1.7% of GDP in 2025. As a country with a very large coastal area, and a large part of the country covered by forest and some areas facing water scarcity, Portugal is also exposed to significant climate risks.

Portugal's competitiveness and green transition face structural hurdles. Portugal's business environment is constrained by administrative burdens, and inefficiencies in the public sector and the justice system. Businesses show low innovation levels, while scaling up remains limited (see Section 2). Though renewable energy adoption is strong, further expansion is hindered by permitting delays, grid constraints, and insufficient energy storage solutions. Meanwhile, industry and transport remain major sources of greenhouse gas emissions and reliant on imported fossil fuels, and water and waste management pose ongoing challenges. The country is also highly exposed to climate risks, requiring urgent adaptation measures (see Section 3).

Social inequalities persist despite labour market strengths. Housing affordability—particularly in Lisbon and coastal areas—remains a pressing social issue. Despite strong employment figures, education and training fail to match labour market demands and skills levels remain generally low, leading to skills mismatches that weaken workforce competitiveness and affect disproportionately young people and migrant communities. Access to quality healthcare is affected by shortages of staff and the provision of long-term care remains insufficient (see Section 4), challenges that deserve action while simultaneously ensuring the sustainability of the National Health Service (see Annex 2). These challenges are even more acute in Madeira and the Azores, where insularity deepens social and economic disparities (see Annex 18).

Debt continues to decline, with risks to the medium-term outlook

Portugal has committed to fiscal discipline, but spending pressures are rising. Under its medium-term fiscal-structural plan for 2025–2028, Portugal has pledged to limit net expenditure growth while ensuring continued debt reduction. The fiscal adjustment is backloaded due to the impact of expenditure of projects financed by loans under the Recovery and Resilience Facility (RRF). Excluding the impact of the RRF loans, the consolidation efforts translate into a linear fiscal consolidation of 0.1 pps of GDP per year. The strategy relies on maintaining positive headline and structural primary balances over the medium term, supported by economic growth and targeted fiscal adjustments to sustain long-term stability. However, permanent measures — such as public wage increases, updates to youth income tax arrangements, and cuts to personal and corporate income tax rates — risk weakening the budget balance. Additional pressures come from temporary spending, including emergency responses to severe storms, and a new housing fiscal package. Together, these challenges complicate Portugal's ability to meet its medium-term fiscal targets.

Portugal's budget balance remains in surplus, despite a sustained expansion in

Box 1:

UN sustainable development goals

Portugal is improving in most SDGs related to environmental sustainability (SDGs 2, 7, 9, 12, and 13), but is moving away from the EU average on clean water and sanitation (SDG 6), and sustainable cities and communities (SDG 11), due, for instance, to diminishing water quality of inland bathing water and low rates for recycling of municipal waste (Annex 17). Progress is being made in several SDGs related to fairness (especially SDGs 3, 4, 5, 7 and 8). However, Portugal is moving away for some other SDGs related to fairness (SDGs 1 and 10). Although significant progress has been made, Portugal remains well below the EU average on industry, innovation and infrastructure (SDG 9) due to the low research and innovation output (see Annex 4).

government expenditure. The general government surplus reached 0.7% of GDP in 2025, from 0.6% of GDP in 2024, mostly on the back of buoyant tax revenues and social contributions benefiting from sustained economic activity and a dynamic labour market. Nationally financed public investment has started to pick up since 2020, driven by the execution of RRF-financed investments. The Commission 2026 spring forecast projects the surplus to turn into a small deficit of 0.1% GDP in 2026 and 0.4% of GDP in 2027. Public debt fell below 90% in 2025, reaching 89.7%, and is expected to continue its downward trajectory, albeit at a slower pace. It is expected to reach 86.0% by 2027, driven by persistent primary balance surpluses.

Defence expenditure in Portugal has been limited but is expected to receive additional EU support over the next years. In 2024, total government defence spending reached 0.9% of GDP, which fell to 0.8% in 2025 and is forecast to remain stable through 2026 and 2027, assuming no policy changes. In order to facilitate an increase in public spending on defence, the Council of the European Union activated the 'national escape clause' for Portugal ([1]). As part of the European Commission's ReArm Europe Plan, Portugal has requested EUR 5.8 bn in EU loans under SAFE (Security Action for Europe) for defence procurement. Portugal is also leveraging EU cohesion and recovery funds to enhance defence capabilities. The recovery and resilience plan (RRP) includes investments in dual-use defence projects, such as a multi-purpose naval platform, a defence operations centre, and support for the aeronautics sector through the mobilising agendas. Cohesion policy is providing support for the development of industrial capacities to strengthen defence capabilities through the regional programmes in Norte, Alentejo, Algarve, and Centro, as well as support for military mobility in Norte, amounting to a total of EUR 114 million.

Climate change increasingly impacts public finances. European Commission scenario analyses show that the long-term costs of inaction significantly exceed those of climate action ([2]). Portugal's climate insurance protection gap, estimated at 97%, highlights potential fiscal risks (see EEA data ([3])). Meeting Portugal's mitigation and adaptation priorities will require additional resources (see Section 3).

Rising pension expenditure adds to the challenges for medium-term fiscal sustainability

Rising pension expenditure continues to pose a challenge for medium-term fiscal sustainability. With a rapidly ageing population, Portugal's public pension expenditure is set to climb from 12.8% of GDP

([1]) The activation of the national escape clause gives EU countries the budgetary flexibility to increase defence expenditure, without an immediate need to finance such increase with spending cuts or revenue-raising measures. The flexibility thus gives EU countries the necessary time to accommodate higher defence expenditure within their national budgets.

([2]) See European Commission (2026), Debt Sustainability Monitor 2025, Institutional Paper No 332, 12 February.

([3]) European Environment Agency: Economic losses from weather- and climate-related extremes in Europe.

in 2025 to 15.1% by 2045 – projected to be the third-highest expenditure-to-GDP ratio in the EU. Though the statutory retirement age is automatically adjusted in line with life expectancy, spending is still projected to peak in 2046 at 2.5 percentage points above current levels. Meanwhile, supplementary pension schemes remain underdeveloped, lacking auto-enrolment and covering only a small fraction of workers (see Annex 2).

Reforms are needed to secure the pension system's future. In 2025, the EU issued Portugal a country-specific recommendation (CSR) to take action to ensure the medium-term fiscal sustainability of the pension system. However, only preparatory steps have been taken so far, with the setting up of a dedicated expert working group. In 2026, the working group is expected to deliver a report with concrete proposals to ensure the long-term sustainability of the pension system, including a reassessment of the early retirement scheme and a study on partial retirement mechanisms and complementary schemes.

Widespread tax expenditures continue to make the tax system overly complex

Significantly reducing inefficient tax expenditures could help generate fiscal space and reduce the complexity of Portugal's tax system. In 2024, there were at least 781 different tax expenditures ([4]), such as tax exemptions, deductions, credits and preferential rates. Foregone revenue from those exceeded 7% of GDP. VAT-related tax expenditure alone represents 4.3% of GDP. The extensive use of reduced and intermediate VAT rates for hospitality services (hotel accommodations, restaurants, and catering services) may disproportionately benefit higher-income households. Numerous incentives and exemptions also add significantly to the complexity of the corporate income tax framework.

Effective action to streamline tax expenditures remains limited. Under the RRP, a new permanent technical tax policy unit (U-TAX) was created to monitor and evaluate new and existing tax benefits. U-TAX published an assessment report in June 2025, which provides an evaluation of 31 existing benefits, with an aggregate foregone revenue estimated at EUR 15.6 billion. One of the main recommendations from U-TAX is the upgrade of the VAT rate for restaurants from the preferential 13% rate to the standard rate.

Fossil fuel subsidies remain a significant impediment to Portugal achieving its goals for decarbonising transport. Portugal received a CSR in 2025 to phase-out fossil fuel subsidies notably in the transport sector. Such subsidies contribute to continued reliance on fossil fuels and do not incentivise electrification (see Section 3). Portugal has started to introduce a partial reversal of the extraordinary fuel tax reduction on gasoline and road diesel (ISP) as of December 2025.

However, there is no clear phase-out timeline for the remaining temporary ISP relief measures. In the context of the conflict in the Middle East and increasing energy prices, Portugal reintroduced reductions in the fuel tax (*ISP*) alongside new targeted energy relief measures for specific sectors (goods and passengers transport, agriculture, forestry, fisheries, and aquaculture) and one-off direct payments ([5]). It also has no planned date to phase out the tax exemption for natural gas used in industrial processes and tax reductions and exemptions for diesel used by freight transport companies, railway locomotives, public transport and agricultural machinery before 2030. On the other hand, Portugal resumed the annual update of the carbon tax in 2026, and the reversal of the biofuels tax exemption entered into force as of 1 January 2026.

([4]) See *Relatório Despesa fiscal 2024* (June 2025)

([5]) Council of Minister Decisions on 6 and 27 March 2026

Addressing housing affordability

Portugal is facing a housing affordability crisis with a negative social impact. Portugal received a CSR in 2025 to address housing affordability and availability in high-demand areas (including by eliminating barriers to renting vacant houses and renovating derelict buildings), but progress is limited. Nominal house prices have nearly tripled since 2015 - an average annual growth of 11%, more than double the EU average. Over the same period, the increase in the price-to-income ratio was one of the largest in the EU (see Annex 16), placing unprecedented pressure on vulnerable groups, including young people, students, and low-income households, while also squeezing middle-income families. Nearly a third of renters paying market prices now face housing cost overburden ([6]), exacerbating social inequality.

The surge in housing prices is more acute in certain regions, with increasing demand pressures not being met by supply. The sharpest price hikes have occurred in the metropolitan areas of Lisbon and Porto, the Algarve, in coastal areas and mid-size municipalities, as well as Madeira. Meanwhile, rural and interior regions have seen more modest changes, with some areas even experiencing housing oversupply (see Annexes 16 and 18). High internal and external demand - fuelled by institutional investors, tourism, and short-term rentals - has outstripped supply. Despite a recent recovery in residential construction, the sector remains hampered by labour shortages and rising costs, while weak investment over the past two decades has left supply chronically insufficient.

Vacant dwellings could be better utilised. Among the OECD countries, Portugal has also one of the highest shares of dwellings that are not used for primary residences, with many dwellings remaining vacant (see Annex 16). Portugal's legislation envisages aggravated rates of recurrent tax on immovable property on unoccupied buildings. However, the application of higher tax rates is left at the discretion of the municipalities and their ability to enforce it. Moreover, the practical effectiveness of these tax arrangements is hindered by eroded tax bases due to outdated cadastral values.

Portugal's housing tax mix could provide more targeted incentives to better support housing supply. The current housing tax mix in Portugal entails comparatively low recurrent taxes on property ownership, also as a result of outdated tax property values, and a strong reliance on transaction taxes (see Annex 3). Shifting the tax burden from transaction taxes toward recurrent taxation, including through an update of tax property values, could provide incentives for homeowners to put underused properties on the market. Targeted tax deferrals could be considered for those low-income property owners whose tax obligations would increase significantly.

Tax exemptions risk worsening inequality and housing pressures. Both existing and newly introduced capital gains tax exemptions ([7]) risk fuelling equality issues, diverting capital away from other investments and increasing the demand for housing. Reducing these exemptions could help deter speculative investment by decreasing the net profit potential from property sales. At the same time, it is doubtful whether other recently adopted tax measures - such as temporarily reduced VAT rates – will be effective in tangibly increasing the supply of affordable housing or reducing prices (see Annex 16).

Improved governance and sustained financing integrated with planning

([6]) This indicator should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

([7]) Portugal applies a general exemption for 50% of capital gains from real estate. In addition, it recently introduced full exemptions for sales of primary and secondary residences in cases of purchase of another property to be rented at a certain threshold or when a pensioner or a person aged 65 or above reinvests the gains in either a life insurance contract, a lifelong annuity contract or a pension fund.

measures could contribute to better housing policies. Portugal will be receiving support through the EU's technical support instrument to establish a national model for housing data governance and management, which would help plan and evaluate housing policies (see Annex 16). Portugal would benefit from better multi-level institutional coordination between central, regional and municipal authorities (see Annexes 7 and 16). More inter-institutional collaboration could also ensure that long-term planning take into consideration housing, as well as urban, spatial and transport planning and social services. Improved transport planning, quality and frequency, could ease workers commute into cities, alleviating some pressure on housing, as highlighted in the 2025 CSR. This requires strengthening the administrative capacity of public central and local authorities.

There is a structural shortage of social and affordable housing. Public investment to expand and upgrade the social and affordable stock increased in recent years, notably supported by the RRF. Portugal will continue to support these efforts through substantial funding from the State budget and other EU funds, including cohesion policy, where the allocation to housing has been reinforced. Nevertheless, significant gaps remain, as Portugal's percentage of social housing remains well below the OECD average (around 2% vs 7%, see Annex 16). A long-term financing mechanism would be needed to ensure the continuous development and maintenance of quality public housing, using both public and private financing instruments. In the short term, targeted housing allowance schemes can provide more immediate relief to vulnerable households, which are significantly dependent on the rental market. However, the current schemes would benefit from review to improve target reach and efficacy.

There is scope for more private sector involvement in expanding affordable housing. In addition to the expansion of the existing public stock, the private sector could play a significant role in expanding affordable housing that promotes social mix and territorial cohesion, through strengthened public-private partnerships and by leveraging the role of the third sector, for example through housing cooperatives. This would be particularly relevant for middle-income households, who are often ineligible for social housing but face increasing difficulties with securing accommodation at current market prices.

Homelessness and other forms of housing exclusion continue to grow, with insufficient response from public services. In 2024, the number of homeless people increased for the fourth consecutive year, to a record high. The number of informal settlements has also increased. These are often populated by low-income workers and their families (in particular in the Lisbon metropolitan area) or by Roma families (see Annex 16). Local public services lack the capacity and resources to provide housing and related integrated services. Portugal could increase prevention efforts, response and intervention capacity, following a people-centred approach. Prevention efforts include integrated social services, so that people at risk of housing exclusion can maintain access to housing and access services, thus mitigating the risk of falling into homelessness.

EU funding instruments provide considerable resources to Portugal. They support investments and structural reforms to increase competitiveness, environmental sustainability, skills, social fairness and security, while helping to address challenges identified in the CSRs. Key instruments include the Recovery and Resilience Facility (see Box 2) and Cohesion policy funds (see Box 3). In addition, the Common Agricultural Policy (CAP) provides Portugal with an EU contribution of EUR 6.1 billion under the CAP strategic plan for 2023-2027 ([8]), while EUR 392 million are allocated under the European Maritime, Fisheries and Aquaculture Fund (EMFAF). A further EUR 272 million are available under the Asylum, Migration and Integration Fund (AMIF), together with the Border Management and Visa Instrument (BMVI) and the Internal Security Fund (ISF). Other EU programmes also support competitiveness in Portugal, for instance through open calls under Horizon Europe and the Connecting Europe Facility.

Box 2:

Key achievements of the Recovery and Resilience Facility (RRF)

Portugal's recovery and resilience plan (RRP) represents a total investment budget of **EUR 21.9 billion** (EUR 16.4 billion in grants and EUR 5.6 billion in loans), corresponding to **8.3% of GDP**, aimed at (i) supporting the green and digital transitions, (ii) strengthening economic resilience, and (iii) addressing long-standing structural challenges identified in the European Semester.

As of **22 May 2026**, **EUR 14.9 billion** (around **68%** of the total allocation and EUR 3.7 billion of which is in loans) has been disbursed following the satisfactory fulfilment of 235 milestones and targets. Implementation has progressed steadily, with a growing number of reforms and investments already fulfilled and delivering tangible results on the ground.

Highlights and impact of the plan

- Establishment and capital reinforcement of the **national promotional bank** (*Banco Português de Fomento*), providing up to EUR 2.6 billion for firms' competitiveness, and EUR 2.9 billion in support for research and innovation through the mobilising and green agendas.
- Construction and renovation of around 32 000 **social and affordable dwellings** in mainland, Azores and Madeira, and **energy efficiency** improvements for 85 000 dwellings, and nearly 2 million m² of non-residential buildings.
- Regulatory framework for **renewable hydrogen** and for **renewable energy** permitting, more than 800 **decarbonisation of industry** projects supported.
- **Sustainable mobility** investments, supporting more than 700 zero-emission buses.
- Reinforced **capacity to respond to climate risks**, with 179 firefighting and fire-prevention vehicles, 11 helicopters and upgrade of the meteorological radar network.
- Reform of the **vocational education and training** offer, reform of the cooperation between higher education and businesses, 200 **education courses** in STEM and arts, **digitalisation of schools** with laptops and digital equipment.
- Reforms of **primary care** and of the governance model of public hospitals, more than 1 000 new places in **continued and palliative care**, digitalisation of the *Segurança Social Direta* website.

([8]) An overview of Portugal 's formally approved strategy to implement the EU's common agricultural policy nationally can be found at https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans/portugal_en

Box 3:

Contribution of cohesion policy funds

EU cohesion policy funding is supporting Portugal's efforts to increase competitiveness, environmental sustainability, transport connectivity, skills and social fairness. In the 2021-2027 programming period, EU cohesion policy funds ([9]) are providing EUR 22.6 billion (amounting to EUR 31 billion with national co-financing), or 7.8% of 2024 GDP, to Portugal. This makes cohesion policy one of the main sources of public investment in the country. The value of selected projects corresponded to 59.1% of the total allocation as of March 2026, with additional calls for projects in the pipeline.

- **Innovation, business environment and productivity:** More than EUR 5.2 billion are allocated for research and innovation, SMEs competitiveness and for the territories affected by the energy transition, following the closure of coal-fired power plants in Sines (Alentejo Litoral) and Pego (Médio Tejo) and a refinery in Matosinhos (Metropolitan Area of Porto). Around 5 000 firms have already seen their projects approved.

- **Decarbonisation, energy affordability and sustainability:** Overall EUR 5.3 billion are dedicated to clean transition projects. Of this, more than EUR 1.3 billion goes to sustainable urban mobility; more than EUR 1.2 billion to sustainable water investments, which are expected to improve facilities for more than 2.9 million people; more than EUR 0.7 billion support energy efficiency, renewable energy, smart energy systems and charging infrastructure interventions. Also, more than EUR 0.8 billion are allocated for climate change adaptation and reconstruction in response to natural hazards and around EUR 1 billion to circular economy and clean technologies.

- **Skills, quality jobs and social fairness:** EUR 3.1 billion are allocated to increase the skills and educational levels of the population. In Madeira and the Azores, EUR 112 million are allocated to promote young people integration into the labour market. Addressing material deprivation and supporting the most vulnerable receives EUR 230 million in funding. The access to quality services and the promotion of social integration of people at risk of poverty or social exclusion benefits from EUR 2.4 billion. Since 2021, 181 000 students participated in vocational education and training courses, 130 000 adults participated in adult learning. Social services supported over 23 000 people with disabilities and facilitated over 62 000 consultations with migrants.

The mid-term review ([10]) reinforced cohesion policy's contribution to emerging strategic priorities, reallocating more than EUR 2.5 billion. 4.5% of that has been reallocated to defence and military mobility. The mid-term review also strengthens key areas such as competitiveness, through support for critical technologies (over EUR 1.2 billion), better water management in particular increased water efficiency (eliminating leaks, increasing water re-use, etc.) (EUR 524 million), and additional investments in social housing, affordable housing for rent, student housing and critical staff housing (EUR 656 million). The ringfenced resources will also promote the development of competences for decarbonisation.

([9]) ERDF, ESF+, CF and JTF

([10]) The mid-term review is carried out halfway through the 2021-2027 programming period. It is a formal assessment process required under Article 18 of the Common Provisions Regulation that aims to assess the implementation of programmes and, where necessary, propose adjustments to improve their performance, ensure their relevance in light of new and emerging needs and keep them aligned with other EU policies.

INNOVATION, BUSINESS ENVIRONMENT AND PRODUCTIVITY

Despite improvements in recent years, Portugal's productivity is held back by several structural challenges. In 2025, Portugal received country-specific recommendations (CSRs) to (i) reduce the administrative burden and barriers for firms to operate and scale up, (ii) foster investment in private equity (PE) and venture capital (VC), (iii) sustain investment in research and innovation (R&I), (iv) increase the efficiency of administrative and tax courts and (v) improve transparency and involvement of stakeholders in policymaking. Several measures have already been taken to address these challenges, but frictions persist in their implementation, and some effects might only be visible in the medium term. Portuguese firms still have a low propensity to scale up and only moderate R&I intensity. At the same time, long licensing processes and delays and backlogs in administrative courts pose significant barriers to business operations and investments (see Annex 1).

Despite the progress made on these recommendations, important structural challenges still hinder the business environment and productivity growth. While there was progress on simplifying regulation for firms, more action is needed to reduce barriers to licensing, which firms still identify as a key obstacle to investment. Steps were taken to improve financial literacy and foster public-private risk sharing for VC and PE investments, but private investment in VC and PE remains very low, partly due to the limited involvement of institutional investors. Efforts were made to reduce the tax system's administrative burden, while continued support was granted to research and innovation activities. Important first steps were also taken to foster evidence-based policy making and to increase transparency in the preparation of policies, but limited progress was made to strengthen stakeholders' involvement in policy making. Furthermore, backlogs and durations in administrative and tax courts have aggravated over the past years.

Lengthy licensing procedures and inefficiencies in the judicial system remain among the main barriers to investment

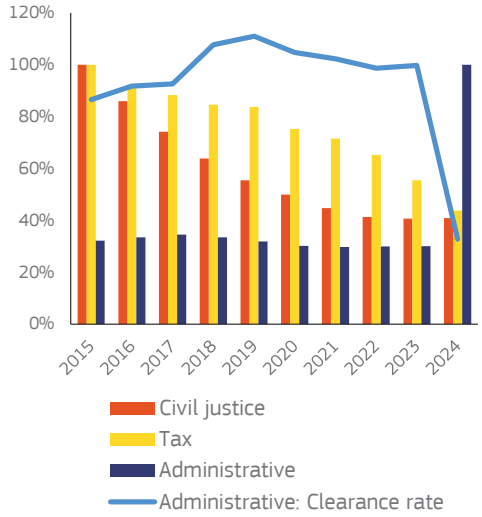
Some progress was made in digitalising and simplifying licensing procedures, but firms still report them as excessively lengthy and burdensome. Portugal received a CSR in 2025 on reducing administrative burden and barriers. Despite several positive recent initiatives, the effective implementation of the new procedures remains challenging. Therefore, firms still report lengthy licensing processes as one of the main barriers to investment. Further progress is needed in streamlining processes across all levels of public administration (national, regional, and local), in defining clear deadlines as well as in better reaping the benefits of implicit approvals.

Several other administrative burdens weigh on businesses. Firms report inefficiencies both in the judicial system as well as in the public administration. Despite recent improvements, late payments remain a concern, mostly in the Azores and the healthcare sector. Furthermore, barriers to the single market persist, such as restrictive packaging and labelling requirements. Easing administrative requirements in the implementation of posting of workers rules could reduce regulatory fragmentation within the single market, facilitate cross-border mobility and foster competitiveness, without undermining workers' protections.

Inefficiencies and frictions across levels of governance increase the administrative burden on firms. Progress in implementing new policies is often hindered by shortcomings in coordination and monitoring across levels of governance, especially concerning execution at municipal level (see Annex 7). This, together with diverging interpretations and implementations by the various authorities, contributes to lengthy approval times and inconsistencies. These inefficiencies affect different key areas, including procedures for industrial, environmental and housing licensing and permitting (see Sections 1 and 3, Annexes 5, 16 and 18). Despite recent positive initiatives undertaken, such as digitalisation and the interoperability of IT platforms (see Annex 5), further improving the coordination both across governance levels and between municipalities is key to reducing compliance costs and facilitating investments, including through the strengthened regional coordination and development commissions (*CCDRs*) (see Annex 18). There is also scope for further expansion of end-to-end digital public services (see Annex 7).

Businesses flag inefficiencies in the judicial system as one of the main barriers to investment. The 2025 CSRs highlight the need to increase the efficiency of tax and administrative courts and reduce the length of proceedings. While Portugal has taken steps – such as increasing staff and creating new specialised chambers in superior courts – these have yet to yield significant improvements. Estimated time to resolve pending cases (disposition time) increased in 2024, to 858 days in first instance courts (from 594 in 2023). This is partly due to a spike in the number of new cases in administrative courts related to delays in migration-related administrative processes over 2024 and 2025 (see Graph 2.1). Despite the progress made in clearing the backlog of cases in civil courts, in the 2025 survey by the Portuguese Statistical Institute ([11]), firms ranked the judicial system as the biggest obstacle to their operations.

Graph 2.1: **Pending cases in tax, administrative and civil courts**



(1) The indicators report the number of pending cases, in the respective courts of first instance, as a percentage of their peak value (i.e. 1 170 000 in 2015 for civil enforcement actions; 53 300 in 2015 for tax cases; 67 600 in 2024 for administrative cases).
(2) The clearance rate is computed as the proportion between cases closed and new cases, over one year.
Source: Direção-Geral da Política de Justiça (Estatísticas da Justiça), Bank of Portugal Statistics (BPStat) and Commission calculations.

The public administration continues to face serious challenges related to its ageing workforce and skills gaps, despite efforts to improve its attractiveness. Portugal has enacted measures to improve working conditions of civil servants to attract younger and more skilled candidates, especially in areas where there are shortages, such as healthcare and education (see Annex 7). However, despite an increase in the number of civil servants, the Portuguese public administration remains one of the oldest in the EU, with a high proportion of civil servants older than 55.

Despite some progress, more needs to be done to modernise the workforce. Only a small proportion of civil servants have higher education qualifications. State investment in training has led to a sharp increase in adult learning participation, surpassing the EU average. However, further improving working conditions and expanded training activities are

([11]) Estudos sobre estatisticas das empresas custos de contexto das empresas - INE

still required to attract, rejuvenate and upskill the public administration's workforce.

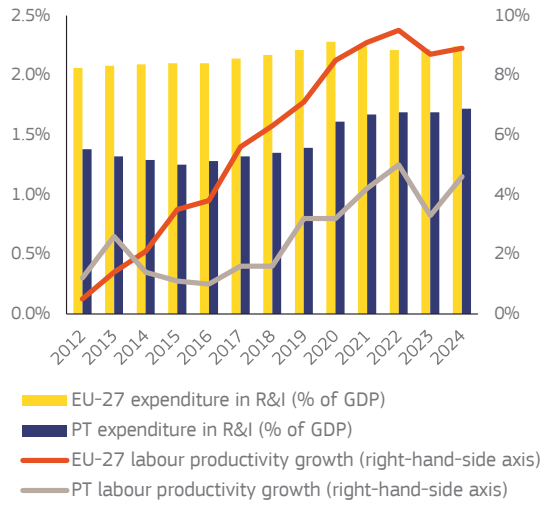
Despite a dynamic business environment, firms display a low propensity to access equity finance and scale-up

The business environment is dynamic, but remains characterised by micro and small enterprises, and a low propensity to scale up and innovate. Portugal recorded important improvements in business activity and R&I, also thanks to a wide range of RRF-financed measures. The start-up ecosystem is rapidly growing, with over 5 000 active startups as of 2025 (+8% from 2024).

At the same time, productivity remains well below the EU average (68.2%, in 2024) and businesses in the country still display a low propensity to scale-up. Large public schemes support innovation, but this appears to be concentrated among larger companies (which received 65% of tax credits for R&I in 2023). SMEs are gradually adopting new digital technologies, but their digital intensity remains below the EU average (see Annex 4). Firms' low propensity to scale-up appears to be driven partly by administrative burdens and obstacles to investment, partly by risk-aversion and sub-optimal entrepreneurial practices.

Businesses' access to venture capital and private equity remains well below the EU average, with barriers on both the supply and demand sides. The 2025 CSRs noted the need to boost VC/PE for local businesses, including through public-private partnerships and improved financial literacy. The Portuguese authorities implemented a wide range of public programmes, providing equity and quasi-equity financing, mostly through the national promotional bank. These included direct financing (often in cooperation with private partners) and indirect funding programmes, managed as 'funds of funds' by private financial intermediaries. However, the private market for VC/PE remains underdeveloped (totalling 0.19% of GDP in 2024 against an EU average of 0.55%). This is also due to the marginal role played by Portuguese institutional investors, inter alia pension funds, in this sector (see Annex 6).

Graph 2.2: **Labour productivity growth and R&I expenditure in Portugal and the EU (2012-2024)**



(1) Labour productivity growth per hour worked and R&I expenditure in Portugal and the EU (2012-2024)
Source: Eurostat and Commission calculations.

Important steps have also been taken to improve financial literacy. Portugal has introduced this topic in school curricula, targeted initiatives for different population groups, and adopted a new five-year national financial education strategy. However, behavioural aspects and financial literacy gaps still lead to suboptimal outcomes, both for businesses' investment and funding strategies as well as for households' saving decisions, with 47% of financial assets held as currency or deposits, compared to 32% at EU level. At the same time, conservative saving behaviours and firms' heavy reliance on bank loans have boosted the resilience and strong performance of the domestic banking sector (see Annex 6).

Large public schemes support research and innovation, but the gap with the EU average remains wide

Portugal continues making progress in expanding its R&I intensity but remains a moderate innovator (see Annex 4)**.** A 2025 CSR emphasised the need for investment-related economic policy to continue to focus on research and innovation. Portugal made some progress in this area, advancing in the implementation of several important measures including: (i) rationalising tax incentives for R&I activities (e.g. SIFIDE program); (ii) mobilising and green agendas for research and innovation between firms, research institutions and academia; and (iii) subsidy schemes supporting firms' R&I activities and digitalisation. As some of these programmes were partially or fully funded by the RRF, it will be important to ensure sustained support to innovation and firms' productivity also beyond the RRF timeline (which ends in 2026). In addition, public R&D expenditure has stagnated below the EU average in recent years (at around 0.6% of GDP), impacting the quality of the public science base.

Effectively closing the R&I gap requires support to be channelled in the most efficient ways, to areas with highest potential for productivity and growth enhancement. Intensity of public support to private R&I increased steeply over the past years and is well above the EU average. While this has contributed to foster innovation in Portugal, some of the programmes supporting R&I, such as some of the tax credits, did not fully achieve their original objectives because of low cost-effectiveness (see Annexes 3 and 4). In this context, it is paramount for Portugal to continue evaluating the effectiveness and appropriateness of the measures in place to swiftly adapt them to markets and users' needs, while maximising their added value. Support should target the sectors with the highest growth potential or sectors where the country (or specific regions) displays a competitive edge, such as clean-tech and ICT (see Section 3).

Transparency and quality of policymaking show room for further improvement

Steps were taken to improve the transparency of policy making, but implementation challenges persist. A 2025 CSR flagged the need to strengthen stakeholders' involvement and increase transparency in shaping public policies. Portugal adopted a law on transparency in interest representation, scheduled to come into force in July 2026. It establishes rules for entities involved in legitimate interest representation with public entities and introduces a transparency register for interest representation (see Annex 7). However, further steps must be taken to ensure the operationalisation of the transparency register and the effectiveness of the adopted rules. Moreover, very limited progress has been made in enhancing stakeholders' involvement in policymaking. Mechanisms to systematically involve them in the policy process should be considered.

Evaluations and assessments of policies within policy-making processes remain underdeveloped, despite some progress. A 2025 CSR concerned increasing evidence-based policymaking, including by conducting *ex post* public policy evaluations. Portugal took some steps in this area through the development of a national evaluation agenda to institutionalise evaluation in the public policy cycle, under which a pilot project was launched in the Ministry of Education, Science and Innovation. However, the use of impact assessments in policymaking remains relatively low in Portugal. While expanding their use, it will also be important to ensure that they adequately include *ex post* evaluations (see Annex 7).

DECARBONISATION, ENERGY AFFORDABILITY AND SUSTAINABILITY

Portugal has been making progress in reducing emissions, but substantial decarbonisation potential remains. In 2025 Portugal received country-specific recommendations (CSRs) to reduce reliance on fossil fuels, particularly in transport, accelerate renewable energy deployment, strengthen electricity systems and grids, promote energy efficiency while addressing energy poverty, and improve water and waste management. Portugal has implemented a limited number of measures to address these. In a year marked by several disruptive events including a major energy blackout, severe wildfires, storms and floods, several planned initiatives are still facing delays.

Decarbonisation potential is greatest in the transport and industrial sectors, while significant challenges persist in water and waste management and climate adaptation. The power system continues to face constraints related to flexibility, security and stability, the transport sector remains highly dependent on fossil fuels with limited sustainable public transport options, and industry needs to continue its decarbonisation efforts, including through the development of clean technologies where Portugal has manufacturing potential. On water governance and waste management, some measures have been taken but their effect may take longer to materialise. Portugal is highly vulnerable to climate change, where continuity on investments and reforms would be necessary (see Annex 1).

Strengthening electricity system flexibility and grid capacity to ensure affordable electricity and energy security

Portugal has one of Europe's most decarbonised power systems, but new renewable capacity is only increasing modestly. Renewable energy accounts for 83% of electricity generation. Hydropower and wind remained the main sources of renewable electricity in 2025, while solar power was the only renewable source to expand, albeit modestly. Renewable installed capacity has increased steadily in recent years ([12]), mainly driven by decentralised photovoltaics. Meanwhile, wind deployment has stagnated, with only 5 MW of new installations in 2025 and one of the oldest wind fleets in Europe ([13]). Even with the expected addition of 2.1 GW of onshore wind over next four years, Portugal would remain about 2.4 GW short of its 2030 target of 10.4 GW ([14]). As electricity demand is expected to increase significantly by 2030 ([15]), further investments are warranted.

A number of obstacles are hampering the rollout of renewables. In 2025 Portugal received a CSR in 2025 to address them and

([12]) However, overall renewable capacity is still around half of the 2030 target (42 GW).

([13]) Renewables statistics in Portugal, January 2026. (Source: Portugal's Directorate-General for Energy and Geology.)

([14]) Wind energy in Europe, 2025 statistics and the outlook for 2026-2030, February 2026, WindEurope

([15]) 90 TWh in 2030 (PT NECP), having recorded 53.1 TWh in 2025. (Source: Portugal's Directorate-General for Energy and Geology.)

accelerate the rollout. Overlapping spatial planning rules across levels of governance, with the involvement of multiple entities, limited administrative capacity, and the lack of clear and standardised assessment criteria all contribute to lengthy procedures. Moreover, the digitalisation of the permitting process with the creation of a digital one-stop shop is facing serious delays. Public acceptance has become a challenge, reflecting both limited engagement mechanisms and benefit-sharing arrangements with local communities (see Annex 9). Strengthening institutional capacity, improving coordination across levels of responsibilities, notably through a single point of contact, and addressing the complexity of the regulatory framework would help further accelerate renewable deployment. Designating renewable acceleration areas would help accelerate permitting and encourage large-scale renewables deployment.

Citizen-led renewable energy communities have struggled to develop due to persistent regulatory and administrative barriers. As of September 2025, only three communities were operational. Key obstacles include complex licensing procedures, low energy literacy ([16]) lack of community participation, and the absence of clear business models and financing options. By contrast, collective self-consumption - typically led by energy companies and based on shared photovoltaic installations supplying multiple consumption points - have expanded more rapidly ([17]), although these models generally involve more limited citizen participation and governance. Municipal participation is also constrained by procurement rules and overlapping regulatory requirements (see Annex 9).

Limited fossil-free flexibility and scarce de-risking instruments leave Portugal exposed to electricity price peaks. Wholesale electricity prices remain volatile in Portugal, with price spreads ([18]) averaging EUR 90/MWh in 2025, a 29% increase from 2024. Participation in ancillary services and congestion management services remains constrained and barriers still hinder small or new aggregators (see Annex 9). Portugal would benefit from further developing a clear enabling framework for flexibility markets, simplified participation requirements and enhanced access to metering data. In addition, the market for power purchase agreements remains shallow. Portugal plans to introduce a state guarantee mechanism and has launched a platform to register bilateral contracts.

Energy storage capacity remains below the levels needed to support system flexibility and is currently half of the national target for 2030 ([19]). In 2025 Portugal received a CSR to invest in energy storage capacities and demand-side response tools. Portugal has mainly relied on reverse hydro storage, with 3.6 GW installed and most of its potential is already exploited. By contrast, battery storage remains limited, and support has so far been confined to the RRP. Behind-the-meter storage deployment also remains modest, suggesting scope to further incentivise households and companies to couple photovoltaics installations with battery storage.

Grid capacity limitations are increasingly affecting the connection of new renewable projects, as highlighted in a CSR in 2025. While measures have been taken to improve the use of existing grid capacity, further improvements in monitoring and transparency, promoting hybrid projects and introducing incentives to deter speculative applications could increase grid efficiency. Bottlenecks persist due to unused capacity reservation titles and limited transparency in connection queues (see Annex 9). Releasing unused reserved capacity could help unlock additional connection capacity.

([16]) The capacity of a citizen to understand energy systems, their impacts and to apply this knowledge to make informed decisions and adopt sustainable energy-saving habits

([17]) 755 installations in operation, 326 under construction and 347 additional requests by November 2025

([18]) 'Spread' refers to the difference between the highest and lowest hourly day-ahead electricity prices in a single day.

([19]) Final national energy and climate plan, 2025

Demand for grid access has also increased significantly. As of mid-2025, around 30 GVA ([20]) were awaiting connection to the transmission network, with a further 9 GVA in capacity already allocated but not yet operational. Portugal has therefore temporarily replaced its 'first-come-first-served' allocation model with a 'high-demand zones' mechanism, an exceptional and competitive mechanism for allocating capacity in areas under heavy pressure, which was recently extended to the whole mainland.

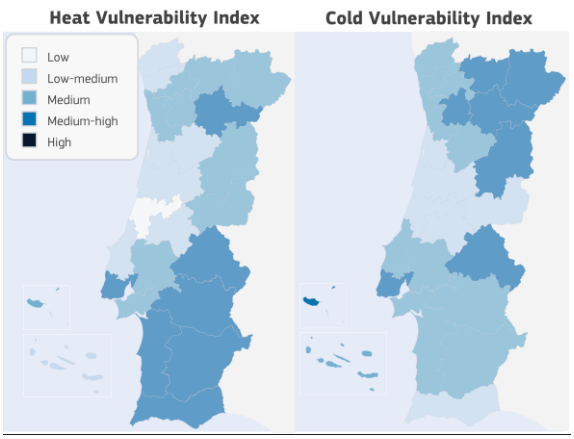
Investments in electricity grids could boost the network's resilience and security, in line with the 2025 CSR. Significant investments of EUR 1.7 billion in transmission and EUR 1.6 billion in distribution networks are planned over the next five years. The completion of the cross-border interconnection with Spain will also help Portugal reach its 15% interconnection target by 2030 (see Annex 9). However, permitting procedures remain complex and lengthy, and developing grid acceleration areas could better align grid planning with renewable potential. Finally, the strong storms in February 2026 highlighted the need to strengthen climate resilience in grid planning.

Improving the design of energy efficiency schemes and addressing energy poverty

Energy efficiency schemes are weakened by complex design and limited predictability. In 2025 Portugal received a CSR calling for accelerated investment in energy efficiency, including by better leveraging private financing. Despite substantial EU funding for renovation programmes, final energy consumption increased between 2019 and 2024, mainly due to behavioural effects, putting Portugal off track to meet its energy efficiency targets. The constant delays in implementing support schemes and their limited impact partly reflect complex and unstable programme design, including limited predictability regarding the timing and scope of funding calls (see Annex 9).

Regulatory hurdles stifle renovation. In cases of deep renovation, regulatory bottlenecks on condominiums´ rules create an obstacle. Data gaps also persist, as many buildings still lack an energy performance certificate, limiting the ability to design targeted support. Portugal has recently introduced a financing scheme to mobilise private financing, although its uptake remains unclear. Citizen one-stop shops could play a stronger active role in engaging with municipalities, social institutions, associations and condominium owners to facilitate access to renovation support. In the public sector, lengthy permitting procedures and rigid procurement rules continue to delay renovation projects.

Map 3.1: **Energy poverty vulnerability index, NUTs III, 2024**



(1) The energy poverty vulnerability index combines the thermal discomfort gap and the population´s adaptive capacity, also integrating a participatory component through a survey.
(2) The index ranges from 1 (low vulnerability) to 20 (high vulnerability) allowing comparison between regions and territorial patterns of energy vulnerability
Source: European Commission, based on data from the Portuguese National Observatory of Energy Poverty

Energy poverty remains high in Portugal. In 2024, around 15.7% of the population reported being unable to adequately heat their homes, and households experience issues such as leaks, damp or rot at nearly twice the EU average. Progress in addressing the related

([20]) A gigavolt-ampere (GVA) is a unit of apparent power used in power systems.

2025 CSR has been limited. Portugal recently adopted an action plan to tackle energy poverty, although the associated financial allocations remain unclear (see Annex 12).

Stronger involvement of regional and local authorities could help identify potential beneficiaries more effectively and ensure better communication with affected households. Despite the merit of current measures (such as the E-Lar programme) to increase electrification of consumption, these remain insufficiently targeted. Future measures outside the social climate plan could therefore go beyond income-based criteria such as the social tariff and consider other factors such as building performance and regional considerations (see Map 3.1).

Accelerating the decarbonisation of transport

Transport is the largest source of greenhouse gas emissions, as decarbonisation and modal shift lag behind. Portugal received a CSR in 2025 to reduce overall reliance on fossil fuels in the transport sector and invest in sustainable transport, particularly rail. Transport remains a major source of emissions, dependent on imported oil ([21]), while road transport continues to dominate both passenger and freight transport ([22]) and trains and public transport remains limited. This poses significant challenges for air quality, traffic congestion and energy security (see Annex 19). Moreover, urban low-emission and limited-traffic zones are either non-existent or inadequately enforced.

Portugal is making progress in promoting electric mobility and decarbonising its vehicle fleet. In August 2025, Portugal adopted a decree-law reforming the legal framework for electric mobility by liberalising the market and simplifying permitting and operation of charging infrastructure (see Annex 8). With RRP support, around 15 000 public charging points are expected to be deployed ([23]). In 2025, the charging network recorded strong growth in use.

However, often this does not stretch to low-income households. Limited purchasing power drives a strong preference for used vehicles, slowing fleet renewal, prolonging fossil fuel use and contributing to an ageing and less efficient vehicle stock. Current tax incentives and subsidies for the purchase of zero-emission vehicles are not targeted at lower-income households, and no government-backed social leasing scheme is currently available. Phasing-out fossil fuel subsidies could encourage shifts towards lower-emission vehicles (see Section 1).

A weak public transport network prevents the modal shift, especially in rural areas. Although public transport is generally affordable, limited infrastructure and weak service provision restrict access outside urban areas, leaving many households, in particular those in rural and more disperse areas, largely car dependent. Rail connectivity is particularly low in Centro and Alentejo (see Annex 18). Inter-regional connectivity would require substantial strengthening across all modes of public transport, including rail. This could play an important role in improving the attractiveness of territories and reducing pressure (like housing demand) on urban centres (see Section 1).

Large investments to decarbonise transport are ongoing. Key infrastructure projects are underway including the high-speed connections between Lisbon and Porto, and high-speed cross-border connections between Porto and Vigo and Lisbon and

([21]) Oil accounted for 93% of transport total final energy consumption in 2023 and for 58% of Portugal's net oil imports.

([22]) Road transport represented 95% of transport energy demand, with passenger vehicles representing 61% and freight trucks 39%. Private cars accounted for 88% of passenger transport (EU average: 83%).

([23]) Equal to 484.2 GW, 5.89% above the requirements of the Alternative Fuels Infrastructure Regulation.

Madrid (see Annexes 18 and 19). In 2025 and 2026, the government concluded contracts for the purchase of 195 new trains (totalling EUR 1.8 billion, partially financed by the Cohesion Policy Funds), which is expected to modernise and decarbonise the fleet ([24]). The new 'Portos 5+' strategy for maritime transport includes electrifying short-distance and inland waterway passenger transport and port equipment. Such investments will improve the sustainability and competitiveness of the transport sector in Portugal, but close monitoring is needed to ensure their timely delivery.

Unlocking the potential to decarbonise Portuguese industry

The industry sector is not delivering structural emissions reductions. Despite advancements in energy efficiency, greenhouse gas emissions have remained stable since 2015. Energy-intensive industries such as paper, non-metallic minerals and the refining sector account for more than half of the total industrial energy demand, and continue to rely heavily on imported fossil fuels (see Annex 5). Portugal lacks a unified industrial decarbonisation strategy establishing clear sub-sectoral emission reduction pathways, identifying the necessary technologies and infrastructure, and outlining measures to unlock investment and strengthen competitiveness (see Annex 8).

The complexity of the regulatory framework hinders faster decarbonisation of industry. Lengthy processes, lack of predictability and the involvement of multiple authorities at different levels ([25]) remain significant barriers to the permitting of industrial sites. Moreover, the permitting process for net-zero technologies is the same as for any other industrial production (see Annex 5). Further streamlining and simplifying permitting processes, in particular for net-zero technologies, would reduce administrative uncertainty, incentivise investment and provide clearer pathways for integrating renewables and clean technologies. Moreover, the lack of CO_2-storage and transport infrastructure represents a barrier to the development of carbon capture, use and storage (CCUS) projects. The lack of a regulatory framework for CCUS also limits the decarbonisation of energy intensive and hard-to-abate sectors with a strong presence in Portugal, such as the cement industry.

Portugal is well positioned to advance the manufacturing of net-zero technologies and clean materials and consolidate its place in the EU value chain (see Annex 5). This is due to its decarbonised electricity system and privileged access to clean technology resources, including critical raw materials such as lithium. Public support schemes could benefit from building on existing investments to better target deployment of net-zero technologies, enhance their strategic role in domestic value chains, and help scale-up innovations to commercial maturity (see Annex 8).

Future support can build on already successful schemes. Thanks largely to the RRP, Portugal is actively implementing initiatives to decarbonise existing industries and attract strategic low-carbon sectors such as the battery, biomethane and renewable hydrogen sector. Currently most of Portugal's revenues from the EU emissions trading system are allocated to amortising electricity tariff debt. As this tariff debt is expected to be phased out in the coming years, Portugal could reallocate these funds to support the decarbonisation of industry.

([24]) Government invests EUR 1.8 billion in the purchase of 195 new trains

([25]) Source: study on Portugal´s environmental licensing and inspections regime conducted under the EU's technical support instrument funding programme.

Addressing ineffective waste management and advancing the transition to a circular economy

Portugal faces significant challenges in improving waste management and advancing the transition to a circular economy. The circular material use rate stood at 3% in 2024, well below the EU average of 12%. Portugal also lags behind on municipal waste recycling, with a recycling rate of 31% in 2023 ([26]). Landfilling remains high, accounting for 57% of municipal waste in 2023. Meanwhile close to two-thirds of landfill sites are nearing capacity, putting Portugal at risk of missing the 2035 target of reducing landfilling to a maximum of 10% (see Annex 8). Portugal is estimated to need around EUR 2.5 billion annually for the circular economy transition, including waste management, with an estimated annual investment gap of EUR 472 million ([27]).

Portugal has adopted several plans to improve waste management, but their impact still needs to be assessed. Portugal received a CSR in 2025 calling for improving the conditions for the transition towards a circular economy, particularly by increasing waste prevention, recycling and reuse to reduce landfill and incinerator waste. Portugal adopted several strategic plans in 2023 ([28]), and around 300 municipalities adopted waste management action plans (PAPERSU) in 2024–2025 to support compliance with national targets. Portugal has also identified investment needs for expanding waste management capacity by 2030 ([29]) and adopted a new action plan for the circular economy in 2026.

Further policy reforms and economic instruments should help strengthen waste management. Under the RRP, reforms were introduced to strengthen collection, sorting and treatment capacity, including a deposit-refund system for non-reusable beverage packaging and a take-back scheme for electrical and electronic waste which will enter into force in 2026. In addition, a pay-as-you-throw (PAYT) system became mandatory for retail, services and catering sectors in 2025 and is expected to be extended to households by 2030. Replacing the current flat-rate waste tariff with a mandatory PAYT model could help address rising waste generation by providing households with stronger financial incentives to reduce waste.

Tackling water management inefficiencies and increasing water resilience

There are persistent challenges in water management, particularly regarding the water sector's resilience to climate change as highlighted in the CSR in 2025. Water demand already exceeds available resources in certain regions where water scarcity is acute (like Alentejo and Algarve, see Annex 19). This affects sectors like agriculture, industry and tourism across different regions, with agriculture remaining the largest water consumer. Water productivity, or the economic value produced per cubic metre of water in Portugal was EUR 34/m³ in 2022 (EU-27 average: EUR 151/m³). There are significant disparities in water prices across municipalities and infrastructure gaps remain substantial. Portugal's wastewater treatment compliance

([26]) While data for 2025 is not yet available, Portugal is considered to be at risk of missing the target of recycling 55% of municipal waste by 2025.

([27]) European Commission, 2025 Environmental Implementation Review, Country Report - Portugal. Estimates expressed in 2022 prices.

([28]) The national waste management plan (*PNGR 2030*), the strategic plan for municipal waste (*PERSU 2030*) and the strategic plan for non-urban waste (*PERNU 2030*)

([29]) Action Plan 'TERRA – Efficient Transformation of Waste into Environmental Resources' (*Plano de ação TERRA - Transformação Eficiente de Resíduos em Recursos Ambientais*). Available at: Plano de ação TERRA - Transformação Eficiente de Resíduos em Recursos Ambientais - XXIV Governo Constitucional

rate of 82% in 2020 was above the EU average. However, shortcomings persist and have led to infringement procedures concerning non-compliant agglomerations.

Further efforts will be needed to strengthen long-term water management and climate resilience. Despite progress through the adoption of the national water strategy ('Water that Unites'), with planned investment of around EUR 5.5 billion by 2030, plus complementary initiatives focused on restoring rivers and streams and deploying nature-based solutions to strengthen ecosystem resilience and reduce flood risks, significant challenges remain.

Improving efficiency in water management requires better coordination of supply-side issues across governance levels. Reducing leaks in water networks, expanding wastewater reuse, increasing water retention in landscapes, restoring wetlands and floodplains, and enhancing monitoring systems could help address water scarcity and climate risks. Demand-side measures will also be important, including water pricing reforms that better reflect resource scarcity while taking account of social vulnerabilities. Continued implementation of the national water strategy, together with sustained investment and improved governance, will be key for Portugal to balance economic water use with the protection of ecosystems and long-term climate adaptation.

Investment needs in water protection and management point to a financing gap, largely linked to wastewater infrastructure requirements. Although EU funding under the 2021-2027 cohesion policy and the Recovery and Resilience Facility helps address these needs, a significant number of planned measures - such as those under *PRO-RIOS 2030* - still relies on future funding programmes and lacks fully secured financing. A financing gap of around EUR 371 million per year by 2027 has been identified ([30]). In addition, Portugal submitted with delay its river basin and flood risk management plan and assessment on progress under EU water legislation is ongoing.

([30]) European Commission, 2025 Environmental Implementation Review, Country Report - Portugal. Estimates expressed in 2022 prices.

Improving climate preparedness

Portugal is increasingly exposed to frequent and intense extreme climate events. In recent years, prolonged droughts have highlighted the country's vulnerability to water scarcity, while episodes of intense rainfall and severe storms point to growing climate volatility. The alternation between extended dry periods and heavy precipitation reflects an intensification of climate variability, increasing pressure on water resources, and infrastructure. The most affected sectors include water management, agriculture, forestry, fisheries and aquaculture, and coastal areas. Current levels of coastal protection are insufficient to prevent increased economic damages from coastal flooding and erosion (see Annex 10). Recent storms have also highlighted the vulnerability of critical infrastructure in the power sector. Climate change is expected to increase electricity demand, reduce the efficiency of conventional energy systems and heighten risks to energy infrastructure from extreme weather events. Portugal adopted in April 2026 the Portugal Transformation, Recovery and Resilience (PTRR) Programme, structured around three pillars: recover (addressing immediate needs), protect (strengthening critical infrastructure and systems), and respond (ensuring a robust crisis response capacity).

Forest policy reforms need to accelerate and adapt to increasing climate risks. Several measures to reduce wildfire risks, including those supported by the RRP and cohesion policy funding, reflect a shift from a reactive approach centred on fire suppression towards greater emphasis on prevention and landscape transformation. However, key challenges remain in advancing structural landscape transformation, strengthening engagement with private landowners in fuel management and addressing the growing intensity of fires driven by more extreme

weather conditions ([31]). Continuous focus on developing viable economic value chains for forest biomass, aiming to incentivise private fuel management by monetising forest 'cleaning' activities would be helpful.

Adequate and predictable financing is key to supporting climate preparedness for Portugal. The national adaptation strategy is currently under revision, but its effective implementation will depend on a stable and well-planned financing framework. Significant investment needs remain to adapt and climate-proof critical infrastructure such as electricity grids, railways and roads, estimated at around EUR 561 million per year until 2050 ([32]). For example, adapting the TEN-T network alone could require around EUR 2.3 billion (see Annex 10). Strengthening climate resilience of energy networks will require improved planning to ensure timely investments, while avoiding an excessive burden on consumers.

National insurance coverage against natural catastrophes is limited in a country with high climate risks. This contributes to one of the lowest shares of insured economic losses in Europe (see Annex 10). As a result, the government often bears the cost of damages from extreme events through ad-hoc budgetary support, which can delay responses, increase fiscal pressures and lower incentives for individuals to take preparedness steps. The planned creation of a natural catastrophes fund – financed via insurance-linked contributions and backed by reinsurance – by summer 2026 could help address this protection gap.

([31]) Executive summary: Towards an integrated rural fire management framework in Portugal | OECD

([32]) European Commission (2026), Assessment of EU and Member States adaptation investment needs.

SKILLS, QUALITY JOBS AND SOCIAL FAIRNESS

In spite of good labour market developments in recent years, persistent skills mismatches restrain labour competitiveness; at the same time, there are pressures on the healthcare and long-term care system. In 2025, Portugal received country-specific recommendations (CSRs) to ensure equal access to health and long-term care, while preserving the sustainability of its National Health Service (NHS). Portugal also received CSRs on addressing skills mismatches (including by improving the skills level of the population and by making education and adult learning more relevant to the needs of the labour market) and on the skills and competencies needed for the green transition. Despite investments in the NHS, issues with equal access to healthcare remain, mostly due to staff shortages. In addition, long-term care is chronically underfunded and largely insufficient, failing to keep pace with one of the EU's fastest-ageing population. Portugal is implementing measures to address skills challenges, but these remain insufficient given the extent of the challenges. Portugal is also gradually integrating the green skills dimension into training programmes (Annex 1).

Addressing skills mismatches and promoting the labour market integration of young talent is key to improve competitiveness

Persistent skills mismatches combined with still low skills levels of the adult population hinder labour supply and competitiveness. In 2025 Portugal received a CSR to address skills mismatches, including by improving the skills level of the population. However, demand for specific skills is increasing and firms continue reporting a significant lack of available workers with the right set of skills ([33]). In addition, despite an overall job vacancy rate below the EU average, labour shortages in specific sectors such as construction (with an estimated shortfall of 80 000 workers in 2025), education, healthcare, justice, and service occupations (e.g. care and hospitality workers) suggest efficiency gaps in the matching of labour supply and demand. In the ICT sector - particularly relevant for the country's future competitiveness – Portugal has one of the EU's highest job vacancy rates (4% in 2025 against an EU average of 2.3%). Demand here is expected to increase further, but only 3.6% of tertiary education students were enrolled in related degrees in 2024 (against 5.7% in the EU, see Annex 13). Increasing skills mismatches are further reducing the availability of labour for certain sectors and contributing to an inefficient use of the qualified migrant workforce (see Annex 13).

Addressing skills challenges will require long-term investments and boosting participation in upskilling and reskilling measures. Tertiary educational levels increased significantly in recent years, and Portugal is implementing measures to improve adult skills, which contributes to addressing the 2025 CSR (see Annex 13). Ongoing investments in vocational education and training (VET) and adult learning (like the *QUALIFICA* programme) are welcome in this respect, but adult participation in learning is still relatively low and far from the 2030 targets (see Annex 13). Many recent measures are being implemented with RRP support, but long-term actions beyond 2026 will be essential. The current VET reform, also supported under Portugal's RRP, aiming to increase flexibility and uptake of training programmes, remains fundamental to steer

([33]) EIB Investment Survey, 2025

training measures. Expanding post-secondary VET to focus on areas with growing labour market demand and increasing adult learning to focus on digital, environmental and technological aspects could also help bridge participation gaps, including for the more disadvantaged (thus improving their employability), and consider also demographic challenges.

Education and training are not systematically aligned with labour market needs, fuelling further skills mismatches. Important elements are still pending despite a CSR in 2025 on this issue. While investments in VET courses are substantial and participants quickly integrate the labour market, only 11% of VET participants find a job related to their training, which suggests a persistent mismatch between the current VET offer and the skills sought by employers (see Annex 13). In addition, Portugal is leveraging OECD support (through the EU's 'Technical Support Instrument') to develop a skills intelligence strategy for tertiary education, including a skills forecasting tool that could support the alignment of education places and curricula with labour market needs (see Annex 13). To further help align VET and tertiary education with the labour market, the use of skills anticipation tools could help regularly inform career guidance and counselling, both in schools and in the public employment services and ultimately help address the skills mismatches.

Young people experience high unemployment, precariousness and poor-quality jobs. The high rate of youth unemployment persists in Portugal, with important regional disparities and even higher rates for less-qualified young people (see Annex 11). Temporary employment is also well above the EU average for this group (24.9% vs 12.0% in 2025), as is part-time employment (35.1% vs 18.2% in 2025), both mostly of an involuntary nature. Poor job quality is a deterrent: low wage levels, the lack of predictable and secure employment contracts, and insufficient training and career prospects remain important bottlenecks for the labour market integration of young people.

More effective and targeted active labour market policies (ALMPs) are important to improve the integration of young people. Portugal is taking measures to tackle youth unemployment, including through the European Social Fund+ *PESSOAS 2030* programme and the 'Exceptional measure to Encourage Unemployed Young People to Return to Work' (see Annex 11). Young people are the main beneficiaries of ALMPs in Portugal. To maximise their participation and employability results, it would be essential to (i) align ALMPs with labour market demand while also making use of robust skills anticipation mechanisms, (ii) take into account the different qualifications levels of young people, (iii) thoroughly monitor and evaluate the impact of traineeships and hiring support measures.

Improved and structured cooperation between public employment services and employers could contribute to addressing the mismatches. The balance between labour market demand and supply and a workforce that is projected to shrink highlights the need for effective public employment services to strengthen collaboration and potentially help address hard to fill vacancies, particularly for skilled workers. More dedicated services to integrate foreign-born workers in a fair and inclusive manner while making use of their high qualification levels would help address their significant percentage of over-qualification and lowering high unemployment among foreign-born tertiary educational attainment holders (see Annex 11).

Ensuring quality and inclusive education for future-proof skills and social cohesion

Portugal has improved educational attainment levels, but there is a negative trend in proficiency in basic skills among students. Despite significant progress in raising educational attainment levels (particularly among younger cohorts), proficiency in reading, mathematics and science skills among Portuguese 15-year-olds

dropped between 2018 and 2022, which raises concerns and points towards shortcomings in the quality and effectiveness of education. The issue goes beyond underachievement and also concerns top performance, particularly in mathematics, where the share of students achieving better results fell sharply and is now below the EU average, reducing the highly skilled talent pipeline for fields such as STEM, relevant for the green and digital transitions (see Annex 13). Ensuring good acquisition of basic competencies is key to increasing the skills levels of the population.

Rising teacher shortages threaten the delivery of quality education. The number of new entrants in the career does not meet the projected needs and an ageing teaching workforce makes the issue even more pressing (in 2023, 60% of lower-secondary teachers were 50 or over). Shortages are most severe in pre-primary, primary, and special education, undermining the continuity and quality of education and slowing implementation of reforms (see Annex 13). The government has introduced measures to offset critical gaps, including incentives for teachers to keep working beyond retirement age, the recruitment of professionals with advanced non-teaching qualifications subject to later certification, the expansion of study places on teacher training programmes and scholarships for students enrolling in teaching degrees. Beyond these measures, structural reforms are essential to make teaching a more attractive profession and ensure a sustainable solution. The revision of the 'Teaching Career Statute' planned for 2026 aims to incorporate certain structural changes, with ongoing negotiations involving key stakeholders. New reforms could better integrate the recommendations from the National Education Council to improve teacher education, induction and mentoring, working conditions, and professional autonomy.

The surge in foreign-born students adds pressure on Portugal's education system. Over the past six years, the foreign-born student population has nearly tripled, now constituting about 14% of students in primary and lower-secondary education. These students experience dropout rates three times higher than their native counterparts, highlighting integration challenges that impact future employment and overall integration prospects (see Annex 13). This makes it essential to expand language and tailored remedial learning support to all foreign-born students, based on regular diagnostics.

This pressure adds to already existing inequalities. Socio-economic and regional disparities persist, and over 8% of primary and lower-secondary students have special educational needs (see Annex 13). Formalising coordination between education, health, and social services locally would ensure comprehensive support for disadvantaged learners, enhancing educational equity and social cohesion. As Portugal refines its inclusive education policies, multi-annual planning, needs-based financing, and robust monitoring and evaluation are crucial for maximising education investment and focusing resources where they are most effective.

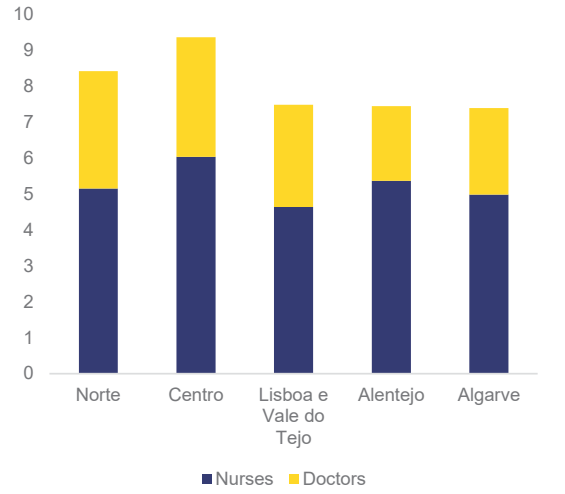
Strengthening healthcare, long-term care and social protection to ensure equal access to services and reduce poverty

Portugal still faces challenges in equal access to healthcare. In 2025 Portugal received a CSR to ensure equal access to quality healthcare, while also ensuring the sustainability of the National Health Service (NHS). It has taken steps in the right direction, but they have been insufficient to address the challenge. The country performs comparatively well on healthcare outcomes and has been investing in healthcare infrastructure and digitalisation (including through its RRP and cohesion policy funding). However, it faces significant difficulties in filling vacancies and retaining healthcare professionals in the NHS, which has been contributing to inefficiencies in healthcare provision and inequalities within the population in seeing their healthcare needs met (see Annex 15).

The impact is stronger in some regions and among lower-income and vulnerable

groups. In early 2025, 15% of the population did not have an assigned general practitioner, there were long waiting times for certain surgeries and issues concerning the due functioning of emergency departments and obstetric services in hospitals. This poses challenges in accessibility to quality healthcare, particularly for lower-income and vulnerable groups, who rely more on the NHS to meet their needs. The constraints are more prominent in some very populated regions, like Lisbon-Tagus Valley, and in remote areas, where incentives are not sufficient to attract the needed workforce (see Annexes 15 and 19).

Graph 4.1: **Doctors and nurses in the NHS**



(1) 2022 data. Medical doctors and nurses, in full-time equivalent, per thousand inhabitants.
Source: PLANAPP (Centre for Planning and Evaluation of Public Policies), Study on the NHS Healthcare Workforce in Portugal - Overview and Recent Evolutions

Despite measures to remediate the shortage of healthcare staff, staffing needs are still significant. Portugal has increased the number of places in education to study for medical jobs, created more places for doctors in training and the government agreed on gradual pay raises for doctors and nurses until 2027. However, it is estimated that an additional 6 100 doctors and 3 900 nurses are still needed to end the high reliance on overtime and agency work, and 3 000 additional doctors and 14 000 nurses are needed to address regional disparities in the density of the workforce (see Annex 15). While ensuring the sustainability of the NHS ([34]), new measures to attract and retain professionals could help address the shortages and regional inequalities in access to healthcare, particularly by improving working conditions and the work-life balance for NHS staff, accelerating career progression and supporting mobility to remote areas.

A rapidly ageing population poses challenges to long-term care (LTC) provision. In 2025 Portugal received a CSR to ensure equal access to long-term care, but has made limited progress in addressing it. Home and community-based care remain largely insufficient and are failing to keep pace with rapid population ageing. Portugal had the second-largest percentage of people aged 65 and over in the EU in 2024, yet public investment in LTC is well below the EU average (see Annex 12). LTC spending remains skewed towards residential care, while home services are chronically underfunded (see Annex 12). Access to homecare is strikingly low, with only 15.9% of older people with severe LTC needs using such services in Portugal, compared to 28.6% across the EU ([35]). This constrains people's ability to live independently and participate fully in their communities. Geographic disparities compound the problem, with rural areas particularly underserved (see Annex 12).

Despite some actions, gaps remain, including on home and community-based care. A pilot project for home support services (*SAD+Saúde*) was launched in five mainland regions in late 2025 with potential for scale-up. A separate pilot on respite care for informal carers has also started, but is limited to 18 municipalities, with broader implementation still delayed. The LTC action plan is an opportunity to set clear targets for expanding home and community-based services, alongside effective governance and

([34]) See Annex 2 for more details on public expenditure levels in the NHS.

([35]) EU Monitoring Framework on the Council Recommendation on access to affordable high-quality long-term care, 2025

adequate financing, while supporting gradual rebalancing of the care offer. Expanding and improving working conditions of the formal care workforce, as well as providing training and assistance for both formal and informal carers could help addressing staff constraints. Accelerating the full implementation of informal carer support measures, including respite care and income aid, and ensuring access to the independent living model for people with disabilities by tackling existing backlogs and regional disparities in the 'Movement of Support to Independent Life' programme could also offer an essential contribution (see Annex 12).

Strengthening the effectiveness of social protection could help reduce poverty. Despite below EU average and declining rates of people at risk of poverty or social exclusion, Portugal is behind to meet its poverty reduction target ([36]), with only 178 000 people lifted out of poverty or social exclusion since 2019, against the goal of 765 000 by 2030. Risk of poverty or social exclusion is higher in the outermost regions and social transfers remain comparatively ineffective, reducing poverty by 26% (33% in the EU) (see Annexes 12 and 18). Under its RRP, Portugal is planning to introduce a single social benefit to reduce fragmentation of social transfers. However, as the current minimum income with its insufficient adequacy is expected to be incorporated, support levels may remain inadequate. At the same time, coverage gaps in social protection for certain workers could continue to hinder further poverty reduction and raise equality concerns (see Annex 12).

([36]) European Commission, European Pillar of Social Rights Action Plan, 2021, target on poverty reduction

KEY FINDINGS

In areas **covered by existing country-specific recommendations**, Portugal would benefit from:

- **taking action to ensure the medium-term sustainability of the pension system**, including by promoting supplementary pensions;
- **decreasing inefficient tax expenditures** to reduce the complexity of the tax system and free up resources;
- **increasing housing affordability and accessibility**, by targeting vacant and derelict buildings in high demand areas; ensuring that the housing tax mix creates better incentives to use the housing stock effectively; improving the governance and coordination of housing policies, together with urban, spatial and transport planning; increasing the stock of social and affordable housing; and addressing the growing number of people experiencing homelessness;
- **improving firms' ability to innovate and scale up**, through better access to venture capital and private equity; increased financial literacy; sustained, more effective, and targeted investment in research and innovation, taking into account regional specificities;
- **reducing administrative burden, single market barriers and obstacles to firms' operations and investments,** including by streamlining licensing and permitting procedures, reducing late payments (most notably in the healthcare sector and the Azores region), enhancing coordination across all levels of public administration (especially at municipal and regional level), and making tax and administrative courts more efficient;
- **improving law-making quality** through greater transparency and more systematic evaluations and assessments, and strengthened stakeholder participation;
- **improving electricity system flexibility and capacity to accommodate increased renewables,** by providing a streamlined, predictable and digitalised permitting process for renewables and energy infrastructure; improving grid capacity and reducing connection queues; investing in energy storage capacities and promoting flexibility market instruments;
- **improving energy efficiency and reducing energy poverty** by attracting private investment, strengthening forward planning of funding calls, removing regulatory bottlenecks and targeting support to households experiencing energy poverty;
- **accelerating the decarbonisation of transport,** by phasing out fossil-fuel subsidies, while encouraging investments in public transport and railway infrastructure;
- **improving water and waste management,** by investing in the resilience of the water sector to climate change especially in southern regions; improving water management and streamlining water governance; expanding waste management capacity, and implementing the national and local level action plans for waste management and the circular economy;
- **addressing skills mismatches and improving human capital**, by investing in adult learning and reskilling and upskilling of adults, making education and training more relevant to the needs of the labour market, including through skills intelligence;

- **ensuring equal access to quality health and long-term care,** by tackling staff shortages and by ensuring adequate provision of long-term care, including home and community-based care.

In **other areas**, Portugal would benefit from:

- **decarbonising its industry**, in particular energy intensive industries, by improving the regulatory framework, including for carbon capture and storage, and by continuing to promote the deployment of low-carbon processes and the manufacturing of net zero technologies;

- **improving climate preparedness** by advancing reforms in forest and land management practices, enhancing coastal protection, strengthening resilience of critical infrastructure and promoting adequate insurance coverage for natural catastrophes;

- **ensuring quality and inclusive education,** by addressing teacher shortages and tackling challenges for disadvantaged students and students of a foreign background;

- **improving the integration of young people in the labour market,** including by delivering more effective and targeted active labour market policies.

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Table A1.1:

Portugal faces challenges in a wide range of policy areas, as identified in the country-specific recommendations (CSRs). Portugal was recommended, among other things, to ensure the medium-term fiscal sustainability of the pension system, reduce administrative burden and barriers for firms' operations and scale up, foster investment in private equity, venture capital and research and innovation, reduce reliance on fossil fuels, strengthen electricity systems and grids, improve water and waste management, ensure equal access to health and long-term care, and address skills mismatches.

The Commission has assessed the degree of implementation of the 2025 CSRs considering the policy action taken by Portugal to date*. To do so, the Commission has taken into account the information provided by Portugal in its Annual Progress Report as well as other information sources. This annex provides summary information on the policy actions taken or planned by Portugal for each CSR. More detailed information on these actions is included in the relevant chapters and other annexes of the report.

**CSR 2 is not assessed in CeSaR. RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets, to be reflected in the country reports. Progress with the cohesion policy is monitored in the context of the Cohesion Policy of the European Union.*

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
1.1 Reinforce overall defence and security spending and readiness while ensuring debt sustainability in line with the European Council conclusions of 6 March 2025.	Total general government defence expenditure in 2026 is projected at 0.8% of GDP, corresponding to a decrease of 0.1 ppt. compared to 2024.	Total general government defence expenditure in 2027 is projected at 0.8% of GDP, corresponding to a decrease of 0.1 ppt. compared to 2024. However, defence expenditure in nominal terms is projected to grow to levels higher than in 2024.	Limited progress
1.2 Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, while making use of the allowance under the national escape clause for higher defence expenditure.	A budget surplus of 0.7% and a budget balance close to balance of -0.1% is recorded in 2025 and projected for 2026, respectively. Cumulated deviation in 2025 amounted to 0.4% of GDP and is not explained by the NEC flexibility (0.0 pps. of GDP). Cumulated deviation in 2026 projected at 0.6% of GDP and is not explained by the NEC flexibility (0.0 pps. of GDP).		Substantial progress
1.3 Take action to ensure the medium-term fiscal sustainability of the pension system.	- Establishment of a Working Group to define action lines for the sustainability of Social Security (incl. analysis of the sustainability of the pension system, studying partial retirement mechanisms and early retirement scheme).	- Final report of the Working Group was expected for 30 January 2026 but has been delayed until 30 June 2026.	No progress
3.1 Simplify regulation, improve regulatory tools and reduce administrative burden on businesses, mainly by reducing barriers to industrial licensing and removing other obstacles to their capacity to scale up and boost innovation and productivity.	- New environmental licensing law approved under the RRP (currently under assessment). - Virtual Citizen's shop integrating services for citizens and businesses (available as of November 2025)	- Initiatives for better implementation of "tacit approvals"; - Automation and Digitalisation, phase-in by 2027 of "LicencIA" program; - Urban planning and edification act (presented to Parliament), streamlining and shortening processes and deadlines; - Inter-operability regime across national/regional/municipal level to ensure harmonization of rules and better coordination.	Limited progress
3.2 Foster private investment into venture capital and private equity for local businesses, including public-private risk sharing,	- Large programs developed by the national promotional bank (BPF); - Some tax incentives had been introduced in 2024 to support the development of this market.		Limited progress
3.3 and improve financial literacy.	National Plan for financial education, including - New program in school, including financial literacy as part of study programs across 12 years of studies; - New 5-year program prepared by financial supervisors. - Online interactive programs to		Some progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	provide on basic financial literacy topics (targeted to adults).		
3.4 Further increase the efficiency of administrative and tax courts, to decrease the length of proceedings.	- Working group set up to promote speed, simplification of tax courts presented its report with legislative proposals on September 2025; - More trainings for magistrates, including those in tax and administrative courts; - Integration of the Information System of Tax and Administrative Courts in (SITAF) in the single court information system; - Urgent recruitment process with 50 vacancies.	- Creation of a specialized tax and administrative procedure for cases under EUR 15,000; - Legislative proposal in line with the report presented by the working group on September 2025; - New recruitment processes.	Limited progress
3.5 Improve the effectiveness of the tax system, particularly by strengthening the efficiency of its administration and reducing the associated administrative burden.	- Approval of the Tax Simplification Agenda; - Ongoing digitalisation of the tax administration, including through the implementation of behavioural approaches and a digital dashboard (supported by the TSI); - Implementation of IT systems related to pre-filing of tax declarations (including those implemented under the RRP); - Creation of a permanent technical tax policy unit (U-TAX) and publication of U-TAX's Assessment Report on Tax Expenditure in Portugal (implemented under the RRP).	- A second legislative package under development, aimed at implementing five additional measures outlined in the Tax Simplification Agenda - Elimination of the indirect leg of SIFIDE	Some progress
3.6 Foster evidence-based policy making including by conducting ex post public policy evaluations.	- New competencies provided to PLANAPP, also setting up the new national evaluation agenda (currently running a pilot project); - Set up of new DG on studies, evaluation and planning in the ministry of education and research; - U-TAX, created in 2024, is supporting the ex-ante and ex-post evaluation of tax expenditures.	- National Evaluation Agenda to be implemented	Some progress
3.7 Sustain the focus of investment-related economic policy on research and innovation.	- Large schemes are in place to support R&I expenditure, including under the RRF (EUR 2.9 bn support to the mobilising/green agendas, EUR 950mn "business innovation" subsidy scheme); - Very large tax exemptions support spending in R&I (worth EUR 1bn in 2023) through the SIFIDE program.		Some progress
3.8 Strengthen stakeholders' involvement and increase transparency in the preparation of public policies.	- Law No. 5-A/2026 (Lobbying Law), which regulates lobbying activities and creates the Transparency Register for the Representation of Interests, published on 28 January. The rules adopted will enter into force in July 2026; - Creation of a Division for the Support to the Legislative Process (DALP) in June 2025, which is responsible for ensuring the implementation of the Legislative Footprint Registry.		Some progress
4.1 Reduce overall reliance on fossil fuels in the transport sector	-Decree-Law 93/2025 establishes a new legal framework for electric mobility, aligned with AFIR;		Limited progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	- Strategic Vision "PORTOS 5+" published on 12 August 2025.		
4.2 in particular by phasing out fossil-fuel subsidies,	- Partial reversal of the extraordinary ISP discount (Entry into force of OE 2026 provisions (Law Lei n.º 73-A/2025): Portaria n.º 427-A/2025/1 (28 November 2025); - The partial reversal has been halted due to energy price hikes as of March 2026. Instead, the government introduced a temporary mechanism to reduce ISP rates and return additional VAT tax revenues whenever the price increase, compared with the week of 2-6 March, exceeds 10 cents for unleaded petrol and road diesel. - Further phase out the remaining temporary ISP relief measures -Tax exemptions for natural gas in certain industrial processes - Entry into force of OE 2026 provisions (Law Lei n.º 73-A/2025) on CO_2-surcharge exemptions - Tax reductions and exemptions for diesel used by freight companies, railway locomotives, public transport and agriculture machinery; - Resumption of the annual update of the carbon tax in 2026; - Entry into force of biofuels exemption reversal as of 1 January 2026. -		Limited progress
4.3 and by investing in sustainable transport, particularly in rail, taking into account regional disparities.	- New transport passes, including discounted or free passes for youth, seniors, students, and vulnerable groups; - Portugal is still implementing the Ferrovia 2020 projects and the national investment plan from 2023 was left unchanged.		Some progress
4.4 Further accelerate the roll-out of renewables by providing a predictable, regulatory framework with clear and digital procedures for permitting including for collective self-consumption and renewable energy communities.	- Reform of the public administration through the creation of the National Energy for Geology and Energy (AGE); phased implementation until June 2027; - Environmental Impact Assessment exemptions for certain energy storage projects to accelerate permitting (2025- 2026); - "Simplex Ambiental" programme to simplify environmental licensing procedures (2023); - The Clawback Adjustment mechanism (Mecanismo de Equilíbrio Concorrencial), considered a barrier to investment, was removed in December 2025;	Measures expected in 2026: - Review of the relevant legislation on self-consumption projects and energy communities to facilitate their set up; - Development of a digital one-stop-shop for the licensing of renewable energy projects, self-consumption, energy communities and storage (RRP investment); - Establish Renewable Energy Acceleration Zones (Go-to Areas) for faster permit procedures, in line with REDIII; - Revision of the compensation mechanism for municipalities - A National Plan for Energy Literacy - Study on total system costs will be conducted to support long-term energy policy.	Limited progress
4.5 Enhance stability in the electricity market through long-term contracts,	- Registration of PPAs in a dedicated platform is mandatory for bilateral contracts with a duration longer than one year (2024)	- Portugal is developing a Power Purchase Agreement (PPA) State Guarantee aimed at derisking RES projects and improve bankability.	Limited progress

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Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
4.6 investment in energy storage capacities and demand-side response tools.	- Piloted demand response in the balancing market - Introduction of a scheme to support investment in energy storage capacity (supported by the RRP/REPowerEU investment)	- A National Energy Storage Strategy is under preparation (expected to be adopted during the first semester of 2026) - A Battery Energy Storage Auction of 750 MVA to be launched in Q1 2026	Some progress
4.7 Strengthen the capacity of the electricity transmission and distribution grid,	- Planned investment of EUR 137 million for grid modernisation, part of the Resilience Package following the (ES/PT) blackout of 2025.	- The approval process of the Grid Investment Development Plans (PDIR) is ongoing;	Some progress
4.8 including in cross-border electricity interconnections,	- Interconnection project Ponte de Lima-Fonterfría double-circuit 400kV (ongoing). The project is delayed, and finalisation is now expected by end of Q2 2026.		Some progress
4.9 improve connection procedures and increase their transparency to incentivise investments in the national network.	- Portugal temporarily replaced the "first come, first served" model with the introduction of "high demand zones" (ZGP - Zonas de Grande Procura) capacity allocation mechanism with financial guarantees to allow the release (and subsequent allocation) of unused capacity (2023); - Portugal expects to open new High Demand Zones and assess reform options to improve the general grid connection regime.	- Exception mechanisms will be launched to allow promoters to adjust projects in the context of their Grid Injection Reservation Titles - New procedures to allocate capacity are planned for 2026 - Portugal plans to start systematically publishing expected grid connection dates on a project-by-project basis as of 2026	Some progress
4.10 Step up policy efforts aimed at the provision and acquisition of skills, and competences needed for the green transition, particularly for the public administration.	-Trainings and programs to promote green skills were implemented, some with the support of the RRP, including: - Green Competences (long-term vocational training, recognition/certification of green skills); - The Training Center for the Energy Transition; - ADENE Academy; - EMER training sessions (the Mission Structure for Licensing Renewable Energy Projects 2030); - ECO.AP Program (promotes energy and resources efficiency in the public administration).	- A detailed study on green jobs and skills in the energy sector in Portugal is currently underway.	Some progress
4.11 Accelerate investment in energy efficiency by promoting financial schemes to attract private investment and	- E-lar programme, launched in 2025, (digital vouchers to households for replacing fossil-fuel appliances); - Creation of over 100 Citizen Energy Spaces; - Transposition of the Energy Performance of Buildings Directive (Directive EU 2024/1275): A working group was established under Order n.º 8023/2024, with Phase I completed and Phase II underway to ensure full transposition by May 2026.	- National Building Renovation Plan (PNRE): under public consultation in February 2026; - Expansion of "E-LAR" into a permanent voucher scheme for electrification of heating and cooking systems; - Development of hybrid financing mechanisms; - Tax incentives and green mortgage schemes to attract private investment in deep renovations; - Promotion of the deployment ofrenewable energy communities and net-positive energy districts.	Some progress
4.12 supporting households experiencing energy poverty.	- National awareness campaign and integration of statistical and administrative data on energy poverty, studies promoted by the National Observatory of Energy Poverty, the municipal-level Map of Energy	- Measures to mitigate/tackle energy poverty have a multi-year time horizon and are integrated into the Action Plan to Tackle Energy Poverty (PACPE) 2025-2030 and the Social Climate Plan 2026-2032.	Limited progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	Poverty, and the Atlas of initiatives to combat energy poverty. These tools will continue to inform policy design and implementation through 2026. - National Long-Term Strategy to combat Energy Poverty (ELPPE) has been recently materialized in the Action Plan to Tackle Energy Poverty (PACPE) 2025-2030; - State-backed loan schemes for building rehabilitation and energy-efficient upgrades, together with programs such as the Efficiency Voucher Program, the Program for More Sustainable Buildings and the E-Lar support scheme; - Reduced VAT rates applicable to a range of technologies and services; - Support for the purchase of bottled LPG – in Portuguese, Programa "Botija Solidária" – for vulnerable households; - Measures ensuring access to affordable energy, including the Social Electricity and Social Natural Gas Tariffs.		
4.13 Improve the conditions for the transition towards a circular economy, particularly by increasing waste prevention, recycling and reuse to reduce landfill and incinerator waste.	Waste prevention - Pay-As-You-Throw (PAYT) system mandatory in 2025 for services and catering sector; - A communication and awareness campaign started in December 2025 and is ongoing (until end 2026); Recycling and reuse - Deposit and return system to be implemented in April 2026 (beverages made of plastic, ferrous metals and aluminium); Landfill and incinerator waste - TERRA plan 2025 published in 2025 (emergency landfill measures + measures for reduction of landfill) - Increase of landfill tax by €5 per tonne for the years 2026, 2027, 2028, 2029 and 2030 (Despacho n.º 15554-A/2025) Horizontal measures - New 5-year Circular Economy Action Plan (CEAP 2030, approved by the government in January 2026), replacing the 2017 CEAP; - Close to 100% of municipalities have a municipal waste plan (PAPERSU) approved.	- A monitoring tool (dashboard) is being developed to provide real-time data on selective collection at national, regional, and municipal levels; - New extended producer responsibility will enter into force (hazardous municipal waste, mattresses, and furniture); - Transposition of revised waste framework directive (directive 2025/1892) has already begun. Study in place to establish the value chain and evaluate proper destinations for this kind of waste (textiles); - PAYT system mandatory in 2030 for the domestic sector .	Some progress
4.14 Improve water management to strengthen climate change adaptation and ensure long-term economic and environmental resilience. Implement an integrated water management strategy and streamline water governance.	-Agua que Une: National Water Strategy (9.1 billion euro until 2050, out of which 5.5 billion euro until 2030) structured around three main pillars: Efficiency, Resilience, and Intelligence.	- Water Tariff Regulation: a draft regulation, currently in public consultation, aims to standardise the setting and revision of tariffs across the country. It remains to be seen whether this can be implemented; - Challenges persist in water management: Licensing (planned suspension of new water abstraction), mandaroty reporting of volumes abstracted, guarantee ecological	Some progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
		flows.	
4.15 Promote investments in wastewater collection and treatment, the reduction of leaks and water monitoring,	Leak reduction: 111 measures for reduction of losses by 269 hm3, and 122hm3 of treated wastewater, increase water safety by 310 hm3		Limited progress
4.16 develop nature-based solutions, water body rehabilitation and improve water efficiency and reuse.		- Pro-Rios 2030 announced on 16 January 2026 to address river restoration: - PENSAARP 2030 (plan for water supply, wastewater and pluvial water management) forecasts investment needs of EUR 3.159 billion for sanitatuin and EUR 400 mln for rainwater; - RBMP plan submitted in 2025 with investment needs of EUR 935 million to achieve "good" status of water bodies.	Limited progress
5.1 Ensure equal access to quality health and long-term care, while preserving the sustainability of the National Health Service.	- RRP measures: expansion of the capacities of the integrated continuous care network, the palliative care network and the mental health network, a new cost accounting methodology and other actions to improve management efficiency in the NHS; - Improved salary conditions of healthcare workers; - Creation of the National Interministerial Coordination Commission for Long-Term Care, encompassing the Ministry of Health and the Ministry of Labour, Solidarity and Social Security; - Informal caregivers: increase in the allowance by EUR 50.93 in 2025 and extended the classification to people without family ties to the person; - A specialised "Electronic prescription regime for medicines and diagnostic aids" was established for LTC institutions in December 2024.	- Review of the CAVI (Independent Living Support Center), to address waiting lists and broaden coverage; - Plans to move from recruitment-focused policies towards retainment of workers in the NHS (pay and career adjustments, work–life balance, strengthening occupational health) - yet details are missing; - Restructuring of the RNCCI information system is underway to ensure interoperability with Social Security IT systems. Since July 2025, a new management system has been piloted, featuring an automated patient referral algorithm based on identified "LTC Needs Clusters"; - SAD+Saude pilot project. To be tested in 5 regions, with a public investment of EUR 1.5 million; - Pilot project on Integrated Continued Care Teams, combining health and social security services to provide care at home to high-dependency patients.	Limited progress
5.2 Address skills mismatches by improving the skills level of the population and by making education and adult learning more relevant to the needs of the labour market.	- RRP measures: support to adult learning, courses with digital and technological elements, expansion of specialised technology centres in the VET network, new courses in STEAM areas, among others; - Measures to promote digital skills: 'Upskill - Digital Skills and Jobs', 'Emprego+Digital (RRP)', 'Lider+Digital', 'Cheque-formacao + Digital', 'Formador + Digital'. - PRO_MOV: partnership between the public employment service and some companies to support the adaptation of workers to a new job; - Adult learning initiatives and trainings like: Recognition, Validation and Certification of Competences (RVCC), microcredentials, Acelerador Qualifica; - Measures to support the integration of foreign-born workers: 'Portuguese as a Welcome Language', 'INTEGRAR'. - Green skills: trainings of EMER,	- New skills forecasting mechanism for higher education is currently being developed with TSI support. Full operationalisation is expected only after mid-2026; - The update of the National Qualifications Catalogue and VET offer is ongoing; - An update of the regional module of SANQ (Skills Needs Anticipation System) is expected in June 2026. An update of the VET network for 2026/27 is also expected; - PT is evaluating short-term technical higher education programmes (CTeSP); - A study on skills needed in the energy sector is ongoing and should lead to the adaptation of training offer to the identified needs; - PT has announced the expansion of the school library network and a new training programme for teachers focused on reading teaching ("PEDAL"); - A revision of the Legal Framework	Some progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	Training Center for the Energy Transition, reform of Green Competences, Gren Skills and Jobs training (all with RRP support); - Targeting the skills of young people: INICIAR, vocational training offer; - Measures to address teacher shortages: retention incentives for near-retirement teachers; recruitment and in-service professionalization of professionals with advanced non-teaching degrees; opening of additional places for teacher training and provision of scholarships to 2 500 students entering teaching degrees; - The revision of the "Teaching Career Statute" is ongoing.	for Degrees and Diplomas (RJGDES) is expected in 2026, integrating micro-credentials and establishing a national graduate tracking system; - Expansion of the free provision of ECEC, Aprender+, Working group on Digital and AI in Education (to define a national strategy through 2030), Inclusion and integration of Migrant Students, tertiary education reform.	
5.3 Address housing affordability and availability in high demand areas, by eliminating barriers to renting vacant houses and renovating derelict buildings	- Update of taxable property values through a rise in the reference used for construction costs in taxable property values to EUR 570 EUR/m² in 2026; - RRP investments on public housing, more than 30 000 dwellings to be built, purchased or renovated for affordable housing purposes, going up to 59 000 by 2030 announced by the government; - Granting special support to first time young buyers, offering tax exemptions from IMT and stamp duty on their first home purchase, provided it is their primary residence; - Several rent support programs (like Porta 65+, Programa de Apoio ao Arrendamento and others).	- New revision of 'Simplex Urbanistico', to speed up permitting processes for construction; - Approval by parliament, in general terms, of the Government's proposal for legislative authorisation in the housing sector, as part of the "Construir Portugal" programme.	Limited progress
5.4 and promote efficient public transport connections to reduce the pressure on house prices in urban centres and improve the attractiveness of other territories.	- Portugal has implemented a number of measures to incentivise the use of public transport (particularly on ticketing for transportation in and around metropolitan areas); - In 2025, only Porto launched new UNIR bus lines for inter-municipal express connections, no similar expansions have been reported for Lisbon; - The first phase of the new high-speed line between Lisbon and Porto was contracted.	-Reform on single ticketing, with a ticketing system linked to the ID and the gov.pt app, more integration of operators, payments and fare interoperability.	Limited progress

Source: Portugal's reporting and Commission assessment

ANNEX 2: FISCAL DEVELOPMENTS AND DEBT SUSTAINABILITY

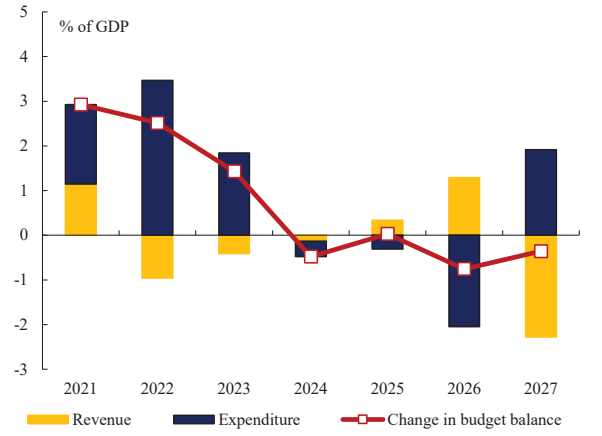
This annex discusses selected topics in public finance and developments in fiscal-structural country-specific recommendations (CSRs) addressed to Portugal in July 2025. These CSRs include a call to strengthen defence spending and readiness while implementing a fiscal strategy in line with the Council Recommendation of 21 January 2025. Portugal also received a recommendation in 2025 to ensure that the pension system is sustainable in the medium term.

On 21 January 2025, the Council of the European Union adopted the Recommendation endorsing Portugal's medium-term fiscal-structural plan ([37]). The plan includes a fiscal adjustment over four years. On 8 July 2025, the Council activated the national escape clause for Portugal to facilitate the transition to higher levels of defence spending ([38]).

Developments in the government balance, debt and public expenditure([39])

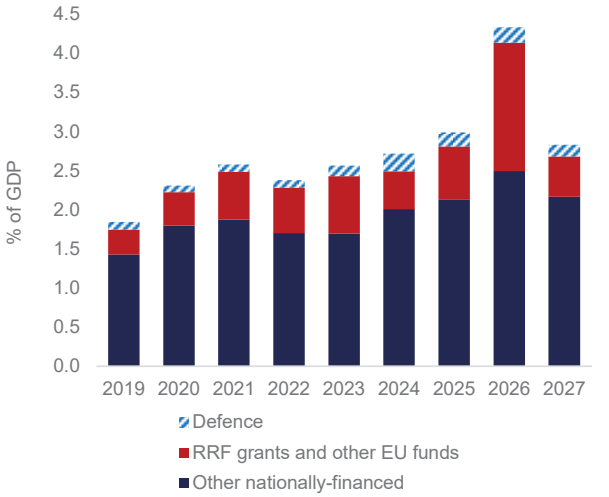
Portugal's government surplus was equivalent to 0.7% of GDP and the government debt-to-GDP ratio had fallen to 89.7% by the end of 2025. Based on the Commission Spring 2026 Forecast, Portugal's government surplus is projected to turn into a deficit of 0.1% of GDP in 2026 and 0.4% of GDP in 2027. The better-than-expected surplus in 2025 was supported by strongly performing tax revenues and social contributions on the back of sustained economic activity and a dynamic labour market. However, fiscal policy measures are set to permanently weigh on both direct tax revenues and current expenditure.

Graph A2.1: **Contributions to the change in general government balance (% of GDP)**



Source: European Commission Spring Forecast

Graph A2.2: **Public investment evolution and composition (% of GDP)**



Source: European Commission Spring Forecast

Implementation of the recovery and resilience plan (RRP) is boosting public investment. Public investment is expected to reach 4.3% of GDP in 2026, up from 1.8% in 2019 (see Graph A2.2). However, it is set to decline as of 2027 when the Recovery and Resilience Facility (RRF) comes to an end, as accelerated implementation of other EU funds is expected to only partially compensate the decline. Nationally financed public investment has picked up since 2020 compared to previous years, supported by the execution of RRF-financed investments. In

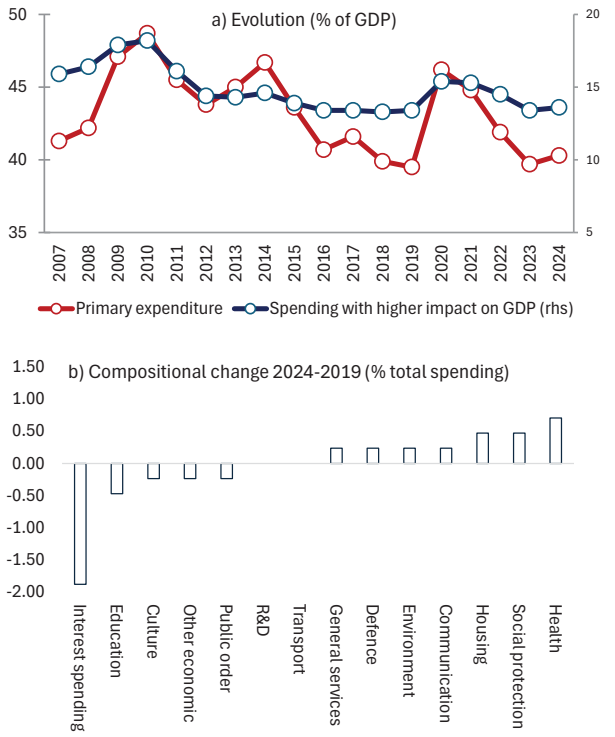
([37]) OJ C, C/2025/641, ELI: http://data.europa.eu/eli/C/2025/641/oj.

([38]) Compliance by Portugal with the maximum growth rates of net expenditure recommended by the Council is assessed in [COM(2026)200].

([39]) Figures underpinning fiscal surveillance (net expenditure growth) are provided in the Fiscal Statistical Tables (SWD(2026)200) providing background data relevant for the assessment of the budgetary policies of the Member States.

2025, this investment reached 2.3% of GDP and is set to peak in 2026 before returning to that same level in 2027.

Graph A2.3: **Primary spending evolution and compositional change**



Source: Eurostat

Note: Based on economic literature, the categories considered to have the highest growth impact include education, R&D, health, transport and communication (See Barbiero and Cournede (2013), Gemmel et al. (2016), Lupu et al. (2018), Cepparulo and Mourre (2020) and OECD (2025)).

After declining around 2010, the type of expenditure that has a greater impact on GDP remained broadly stable, rising slightly after 2019 before decreasing again in recent years. Zooming in on the composition of spending, social protection accounts for the largest share of total expenditure (around 40%), followed by health, economic affairs, general public services and education, which each account for at least 10% of total spending. Since 2019, public expenditure on health has increased significantly (see Graph A2.3). Spending on social protection, housing, environment, communication, general public services and defence has risen more modestly. By contrast, spending on transport and R&D has remained broadly stable, while education expenditure has declined. This trend deserves attention, as these categories are generally considered growth-friendly spending categories.

Portugal's tax revenues as a percentage of GDP are well below the EU average and rely heavily on consumption taxes. In 2025, Portugal's total tax revenues as a percentage of GDP (including compulsory social contributions) amounted to 35.4%, significantly below the EU average of 39.9%. Total tax revenues are projected to remain at that level in 2026 before decreasing to 35.0% in 2027 according to the Commission's Spring 2026 Forecast([40]). The tax mix in Portugal relies heavily on consumption taxation compared with the EU, while the proportion of labour taxes in the tax mix is below the EU average. Portugal makes heavy use of reduced VAT rates, thereby narrowing the tax base (see Annex 3).

Cost of ageing

Total ageing-related spending in Portugal is projected to rise by about 3 percentage points (pps) of GDP by 2040, to around 26.5% of GDP, though declining by about 0.5 pps by 2070 (see Table A2.1**).** The overall decline in the long term is the result of a projected fall in pension spending, which would more than offset the expected rise in healthcare and long-term care spending.

Public pension spending as a percentage of GDP is projected to increase by about 2 pps between now and 2040 but decline after that. Pensions currently represent close to 30% of total government spending. Following the expected rise over the next decades, Portugal would have the third highest pension expenditure-to-GDP ratio of all Member States in 2040. In 2025, Portugal received a CSR to act to safeguard the medium-term fiscal sustainability of the pension system. So far, only preparatory steps have been taken to address this, notably through the establishment of a dedicated expert working group. In 2026, the working group is expected to deliver a report which will include a reassessment of the early retirement scheme, and a study of partial retirement mechanisms and complementary schemes.

([40]) Data retrieved from the AMECO database (https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/ameco-database_en).

Table A2.1: **Projected change in ageing-related expenditure in 2025-2040 and 2025-2070**

	ageing-related expenditure	change in 2025-2040 (pps GDP) due to: pensions	healthcare	long-term care	education	total	ageing-related expenditure	
PT	23.5	*1.9*	*0.7*	*0.2*	*0.1*	***2.9***	26.4	**PT**
EU	24.3	*0.5*	*0.3*	*0.4*	*-0.3*	***0.9***	25.2	EU

	ageing-related expenditure	change in 2025-2070 (pps GDP) due to: pensions	healthcare	long-term care	education	total	ageing-related expenditure	
PT	23.5	*-2.4*	*1.2*	*0.4*	*0.1*	***##***	22.8	**PT**
EU	24.3	*0.2*	*0.6*	*0.8*	*-0.3*	***1.3***	25.6	EU

Source: 2024 Ageing Report (EC/EPC).

Table A2.2: **Supplementary pension schemes – Scope for expansion**

	Assets in 2024 (% GDP)	Gross replacement rate at retirement: (pps change 2025-2040)	Participation in 2024 (% working-age population)	
PT	12.9	*17.1*	5.6	**PT**
EU	32.4	*-2.8*	55.9	EU

Source: European Commission.

Supplementary pension schemes can increase the resilience of the pension system by diversifying retirement income sources. In Portugal, however, uptake of such schemes remains limited: at the end of 2024, private pension assets amounted to around 13% of GDP while participation in supplementary schemes covered around only 6% of the working-age population.([41]) This coincides with both: (i) rising medium-term pressures on public pension spending; and (ii) a projected increase in the replacement rate by 17 pps between 2025 and 2040 (Tables A2.2 and A2.3).([42])

Public healthcare expenditure is projected to be 6% of GDP in 2025 (below the EU average of 6.6%) and is expected to increase by 0.7 pps between now and 2040 and by a further 0.5 pps between 2040 and 2070. This increase in healthcare expenditure contributes significantly to fiscal risks. However, the Portuguese RRP included reforms and investments that aim to improve the cost effectiveness of the health system that may reduce the fiscal risks.

Public expenditure on long-term care is projected at 0.5% of GDP in 2025 (below the EU average of 1.7%) and is expected to increase by 0.2 pps of GDP between now and 2040 and by a further 0.2 pps of GDP between 2040 and 2070.

National fiscal framework

The Portuguese Public Finance Council (CFP) is a relatively well-resourced independent fiscal institution with a wide mandate. Two of the five members of the senior board can be (and often are) non-Portuguese nationals, who therefore help to bring in new perspectives. However, the CFP has limited ability to autonomously make recruitment decisions and set salaries. The CFP has had a specific communication strategy since July 2025, and it is quite active on traditional and social media. The CFP is so far the only independent fiscal institution in the EU to provide an independent assessment of national-level green budgeting practices.

The institutional setting of spending reviews has gained credibility despite past setbacks. A Decree Law designed to improve the process for performing spending reviews was approved in 2025 following support from the Technical Support Instrument. This follows challenges in

([41]) Source: OECD Pension Market in Focus 2025. The highest participation rate in at least one supplementary pension plan is reported.

([42]) The (gross) replacement rate refers, depending on data availability, to both public and private pensions. It is based on projections from the 2024 Ageing Report.

Table A2.3: **Fiscal governance database indicators and public accounting maturity**

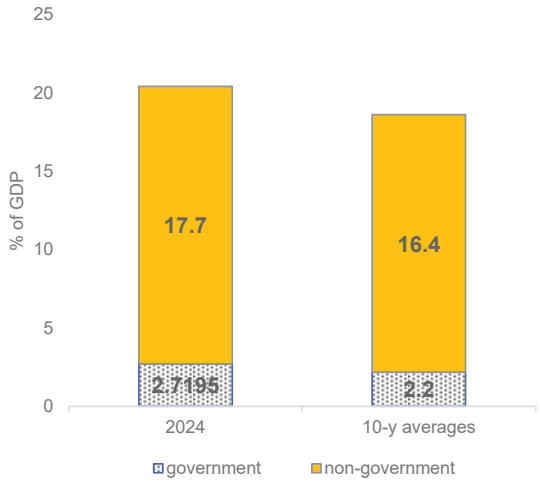
2024	Portugal	EU Average
Country Fiscal Rule Strength Index (C-FRSI)	17.40	14.81
Medium-Term Budgetary Framework Index (MTBFI)	0.72	0.72
2025 Public accounting maturity of general government	64%	65%

The Country Fiscal Rule Strength Index (C-FRSI) shows the strength of national fiscal rules aggregated at the country level based on i) the legal base, ii) how binding the rule is, iii) monitoring bodies, iv) correction mechanisms, and v) resilience to shocks. The Medium-Term Budgetary Framework Index (MTBFI) shows the strength of the national MTBF based on i) coverage of the targets/ceilings included in the national medium-term fiscal plans; ii) connectedness between these targets/ceilings and the annual budgets; iii) involvement of the national parliament in the preparation of the plans; iv) involvement of independent fiscal institutions in their preparation; and v) their level of detail. A higher score is associated with higher rule and MTBF strength.
The score for public accounting reflects the degree of maturity in relation to the International Public Sector Accounting Standards (IPSAS). Countries with an accounting maturity of 70% or more in relation to IPSAS are deemed to apply accrual accounting. For more information, see the report on public accounting in the EU (COM(2025)746 and accompanying Staff Working Document SWD(2025)396).

Source: Fiscal governance database, European Commission

implementing and coordinating the budget process, which have been hindered by long-standing issues related to the complexity of the process, loose monitoring and lack of participation from line ministries. The system is evolving from an approach focused on cutting and controlling spending to one that is oriented towards improving the quality of public spending.

Graph A2.4: **Investment composition (% of GDP)**



Source: Eurostat.

Public investment planning has improved, while other best practices are limited to a few sectors. The national investment programme provides guidance for public investment allocation over a 10-year period, covering all financing sources (EU, national and other). For this 10-year investment plan to be effective, ongoing efforts to integrate it into the medium-term budgetary framework are critical. A common methodology for project assessment is currently only used for a limited number of sectors (for example, public order and safety, agriculture). These sectors also benefit from central support for training on developing and implementing assessment methodologies, which could be shared with other sectors. Only a few sectors (e.g. tertiary education) benefit from an independent review of the quality and objectivity of assessments.

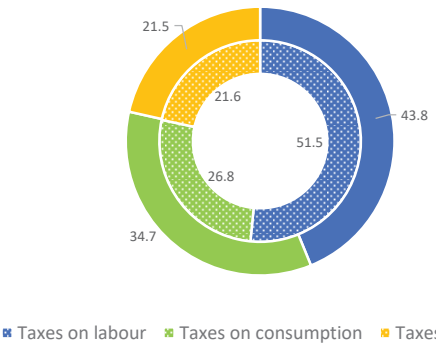
Accrual accounting makes a public body's financial position and performance more transparent and can boost sustainability and intergenerational equity. Most (14) Member States have implemented accrual accounting across the general government sector and a further five, including Portugal, are set to do so by 2030([43]). At present, Portugal is close to the EU average (see Table A2.3) but has not yet implemented accrual accounting for central government and social security funds([44]).

([43]) Report on public accounting in the EU (COM(2025)746 and accompanying staff working document SWD(2025)396). Countries with an accounting maturity of 70% or more in relation to International Public Accounting Standards are deemed to apply accrual accounting.

([44]) Annexes 3.1 and 3.4 of SWD(2025)396.

This annex provides an indicator-based overview of Portugal's tax system. It includes information on: (i) the tax mix; (ii) competitiveness and fairness aspects of the tax system; and (iii) tax collection and compliance. In the area of taxation, the 2025 CSRs for Portugal highlighted challenges in improving the effectiveness of the tax system, particularly by strengthening the efficiency of its administration and reducing the associated administrative burden. They also recommended further increasing the efficiency of administrative and tax courts and phasing out fossil-fuel subsidies.

Graph A3.1: **Tax revenue by economic function in 2024, PT (outer ring) and EU-27 (inner ring)**



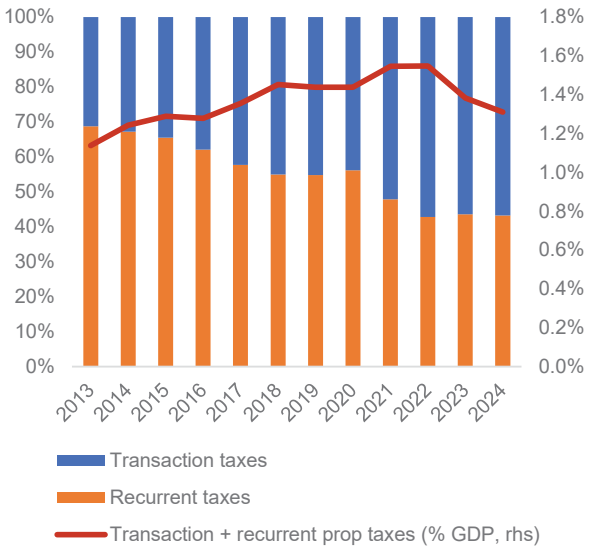
Source: Taxation Trends Data, DG TAXUD

The tax burden in Portugal is more than 4 percentage points (pps) below the EU average. In 2024, tax revenues in Portugal (including social security contributions) reached 35.2% of GDP, marginally below the previous year (35.3%) (see Table A3.1) ([45]). The difference with the EU average reached 4.4 pps, up from 3.7 in 2023. The share of labour taxes in Portugal's tax mix (43.8% of total tax revenues) is considerably below the EU average (51.5%, see Graph A3.1) due to a comparatively low implicit tax rate on labour and low level of salaries. Meanwhile, the share of consumption taxes (34.7% of total) was above the EU average (26.8%) on the back of above-average value-added tax (VAT) revenues. As regards capital taxes, their share in the tax mix (21.5% in 2024) is in line with the EU average. It has increased in recent years thanks to the growth of corporate income tax (CIT) revenues, which reached a record high in 2024.

([45]) Preliminary Eurostat data point to a tax-to-GDP ratio of 35.4% in 2025.

Revenues from environmental taxes have decreased in recent years. Revenues from environmental taxes (2.0% of GDP in 2024) remain close to the EU average, despite the decline from 2.5% of GDP in 2019 and the persistence of discounts on the tax on fuel and energy products (*imposto sobre produtos petroliferos e energéticos* - ISP). The temporary ISP relief measures introduced in 2022 in a context of high energy prices have not yet been fully rolled back and have no clear phase-out date. These tax expenditures have both fiscal and environmental implications. In 2025 the Commission recommended that Portugal phase out its fossil-fuel subsidies. In January 2026 the biofuel exemption ended and the annual update of the carbon tax resumed (see also Annex 8).

Graph A3.2: **Housing taxes: revenues from transaction taxes and recurrent property taxes in Portugal, 2013-2024**



Recurrent taxes include the local real estate tax (*imposto municipal sobre imóveis* - IMI). Transaction taxes include different stamp duties (*sobre operações de endividamento, escrituras e hipotecas* and *operações de compra e venda*) and the real estate transfer tax.
Source: DG TAXUD, from National Tax Lists

Recurrent property taxes are comparatively low. Revenues from property taxes are on a downward trend (from 2.2% of GDP in 2019 to 2.0% in 2024), amid increases in deductible stamp duties and outdated cadastral values. Revenues from recurrent immovable property taxes remain stagnant at 0.6% of GDP (EU: 0.9%), and below the 2019 levels (0.8% of GDP). The evolution of recurrent property taxes vis-à-vis housing transaction taxes is partly a consequence of the misalignment between cadastral and market

Table A3.1: **Taxation Indicators**

		Portugal					EU-27				
		2019	2022	2023	2024	2025	2019	2022	2023	2024	2025
Tax structure	Total taxes (including compulsory actual social contributions) (% of GDP)	34.5	35.9	35.3	35.2	35.4	39.9	39.7	39.0	39.4	
By tax base	Taxes on labour (% of GDP)	14.8	15.8	15.8	15.4		20.6	20.1	19.9	20.3	
	of which, social security contributions (SSC, % of GDP)	9.6	10.2	10.3	10.5		13.0	12.7	12.7	13.0	
	Taxes on consumption (% of GDP)	12.6	12.5	12.0	12.2		11.2	10.9	10.5	10.6	
	of which, value added taxes (VAT, % of GDP)	8.8	9.4	8.9	9.1		7.1	7.4	7.1	7.1	
	Taxes on capital (% of GDP)	7.1	7.6	7.5	7.6		8.1	8.7	8.5	8.5	
Some tax types	Personal income taxes (PIT, % of GDP)	6.3	6.9	6.8	6.1		9.6	9.4	9.3	9.6	
	Corporate income taxes (CIT, % of GDP)	3.1	3.3	3.4	3.8		2.6	3.2	3.2	3.1	
	Total property taxes (% of GDP)	2.2	2.3	2.1	2.0		2.2	2.1	1.9	1.8	
	Recurrent taxes on immovable property (% of GDP)	0.8	0.7	0.6	0.6		1.2	1.0	0.9	0.9	
	Environmental taxes (% of GDP)	2.5	1.9	2.0	2.0		2.6	2.1	2.1	2.1	
	Effective carbon rate in EUR per tonne of CO_2 equivalents	na	na	80.3	na		na	na	84.8	na	
Progressivity & fairness	Tax wedge at 50% of average wage (single person) (*)	28.1	27.3	28.1	28.1	28.1	32.4	31.6	31.5	31.5	31.6
	Tax wedge at 100% of average wage (single person) (*)	36.9	37.5	38.5	36.6	36.8	40.1	39.7	39.9	39.9	40.0
	Corporate income tax - effective average tax rates (1) (*)	23.9	23.9	23.9	23.9		20.0	19.2	19.0	19.3	
	Difference in Gini coefficient before and after taxes and cash social transfers (pensions excluded from social transfers) (2) (*)	8.3	8.3	8.0	7.8		7.8	8.0	7.9	7.8	
Tax administration & compliance	Outstanding tax arrears: total year-end tax debt (including debt considered not collectable) / total revenue (in %) (*)	36.7	41.8	39.6	na		31.8	32.6	30.7	na	
	VAT gap (% of VAT total tax liability, VTTL) (**)	7.9	4.1	3.6	4.6		10.5	7.3	8.2	na	

(1) Forward-looking effective tax rate (KPMG).
(2) A higher value indicates a stronger redistributive impact of taxation.
(*) EU-27 simple average.
(**) Forecast value for 2024. EU-27 refers to the median value. For more data on tax revenues as well as the methodology applied, see the Data on Taxation Trends webpage.
Source: European Commission, OECD, ISORA.

values. In 2013, recurrent taxes represented 69% of the combined revenues from recurrent and transaction property taxes, decreasing to 43% in 2024 (see Graph A3.2).

Portugal is lowering statutory CIT rates to improve business competitiveness, but applicable rates vary widely. The top CIT rate has decreased further to 29.5% in 2026. Additional reductions of 1 pp per year have been legally established for 2027-2028, which will eventually result in a top CIT rate of 27.5%. However, CIT rates still vary greatly, depending on the size, type and location of a company. This complexity results from various state and municipal surcharges and could influence businesses' decisions on location and growth while hindering economies of scale. Portugal has a comparatively high effective average CIT rate (23.9% in 2024, 4.6 pps above the EU average). However, the extensive use of tax incentives accounts for foregone CIT revenues worth 0.8% of GDP, further contributing to the complexity of the system and increasing the administrative burden.

Portugal is reforming R&D tax incentives that are not effective in raising competitiveness. It has the highest implied tax-subsidy rate on R&D expenditures in the EU ([46]), although its overall spending on R&D remains well below the EU average. In particular, the 'indirect SIFIDE' (part of the 'SIFIDE II' system of tax incentives for business R&D) considered the following as R&D expenditure qualifying for a tax credit: (i) contributions to the capital of R&D institutions; and (ii) contributions to public or private investment funds that finance companies mainly engaged in R&D. This provision has led to significant flows of investment into the capital of these entities that have not translated into actual corporate R&D expenses, posing questions on the effectiveness of the scheme ([47]). As a result, the scheme will not be further extended at the end of 2025, though a five-year phasing-out period is envisaged and the requirement of the seal of recognition of R&D practices will be removed. The government is currently preparing to reform the 'direct SIFIDE', as it is due to expire by the end of 2026.

The tax wedge for low-wage earners is relatively low in Portugal, except for second earners. Graph A3.3 shows that in 2025 the

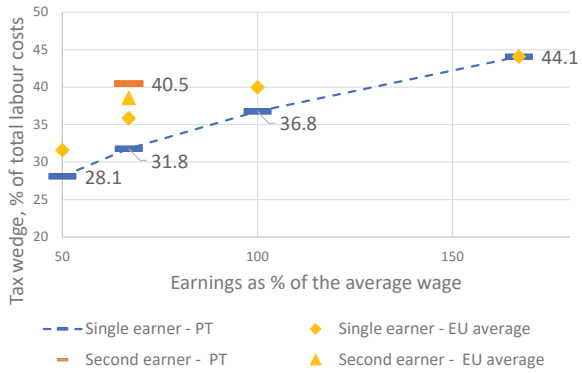
([46]) 2025 Country Report for Portugal and OECD Data Explorer.
([47]) U-TAX, Assessment Report on Tax Expenditure in Portugal.

labour-tax wedge ([48]) for Portugal was noticeably lower than the EU average at 50%, 67% and 100% of the average wage, while being equal to the EU average for high-income earners at 167% of the average wage. Second earners at a wage level of 67% of the average wage, whose spouses earn the average wage, were subject to a tax wedge above the EU average. The difference between the tax wedge for second earners and that for single persons at the same wage level in Portugal was substantially higher than the EU average. This indicates particularly weak incentives for second earners (who are often women) to enter the labour market.

Despite the inequality-reducing effect of Portugal's tax and benefit system, disposable household income remains unequally distributed. Portugal's tax and benefit system helped reduce inequality as measured by the difference in Gini coefficients before and after taxes and benefits ([49]) by 7.8 pps in 2024, which is equal to the EU average reduction (see Table A3.1). Despite this, inequality of disposable household income after redistribution as measured by the Gini coefficient ([50]) is, at 31.9%, relatively high in Portugal (EU: 29.1%).

Portugal is implementing temporary tax measures in the area of housing in an attempt to address affordability challenges. Portugal is adopting a reduced 6% VAT rate for the construction or rehabilitation of homes that will be for sale at up to EUR 660 982, or for long-term let with rents up to EUR 2 300. This and other measures are discussed in detail in Annex 16. A persistently large proportion of homes remains vacant, despite potential aggravated rates of recurrent tax on immovable property due to limited enforcement and narrow definitions of vacant property.

Graph A3.3: **Tax wedge for single and second earners as a % of total labour costs, 2025**



Note: The second earner tax wedge shows a household's tax wedge resulting from the wage that a second earner taking up a job at 67% of the average wage receives. It does not show the total tax wedge of the household. The household is assumed to have a first earner at 100% of the average wage and no children. For the methodology of the tax wedge for second earners, see OECD (2024), Taxing Wages 2024.
Source: European Commission

Portugal's widespread use of tax expenditures (TEs) adds to the complexity of the tax system ([51]). National authorities ([52]) report 781 types of TEs that result in foregone revenue for 7.2% of GDP, in a context of persistent gap in total tax revenues vis-à-vis the EU average. EUR 11.3 billion of EUR 20.4 billion of foregone revenue estimated in 2024 came from reduced VAT rates.

Portugal has a relatively large VAT rate gap and national policy-driven exemption gap. In 2023, Portugal had a VAT rate gap of 14.2% (EU: 10.6%) and a national policy-driven exemption gap of 11.8% (EU: 9.7%) (Graph A3.4). This resulted in an actionable VAT policy gap ([53]) of 31.5%, 4.3 pps

([48]) The tax wedge is an indicator of the tax burden on labour that can be assessed at various levels of earnings. It is defined as the sum of personal income taxes, employee and employer social-security contributions and other mandatory contributions, expressed as a percentage of total labour costs (composed of the net wage, personal income tax, social security contributions, and other mandatory contributions). Tax wedge data in the 2026 country reports are calculated by the Joint Research Centre of the European Commission and based on the EUROMOD model, but in past reports they were based on the OECD's Tax and Benefit model. While the underlying methodology is very similar, differences in the assumptions can lead to different results between both models.

([49]) European Commission based on EU-SILC data.

([50]) The Gini coefficient measures the extent to which the distribution of income within a country deviates from a perfectly equal distribution. A coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income.

([51]) See Portugal – Country Fiche, in European Commission (2025), Mind the Gap Report.

([52]) Relatorio Despesa Fiscal 2024

([53]) The theoretical VAT revenue loss due to the application of reduced rates and exemptions that are theoretically possible to discontinue. The actionable VAT policy gap consists of the sum of (i) the VAT rate gap, (ii) the national policy-driven VAT exemption gap, and (iii) the EU policy-mandated VAT exemption gap.

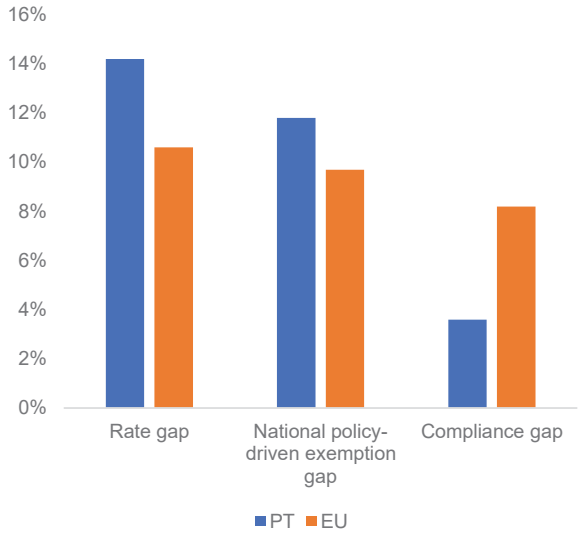
above the EU average ([54]). The recent reduction of the VAT rate for construction works will further increase this gap. Reduced VAT rates remain in place for goods and services with substantial budgetary impact, limited redistributive capacity and sometimes unclear policy objectives, such as restaurants, hotel accommodations and housing maintenance and renovations ([55]).

In the area of income taxation, the 'non-habitual residence' regime continues to be the main TE. This inpatriate scheme (revoked by the 2024 State budget with a phasing-out period of up to 10 years) has an estimated cost of EUR 1.7 billion per year ([56]). New personal income tax deductions and exemptions have been created in recent years. Foregone revenues in excises on fuel and energy products remain close to record-high values. An ongoing reform under the RRP to simplify Portugal's TEs will follow up on the recommendation from U-TAX's report to discontinue the indirect leg of SIFIDE.

Portugal has a well-established workstream on monitoring and reporting tax expenditures. Portugal's Ministry of Finance reports on tax expenditures since 2014, with disaggregated information since 2021 (relative to 2020) prepared by the Tax and Customs Authority ('AT'). The governance framework provides for evaluation procedures and monitoring obligations. The recently created U-TAX unit within the AT has reinforced the framework for assessing new and existing tax expenditures. Despite this, the recent decision to reduce the VAT rate for construction works was made without an impact assessment report.

Monitoring of compliance gaps is at present limited to VAT. Portugal does not yet produce compliance gap estimates for CIT, PIT or excise duties. However, U-TAX is currently studying and assessing the feasibility of and appropriate methodology for producing compliance gap estimates for CIT and PIT.

Graph A3.4: **VAT gap indicators**



The rate gap and the national policy-driven exemption gap are measured as percentage of notional ideal revenues. Compliance gap is measured as a percentage of VAT total tax liability. EU refers to median values.
Source: European Commission, Directorate-General for Taxation and Customs Union, *VAT gap in the EU - 2025 report.* https://data.europa.eu/doi/10.2778/7868422

The VAT compliance gap in Portugal remains relatively low, thanks among other factors to the extensive use of e-invoicing. In 2023, Portugal had an estimated VAT compliance gap equivalent to 3.6% of the VAT total tax liability, compared to a median of 7.6% in the EU (see Graph A3.4). In 2023, the VAT compliance gap in Portugal remained very close to the record-low of 2021 (3.5%) and has decreased by 4.3 percentage points since 2019. Portugal launched the *e-Fatura* system (e-invoicing) in 2013, preceded by the early deployment of the Standard Audit File for Tax (SAF-T) in 2008. These developments have been followed by further measures to strengthen compliance, such as integrating foreign entities with VAT obligations in Portugal in the *e-Fatura* system (2023). Meanwhile, Commission's estimates suggest that Portugal's CIT compliance gap is in line with the EU average ([57]).

Portugal is making efforts to strengthen the efficiency of its tax administration and reduce the administrative burden. To address

([54]) European Commission, Directorate-General for Taxation and Customs Union, VAT gap in the EU - 2025 report.

([55]) European Commission (2026), *Fiscal Costs and Redistributive Effects of Reduced VAT Rates: A Detailed Analysis by Product and Population Groups*.

([56]) Banco de Portugal (2026) estimated foregone revenues from this regime at EUR 1 741 million in 2024, with 128 958 beneficiaries in total. The main beneficiaries of the regime appear to be individuals with very high incomes (99.997th percentile of the active population distribution).

([57]) *Corporate Income Tax Gap. Towards a common European approach to measuring losses in corporate tax revenues Final Report.* https://data.europa.eu/doi/10.2778/0541549

the 2025 CSR in this area, Portugal is implementing a strategy for the digital transformation of its tax administration. Moreover, the Simplification Agenda adopted in early 2025 put forward 30 measures to improve compliance by streamlining and digitalising tax procedures, with eight measures added later. Some of the measures are already being implemented, such as simplification of invoicing rules or automatic pre-filling of tax returns. Portugal's cost-of-tax-collection ratio is following is on a downward path (0.88% of total tax collected in 2023 against 1.10% in 2020). Meanwhile ICT operating costs are increasing (from 5.0% of total operating expenditure in 2020 to 13.3% in 2023). 100% of CIT, PIT and VAT returns are e-filed.

Several challenges remain. The age structure of the staff at the service of the tax administration poses significant challenges in the medium term, with 53.6% older than 54 and only 7.1% under 45 (2023). At 19% in 2023, Portugal has one of the lowest shares of full-time equivalents in the tax administration assigned to audit, investigation and other verification functions (EU average: 33%). At 39.6% at the end of 2023, outstanding tax arrears remained above pre-COVID-19 values and 8.9 pps above the EU-27 average, despite a steady reduction from 45.6% in 2021. In addition, the percentage of tax arrears considered collectable at the end of the year is, at 30.6.%, roughly half of the EU-27 average.

Portugal is implementing some measures to increase the efficiency of its tax courts. To address the 2025 CSR in this area, Portugal has created two specialised tax courts, introduced simplified procedures for low-value disputes, and increased the number of magistrates (see Annex 7). The complexity of the tax system, including the proliferation of tax expenditures, is seen as a driver of high litigation. In 2025, a working group established by the government for the review of the tax litigation legislation submitted a set of technical recommendations, which are pending implementation.

Portugal's innovation performance is improving modestly, driven by business investment, yet stagnating public expenditure limits the potential of its research excellence. For Portugal, the 2025 country-specific recommendation (CSR) highlighted challenges in regulatory and administrative burdens for businesses, limited innovation capacity and the need to sustain the focus of investment-related economic policy on research and innovation. Portugal remains a moderate innovator according to the European Innovation Scoreboard ([58]), drawing closer to the EU average with an index of 90.7%, which is three percentage points higher than in 2024 and nine points up from 2018. However, innovation performance differs largely across regions ([59]) (*see Annex 18*). While R&D intensity has shown consistent growth over the last decade, reaching 1.73% of GDP in 2024, it remains below the EU average of 2.24%. Public R&D intensity has remained stagnant, hindering progress in strengthening the country's public science base, despite a growing pool of researchers. By contrast, business R&D intensity has nearly doubled since 2013, although this has not yet translated into stronger innovation output. Structural challenges persist, such as underdeveloped venture capital markets and limited public-private cooperation despite ongoing progress. Public policy has supported business innovation by providing strong tax incentives, but additional efforts are needed to improve innovation-friendly regulation.

Excellent science

Portugal boasts a robust public research base, yet stagnant public investment over the last decade has constrained its research excellence. Portugal has a good science base, Portuguese universities remain attractive for international students ([60]) and are successful in EU funding calls ([61]). The public sector can count on a good number of researchers that is higher than the European average and still growing (6.4 researchers per thousand active population in 2024, against the EU average of 4.3). Specific programmes, such as the Tenure programme ([62]), are in place to support the hiring of doctoral researchers for permanent positions in the national science and technology system and make research careers more attractive. However, limited public expenditure on R&D affects the excellence of its science. Public R&D intensity has followed a declining trajectory over the past decade, settling at 0.60% of GDP in 2024 – below the EU average of 0.72%. Consistent and sustained progress is necessary, as the 2025 CSRs also noted, to fully unlock the system's potential. Unpredictable public R&D investment, based on yearly programming, creates uncertainty for the research community and undermines Portugal's research excellence, and this is reflected in the shrinking proportion of the country's scientific publications in the top 10% most-cited globally (7.68% in 2022 vs 9.44% for the EU). Additionally, while international co-publications have risen steadily over the last decade, reaching 55.47% of total publications in 2024, this remains below the EU average of 57.24%, underscoring the need to further expand and strengthen international collaboration within the public research system. Ensuring a change of pace and working on an upward trajectory in public R&D intensity will be critical to securing long-term competitiveness.

The efficiency of the public science base is also affected by fragmented governance; a reorganisation of the system is currently ongoing to tackle this challenge. The Portuguese R&I system is characterised by a multitude of entities such as universities, R&D units, associated and collaborative laboratories, technology and innovation centres and other structures. This diversity has resulted in fragmentation, overlapping mandates, and uneven

([58]) 2025 edition of the European Innovation Scoreboard (EIS), Country profile: Portugal. The EIS provides a comparative analysis of innovation performance in EU countries, including the relative strengths and weaknesses of their national innovation systems (also compared to the EU average).

([59]) Innovation is often concentrated in Lisbon and in coastal areas, with some regions slowing down in their innovation performance according to the 2025 Regional Innovation Scoreboard.

([60]) 2025 edition of the EIS, Country profile: Portugal.

([61]) R&I Country Profile - Key Figures - | Sheet - Qlik Sense

([62]) FCT-Tenure | 1st Edition - FCT

Graph A4.1: **Share of publications in the top 10% most-cited publications worldwide, 2012 and 2022.**

Source: Science-Metrix data using the Scopus database.

funding mechanisms ([63]). A reform is currently ongoing to streamline R&I governance and funding. In particular, the government has announced the creation of the Agency for Research and Innovation (AI^2)([64]), which merges the current Foundation for Science and Technology (FCT) and the National Innovation Agency (ANI). The new Agency will operate on a five-year contract-programme with the aim of ensuring predictable multiannual funding. The decision to streamline public administration and facilitate the relation between research and innovation activities has the potential – if well implemented – to increase the efficiency of the R&I ecosystem and increase the predictability of funding.

Business innovation

Business R&D intensity has gradually increased over the past decade, but this has not yet translated into stronger innovation performance. Business R&D intensity has almost doubled in the last ten years, from 0.60% of GDP in 2014 to 1.09% in 2024. However, innovation output remains limited, as evidenced by patenting activity. This is measured as patent applications filed under the Patent Cooperation Treaty per billion GDP, which remains rather modest compared to the EU average (1.05 compared to 2.81 in 2022) despite some slight improvements over the last decade. Medium and high-tech manufacturing value added is growing modestly ([65]), but high-tech exports are still limited. The impact of the investments under the Recovery and Resilience Facility (RRF) is expected to materialise gradually in the coming years and bring new innovative products and services to the market. Early indications show that the Mobilising Agendas for Business Innovation large-scale collaborative research agendas have fostered a strong culture of collaboration across sectors and contributed to concrete business growth. For example, four firms in the automotive sector reported EUR 20 million in additional revenue each through new product development ([66]).

The uptake of digital technologies by firms in Portugal is increasing, although progress is constrained by the predominance of micro and small enterprises with limited innovation capacity. Portugal performs below the EU average in terms of basic digital intensity among

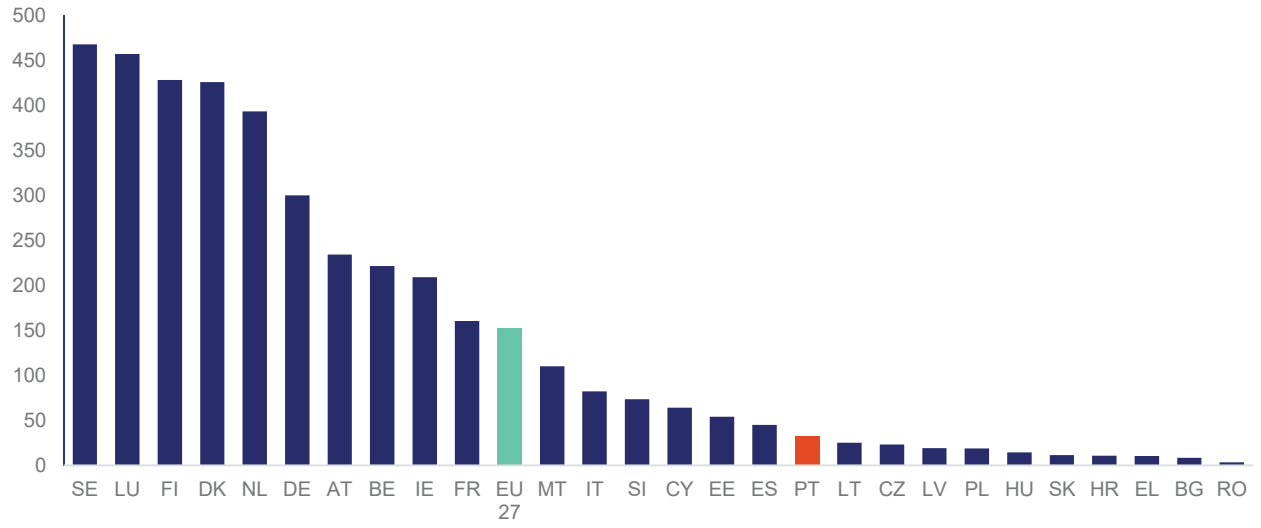
([63]) OECD (2019), *OECD Review of Higher Education, Research and Innovation: Portugal*, OECD Publishing, Paris, https://doi.org/10.1787/9789264308138-en

([64]) https://www.portugal.gov.pt/pt/gc25/comunicacao/noticia?i=governo-apresenta-a-agencia-para-a-investigacao-e-inovacao-ai

([65]) Medium and high-tech manufacturing value added (% manufacturing value added) | Data

([66]) European Commission: Directorate-General for Research and Innovation, *Study on the R&I measures in the Recovery and Resilience Facility – Country fiches*, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2777/2973150

Graph A4.2: **Patent applications to the EPO by country of applicants and inventors in 2024**



(1) Per million inhabitants
Source: Eurostat

SMEs, reaching only 64% in 2025 compared to the European average of 71%. The adoption of artificial intelligence by businesses also remains well below the EU average (11.5% compared with 20%). Similarly, cloud adoption lags behind the EU level (34% vs 47%). By contrast, the use of data analytics exceeds the EU average, standing at 45% compared with 40%. Portugal continues to implement measures to encourage greater use of digital technologies by businesses, including comprehensive advisory services (e.g. through the European Digital Innovation Hubs), employee upskilling supported by the RRF and more specialised initiatives such as vouchers to support deep-tech projects in applying for funding from the European Innovation Council Accelerator. Moreover, a National Artificial Intelligence Agenda was approved in January 2026, with the aim to boost AI adoption and increase its use across sectors, especially among SMEs and public services.

Portugal's public policy provides strong support for business innovation, mainly through tax incentives and is working to improve the efficiency of such measures. The government provides significant public support for business R&D, the second highest in Europe as a proportion of GDP, mainly in the form of tax incentives. The proportion of GDP spent on public support for business expenditure on R&D has increased significantly over the last decade, reaching 0.49% in 2022, more than twice the EU average of 0.21%. However, an evaluation ([67]) of the Portuguese R&D tax incentive scheme SIFIDE II by the technical unit for the evaluation of tax and customs policies (U-TAX) concluded that while direct corporate R&D incentives are effective, a substantial portion of capital allocated through indirect funds remained unused without being deployed into actual R&D activities, indicating a disconnect between tax benefits claimed and real economic impact. This assessment underpinned a legislative proposal to discontinue indirect contributions after 2025, while direct corporate R&D incentives are currently extended until 2026. The economic impact of indirect SIFIDE support will require further assessment to guide the design of future tax incentives policies. In terms of overall taxation policy, Portugal has reduced parts of its tax burden with the intention to stimulate economic growth, including by lowering statutory corporate income tax rates, and in 2024 the country adopted a series of measures of which over 80% were aimed at enhancing competitiveness and prosperity ([68]) (*see Annex 3*). The impact of such measures should be assessed in the coming years.

([67]) *U-TAX Assessment Report on Tax Expenditure in Portugal - June2025

([68]) European Commission: Directorate-General for Taxation and Customs Union, *Annual report on taxation 2025 – Review of taxation policies in the EU Member States*, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2778/6367826

Portugal is making improvements in fostering academia-business collaboration through targeted initiatives, yet challenges remain. Significant resources are being dedicated to knowledge valorisation and enhancing public-private collaboration. Under the recovery and resilience plan (RRP), the network of "collaborative laboratories" (COLABs) has been expanded, while the implementation of the mobilising and green agendas for business innovation has helped create public-private consortia for the development of a specific innovation agenda. Additionally, since 2023 a programme for PhD studentships in non-academic environments ([69]) encourages researcher mobility from academia to the private sector, signalling a proactive approach to bridging the public-private divide. These policies have started to have some visible impact, even if challenges remain. While remaining behind the EU average, public-private scientific co-publications have shown a steady upward trend (from 4.86% in 2014 to 6.35% in 2024 vs an EU average of 7.62%). However, the proportion of public R&D expenditure financed by businesses has remained constant in the last decade and well below the EU average (0.02% of GDP in 2024 vs 0.06%), showing that firms have little inclination to contract with public research labs. Addressing these gaps will require sustained policy efforts to amplify the impact of existing initiatives and further incentivise academia-business collaboration.

Entrepreneurial dynamism

Portugal has a promising entrepreneurial ecosystem with a good birth rate for startups. The enterprise birth rate of Portugal is higher than the EU average ([70]). Additionally, there was robust expansion of the startups ecosystem, with the number of startups growing by 8% compared to 2024 and reaching the target of over 5 000 active startups, or 5 091 in 2025 to be precise([71]). Startups account for around 1% of all active companies in Portugal, collectively generating EUR 2.8 billion in turnover (a 9% year-on-year increase from 2024)([72]). The system is supported by several incubators and accelerator programmes, although the focus is mainly on startup creation and less on scale-up. The number of national university spin-off is still limited, despite the presence of incubators and technology interface centres across all universities. In 2025, a new Portuguese company reached unicorn status and there are currently seven unicorn companies created in Portugal, of which only two are still headquartered there([73]).

Opportunities for companies are still hampered by persistent challenges in accessing venture capital financing. On the whole, availability of funds for scaling up activities is limited. Venture capital as a percentage of GDP reached 0.02% in 2023, well below the EU average of 0.06% (*see also Annex 6)*. This highlights a persistent financing gap for early-stage innovative firms, which struggle to access capital critical to growth. To mitigate this challenge and in line with the 2025 CSR, a financial instrument for innovation and competitiveness (IFIC) has been created, managed by the Portuguese development bank, *Banco Português de Fomento* and financed by the RRF. It combines instruments under a system of grants and capital investments. Its aims include supporting business investment projects in innovative and qualified activities and in research and development processes ([74]). In terms of foreign direct investment (FDI), the benefits for Portuguese companies are still limited. While FDI in Portugal has grown rapidly over the last decade, resulting in one of the highest levels of inward FDI stocks among OECD countries, the overall investment levels remain relatively low ([75]).

([69]) 2025 Call for PhD Studentships – Specific Line of Application in a Non-academic Environment - FCT

([70]) 2025 edition of the EIS, Country profile: Portugal. The EIS provides a comparative analysis of innovation performance in EU countries, including the relative strengths and weaknesses of their national innovation systems (also compared to the EU average).

([71]) Startup & Entrepreneurial Ecosystem Report 2025 – Startup Portugal

([72]) Startup & Entrepreneurial Ecosystem Report 2025 – Startup Portugal

([73]) Unicorns | Dealroom.co

([74]) Instrumento Financeiro para a Inovação e Competitividade - Banco Português de Fomento

([75]) OECD (2023), *The Impact of Regulation on International Investment in Portugal*, OECD Publishing, Paris, https://doi.org/10.1787/688b30c8-en.

Portugal has significant room for improvement in fostering innovation-friendly legislation. Despite progress in the past years, the country still has some burdensome business regulations, for example in terms of product market restrictions ([76]) and barriers to market entry (*see Annex 5*. While innovation-focused policies such as innovation procurement and technological free zones (TFZs) have been introduced, their scope remains limited. Innovation procurement, in particular, shows partial progress but substantial gaps remain. Portugal ranks 20th in the EU with a 26.08% score on its innovation procurement policy framework, well below the European average of 33.05% ([77]). The main challenges relate to the absence of a dedicated innovation procurement action plan, no R&D spending targets, an underdeveloped monitoring system and a lack of financial incentives for public buyers. Additionally, the legal framework remains ambiguous, hindering clarity and accountability in procurement practices. The four TFZs, covering (i) security and defence systems, (ii) mobility aiming at the carbon neutrality of cities, (iii) communication and electronic technologies and (iv) renewable energies of oceanic origin, designed to accelerate regulatory experimentation and support agile, innovation-friendly policies, have yet to deliver tangible outcomes. They were set up only recently, two in 2025, and they will need close monitoring to assess whether there have been any measurable improvements in intellectual or industrial property development, job creation or broader enhancements to Portugal's innovation ecosystem.

The country can count on a good pool of talent, but there is scope to further improve talent retention and the integration of skilled immigrants. Like their European peers, Portuguese businesses report difficulties in finding skilled staff ([78]) and suffer from brain drain. However, Portugal has one of the highest numbers of new graduates in science and engineering per thousand population (20.64 in 2023, compared to the EU average of 16.82). In contrast, the number of graduates in the field of computing is relatively modest compared to the EU average (2.45 in 2023, compared to the EU average of 3.84). National campaigns are in place to boost STEMs skills and qualification through experimental science teaching, such as the one promoted by Ciência Viva ([79]). Additional resources could be pooled by better integration of immigrant workers. It is estimated that over 40% of immigrants ([80]) with higher education are overqualified for the jobs they perform. This disparity even increases for those holding degrees obtained outside Portugal (*see Annex 13*). Specific schemes, although sometimes lengthy, are in place to attract foreign entrepreneurs, such as the startup visa programme, designed to welcome foreign entrepreneurs who intend to develop projects capable of generating startups based on new ideas and business models ([81]), or the tech visa programme aimed at attracting professionals in the field of technology from non-EU countries ([82]) .

In Portugal, entrepreneurship education remains an emerging policy area that is becoming more structured through recent curricular reforms. Under the revised national strategy on citizenship education ([83]), adopted in 2025, financial literacy and entrepreneurship have been integrated as core topics of the citizenship education curriculum and became mandatory across all cycles of compulsory education. Additionally, each school will be required to develop their own strategy on citizenship education, covering entrepreneurship transversally through interdisciplinary projects and school-based activities promoting creative problem-solving, personal agency and economic understanding. In 2024, the first Portuguese framework for entrepreneurship education was developed through close collaboration between education authorities and key stakeholders, in alignment with the EntreComp framework. However, Portugal's approach remains less structured than in countries with dedicated entrepreneurship education strategies, and implementation is largely dependent on school-level capacity.

([76]) Portugal_PMR country note

([77]) Portugal COUNTRY PROFILE – Benchmarking of national policy frameworks for innovation procurement, country-report-2024-policy-benchm-portugal.pdf

([78]) EIB Investment Survey 2024: Portugal overview, EIB Investment Survey 2024: Portugal overview

([79]) Homepage Ciência Viva

([80]) Eurostat: [lfsa_eoqgan] Over-qualification rates by citizenship

([81]) Startup Visa - Visa

([82]) Tech Visa

([83]) enec-2025.pdf

Table A4.1: **Key innovation indicators**

Portugal	2010	2015	2020	2022	2023	2024	2025	EU average (1)	US
Headline indicator									
R&D intensity (gross domestic expenditure on R&D as % of GDP)	1.53	1.25	1.61	1.69	1.68	1.73	:	2.24	3.44
Science and innovative ecosystems									
Public expenditure on R&D as % of GDP	0.68	0.65	0.66	0.6	0.59	0.6	:	0.72	0.64
Scientific publications of the country within the top 10% most-cited publications worldwide as % of total publications of the country	10.22	8.75	8.28	7.68	:	:	:	9.44	12.31
Researchers (FTEs) employed by public sector (Gov+HEI) per thousand active population	5.3	5.4	6.2	6.3	6.4	6.4	:	4.3	:
International co-publications as % of total number of publications	45.52	50.29	54.12	53.34	52.9	55.47	:	57.24	:
R&D investment & researchers employed in businesses									
Business enterprise expenditure on R&D (BERD) as % of GDP	0.7	0.58	0.92	1.05	1.05	1.09	:	1.49	2.69
Business enterprise expenditure on R&D (BERD) performed by SMEs as % of GDP	0.23	0.27	0.46	0.51	0.53	0.55	:	0.47	0.3
Researchers employed by business per thousand active population	2.1	2.4	4.5	5.30	5.5	5.90	:	5.9	:
Innovation outputs									
Patent applications filed under the Patent Cooperation Treaty per billion GDP (in PPS €)	0.76	1.20	1.20	1.05	:	:	:	2.81	2.20
Employment share of high-growth enterprises measured in employment (%)	:	:	:	1.15*	1.19*	:	:	0.87	:
Digitalisation of businesses									
SMEs with at least a basic level of digital intensity % SMEs (EU Digital Decade target by 2030: 90%)	:	:	:	:	53.61	:	63.94	71.39	:
Data analytics adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	38.56	:	44.98	39.85	:
Cloud adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	32.29	:	34.11	46.69	:
Artificial intelligence adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	7.86	8.63	11.54	19.95	:
Academia-business collaboration									
Public-private scientific co-publications as % of total number of publications	4.80	5.07	5.72	6.38	6.56	6.35	:	7.62	:
Public expenditure on R&D financed by business enterprises (national) as % of GDP	0.00	0.01	0.01	0.01	0.01	0.02	:	0.06	0.02
Public support for business innovation									
Total public sector support for BERD as % of GDP	0.13	0.15	0.43	0.49	:	:	:	0.21	:
R&D tax incentives: foregone revenues as % of GDP	0.09	0.11	0.35	0.4	:	:	:	0.10	:
BERD financed by the public sector (national and abroad) as % of GDP	0.04	0.04	0.08	0.10	0.12	0.12	:	0.11	:
Financing innovation									
Venture capital (market statistics) as % of GDP (calculated as a 3-year moving average)	0.02	0.02	0.02	0.02	0.02	0.02	:	0.06	:
Seed stage funding share (% of GDP)	0.00	0.00	0.00	0.01	0.01	0.01	:	0.01	:
Start-up stage funding share (% of GDP)	0.01	0.02	0.01	0.01	0.01	0.01	:	0.03	:
Later stage funding share (as % of GDP)	0.00	0.00	0.00	0.00	0.00	0.01	:	0.03	:
Innovative talent									
New graduates in science & engineering per thousand population aged 25-34	12.60	16.33	19.54	20.50	20.64	:	:	16.82	:
Graduates in the field of computing per thousand population aged 25-34	0.67	0.70	1.98	2.04	2.45	:	:	3.84	:

(1) EU average for the last available year or the year with the highest number of country data.

* Break in series.

Source: Eurostat, OECD, DG JRC, Science-Metrix (Scopus database), Invest Europe, European Innovation Scoreboard

Portugal can unleash its competitive potential by improving its business environment, increasing its Single Market integration and further developing its industry and economic security. Portugal's business environment shows high business dynamism and investment remains strong. However, productivity and scalability of companies are still hindered by several structural barriers, with persistent uncertainty, a high level of administrative burden, late payments, skill shortages and limited access to alternative finance. In this regard, Portugal's 2025 country-specific recommendations called for measures to simplify regulation, improve regulatory tools and reduce administrative burden on businesses, notably by lowering barriers to industrial licensing and removing obstacles to firms' capacity to scale up, innovate and enhance productivity. They also urged Portugal to foster private investment in venture capital and private equity, including through public-private risk-sharing mechanisms, alongside improving financial literacy. Furthermore, the recommendations emphasised strengthening evidence-based policymaking, through systematic ex post policy evaluations, sustaining the focus of investment-related economic policy on research and innovation, and reinforcing stakeholder involvement and transparency in the preparation of public policies (see Annex 7). In this context, Portugal is taking some steps to improve its business environment and dynamism, by designing and implementing several simplification measures, like Licensing Platform, LicencIA. Also, Portugal is one of the EU frontrunners on connectivity and it was very close to meet the EU targets for very high-capacity networks (VHCN), fibre to the premises (FTTP) and 5G coverage in 2025. Nevertheless, Portugal has regressed in its integration to the Single Market. Incomplete transposition of EU directives and pending infringements are increasing, and high barriers to entry and competition remain for retail and certain regulated professions. Portugal's energy-intensive industries are yet to recover from the pandemic consequences and net-zero industries have a strong potential for development through the right instruments (including permitting). With a good access to critical raw materials and low-cost renewables, Portugal is in a position to seize the opportunity to support the development of competitive net-zero value chains and the scalability of industry.

Business dynamics

Portugal's high business dynamism is not matched by an increase in productivity. In 2024, SMEs in Portugal represented 67.9% of GVA and 76.3% of employment ([84]). Small business size is one of the main challenges hindering productivity in Portugal. Not only they are mostly SMEs, but also most of them are micro-companies, mostly family businesses. Business productivity per company size is significantly lower among SMEs than larger companies, especially among micro and small ones ([85]). Portugal's business birth rate was 16.82% in 2023, which together with a death rate of 11.48%, gives a total business churn rate of 28.30%. Thus, Portugal's business dynamism is significantly higher than the EU average, which has an 18.97% churn rate (EU birth rate 10.46%; EU death rate 8.51%) ([86]). While start-ups grow slower than in other OECD countries, Portugal has a reasonably supportive regulatory and incentive environment for entrepreneurs, strengthened by recent reforms. Thus, it includes relatively more self-employed workers compared to the rest of the OECD. This is partly due to Portugal's economic structure, where small firms account for relatively high shares of total employment in the manufacturing and knowledge-intensive services sectors, as small firms include self-employed workers ([87]). The low-added value of the products and services offered by most Portuguese businesses is also a major barrier to increasing productivity. Furthermore, substantial regional disparities persist (see Annex 18).

Labour productivity remains at the bottom quartile of the EU with mild increases over time. The labour productivity level in Portugal has reached 68.4% of the EU average in 2024, reaching its peak since 2020 after a mild increase over the last two decades. However, projections show it will start declining relative to the EU average in the coming years, to reach 66.5% of the EU average in 2027. This ranks Portugal 23rd

([84]) European Commission, 2025, SME Performance Review - Internal Market, Industry, Entrepreneurship and SMEs

([85]) OECD, OECD Economic Surveys: Portugal 2023 (EN).

([86]) Eurostat, [bd_size] Business demography by size class and NACE Rev. 2 activity.

([87]) OECD, OECD Economic Surveys: Portugal 2023 (EN).

out of the 27 EU Member States. In particular, capital deepening stopped contributing to productivity growth over the past decade. TFP growth has been stagnating but recovering somewhat lately ([88]).

Increasing private investment is key for improving productivity. Business private investment in Portugal has decreased to 13.3% of GDP in 2025, 0.5 pp less than the previous year, and has thus gone below 2021 levels. Nevertheless, it remains above the EU average (12.6%). On the other hand, public investment represented 3% of the GDP in 2025, increasing 0.3 pp from 2024. This places Portugal 0.9 pp below the EU average of 3.9% ([89]). Low levels of capitalisation in Portugal are accompanied by a mismatch between what companies should invest in versus what they can invest in.

Despite of its decrease, FDI remains strong in Portugal, most notably in the business services sector. After two consecutive years of FDI increase, FDI in Portugal decreased by 11% in 2023, down to 221 FDI projects, ranking 7th in Europe with a market share of 3.9%. This reduction follows the slowdown trend felt in Europe. The main recipients were software & IT services (36%) and business services & professional services (21%). Together, they accounted for 57% of total FDI projects. In terms of origin, the United States leads with 17.6% of total FDI share in Portugal, followed by France (13.1%), Germany (10.9%), Spain (10.0%), the United Kingdom (9.0%) and Brazil (6.8%). Nevertheless, the EU as a whole represents more than half of Portugal's total FDI (51.6%). In terms of distribution across the country, the Lisbon area is still the main recipient of FDI in Portugal (29.5%), followed by Central Portugal (23%) and Northern Portugal (12.5%) regions ([90]).

Investors see Portugal's potential and investment plans at an all-time high. 84% of investors surveyed intended to establish or expand operations in Portugal over the next year in comparison to just 72% in overall European countries. 77% of investors expected Portugal's attractiveness to improve over the following three years, compared to only 49% in 2021. The three major risk factors for investors were: high interest rates and tightening financial conditions (32%), political instability (29%) ([91]), and high inflation and slow growth in Portugal (28%). Investors made the following recommendations for Portugal to maintain a competitive position globally in attracting FDI: (1) Allow regulation to keep pace with technological and other disruptions; (2) Develop education and skills and facilitate access to talent; (3) Invest in major infrastructure and urban projects; (4) Support high-tech industries and innovation; (5) Develop competitive energy solutions and sourcing; (6) Protect supply chains and industrial sovereignty ([92]).

Skills shortages, uncertainty about the future, business regulation (including permitting) and labour market regulation are highlighted by firms as main investment obstacles. According to the EIB Investment Survey, the main long-term obstacles to investment reported by Portuguese firms in 2025 were: (1) availability of skilled staff (PT 88% vs EU 79%) (2) uncertainty about the future (PT 88% vs EU 83%), (3) business regulation (PT 82% vs EU 69%) and (4) labour market regulations (PT 77% vs EU 64%). Taking a closer look to the business regulation barrier, 49% of Portuguese businesses report it as a major obstacle to investment, compared to the EU average of 34%. Also, by firm size, a slightly lower percentage of SMEs perceive the abovementioned obstacles (except for uncertainty about the future), compared to large firms ([93]).

Business environment

The regulatory and administrative framework has room for improvement. According to the 2025 EIB Investment Survey, a large proportion of firms stated that business regulations represented an obstacle to investment

([88]) European Commission.

([89]) Eurostat, [sdg_08_11] Investment share of GDP by institutional sectors.

([90]) EY Attractiveness Survey Portugal 2024 | EY Portugal

([91]) This survey was conducted in 2024. In May 2025, legislative elections took place and gave a clearer political picture. Thus, current numbers would most probably be significantly lower.

([92]) EY Attractiveness Survey Portugal 2024 | EY Portugal

([93]) European Investment Bank, 2025, EIB Investment Survey 2025: Portugal overview.

(82% vs 69% in the EU). As regards labour market regulation, 41% deemed it a major obstacle, well above the EU average of 27%. A higher percentage of large companies perceive regulations as an obstacle, compared to SMEs.

Several structural barriers prevent SMEs from scaling up. These include a high administrative burden (including permitting), high energy prices, skills shortages, limited demand for the products/services and limited access to finance domestically. However, these barriers are less prominent than in the rest of the EU on average ([94]) (CSR 2025.3 and CSR 2025.5). Portugal's 21 recognised Competitiveness Clusters ([95]), embedded in the national Smart Specialisation framework, provide services to SMEs, including collaborative innovation support, access to funding and internationalisation, which may help address some of these scale-up constraints.

Permitting is rising as the main bottleneck for Portuguese businesses' growth (CSR 2025.3). Delays in decision-making on permitting hamper business development, requiring them to bear large upfront costs, leading to the postponement or cancellation of initially profitable projects (especially industrial ones). Also, stakeholders claim there is no possibility of simultaneity in permitting procedures. The Portuguese government, through the 2026-2027 Action Plan of the National Digital Strategy, is digitalising the entire licensing process, with the creation of a single digital entry point, ensuring sectoral homogeneity and monitoring of the entire process, and the use of artificial intelligence (LicencIA) to substantially reduce processing times for industrial, environmental and urban licencing. Also, it is implementing an interoperability regime to ensure information exchange across all public entities and prevent, for example, duplicities in permitting procedures.

Overall, Portugal is undergoing a broad review of its legislation with the intention to simplify it (CSR 2025.3). Among other things, this review will give legal value to decisions made through administrative silence and will allow for collaboration across agencies. Also, the Public Procurement Act is under reform with the intention to simplify its procedures, and a decree-law will simplify the governance model for European funds.

Access to alternative financing is key to enhance entrepreneurship and innovation. In Portugal, 49% of firms considered access to finance to be an obstacle to investment. 47% of SMEs versus 53% of large companies had this view ([96]). Despite significant improvements, access to alternative financing in Portugal remains limited, mainly due to lack of financial literacy, lack of private capital based in Portugal and high-risk aversion of businesses and banks to finance start-ups and highly innovative projects. The availability of venture capital financing is low, representing only 0.02% of GDP in 2024. Moreover, there is a wide gap in the availability of funds between early stage and later stage start-ups, that is significantly larger in Portugal than in other European countries, reflecting a lack of later stage financial options for start-ups to scale up. Access to venture capital and other alternative financing sources are key for financing entrepreneurship and innovation due to higher risk profiles that banks struggle to properly assess ([97]) ([98]). To tackle low financial literacy, Portugal is updating the National Plan for Financial Education and, since 2025, has made financial literacy mandatory across all years of compulsory schooling. This structural measure is complemented by adult focused initiatives, including an e learning platform accessible to the general public and public awareness campaigns. (See CSR 2025.3) (See Annex 6).

The late payments situation has worsened and remains a major challenge for Portuguese SMEs, particularly in the autonomous region of the Azores and in the health sector ([99]). Both business-to-business (18.75 days) and government-to-business (15.16 days) payment gaps are above the EU average (B2B 17.44 days; G2B 13.63 days); worsening from the previous year, especially in B2B

([94]) European Commission Startups, scaleups and entrepreneurship - July 2025 - - Eurobarometer survey.

([95]) European Cluster Collaboration, Country factsheet Portugal

([96]) European Investment Bank, 2025, EIB Investment Survey 2025: Portugal overview.

([97]) OECD, OECD Economic Surveys: Portugal 2023 (EN)

([98]) OECD, OECD Data Explorer • Venture capital investments (market statistics)

([99]) Part of the barriers highlighted in the 2025 Single Market Strategy ("Terrible 10"), Single market strategy.

payments. Overall, the share of SMEs experiencing late payments in B2B transactions (40.29%) and G2B transactions (12.25%) are below the EU average (B2B 41.13% and G2B 15.94%) in 2025 ([100]). Moreover, 49% of Portuguese SMEs (vs EU 39%) identified late payments as a major problem for their company, ranking it 2nd, just after high administrative burdens ([101]). When looking at the main contributing factors, 60% of Portuguese companies say that sanctions are not a sufficient deterrent (vs EU 37%). Another major cause is that existing rules are not systematically enforced (PT 38% vs EU 32%). Finally, 16% attribute late payments to a lack of clarity in the existing rules (vs EU 8%) ([102]). According to official data from the Portuguese authorities, the situation appears especially problematic in the health sector and in the autonomous regions of Madeira and the Azores. Against the background of systemic payment delays in the public health sector, reassignments of credits provide additional form of external finance which is vital for the survival of businesses. Practices whereby the assignment of credits are systematically banned, despite the contractual obligations having been fulfilled by the creditor and accepted by the debtor, complicate the financial management of suppliers, and especially SMEs. Therefore, Portugal would benefit from ensuring that either payments to suppliers are performed according to the statutory payment terms or that refusals to assign the credit to a third party are justified by objective reasons linked to the performance of the contract.

In a recent development, the government has aligned the definition of arrears to the definition of late payments laid down in Directive 2011/7/EU. According to this definition the threshold for a government arrear is any payment referring to a commercial transaction not settled in 30 days (or 60 days for public hospitals), reducing the threshold from 90 days, thus allowing for automatic interest calculation on late payments from that that moment onwards. This measure is part of Portugal's compliance with the European Court of Justice judgement of July 11th, 2024 (Case C-487/2023), which declared that Portuguese authorities had failed to fulfil their obligations under Article 4 of Directive 2011/7/EU ([103]).

Portuguese companies' payment performance is amongst the worst in the EU. In terms of payment punctuality, Portuguese companies remain one of the weakest performers in B2B transactions in the EU. Continuing the trend observed in 2023, Portugal exhibits the greatest disparity among EU countries between micro and large companies in 2024, with the former being nearly six times more likely to pay on time that the larger counterparts. Remarkably, large companies in Portugal recorded the lowest share of payments made on time in the EU, with only 4% of payments made by due date in 2024, while it was 23% for micro companies ([104]).

Portugal is at the forefront of the EU countries regarding connectivity infrastructure. In 2025, Portugal's coverage of Very High-Capacity Networks (VHCN) reached 95% while the fibre to the premises (FTTP) coverage stood at 93%, marking a sustained growth and bringing the country to the level of the EU frontrunners on connectivity. Overall 5G coverage stood at 99% while coverage in the 3.4-3.8GHz band, considered strategic for advanced 5G performance, reached 71%, standing above the EU average. In 2025, publicly co-funded works began to connect more than 400 000 households and businesses from so-called 'white areas' to gigabit VHCN network by 2026 2027. This will broaden access and allow more agile online presence for businesses and consumers.

Ensuring Portugal has a well-developed transport infrastructure, for both road and rail transport is key for investors. According to the EIBIS survey ([105]), 51% of Portuguese businesses considered the state of transport infrastructure an obstacle to investment in 2025 (vs 45% in the EU). For example, it is ranked 38th, together with India, Lithuania, Saudi Arabia and

([100])Intrum, 2025, European Payment Report 2025 | Intrum.

([101])European Commission Startups, scaleups and entrepreneurship - July 2025 - - Eurobarometer survey.

([102])EU Payment Observatory: Annual Report 2025, Observatory Analysis - Internal Market, Industry, Entrepreneurship and SMEs

([103])Council of Ministers decisions February 26th, 2026, approved by the Parliament on April 10th.

([104])EU Payment Observatory: Annual Report 2025, Observatory Analysis - Internal Market, Industry, Entrepreneurship and SMEs

([105])European Investment Bank, 2025, EIB Investment Survey 2025: Portugal overview.

Turkey, out of the 139 countries covered by the World Bank Logistic Performance Index ([106]).

Single Market

Portugal can deepen its participation in the EU's Single Market, both in goods and services. Portugal's intra-EU trade integration in 2025 was 22.3% (ratio of trade volumes to GDP) in goods, and 8.2% in services. This is well above the EU average of 18.7% for goods and 7.6% in services ([107]). On the one hand, this implies a notable and continuous regression in trade integration of goods in the last few years (from 26.4% in 2022). On the other hand, trade integration in services remains at 2024 levels, but it still presents a large margin for improvement. Moreover, 72% of Portuguese firms are engaged in international trade ([108]).

The transposition of Single Market directives has significant margin for improvement ([109]). Portugal ranks third to last among the EU27 in transposing EU directives into national law, with 2% of all directives not being transposed versus the EU average of 1.1%. This doubles Portugal's 2024 numbers, that now exceed the 1% target set up by the EU Council. In contrast, Portugal ranks below the EU average on the percentage of all directives being transposed incorrectly (PT 0.7% vs EU 1.1%). Regarding the average delay in transposing directives, Portugal ranks close to the EU average (9.9 months vs EU 9.7 months). The situation has worsened in the number of pending infringements (PT 34 vs EU 25). On the other hand, the average duration of infringement proceedings is the lowest in the EU. Moreover, it is important to single out that new legislation should follow the simplification principle at all times to avoid creating a much larger amount of administrative burden than the one that is being reduced. In 2025, Portugal resolved 90.1% of the SOLVIT cases it handled as lead centre, which is above the EU average of 84.6% ([110]). This is a remarkable performance, because the SOLVIT centre had to deal with 350 cases related to the difficulties of EU nationals and non-EU family members in obtaining an appointment with AIMA (ex-SEF) to complete residence procedures (registration certificates, permanent residence cards and their renewal).

Compliance of products circulating in the Single Market ([111]) is key to ensuring a level-playing field for law-abiding companies and the safety of consumers. In Portugal, the number of market surveillance investigations has increased compared with 2019. In 2025, national authorities reported in the EU system for market surveillance (ICSMS) a total of 29.5 investigations per one million inhabitants, which is lower than the EU median of 136.2. The number of notifications remains limited in absolute terms, which may also be the result of insufficient IT national interoperability to the ICSMS system. The upcoming revision of the Market Surveillance Regulation will upgrade ICSMS to a fully interoperable EU digital platform.

Regulatory and administrative barriers to the single market persist in Portugal, affecting trade in goods. For goods, businesses report that packaging and labelling rules — such as the mandatory origin labelling for food products and recycling instructions ([112]) — create compliance burdens.

The limited resources of the national standardisation system are negatively affecting the functioning of the single market, and the competitiveness of SMEs in manufacturing. Portugal's national standardisation body, the Instituto Português da Qualidade (IPQ), is limited in its work by serious resource constraints and, consequently, is not able to fully comply with its role of providing

([106])World Bank Logistic Performance Index 2023 | Logistics Performance Index (LPI)

([107])Eurostat, Intra-EU trade in goods - main features - Statistics Explained - Eurostat, International trade in services - Statistics Explained - Eurostat.

([108])European Investment Bank, 2025, EIB investment survey.

([109])Part of the barriers highlighted in the 2025 Single Market Strategy ("Terrible 10"), Single market strategy.

([110])European Commission, 2025, Single Market and Competitiveness Scoreboard, Country data: Portugal | Single Market and Competitiveness Scoreboard

([111])*Part of the barriers highlighted in the* Single market strategy *('Terrible Ten') and the* 2026 Annual Single Market and Competitiveness Report.

([112])European Round Table for Industry (ERT), *Single Market Compendium of Obstacles,* 21 May 2025, Single Market Compendium of Obstacles.

information on and facilitation of access to standards for SMEs. In addition, it is difficult for the IPQ to promote and facilitate the involvement of Portuguese firms in the development of European harmonised standards and to make them available in Portuguese language. These limitations in IPQ's work create obstacles to the accessibility and use of European harmonised standards by companies, generating additional costs (e.g. for translation, for consultancy services and for external conformity assessment services) and making it more difficult for companies to anticipate and prepare for future changes that have an impact on their production systems.

Regulatory restrictiveness remains low in services, but barriers to entry and to competition in the retail sector are high. ([113]). Services trade restrictiveness in Portugal remains low (0.048 in 2025) and well below the EU average (0.050), although it has increased compared to 2024 ([114]). In retail, the OECD's Product Market Regulation indicator (PMR) ([115]) highlights Portugal's retail market as highly restrictive, most significantly in retail distribution (score of 2.29 in Portugal vs 1.17 EU average) and the retail sale of medicines (3.38 vs 2.96 EU average). In 2022, its Retail Restrictiveness Indicator (RRI) score ([116]) of 1.51 was lower than the EU median of 1.70. The restrictive environment was particularly pronounced in the operational pillar, where Portugal scored 2.25 (significantly higher than the EU median of 1.20), partially due to the existence of retail-specific taxes and regulation of sales promotions.

For many professions, regulatory barriers to entry and competition remain high in Portugal. Portugal ranks relatively well on the OECD Product Market Regulation (PMR) indicator, which measures regulatory barriers to firm entry and competition, although the detailed sub-indicators point to specific sectors where regulations remain relatively stringent, including some professions and the retail sector. There are 253 specific regulated professions in Portugal, ranking it seventh in the EU ([117]). Many professions present very high barriers to entry and competition, such as civil engineers (2.5 in Portugal vs 1.39 EU average) and accountants (2.14 vs 0.74 EU average). In 2024, Portugal underwent some reforms to reduce regulatory barriers for some regulated professions related to construction, legal and accounting services ([118]). Given their recent introduction, the effects are yet to be reflected in Portugal's OECD PMR scores, which are expected to improve. So far, progress in addressing barriers in the field of business services has remained limited. In answer to a survey carried out by the Commission between December 2025 and February 2026, Portugal reported it fully implemented 7, and partially implemented 5, out of 12 of the 2021 Commission recommendations ([119]). The Commission is currently assessing Portugal's answer, so it can measure actual progress in implementing the 2021 recommendations.

Portuguese SMEs have difficulties to scaling up in other EU countries due to several Single Market barriers ([120]). The three main ones are (compared to EU average): (1) Permitting and authorisations (PT 40% vs EU 28%), (2) Taxation and Value Added Tax (VAT) (PT 31% vs EU 30%), (3) Posting of workers (PT 29% vs EU 17%). Another barrier that stands out in the case of Portugal is "Territorial supply constraints (PT 19% vs EU 16%)" ([121]). There is on-going dialogue between Portugal and Spain to establish an "Iberian Regime", which aims at analysing barriers to trade, services and investment between the two countries within the framework of cross-border cooperation, with a view to their possible removal through strengthened administrative cooperation and tackle market fragmentation barriers between the two countries.

([113])Part of the barriers highlighted in the 2025 Single Market Strategy ("Terrible 10"), Single market strategy.

([114])OECD, 2026, Services Trade Restrictiveness Index: Portugal

([115])OECD, Product market regulation | OECD

([116])European Commission, Retail Restrictiveness Indicator – Portugal, Microsoft Power BI

([117])OECD, Product market regulation | OECD

([118])EC, Communication on updating the reform recommendations for regulation in professional services, COM(2021) 385. 9/7/2021; OECD, 2024 Portugal PMR country note

([119])European Commission, 2021, *Communication on updating the reform recommendations for regulation in professional services, COM(2021)385. 9/7/2021*, Eur-lex.europa.eu.

([120])Part of the barriers highlighted in the 2025 Single Market Strategy ("Terrible 10"), Single market strategy.

([121])European Commission Startups, scaleups and entrepreneurship - July 2025 - - Eurobarometer survey.

Recent RRP reforms are expected to help Portugal improve its public procurement environment. In Portugal, 42% of total public tenders were single bids (vs EU median 27%), and 2% were direct awards (vs EU median 6%) ([122]). Under the RRP, an action plan to strengthen centralised purchasing mechanisms for medicines has entered into force, implementing the recommendations of the independent assessment of centralised procurement of medicines in Portugal. Also, 12 information systems (databases) for the national central procurement system are now in use contributing to different policy objectives, such as administrative simplification. Overall, Portugal is well advanced in the digitalisation of its public procurement services ([123]). Moreover, Portugal has announced its intention to modernise its administrative and public procurement framework; to simplify procedures, reduce bureaucracy, and restore confidence in public decision-making. In this vein, measures have been recently announced to streamline public procurement.

Businesses' views on corruption risks in public procurement are below the EU average. In Portugal, 78% of companies (EU average: 53%) consider conflicts of interest in the evaluation of bids in public procurement procedures, and 74% (EU average: 45%) abuse of emergency reasons to justify non-competitive procedures, "very" or "fairly widespread" practice. Among companies that have experience in and participated in a public procurement procedure, 20% think that corruption has prevented them from winning a public tender or a public procurement contract in practice (EU average: 25%) ([124]). 68% of companies perceive the level of independence of the public procurement review body (Administrative and Tax Courts) as very or fairly good when it is reviewing public procurement cases ([125]). Portugal introduced new rules which amended the Court of Auditors' preventive control over contracts financed or co-financed by European funds, with no time or value limit ([126]). While such contracts remain subject to the preventive control by the Court of Auditors, the suspensive effect of a check on projects was limited to exceptional instances ([127]). Stakeholders pointed out that the new rules may lead to an increase in corruption risks ([128]).

Portugal's fragmented eProcurement landscape and data quality issues highlight the need for interoperable systems, common standards, and stronger data governance. Given Portugal's decentralised eProcurement landscape, with two to five separate Procurement services in operation ([129]), economic operators must use several systems to access all public procurement procedures, creating complexity and barriers to participation. This fragmentation underscores the need for introducing interoperability and common standards. The once-only principle is only partially implemented at national level (see Annex 7), and buyers across the EU still lack digital access to relevant evidence. However, Portugal is the first Member State that has started a pilot for the Business Wallet, a digital credential tool supporting the qualification of economic operators. Portugal's authorities have reported data quality concerns, pointing to the need for robust validation rules. Therefore, the Portuguese system would benefit from a dedicated public procurement data collection and analysis service within the government to support data-driven oversight of the procurement lifecycle ([130]).

Portugal benefits from its participation in the unitary patent system. It offers key advantages in promoting innovation and boosting competitiveness.

([122])European Commission, 2026, Country data: Portugal | Single Market and Competitiveness Scoreboard

([123])The Digital Decade 2025. European Commission.

([124])Flash Eurobarometer 557, p.133.

([125])Justice Scoreboard (2025), p. 53; Flash Eurobarometer 555, p. 39.

([126])Rule of Law Report- Country Chapter Portugal (2025), p. 12.

([127])Rule of Law Report- Country Chapter Portugal (2025), p. 13.

([128])Rule of Law Report- Country Chapter Portugal (2025), p. 13.

([129])As reported in the eProcurement matrix.

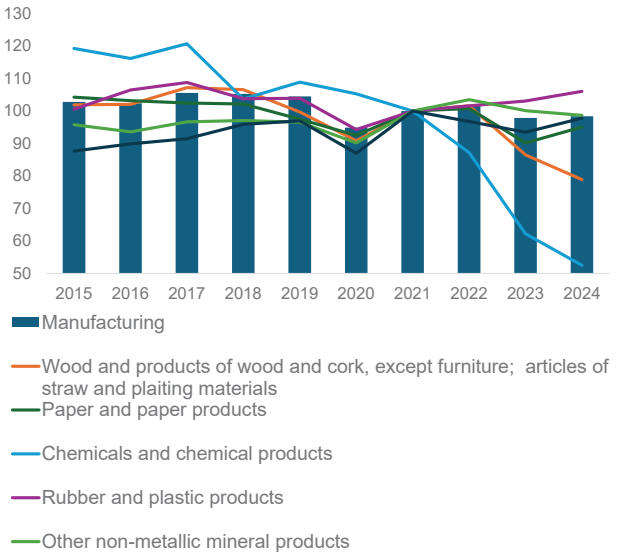
([130])European Court of Auditors, Special Report 28/2023: *Public Procurement in the EU. Less competition for contracts awarded for works, goods and services in the 10 years up to 2021*, 2023, Special report 28/2023: Public procurement in the EU

Industry and economic security

Energy-intensive industries (EIIs) have been struggling to recover from the pandemic crisis. In 2024, manufacturing production of energy-intensive industries in Portugal has decreased by 1.6% since 2021 and 5.8% below pre-Covid-19 levels. Manufacturing of chemicals is the sector that suffered the most in the pandemic and has not been able to recover, accumulating a drop of -56.5% since its peak in 2017 (-47.5% since 2021) (see graph A2.2). Also, manufacturing of wood has an accumulated loss of -21.1% since the end of the pandemic in 2021 ([131]). Manufacture of the rubber sector has been the only energy-intensive industry to fully recover with a 6.1% increase since 2021. To help EIIs, Portugal has introduced an Electro-Intensive Consumer Statute in April 2025, which introduces partial reductions in charges related to Costs of General Economic Interest (by 75%-85%), directly linking support for electricity competitiveness to decarbonisation commitments. Also, it has been implementing an indirect CO_2 cost compensation scheme and a structural reduction of system costs, where 60% of EU ETS revenues are allocated to reducing tariff debt in the National Electricity System, contributing to lower structural electricity costs.

Low and stable energy prices are key for the development of energy-intensive industry and its decarbonisation. Electricity prices for EIIs in Portugal have increased by 17.11% in the last year and remain at EUR/kWh 0.0917 by the end of the first half of 2025; still below the EU average of EUR/kWh 0.1117, which increased by 4.49% ([132]). Increasing energy costs, weak demand and global competition put pressure on energy-intensive industries. Despite these prices being significantly lower than the ones experienced in the 2022-2023 energy crisis, industry still perceives current prices are too high and volatile, which hampers investment planning and production output. The reason behind this perception is that, although electricity prices for non-households in Portugal appear to be among the lowest in the EU, due to state-aid schemes and fiscal measures in other EU Member States, final prices in Portugal end up being significantly higher, harming not only industrial competitiveness, but decarbonisation capacity. Thus, Portugal is evaluating the need to introduce fiscal and/or political measures to return to competitive final electricity prices. In the meantime, Portugal has issued a Joint Ministerial Letter calling for a greater coherence between national energy price support schemes, to safeguard the internal energy market. On another note, Portugal already has a high proportion of renewables in its energy mix (36.3% in 2024 vs EU average of 25.2%) ([133]) and would benefit from leveraging its favourable climate to further increase energy generation from renewables. (CSR 2025.4) (See Annex 9).

Graph A5.1: **Manufacturing industry production: total and selected sector, index (2021=100), 2015-2024**



Source: Eurostat

Portugal's net-zero industry could benefit from optimising its competitive advantages. Portugal's three largest industrial net-zero sectors by value are solar power (PV and thermal), with a production amounting to EUR 638 million (1% of total EU production), EUR 260 million (1% of EU production) for heat pumps and geothermal, and EUR 220 million (a negligible share of EU production) for wind. Portugal is a competitive exporter of grid technologies, including non-glass electrical insulators, relays, ceramic electrical insulators, parts of electrical devices, and small

([131])Eurostat. [sts_inpr_a] Production in industry - annual data

([132])Eurostat. [nrg_pc_205] Electricity prices for non-household consumers - bi-annual data (from 2007 onwards) – band IF

([133])Eurostat, [nrg_ind_ren] Share of energy from renewable sources

electric boards and panels, with an estimated export potential of EUR 1.1 billion and higher revealed comparative index (RCA) compared to China and the USA. Portugal is also a competitive exporter of other Net-Zero technology components, including iron or steel structures for wind turbines and compressors for heat pumps, outperforming China and the USA regarding export competitiveness in both categories ([134]).

The permitting procedure for net-zero technologies is the same as for any other industrial production. The length of the industrial permit application process under the Responsible Industry System (SIR) Platform depends on several factors, including the complexity of the project and the category of the industrial establishment. This platform provides a one-stop shop for submitting permitting applications (CSR 2025.3). It integrates environmental and industrial permitting processes, but it does not specifically target net-zero technologies. In 2024, the European Commission has approved two Portuguese measures (one under the RRP for a value of EUR 350 million) under the Temporary Crisis and Transition Framework to support investments in the production of certain net-zero technologies, namely batteries, solar panels, wind turbines, heat pumps, electrolysers and equipment for carbon capture usage and storage ([135]).

Portugal wants to reinforce the country's role in EU value chain ecosystem while advancing in the decarbonisation of industry. It has identified four challenges: (1) financing constraints, (2) exposure to global supply chain volatility, (3) market uncertainty for emerging technologies, and (4) a need for a faster and more predictable permitting processes. To tackle them, Portugal envisages a new Green Industrial Strategy in 2026. This focuses on the green transition in existing industries and the attraction and scaling up of new net-zero tech projects. It will combine decarbonisation, competitiveness, innovation and investment policies, aligning with EU initiatives, including NZIA.

Portugal is making sound progress in implementing the Net-Zero Industry Act. It has successfully designated a single point of contact, which is crucial for streamlining communication and coordination among stakeholders. Furthermore, Portugal has established a national contact point to administer applications, facilitating the advancement of Net-Zero Strategic Projects. So far, Portugal has no confirmed Net-Zero Strategic Projects and there is no specific indication of a designated or interest in Net-Zero Acceleration Valleys, which could help attract further strategic projects.

Portugal has the largest lithium deposits in Europe, which could reduce dependencies on critical raw materials for European battery manufacturers. With access to critical raw materials and low-cost renewables, Portugal has two key advantages for developing competitive net-zero value chains. However, a lack of scale in industry and government support as well as a focus on low-added value uses such as exporting hydrogen and mined and refined lithium, leads to missed opportunities for Portugal regarding higher value activities such as the manufacturing of batteries and electrolysers ([136]). Currently, Portugal has four projects under the CRMA, three on lithium and one on copper. These projects will start operations between 2027 and 2030, and will include extraction, processing and refining hubs. Overall, it has a 32.3% of dependency on critical raw material imports (vs EU 22.4%) ([137]). Moreover, Portugal has one of the lowest circular material use rates in the EU (PT 3% vs EU 12.2%) ([138]). According to industry stakeholders, there are no incentives for the recycling and use of second-raw material, and they denounce the presence of systemic barriers. Higher materials circularity would further reduce dependencies.

([134])European Commission and ECORYS, 2025, The net-zero manufacturing industry landscape across the Member States. Annex 2, Country fiches - Publications Office of the EU

([135])European Commission and ECORYS, 2025, The net-zero manufacturing industry landscape across the Member States. Annex 2, Country fiches - Publications Office of the EU

([136])European Commission and ECORYS, 2025, The net-zero manufacturing industry landscape across the Member States. Annex 2, Country fiches - Publications Office of the EU

([137])Eurostat, [cei_gsr030] Material import dependency

([138])Eurostat, Circular material use rate[cei_srm030]

Table A5.1: **Single Market and Industry**

Portugal								
POLICY AREA	**INDICATOR NAME**		**2021**	**2022**	**2023**	**2024**	**2025**	**EU-27 average**
Business environment and investment								
Productivity and investment	Labour productivity (GDP per hour worked in PPP terms), % of EU27[1]		64.5	65.4	66.8	68.4	66.9	100.0
	Business investment (share of GDP)[1]		13.8	14.1	14.1	13.8	13.3	12.6
	Public investment (share of GDP)[1]		2.6	2.4	2.6	2.7	3.0	3.9
Business environment and simplification	Impact of regulation on long-term investment, % of firms reporting business regulation as a major obstacle[2]		45.8	46.3	48.6	48.8	49.0	34.0
SME liquidity	EIF Access to Finance for SMEs index - loans[3]		0.46	0.66	0.27	0.33	-	0.43
	EIF Access to Finance for SMEs index - equity[3]		0.05	0.07	0.05	0.08	-	0.19
Late payments	Payment gap - corporates B2B, difference in days between offered and actual payment[4]		11.8	13.6	15.4	14.6	18.8	17.4
	Payment gap - public sector, difference in days between offered and actual payment[4]		11.9	10.4	16.8	15.0	15.2	13.6
	Share of SMEs experiencing late payments, %[5]	from private entities in the previous or current quarter	-	-	-	42.7	40.3	47.1
		from public entities in the previous or current quarter	-	-	-	13.7	12.3	15.9
Single Market								
Integration	EU trade integration, average(intra-EU imports + intra EU exports)/GDP, %[1]		30.2	34.0	32.0	30.9	30.5	40.7
	EEA Services Trade Restrictiveness index[6]		0.049	0.049	0.049	0.048	0.048	0.050
Public procurement	Single bids, % of total contractors[7*]		20	25	22	38	42	27
	Direct awards, % of negotiated procedures[7*]		7	5	10	2	2	6
Compliance	Transposition deficit, % of all directives not transposed[8]		1.4	1.3	0.4	1	2	1
	Conformity deficit, % of all directives transposed incorrectly[8]		1.1	1.3	0.8	0.7	0.7	1.1
	SOLVIT, resolution rate per country, %[8]		93.98	93.2	87	89.3	90.1	84.6
	Number of pending infringement proceedings[8]		28	32	25	27	34	25
Industry and economic security								
Energy-intensive industries	Electricity prices for non-household consumers[1]		0.1225	0.1967	0.1860	0.1393	0.1433	0.1462
	Electrification (electricity as a share of total energy consumption in industry)[1]		31.6	32.5	33.2	-	-	32.7
	Share of energy from renewable sources (renewable energy generation as a share of overall energy consumption)[1]		34.0	34.7	35.2	36.3	-	25.2
Critical raw materials	Material import dependency, %[1]		28.9	32.2	31.5	32.3	-	22.4
	Circular material use rate[1]		2.8	3.4	3.0	3.0	-	12.2
Operational cleantech manufacturing capacity in 2025[9]	- Solar PV (c: cell, w: wafer, M:module), GW		-		- Electrolyzer, GW		-	
	- Heat pump assembly		0.1		- Battery, GW		-	

Source: (1) Eurostat, (2) EIB Investment Survey, (3) EIF SME Access to Finance Index, (4) Intrum Payment Report, (5) SAFE survey, (6) OECD, (7) data up to 2024: Single Market and Competitiveness Scoreboard, 2025: Commission calculation based on TED data, accessible at the Public Procurement Data Space (PPDS) (*) the value represented here under EU average is the median, (8) Single Market and Competitiveness Scoreboard, (9) European Commission calculations.

Table A6.1: **Savings and Investment Union summary diagnostic**

Topic	*Main features*	*Relative EU positioning*
Asset-backed pension schemes	Assets at 25.5% of GDP (32.3% in the EU) 10-year real return of 0.4 (1.4% in the EU)	Relatively low pension assets trailing the EU average and returns below half of the EU average reflecting very conservative asset management strategies.
Households' financial assets	EUR 51 052 per capita (EUR 85 090 in the EU) o/w 2.9% in listed shares and bonds (7.6% in the EU) o/w 7.2% in investment funds (11.0% in the EU) o/w 7.2% in life insurance (13.4% in the EU) o/w 3.1% in pension claims (13.6% in the EU)	A low share of households' financial assets is invested in equity and in capital markets.
Venture capital (VC) **Private equity (PE)**	VC at 0.021% of GDP (0.064% in the EU) PE at 0.164% of GDP (0.487% in the EU)	Shallow venture capital and private equity markets.
Capital taxation	Capital gains are taxed at flat rate of 28%. Dividends received by residents are subject to a 28% withholding tax at source.	No preferential tax treatment for equity investments, relatively high rates of capital taxation.
1-3 **4-10** **11-17** **18-24** **25-27**	Colours indicate the country's relative ranking based on five groups, ranging from the three best to the three worst performers. The relative ranking as regards an SIU diagnostic topic derives from a consistent cross-country comparison, the starting point of which is the average of the underlying main features.	

Source: OECD (pensions), Eurostat (households' financial wealth), FISMA CMU dashboard (VC and PE), national sources (capital taxation). End-2024.

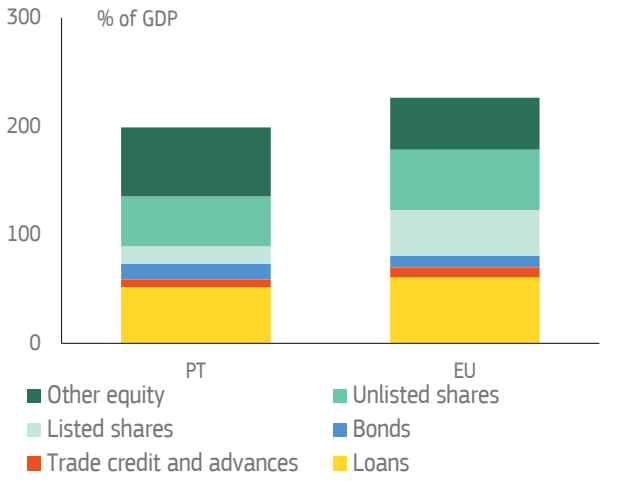
Portugal demonstrates progress along several key indicators of the Savings and Investment Union, though it remains mid-tier among European peers (see Table A6.1). The corporate sector is dominated by micro and small enterprises. Local firms have a clear preference for self-financing and bank lending. A reflection of that business structure is a financial sector that is very bank-centric. Non-bank financial intermediaries play a relatively limited role, with investment funds and insurance corporations each holding assets valued at around 19% of GDP in 2024 (EU average: 53% for insurers and 133% investment funds). The assets of public and private sector pensions were worth about a quarter of 2024 GDP, but private pension funds are fragmented, of modest size, and lack an auto-enrolment mechanism. The local capital market exhibits a limited footprint within the European context with a market capitalisation equivalent to just 22.5% of GDP in mid-2025, over 45 percentage points (pps) below the EU average. Debt securities outstanding are worth about the national output and remain dominated by government bonds (61.6% of GDP) and credit institution issuance (19.5% of GDP). Households' financial assets, at 187% of GDP in late 2024, are heavily skewed toward current accounts and deposits (87.9% of GDP), far beyond the EU average. Local investors seem to be highly risk averse as they demand products with capital guarantees, which structurally limits the role of equity in portfolios. Portuguese authorities wish to encourage broader capital market participation through a savings and investment account (SIA) and tax breaks on long-term holdings of securities, ETFs and other market-based products. Local venture capital and private equity markets – where Portugal has received a Country Specific Recommendation – are dynamic and promising, but struggle to find stable and abundant private sources of financing.

Business landscape and company funding

Portugal's economy is categorised by a high proportion of micro and small enterprises. These firms are responsible for most of the national employment and output (see Annex 5 for more details). This structure has implications for the corporate sector's demand for funding with corporate funding being defined by a high dependency on traditional banking and strong resilience in self-financing compared with the rest of the EU. In 2024, the consolidated corporate indebtedness ratio (comprising loans and debt securities) fell to 76% of GDP, bringing it below the EU benchmark after years of structural adjustment following the global financial crisis. Bank loans (including from both domestic and

non-resident financial institutions) remain the overwhelmingly dominant source of funding, equivalent to 51.7% of GDP in 2024, about half of which (equivalent to 25% of GDP) stemming from the domestic banking sector. While this is lower than the EU average of 60.8%, bank lending remains essential to the economy, particularly for the 99.3% of firms that are micro or small enterprises and rarely tap into capital markets. Overall, cross-border lending, intra-group loans, and shareholder loans play a significant role in the financing structure and indebtedness of Portuguese NFC, whereas market-based instruments play a much smaller role, with bonds issued by a few large companies to finance themselves, worth 14.7% of GDP, slightly above the EU average (see Graph A6.1). Unlisted shares and other equity are equivalent to 46.0% and 63.7% of GDP, respectively. This highlights a relatively high reliance on unlisted equity – among the many family-owned private firms – compared with the EU average. More importantly, in 2024, listed shares in Portugal were equivalent to just 24.1% of GDP, in stark contrast to the EU average of 42.5%, highlighting the small nature of the country's public capital market. This financing structure reflects a business ecosystem where internal funding, particularly within family-owned and medium-sized enterprises, is key. Although most firms report that they invest adequately ([139]), some continue to face funding constraints. While 25% of firms that undertook investments in Portugal had made use of external financing in the last financial year, matching the EU average, the proportion of Portuguese firms that are 'externally finance-constrained' rose to 7%, surpassing the EU average of 6.1%. To bridge this gap, a notably larger proportion of Portuguese businesses relies on government-backed assistance to support investments, with 20% of investing firms receiving policy support compared with just 16% across the EU.

Graph A6.1: **Composition of non-financial companies' funding**



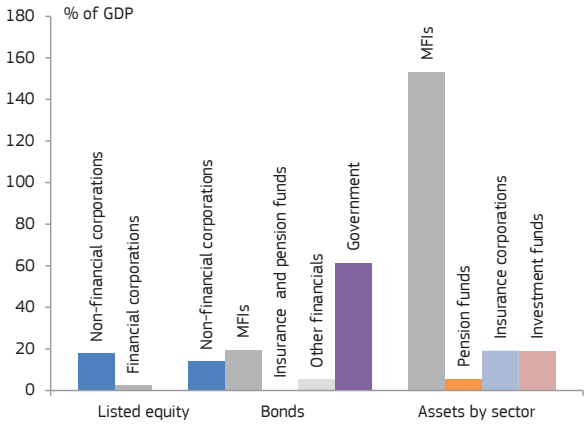
Source: Eurostat. End-2024.

Size and structure of the financial sector

Portugal's financial sector is anchored by a robust banking system. Portugal's financial system relies on a very bank-centric model. By mid-2025, banking assets stood at 150% of GDP, below the EU average of 245.3%. Foreign presence in the banking sector has been on the rise, especially since the global financial crisis, and currently over 50% of the sector's assets are controlled by foreign investors. Non-bank financial intermediaries, particularly investment funds and insurance corporations, are notable, with assets at 19% of GDP each in 2024. The Portuguese banking system is more concentrated (with a CR5 concentration ratio standing at 75%) than the EU average, while the insurance sector is moderately concentrated (CR5 at 65%), in line with many EU peers. The local private pension funds manage assets worth slightly below 6% of GDP. However, these assets are spread over close to 250 pension funds. The small average size of the pension funds is mostly explained by the low incentives for supplementation of the pay-as-you-go, lack of auto-enrolment and the relatively low financial awareness among Portuguese households.

([139])EIB Investment Survey 2025: Portugal Outlook

Graph A6.2: **Capital markets and financial intermediaries**



Source: ECB, EIOPA, AMECO. End-2024.

The broader capital market remains only moderately developed when compared with the European average. It is integrated within the broader European stock exchange ([140]) ecosystem but exhibits a limited footprint when benchmarked against larger European markets. Euronext Lisbon stands as the only equity trading platform in Portugal with a market capitalisation equivalent to 22.5% of GDP in mid-2025, over 45 pps lower than the EU average. Non-financial corporations (NFCs) dominate local market capitalisation representing about 90% of the total and affirming the market's role in channelling equity into Portugal's corporates. Euronext Lisbon remains one of the least active primary markets in the EU for new equity listings, highlighting investors' preference for private placements or acquisitions over public offering. Portuguese authorities, in collaboration with market participants, have been pursuing measures to revitalise the domestic capital market, including incentives for SME listings or simplification of listing procedures and a partial capital gain tax exemption. The introduction of a savings and investment account is also being discussed to further incentivise households' capital market engagement. The CCP and CSD infrastructure of the market is typical for smaller EU markets i.e. Portugal leverages Euronext's integrated ecosystem for efficiency, cost savings, and compliance with EU regulations.

The debt securities market plays a more prominent role. With an outstanding volume at 101.1% of GDP, the fixed income market has traditionally been more active than the stock market in channelling financing to the local economy. Government-issued bonds, worth 61.6% of GDP (see Graph A6.2), dominate the market. The private issuers market is led by bonds issued by credit institutions (worth 19.5% of GDP) and followed by NFCs with 14%. The remaining 6% consists of debt securities issued by other financial intermediaries and insurance corporations. Private sector debt securities are overwhelmingly denominated in euro, reflecting a minimal FX risk. This market structure again underlines the importance of bank lending in the financing of local firms. It also suggests ample room for growth for financing through the local capital market.

Households' participation in capital markets

Portuguese households prioritise safety over performance. Portuguese households exhibit a financial profile characterised by relatively modest but increasing wealth combined with a strong preference for low-risk and highly liquid assets. As of late 2024, total household financial assets amounted to 187% of GDP, slightly below the EU average of 212%. The composition of this wealth points to a lot of risk averseness and a very cautious investment stance: currency and deposits amount to 87.9% of GDP (around EUR 23 900 per capita), well above the EU average of 67% (see Graph A6.3). This strong concentration in bank-based products is mirrored by limited participation in capital markets, with holdings of listed shares and investment funds at 3.1% and 13.5% of GDP respectively, both substantially below corresponding EU averages. Savings allocated to insurance products and pension funds also remain comparatively under-developed and are equivalent to only 20.4% of GDP, compared with 59% at the EU level. On the liability side, Portuguese households hold debt equivalent to 52.5% of GDP, mainly in the form of mortgage borrowing, slightly above the EU average of 49.9%. Real estate remains however one of the preferred ways of allocating savings with close to 30% ([141]) of all

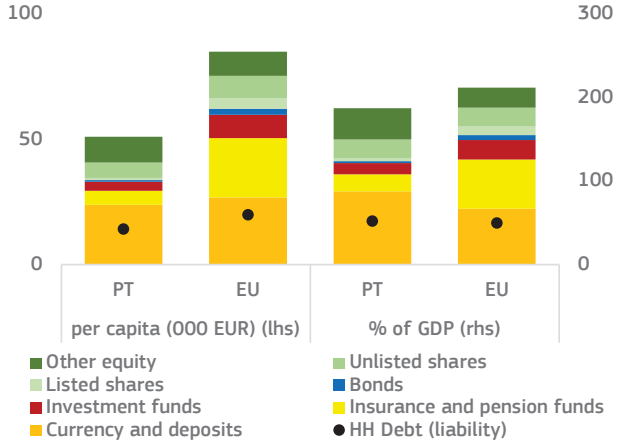
([140])As part of the Euronext group

([141])European Central Bank's Household Finance and Consumption Survey (HFCS).

Portuguese households owning multiple properties, many of which are used for investment.

There has been persistent conservatism in wealth allocation. The saving rate of Portuguese households climbed to 12.5% in Q3-2025, approaching the EU average of 15.1%. Yet, these savings continue to be held mostly in liquid, low-risk assets, a pattern that reflects both a legacy of economic instability as well as limited familiarity with capital market related products. Household deposits surged during the pandemic to over 100% of GDP (in 2020), before declining to around 84.5% by Q3-2025. Yet this gradual reallocation has largely flowed into safe government-guaranteed products (*certificados de aforro*) – with outstanding amounts rising sharply from EUR 12 billion in 2020 to over EUR 40 billion by Q3-2025 – rather than into broader capital market instruments. Overall, household savings remain largely under-utilised for productive, higher-return investments. This heavy tilt toward liquidity and principal protection heavily limits diversification and exposes households to opportunity costs, as the near absence of meaningful exposure to equities, ETFs, or other market-based assets constrains potential risk-adjusted returns and long-term wealth accumulation in an environment of moderate inflation and low deposit yields. Limited capital market participation partly reflects gaps in financial literacy (see the paragraph on financial literacy below) and insufficient availability of simplified, accessible products (such as third pillar pension funds) that often encourage a shift toward diversified portfolios. On this issue, and to encourage more market-based allocation, Portuguese authorities are contemplating the introduction of a dedicated savings and investment account ([142]). Additionally, the authorities have also introduced a partial capital gain tax exemption incentivising long-term holdings of listed securities and units in open ended funds. Increasing financial awareness could also play an important role in enabling households to diversify their financial wealth and potentially achieve higher risk-adjusted returns on savings.

Graph A6.3: **Composition of households' financial assets**



Source: Eurostat. End-2024.

Financial literacy has improved but the overall picture is mixed and many gaps persist. The Commission has recommended that Portugal improve household financial literacy skills (CSR 3 2025). Building on the 2021–2025 cycle, a new National Financial Literacy Plan for 2026–2030 has been recently launched. It is structured around two main pillars: strengthening financial literacy skills across children, young people, and adults through enhanced school-based initiatives developed with the Ministry of Education - and improving operational efficiency to increase the reach, quality, and impact of initiatives, The latest OECD International Survey of Adult Financial Literacy ([143]) places Portugal 13th out of 39 countries surveyed. This performance is largely driven by the relatively sound financial attitudes and behaviours, while gaps persist in financial knowledge ([144]), with Portuguese adults remaining, on average, less financially knowledgeable than their EU peers, which limits effective engagement with more complex financial products and contributes to the conservative saving habits. Recently, the Commission, together with the European University Institute and the Portuguese financial supervisors, launched an EU-funded Technical Support Instrument (TSI) project to assess the effectiveness of existing financial literacy initiatives and support the design of future actions under the PNFF. In addition, in August 2025, the government adopted a reform of the

([142])In line with the Commission's Savings and Investments Union (SIU) initiative and its 2025 Recommendation (EU) 2025/2384, which advocates for tax-advantaged vehicles offering broader eligibility to boost retail engagement.

([143])OECD/INFE International Survey of Adult Financial Literacy 2023 edition.

([144])Eurobarometer: monitoring the level of financial literacy in the EU 2023.

citizenship and development curriculum to strengthen its focus on essential life skills, including the mandatory integration of financial literacy across all education cycles, supported by specialised and practice-oriented input from the financial supervisors and higher education institutions ([145]). Approaches more targeted and tailored to each age group (young, adult, elderly) and a number of measurable interventions are aimed at closing the gap with leading peers across the EU.

The banking sector: resilience and financing of the economy

Portugal's banking sector has demonstrated remarkable resilience over the past decade and is not constrained in its role of funding the economy. The local banking sector has very strong influence, not just over the funding of the economy, but also over how Portuguese savings are allocated. Consequently, Portuguese asset managers and pensions funds managers display a high degree of bank dominance with only a few limited independent players ([146]). It is a structural feature that reflects the country's bank-centric financial system and the consolidation trends since the global financial crisis. Indeed, local lenders have overcome severe headwinds over the past decade. By mid-2025, the sector exhibited solid capitalisation, with a CET1 ratio of 17.9% surpassing the EU average of 16.8%, underpinned by a focus on high-quality capital, alongside strong liquidity and profitability metrics, including a ROE of 15% in the first half of 2025 and 14.4% in 2024. Major institutions have consistently met EU-wide stress test requirements, affirming their capacity to withstand adverse scenarios, while the aggregate MREL ratio comfortably exceeds regulatory thresholds. Asset quality has improved significantly since the crisis years, with the non-performing loans ratio declining to 2.3% in June 2025, still above the EU average of 1.9% but reflecting substantial progress in addressing legacy exposures and supported by a high coverage ratio. Prudent provisioning, low loans-to-deposits ratio ensure continued reliable and affordable access to bank financing for Portuguese businesses. However, the banks' asset quality outlook is subject to increased uncertainty due to the geopolitical uncertainty and its impact on energy prices and economic growth.

Portugal's banking sector has a significant yet prudently managed exposure to real estate. Mortgage loans to households account for around 27% of total banking sector assets and have remained broadly stable over recent years, fluctuating within a narrow range of 26–27.4% between December 2020 and June 2025. Risks remain contained, reflecting strong borrower profiles: around 85% of housing loans have loan-to-value (LTV) ratios at or below 80% and loan-service-to-income ratios (LSTI) at or below 40%, while high-risk exposures are negligible (around 0.5%). House prices continue to be supported by structural supply constraints, high construction costs and sustained foreign demand. Complementing this, macroprudential measures, including borrower-based measures and capital buffers such as the countercyclical capital buffer and the systemic risk buffer, improve both household and bank resilience. Exposure to commercial real estate (CRE) remains comparatively limited, accounting for around 5.4% of total banking sector assets. CRE resilience is supported by diversified sectoral allocation, higher capital requirements relative to residential lending, and positive market dynamics overall.

Portugal's credit landscape remains uneven. Credit extension to households and corporate clients in Portugal is heavily influenced by the prevailing economic conditions and remains highly sensitive to interest rate movements given that most credit is still contracted at variable interest rates. Household lending experienced a modest contraction in 2023 and early 2024 driven by higher borrowing costs. The trend changed dynamically in the second half of 2024 and credit to households continued to grow rapidly into 2025, with year-on-year lending growth rising by 9.1% in November 2025. Lending to NFCs followed a similar path, albeit with higher volatility. Corporate credit dropped sharply in 2023-2024 and started recovering from the second half of 2024 onward. Year-on-year credit growth stood at 4.5% by October 2025, reflecting the decline in interest rates and the recovery in investment financing needs. This confirms that Portuguese firms with

([145]) *Estratégia Nacional de Educação para a Cidadania, Direção-Geral da Educação.*

([146]) According to CMVM and ASF asset managers and pension funds affiliated with banks control about 80% and 70% of assets under management respectively.

solid business cases can access bank financing despite a continuation of a broader deleveraging trend running in the background, post-sovereign-debt crisis.

Role of non-bank financial intermediaries

Portugal's insurance sector is relatively compact and conservative. Portugal's insurance sector remains small by EU standards, with total assets standing at 18.4% of GDP in Q2-2025, compared with an EU average of 53.3% of GDP. Portuguese insurers have a conservative and income-oriented investment profile. Based on EIOPA data, portfolios are heavily concentrated in government bonds (EUR 19.4 bn) and corporate bonds (EUR 12.7 bn). Collective investment undertakings also play an important role, with exposures of around EUR 12 billion, pointing to a significant reliance on fund-based intermediation. Direct equity holdings remain limited at EUR 4.8 billion, indicating a modest risk bearing capacity, while exposures to real estate through mortgages and loans (EUR 0.6 bn) and property (EUR 0.6 bn) are comparatively small. Overall, the asset mix underscores a prudent investment approach, with practically no exposure to private assets such as VC (venture capital) and PE (private equity) funds.

In parallel, Portuguese pension funds are structurally conservative. Assets of private and public pension providers amounted to around 25.5% of GDP in 2024, below the EU average of 32.3% of GDP, highlighting the still limited role for funded pensions relative to the public pay-as-you-go system. According to the Insurance and Pension Funds Supervisory Authority (ASF) data, total assets managed by pension funds reached EUR 19.9 billion at the end of 2025, following a gradual recovery from the sharp contraction observed in 2022. While assets increased by 2.9% in 2025, they remain below pre-2022 levels, reflecting valuation effects and net outflows in parts of the sector. In aggregate terms, according to the OECD, real 10-year returns for Portuguese pension funds stood at 0.4% on an annual basis, barely above the inflation figure, not enough to attract active retirement savings from the Portuguese public. Even the voluntary, long-term savings product *plano poupança reforma* (PPR) remains relatively under-developed with limited household uptake despite a supportive fiscal framework. While the current tax regime allows for a 20% deduction on contributions (capped yearly between EUR 300 and EUR 400 based on age) and a reduced 8% rate on capital gains at maturity, these incentives have not fully compensated for historically modest returns. Average annual performance for many funds has oscillated between 1% and 2.5% over 2020-2023 ([147]), often struggling to outpace inflation and net management fees. This underperformance is partly linked to a market structure where distribution is almost exclusively channelled through retail banking networks, which tend to favour conservative and capital-guaranteed products.

Portuguese pension funds remain small in scale and spread across many asset managers. The Portuguese pension fund market is highly dispersed, comprising 238 pension funds managed by 15 entities, with closed funds accounting for the majority of assets (EUR 15 bn). Management is dominated by specialised pension fund management companies, which account for 73.1% of total assets, while insurance companies manage the remaining 26.9%. This fragmentation does not allow for economies of scale, proper diversification and efficient governance. From an asset allocation perspective, EIOPA data show a strong preference for low-risk instruments, with pension fund portfolios concentrated in government bonds (EUR 6.4 bn) and collective investment undertakings (EUR 5.8 bn). Defined benefit schemes rely overwhelmingly on fixed-income-based asset-liability matching to limit sponsors' balance sheet risk. Equity exposure remains very limited at EUR 0.5 billion, while property holdings (EUR 1.4 bn) represent a comparatively larger share. Overall, the sector exhibits a very risk averse investment profile, consistent with its modest returns. It lacks any significant exposure to local or foreign risk capital funds, which limits the sector's contribution to economic growth and retirement income diversification. Moreover, there is no active auto-enrolment mechanism in supplementary pensions and a lack of a comprehensive, user-friendly pension tracking system. These factors hinder both participation and transparency, leaving future retirees without clear visibility into portfolio

([147])EIOPA Costs and Past Performance Report April 2025.

performance or the benefits of higher-risk, higher-return strategies. Introducing auto-enrolment with opt-out provisions, developing a national pension tracking system ([148]) (targeting better information for households), and encouraging a gradual exposure to alternative asset classes could foster greater scale, improve returns, and unlock meaningful allocations to VC and PE, thereby strengthening both retirement outcomes and domestic capital market depth.

Venture capital ecosystem

The VC and PE ecosystem continues to develop. Despite lagging behind some larger and more developed European markets, Portugal's VC and PE landscape is catching up (see Annex 4 for more details) It has been gaining traction (see Table A6.2) and interest from both local and international investors. PE investment has traditionally focused on mid-market industrial companies with strong positions in their respective niches and a dynamically growing share in export markets. Exit opportunities rarely focus on IPOs with most firms being sold to international peers or buyout investors. The VC market is bolstered by innovation policy, cultivating a start-up culture and positioning Portugal as one of the EU's emerging markets in tech and renewables. It leverages annual events like the Web Summit to maintain momentum and draw international attention. It is a growing market that has attracted (both in 2024 and 2025) cross-border capital inflows with about 50% of VC volume being international capital. VC investments reached the equivalent of 0.021% of GDP (against an EU average of 0.064%)([149]), still rather under-developed despite doubling in size over the past six years, whereas PE was worth 0.164% of GDP (EU 0.487% GDP) and remains significantly under-developed by EU standards.

Despite an overall positive trend, most assets under the management of local VC or PE firms remain linked to various public programmes or tax incentives ([150]) and are rarely genuine players on the local growth market. The investment programmes of the Portuguese development bank, *Banco Português de Fomento* (BPF), remain a key supplier of funds to the sector and effectively support local start-ups and technology transfers. The BPF functions predominantly as a manager of specialised funds that invest in other funds, or it directly co-invests alongside private investors. A new national fund of funds structure is currently under development by the BPF to leverage the bank's position as fund manager. Overall, that type of structure is perceived positively by the sector and will help refill local funds with new investable assets and become a catalyst for private investment as recommended in CSR3 from 2025 ([151]). More recently, funds strictly related to the SIFIDE R&D tax break ([152]) have been a major source of assets for PE funds, though this large inflow has not always been seen as a positive driving force by local fund managers, given it may only be for a limited time and its impact could distort the market. Market participants believe that leaner programmes built jointly with the sector would benefit both investors and start-ups. Lastly, the golden visa programme has been a complementary source of new funding for local VC and PE players, though it remains strictly linked to the policies shaping the golden visa programme.

Not enough risk capital and persistent bottlenecks. Despite making progress, the local VC and PE markets still face bottlenecks that will constrain the growth seen in recent years. Notably, there is a scale-up financing gap where start-ups struggle at growth stages due to limited domestic funds capable of leading larger rounds (e.g. EUR 50–100 mn). This increases reliance on international investors and heightens relocation risks for promising companies. Portuguese institutional investors shy away from VC and PE

([148])In line with the EU's 2025 SIU Recommendation on supplementary pensions

([149])Differences in VC/PE indicators across annexes reflect the use of distinct data sources. This Annex uses CMU Dashboard data for consistency across CMU indicators, while Annex 4 uses InvestEurope data, which is disaggregated by investment stage. Variations in reported figures are therefore due to underlying source definitions.

([150])Mainly the indirect SIFIDE mechanism.

([151])2025.CSR3.subpart2: '...Foster private investment into venture capital and private equity for local businesses, including public-private risk sharing..'

([152])SIFIDE (*Sistema de Incentivos Fiscais à Investigação e Desenvolvimento Empresarial*) indirect tax incentive mechanism. This incentive allowed Portuguese companies to claim a tax credit by investing in certified VC funds focused on R&D-intensive start-ups, rather than performing R&D directly.

Table A6.2: **Financial sector indicators**

		2018	2019	2020	2021	2022	2023	2024	2025-Q3	EU
Banking sector	Total assets of MFIs, % of GDP	190.8	180.9	205.6	202.5	176.6	157.3	153.3	151.9	246.1
	Common equity Tier 1 ratio	13.2	14.1	15.4	15.5	15.3	17.1	18.0	17.7	16.8
	Total capital adequacy ratio	15.2	16.7	18.1	18.0	18.1	19.6	20.6	20.5	20.2
	Overall NPL ratio, % of all loans	9.4	6.1	4.9	3.6	3.0	2.7	2.4	2.3	1.9
	NPL ratio, loans to NFCs	18.5	12.3	9.8	8.1	6.5	5.0	4.3	3.8	3.5
	NPL ratio, loans to HHs	5.1	3.7	3.4	2.8	2.3	2.4	2.3	2.1	2.1
	Return on equity ratio[1]	2.7	4.3	0.0	4.9	8.7	13.8	14.4	14.5	9.6
	Loans to NFCs, % of GDP	34.1	31.4	37.0	35.2	30.8	27.1	24.9	24.4	29.3
	Loans to HHs, % of GDP	58.4	56.9	61.6	59.0	53.8	48.0	46.4	46.9	43.6
	NFC credit growth rate, %	1.7	1.1	10.0	4.5	0.8	-1.0	0.7	4.4	2.5
	HH credit growth rate, %	0.8	1.1	1.5	3.7	3.4	-0.5	4.0	8.4	2.6
Non-banking sector	Stock market capitalisation, % of GDP	23.6	25.6	25.1	26.1	24.3	24.1	20.4	23.8	69.9
	Initial public offerings, % of GDP	0.01	0.00	0.00	0.23	0.00	0.00	0.00	-	0.06
	Market funding ratio	43.9	45.5	46.1	46.4	47.1	48.7	50.6	-	49.7
	Private equity, % of GDP	0.223	0.188	0.316	0.340	0.347	0.203	0.164	-	0.487
	Venture capital, % of GDP	0.012	0.015	0.018	0.021	0.023	0.021	0.021	-	0.064
	Financial literacy, composite index	-	-	-	-	-	42.5	-	-	45.5
	Bonds, % of HHs' financial assets	2.9	2.7	2.4	1.6	1.2	1.2	1.3	-	2.8
	Listed shares, % of HHs' financial assets	1.3	1.4	1.5	1.5	1.4	1.6	1.7	-	4.8
	Investment funds, % of HHs' financial assets	4.5	5.2	5.5	7.0	6.3	6.6	7.2	-	11.0
	Insurance/pension funds, % of HHs' financial assets	17.5	17.5	16.3	14.9	12.3	11.2	10.8	-	27.8
	Total assets of insurers, % of GDP	25.6	25.8	26.6	24.6	21.9	19.7	19.1	19.0	53.9
	Pension assets, bn EUR	-	-	-	69.8	63.0	67.2	73.7	-	5813.8
	Pension assets, % of GDP	-	-	-	32.2	25.8	24.8	25.5	-	32.3
	10y real return average of pension assets, %	-	-	-	-	-	0.9	0.4	-	1.4
	Pension funds assets, ECB (% of GDP)	-	10.5	11.8	11.2	8.8	7.1	6.7	6.6	23.0
	1-3 / 4-10 / 11-17 / 18-24 / 25-27	Colours indicate performance ranking among the 27 EU Member States.								

(1) Annualised data. EU data for credit growth and pension funds refer to the EA average.
Source: ECB, Eurostat, European Insurance and Occupational Pensions Authority, DG FISMA CMU dashboard, AMECO.

markets. The long lock-up periods, the general illiquidity of these assets and valuation challenges fuel risk aversion, which in turn drives the lack of internal expertise and familiarity with private assets. Furthermore, the relatively small portfolio size of local insurers and pension funds further limits the ability of investors to build properly diversified alternative asset allocations.

Consequently, local VC and PE asset managers struggle when looking for new investors. Furthermore, the small size and subdued IPO activity of the Lisbon stock exchange complicates exit strategies for local private asset managers. Lastly, talent acquisition and retention challenge Portuguese scale-ups. Surveys consistently show that Portuguese founders consider relocating their company or themselves abroad within the first three to five years, often citing the inability to attract or retain senior talent as a key driver. Nevertheless, studies also show that in actual fact only 10.7% of Portuguese start-ups relocate abroad ([153]).

Most of these bottlenecks have been recognised both by the market as well as the local authorities, and measures are being put in place to assist the growth market. There are tax incentives for reinvestments, procedures for new listings are simpler than before and various de-risking tools are available. Nevertheless, VC/PE would certainly benefit from a more sizeable pension funds sector, which could apply auto-enrolment and appropriate strategies such as lifecycle investment in order to better manage exposures to alternative asset classes.

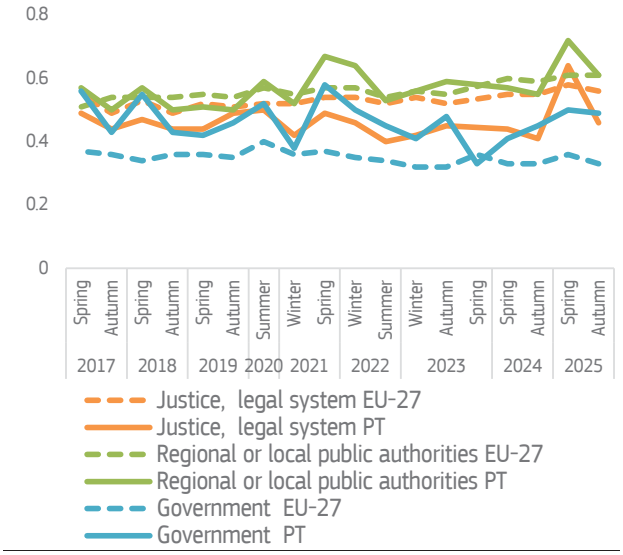
([153])Venture capital and the international relocation of startup, S. Weik et al.

An effective institutional framework is essential for competitiveness. This requires public trust built on integrity, quality legislation, regulatory simplification and efficient services for people and businesses. For Portugal, the 2025 country-specific recommendations highlighted challenges in reducing the regulatory and administrative burden, improving the quality of lawmaking, and the efficiency of the justice system.

Public trust

Public trust in government in Portugal is above the EU average and has improved over the past period (Graph A7.1). However, trust in regional or local public authorities and in the justice system fell sharply in 2025 and the latter is now below the EU average. Businesses trust the public administration's ability to handle their data securely and responsibly, whereas the general public is more sceptical ([154]).

Graph A7.1: **Trust in justice, regional / local authorities and in government**



(1) EU-27 since 2019; EU-28 before
Source: European Commission, Standard Eurobarometer surveys

([154])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

Quality of lawmaking

Portugal made limited progress on implementing the 2025 country-specific recommendation on reducing the regulatory burden (Table A7.1). In 2025, the National Evaluation Agenda (ANAV) was developed to institutionalise evaluation in the public policy cycle, but challenges remain. For example, for all primary laws, the proportion of impact assessments made during the legislative development process is relatively low and not done in a systematic manner in comparison with other EU countries. Also, the assessments do not cover effects on regional areas. Furthermore, regulators are not required to identify and quantify the benefits of new primary laws. Analysis focuses primarily on the costs of the legislation and overall benefits. Consideration of alternative non-legislative options is not required for primary legislation, thus missing the opportunity to simplify and reduce unnecessary legislation without compromising policy objectives. There are no formal requirements to develop a methodology to measure progress in achieving a primary law's objectives, to identify potential enforcement mechanisms, or to assess the level of compliance. There are also no periodic reviews of legislation in specific areas, which undermines the ability to keep the legislation fit for purpose. Although a body overseeing the quality of lawmaking exists, it covers only the quality of impact assessments, and not *ex post* evaluations, which weakens the country's ability to improve its regulatory framework. As regards transparency, the government is not obliged to consider submitted comments or include the views expressed during the formal consultation process, and is not required to provide public feedback on the way the consultations were reflected in the legislative proposal. This diminishes public trust and accountability in the legislative process.

Although obstacles remain, Portugal has taken steps towards improving transparency, participation and accountability in interactions between interest groups and public entities. In December 2025, the Parliament approved the Law on Transparency in Interest Representation ([155]), scheduled to come

([155])Law No 5-A/2026 of 28 January.

Table A7.1: **Portugal. Selected indicators on better regulation practices for primary legislation**

Tools for smart legislation:	
Share of possible impacts assessed for all primary laws when developing legislation	●
Regulators are required to identify and quantify the benefits of a new primary law	●
Regulators are required to identify and assess the impacts of alternative non-regulatory options	●
Tools for effective implementation: when developing laws, regulators are required to:	
Assess the level of compliance	●
Identify and assess potential enforcement mechanisms	●
Specify the methodology of measuring progress in achieving the law's goals	●
Oversight of better regulation:	
There is an external body responsible for reviewing the quality of RIAs and of ex post evacuations	●
There are publicly available assessments of the effectiveness of RIA in modifying regulatory proposals	●
There are reports on the level of compliance by government department with the requirements of RIA	●
There are indicators on the percentage of ex post evaluations that comply with guidelines	●
The effectiveness of ex post evaluations in improving the regulatory stock has been assessed in the last five years	●

● High / yes / for all primary laws ● Medium / in part / for major primary laws ● Low / for some primary laws ● Very low / no / never

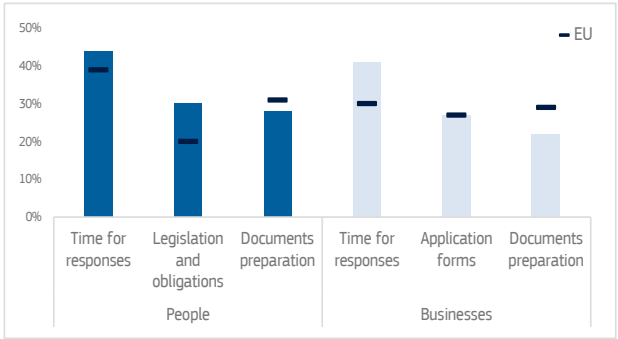
Source: OECD, 2025, Regulatory Policy Outlook 2025 [https://doi.org/10.1787/56b60e39-en] and Better Regulation across the European Union 2025

into force in July 2026. It establishes rules applicable to private, national and foreign entities involved in legitimate interest representation with public entities, creates a code of conduct for these interactions, and introduces the Transparency Register for Interest Representation ([156]).Parliament will create a governing body to manage the register and apply sanctions. However, there are concerns about the feasibility of implementing the new rules, the transparency register and a legislative footprint process by July 2026 ([157]). In parallel, new rules were introduced in December 2024 to speed up implementation of EU-funded projects by changing the preventive control of contracts by the Court of Auditors ([158]).

Public service delivery and digitalisation

Challenges remain on the user-friendliness of public services in Portugal, despite progress ([159]). People's level of satisfaction with administrative services are slightly below the EU average (Portugal: 41%; EU: 45%) whereas businesses are more positive (Portugal: 48%; EU: 42%) ([160]). People think that clearer information, reminders for important deadlines and pre-filled forms would improve their interaction with public services. 73% of people report being repeatedly asked for the same data, indicating that administrative procedures are complex.

Graph A7.2: **Most time-consuming aspects of service delivery**



Source: European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([156])The Public and Mandatory Interest Representation Transparency Register will be attached to the Parliament and publicly accessible through its online portal.

([157])European Commission, 2026 Rule of Law Report, Chapter on Portugal (forthcoming).

([158])European Commission, 2025 Rule of Law Report, Chapter on Portugal. These contracts still need to be checked by the Court, but the effect of suspending control of projects was limited.

([159])For example, the Virtual Citizen Shop consolidates multiple services for citizens and businesses into a single platform, including support through video calls, enhancing accessibility and user support in digital public services.

([160])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

Portugal has made little progress in reducing the administrative burden, particularly for businesses. While perceptions about service delivery have not changed since 2023 ([161]), the percentage of people who find public administration to be complex and burdensome fell from 37% to 31% in 2025 ([162]). For people, the waiting time for responses and understanding the applicable legislation and obligations is the most time-consuming aspect of administrative service delivery (Graph A7.2), while 44% engage with the administration more often than they expected, highlighting complexity. Businesses are more likely to face challenges with response times than the EU average (41% vs 30%). Although 49% of businesses report facing challenges in their interactions with the public administration, these lead to less frequent delays in business operations than the EU average (Portugal: 11%; EU: 36%).

Fragmented territorial governance and overlapping competencies create uncertainty for businesses. Portugal faces shattered implementation due to weaknesses in the decentralisation process, marked by disparities in administrative and fiscal capacity across municipalities and persistent shortcomings in coordination and monitoring in multi-level governance ([163]) (see also Annex 18). For example, on permits, the involvement of various authorities at different administrative levels results in duplicated procedures, lengthy approval times and inconsistent implementation ([164]). Regulatory fragmentation and limited coordination between environmental and building permit frameworks further compound these challenges, increasing compliance costs and delaying investment decisions. Gaps in digitalisation, administrative capacity and inter-agency information sharing continue to constrain efficiency, despite some progress ([165]).

The availability of digital public services for people grew in 2024 (Table A7.2). Most people in Portugal find public administration services easy to use while abroad in the EU, with the majority believing it is important for public administration services to be fast and accessible through different channels, and for information to be transparent and clear. Portugal has made significant progress on access to public services for people from other EU countries, (up from 66 to 72), exceeding the EU average (71) ([166]). The availability of electronic health records stands above the EU average, with a score of 88 ([167]), while the country's e-government user uptake (Portugal: 80%; EU: 74%) ([168]) points to success in digital authentication through eID, which provides access to over 1 000 services via ePortugal.gov.pt ([169]). There has been progress on expanding integrated digital service delivery through gov.pt, reflected by the 75% of people expressing that digital public administration services significantly reduce the time and effort needed to access these services. However, 70% would like to have the possibility of obtaining help quickly, while 52% ask for user-friendly designs ([170]). Under the Recovery and Resilience Facility ([171]) and cohesion policy funds programmes, Portugal has been investing in digitalising various public services – for example, by making the gov.pt app available on all mobile phones.

([161])European Commission, 2023, Flash Eurobarometer 526 on Understanding Europeans' views on reform needs.

([162])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([163])Tribunal de Contas, 2024, Relatório de Auditoria à Dimensão Financeira do Processo de Descentralização de Competências – 2022.

([164])World Bank, Subnational B-Ready in the EU | Regulatory Efficiency.

([165])For example, through tools like the Integrated Environmental Permit System (SILiAmb) and reforms introduced under the SIMPLEX 2024 initiative aimed at streamlining processes. The Technical Support Instrument (TSI) also supports Portugal as regards contractualisation between levels of government.

([166])European Commission, DESI dashboard for the Digital Decade.

([167])European Commission, 2025, Digital decade e-health indicator study: final report.

([168])European Commission, 2025, eGovernment Benchmark.

([169])European Commission, 2026, Simplification of key life events.

([170])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([171])Component 19 (Digital Public Administration) of Portugal's Recovery and Resilience Plan.

Table A7.2: **Digital Decade key performance indicators: availability of digital public services**

	Portugal			EU-27
	2023	2024	2025	2025
Digital public services for citizens (0 to 100)	78	82	84	82
Digital public services for businesses (0 to 100)	82	82	84	86
Access to electronic health records (0 to 100)	63	86	88	83

(1) Digital Decade target by 2030: 100. (2) Publishing year, data were collected in the previous year
Source: European Commission, State of the Digital Decade report 2025

Progress is more limited as regards digital public services available for businesses (Table A7.2)**.** Portugal performs below the EU average for access to public services for companies from other EU countries (Portugal: 69; EU: 74)([172]). Furthermore, the number of digital public services available for businesses remains below the EU average (Portugal: 84; EU: 86), yet 74% of Portuguese businesses use them regularly (EU: 68%). In 2026, Portugal became the first EU country to launch the digital wallet for companies, facilitating essential business documentation([173]). Registering a Portuguese business can be done entirely online through 'Empresa Online 2.0', consolidating services for companies into a single point of access. A company can now be set up electronically in less than 10 minutes([174]), but the entire registration process is usually completed within one to two days([175]). This time varies depending on the type of business and channel used (See Annex 5).

Portugal has enabled the cross-border exchange of data and documents between authorities through the EU once-only technical system([176]). As once-only makes services([177]) accessible, people and businesses will no longer have to search for their data, download and upload documents manually across e-government portals in different Member States. Portugal has authority registries in the education domain connected. The country still has to identify the types of documents and data to exchange through the system and explore ways to shift from submitting documents to exchanging structured data.

Civil service

Portugal has one of the oldest public administration workforces, which poses a risk for mid-term capacity and quality of public administration. The proportion of civil servants older than 55 has steadily increased since 2020, indicating the importance of further strategic workforce planning([178]). Recent measures to improve the attractiveness of the public administration have led to an increase in the number of civil servants, and improving continuous learning opportunities and career progression paths within the public administration could further improve its attractiveness and adaptability to future challenges([179]).

Portugal is taking measures to consolidate civil servants' skills. Under the Recovery and Resilience Facility, Portugal is investing in training courses for public servants([180]). Furthermore, it has

([172])European Commission, DESI dashboard for the Digital Decade.

([173])The gov.pt app provides the Digital Business Wallet with new features and documents.

([174])Empresa Online | Serviços do registo comercial - gov.pt - gov.pt.

([175])European Commission, 2026, Simplification of key life events.

([176])European Commission, *Once-Only Technical System Acceleratormeter*, Ec.europa.eu.

([177])Procedure types under Annex II of the SDGR (2018/1724/EU) and directives 2005/36/EC, 2006/123/EC, 2014/24/EU and 2014/25/EU.

([178])European Commission, Eurostat, 2026, European Union Labour Force Survey, Employed persons by economic activity (NACE Rev. 2) (2008-2026).

([179])DGAEP - Direção-Geral da Administração e do Emprego Público.

([180])Component 19 (Digital Public Administration) of Portugal's recovery and resilience plan.

expanded its civil service competency framework (ReCAP) and improved provision of training to acquire the skills and competencies needed for the green([181]) and digital transitions([182]). Such measures are critical, given that Portugal has a low proportion of civil servants with higher education, although this figure has increased slightly([183]). The proportion of civil servants in adult learning has increased sharply, reaching a level above the EU average([184]). Portugal ranks second in the EU in terms of gender parity with 50% of women in senior civil servant positions([185]).

Integrity

Although the perception of corruption when doing business in Portugal remains very high, the reported level of experienced corruption is low. 75% of companies believe that corruption is widespread (EU: 63%) and 50% see it as a problem when doing business (EU: 35%)([186]). Yet only 44% agree that overly close links between business and politics lead to corruption (EU: 76%), suggesting concerns extend beyond political connections. Urban planning and local government are among the sectors particularly vulnerable to corruption in Portugal([187]) (see also Annex 5). Despite relatively low reported pressure to offer gifts or extra payments for permits, services or procurement (Portugal: 6% vs EU: 10%), confidence in accountability is lower, with only 23% of companies believing those caught bribing senior officials are appropriately punished (EU: 33%)([188]), pointing to challenges regarding the effectiveness of enforcement at higher levels.

On repression, resources for handling corruption cases have improved, but challenges persist in effectively pursuing high-level cases. Stakeholders recognise the positive impact of recent measures, but some note that shortages of prosecutors and clerks, limited access to specialised advisers, and outdated IT equipment continue to hamper the prosecution's handling of corruption cases. As a result, the authorities struggle to deal with high-level corruption cases in a timely manner, risking that they might become time barred. Significant delays were noted in relation to some high-level corruption cases, with a few pending for over a decade and remaining at pre-trial stage([189]).

Justice

Challenges remain regarding the efficiency of the justice system, in particular in administrative and tax courts. The time taken to reach a decision in civil and commercial cases at first instance courts decreased slightly (263 days in 2024, compared to 267 days in 2023). In first instance administrative and tax courts, the estimated time to resolve pending cases (disposition time) rose dramatically to 858 days in 2024 (compared to 594 days in 2023)([190]), and the number of pending cases remains comparatively high (0.8 cases pending in first instance per 100.00 inhabitants, the second highest in the EU)([191]). Despite new recruitments and progress([192]), serious concerns about

([181])Training Centre for the Energy Transition (CTE), ECO.AP Program, trainings developed by the Public Employment Service (IEFP) on green transition and skills.

([182])Digital Skills Pact aiming to strengthen and generalise digital skills among citizens, businesses, and Public Administration by 2030. The initiative focuses on education, reskilling and upskilling.

([183])European Commission, Eurostat, 2026, European Union Labour Force Survey, Employees by educational attainment level and NACE Rev. 2 activity (2008-2026).

([184])European Commission, Eurostat, 2026, European Union Labour Force Survey, Participation rate of employees in education and training (last 4 weeks) by NACE Rev. 2 activity (2008-2026).

([185])European Institute for Gender Equality, 2025, Gender Statistics Database.

([186])European Commission, 2025, Flash Eurobarometer survey 557 on businesses' attitudes towards corruption in the EU and selected enlargement countries.

([187])European Commission, 2025 Rule of Law Report.

([188])European Commission, 2025, Flash Eurobarometer survey 557 on businesses' attitudes towards corruption in the EU and selected enlargement countries.

([189])European Commission, 2025 Rule of Law Report, Chapter on Portugal.

([190])These data are in part linked to the very high number of urgent cases to compel the administration to decide in asylum and migration cases that were lodged with the Lisbon Administrative Court during 2024.

([191])European Commission, 2026 Rule of Law Report, Chapter on Portugal (forthcoming).

([192])Under the Recovery and Resilience Facility Component 18 (Economic Justice and Business Environment) of Portugal's

resources remain, in particular regarding judicial clerks, impacting the efficiency and quality of the justice system. In contrast, the level of digitalisation is advanced, with widespread use of digital technologies by the courts and prosecution. However, digital tools are underutilised in criminal proceedings. Furthermore, Portugal lacks digital solutions to initiate and follow proceedings in civil/commercial and administrative cases, as well as in the general public's online access to published judgments, in particular for first instance decisions. Portugal also lags behind in producing machine-readable judicial decisions.

recovery and resilience plan, judicial clerks' statutes have been revised to introduce changes to career structure and pay.

Portugal is making progress on industry decarbonisation, reducing emissions from road transport, circular economy, and waste management, but challenges remain. The 2025 country-specific recommendations for Portugal highlighted challenges concerning the reliance on fossil fuels in the transport sector. Portugal's industrial decarbonisation faces hurdles: Though pilot hydrogen projects and fiscal incentives are advancing, delays in permitting and underdeveloped CO_2 infrastructure limit progress toward climate neutrality. While measures have been adopted and partially implemented to boost public transport, railway infrastructure and electric vehicle charging infrastructure, their impact is still limited, and fossil fuel subsidies could discourage customers from choosing emission-free alternatives. The 2025 recommendations also highlighted the need to improve the conditions for the transition towards a circular economy, particularly by increasing waste prevention, recycling and reuse to reduce landfill and incinerator waste. Portugal has made some progress by adopting a set of plans that now has to be properly implemented.

Industry decarbonisation

Greenhouse gas emissions from industry

Overall, Portugal is not generally ranked among the highest emitters in the EU, except in specific industries such as pulp and paper ([193]). In that sector, the emission intensity in Portugal was measured at 1.1 kg CO_2eq per euro, significantly surpassing the EU average of 0.6 kg CO_2eq per euro in 2023. The emission intensity of Portugal's manufacturing sector decreased by 28% between 2018 and 2023 ([194]).

Policies to promote industry decarbonisation

Portugal faces many challenges in decarbonising industry, despite favourable conditions for renewable energy. Notable obstacles include high initial investment costs, restricted access to financing for low-carbon technologies, skill shortages, complex regulatory frameworks, permitting constraints and high electricity prices for large consumers.

Portugal is yet to present a finalised green industrial strategy, that is expected to be finalised by mid-2026. The strategy would complement a number of other relevant strategies and action plans, notably the national energy and climate plan, the national hydrogen strategy, the national strategy for critical raw materials and the action plan for biomethane.

Clean industry is expected to make a significant contribution to Portugal's path towards climate neutrality. On the basis of projections in the energy and climate plan, Portugal expects to decrease total greenhouse gas (GHG) emissions (excluding land use, land-use change and forestry and international aviation) by 37% in 2030 and by 63% in 2040, compared with 1990 levels ([195]). This includes a 57% decrease in emissions under the EU emissions trading system (ETS) by 2030, compared with 2005, and is based on 'with additional measures' scenarios that assume the successful deployment of some large-scale low-carbon industrial projects currently in the pipeline. This would increase Portugal's overall energy consumption but would largely rely on renewable energy sources ([196]). In its hydrogen

([193])This Annex discusses the transition of Portugal's manufacturing industry, specifically its energy-intensive industries, to low-carbon and net-zero modes of production, which is key to preserving competitiveness on the path towards climate neutrality as mandated by the European Climate Law. A broader perspective on the current competitiveness challenges facing Portugal's manufacturing industry is provided in Annex 5. For a more detailed description of greenhouse gas emissions from industry, see European Commission (2025), 2025 Country Report - Portugal, Commission staff working document, SWD (2025) 205 final, Brussels, 4.6.2025, Annex A7. Clean industry and climate mitigation.

([194])Data on the manufacturing sector exclude the NACE division C19 – manufacture of coke and refined petroleum products, for better match of the sectoral data from Eurostat (gross value added) with those from the UNFCCC under the Common Reporting Format. Also see further indicators on industry decarbonisation, as well as the annotation for further information, in table A8.1 at the end of this Annex.

([195])Calculated on the basis of the 1990 figure reported by the European Environment Agency (EEA) and the projections provided by Portugal in the final updated national energy and climate plan.

([196])See Portugal's national energy and climate plan.

strategy, Portugal has set the following targets for 2030: a 10-15% hydrogen share for the injection of gas into its grid; the installation of 2 to 2.5 GW of electrolyser capacity; and ensuring that 5% of industrial energy consumption is covered by green hydrogen by 2030 ([197]).

Portugal is implementing initiatives to promote the decarbonisation of existing industries and attract strategic low-carbon sectors, such as the battery and renewable hydrogen sectors. The country has introduced a robust investment package, with calls for tenders to promote energy efficiency by replacing fossil fuels with cleaner alternatives in existing industries and facilitating the production of renewable hydrogen. These tenders are bolstered by funds from the recovery and resilience plan, supporting capital expenditure for decarbonisation projects. From the recovery and resilience plan alone, EUR 737 million have been committed to industry decarbonisation and EUR 185 million to producing renewable gases such as hydrogen and biomethane, thereby attracting new green sectors into the country. That does not include the additional EUR 100 million in the RePowerEU component. On renewable hydrogen, the calls for tenders within the framework of the Recovery and Resilience Facility were complemented by a special auction for centralised purchases of renewable hydrogen and biomethane to be injected into the gas grid, thereby addressing the gap between supply and demand in the sector.

Portugal has taken measures to alleviate operational costs for sustainable manufacturing. Key measures include fiscal incentives such as corporate tax reductions and simplified VAT schemes. For highly electrified industries, partial reductions of electricity costs are being introduced. These particularly benefit companies with long-term power purchase agreements or self-consumption set-ups. Portugal's efforts to decarbonise electricity generation are expected to have a broad impact on industry, by helping to lower energy expenses. This is crucial as Portugal continues to grapple with offering competitive electricity rates to industrial consumers. Despite favourable conditions for renewable energy, Portugal provides lower indirect cost compensation than other EU Member States, which affects the cost competitiveness of large consumers through their electricity bill. Currently, most of Portugal's revenues from the EU ETS are spent on the amortisation of electricity tariff debt, further reducing the scope for indirect cost compensation to industry.

Current developments in hydrogen supply remain at an early stage. Several pilot initiatives are in progress, primarily focused on production and distribution for certain end users, while efforts are also being made to restructure existing networks. Notably, on a larger scale, the Portuguese electricity producer, EDP, concluded the Flexnconfu project in September 2025. This pilot involves 21 partners, with an investment of EUR 12.6 million, 70% of which is co-financed by EU funds. Its objective is to produce up to 400 kilograms of hydrogen. In parallel, Galp, a Portuguese energy corporation, is advancing the construction of an industrial facility for the production and storage of green hydrogen, which is a critical component in the decarbonisation of the Sines refinery and its energy portfolio products. Several projects are currently in the design and initial implementation phases. These initiatives aim to operate under local self-consumption models, supporting the decarbonisation of hard-to-abate industrial sectors.

Despite strong interest across multiple industries, the permitting of infrastructure for the clean transition remains a key challenge. Lengthy processes and the involvement of multiple authorities do not align with the economic reality of projects. The lack of CO_2 transport infrastructure is a challenge for the development of carbon capture and storage projects, hampering the decarbonisation of hard-to-abate sectors with a strong presence in Portugal, such as cement.

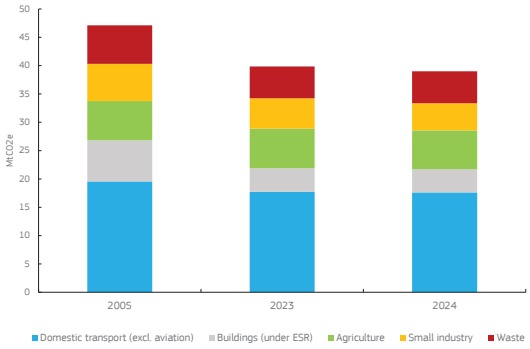
Reduction of effort sharing emissions

Compliance with effort sharing limits with domestic measures

([197])See Portugal's national hydrogen strategy of 14 August 2020.

For 2030, Portugal is projected to overachieve its effort sharing target ([198]). In 2024, GHG emissions from Portugal's effort sharing sectors are expected to have been 19.5% below those of 2005. By 2030, with current and planned policies and measures, these emissions are expected to decrease by 40.1%, resulting in a surplus of 11.4 percentage points relative to the 2030 target of −28.7 %. Portugal is projected not to exceed its effort sharing emissions limits in any year in the 2021-2030 period.

Graph A8.1: **Greenhouse gas emissions in the effort sharing sectors, 2005, 2023, and 2024**



Source: European Environment Agency.

Sustainable transport

In Portugal, transport is a significant emitter of greenhouse gases ([199]); modal shift and decarbonisation yet has to gain ground in both passenger and freight transport. Emissions from transport account for 27% of total emissions (including 19% from the transport sector and 8% from the transport activities of households) ([200]). Passenger transport is still heavily reliant on cars (88% of total transport; EU average: 83%) ([201]). For freight transport, Portugal is far more road-dependent than the EU average: in 2023, 85.9% of inland freight in Portugal moved by road and only 14.1% by rail, compared with the EU average of roughly 77% by road and 17% by rail ([202]). This shows that Portugal's freight system is substantially less rail-oriented than the EU overall. In 2024, 45% of Portugal's effort sharing emissions came from road transport, although they have decreased by 10% from 2005 levels. For Portugal, the 2025 country-specific recommendations highlighted challenges concerning the reliance on fossil fuels in the transport sector, in particular highlighting fossil fuel subsidies, the need to invest in sustainable transport (particularly in rail), and regional disparities.

Portugal has measures to promote more sustainable modes of transport, notably by supporting electromobility and investing in public transport infrastructure. It has recently adopted a new legal framework for electromobility, which simplified the administrative procedures for the permitting and operation of charging points and introduced measures to further liberalise the market, opening it up to new operators. So far, charging infrastructure has followed the market, with the expansion largely led by private operators and municipalities. Portugal has also allocated over EUR 30 million to incentivise the purchase of low- and zero-emission vehicles, reflecting a consistent policy focus in this area over the past decade. Nevertheless, in 2024, only 32% of newly purchased light-duty vehicles were electric. The decarbonisation of road transport still faces systemic challenges. Zero-emission vehicles have not been exempted from concession tolls, nor are they subject to the assessment referred to in Article 7ca(4) of Directive 1999/62/EC. The transition to more sustainable transport is still hindered by fossil fuel subsidies.

Portugal is taking action to address the 2025 country-specific recommendation to 'promote efficient public transport

([198]) The national GHG emission reduction target is set out in Regulation (EU) 2018/842 (the Effort Sharing Regulation). It applies jointly to buildings (heating and cooling), road transport, agriculture, waste and small industry (known as the effort sharing sectors). The emissions from effort sharing sectors for 2024 are based on approximated inventory data. The final data will be established in 2027 after a comprehensive review. Projections about the impact of current policies ('with existing measures', WEM) and additional policies ('with additional measures', WAM) as per Portugal's 2025 reporting under Article 17 of Regulation (EU) 2018/1999 (the Governance Regulation). Also see European Commission (2025), Climate Action Progress Report 2025 – Technical Information, Commission staff working document, Brussels, Chapter 9 (pp. 111ff.), and in particular Tables 25 and 26.

([199]) See Graph A8.1, and Table A8.1 at the end of this Annex.

([200]) Air emissions accounts by NACE Rev. 2 activity, based on Eurostat database: env_ac_ainah_r2.

([201]) Modal split of inland passenger transport, based on Eurostat database: tran_hv_psmod.

([202]) Portuguese Environment Agency (APA), *Relatório do Estado do Ambiente – Transporte de mercadorias*, 2025, Relatório do Estado do Ambiente – Transporte de mercadorias.

connections to reduce the pressure on house prices in urban centres and improve the attractiveness of other territories'. To promote the use of public transport and the modal shift away from private cars, Portugal has committed EUR 3.2 billion through its recovery and resilience plan to: (i) enhance its railway infrastructure (modernise signalling systems); (ii) expand metro and other urban transport systems; (iii) acquire 413 zero-emission electric buses in the Lisbon and Porto metropolitan areas and the rest of the country; and (iv) provide reduced fares and free public transport to young people.

Key infrastructure projects are poised to transform Portugal's transportation landscape, but close monitoring is needed to ensure timely delivery. High-speed rail projects demonstrate Portugal's commitment to cleaner transport alternatives to efficiently connect urban centres and reduce the carbon footprint. The Lisbon-Madrid cross-border high-speed line, in particular, is crucial for linking Portugal to the rest of Europe, as is the shift to the European standard nominal track gauge of 1 435 mm. Timely progress on this project could significantly boost Portugal's competitiveness and resilience.

Portugal is taking action to address the 2025 country-specific recommendation on reducing reliance on fossil fuels 'by investing in sustainable transport, particularly in rail, taking into account regional disparities'. Upgrading and expanding railway infrastructure will promote sustainable mobility, bridge regional disparities and foster social cohesion, ultimately driving economic competitiveness and growth across the country. However, the delays in implementing the Ferrovia 2020 plan and the national investment programme for 2030 mean that these plans should be monitored closely to ensure timely delivery. Improving rail infrastructure, decarbonising transport, and personal mobility are paramount, particularly in Portugal's metropolitan areas, which face significant challenges as regards air quality and traffic congestion.

Sustainable industry

Circular economy industry

Improving waste management and developing the potential of the circular economy is one of the main environmental challenges facing Portugal.

On waste management, new legislation and a set of plans have been adopted in the last few years. However, overall progress in this field has so far been limited, although the situation varies by region. Thus, a new General Waste Management Regime – a reform included in Portugal's recovery and resilience plan – was approved in 2020. The new National Waste Management Plan (PNGR 2030), the Strategic Plan for Municipal Waste (PERSU 2030) and the Strategic Plan for non-urban Waste (PERNU 2030) were adopted in 2023 ([203]). The new regional waste management plans for Madeira and Azores were adopted in 2021 and 2023, respectively. Moreover, municipal action plans for municipal waste (PAPERSU) were adopted in 2024 and 2025 (following the validation by the Portuguese Environment Agency (APA)), setting out strategies in around 300 municipalities to comply with national targets. Lastly, to supplement PERSU 2030, the Portuguese government adopted the TERRA Action Plan in 2025 to promote shared infrastructures for waste treatment and determine immediate action to be taken to ensure landfill capacity until the PERSU strategy is fully implemented.

In January 2026, the Portuguese government adopted a new National Circular Economy Action Plan (CEAP 2030) ([204]), replacing the first national circular economy action plan, adopted in 2017. CEAP 2030 includes 73 actions: 41 macro-actions, targeted at seven cross-cutting areas (policy instruments, funding, technology, research and innovation, circularity in companies, symbiosis and life cycle, and education, training and awareness raising); 25 meso-actions, aimed at seven priority sectors (agri-food, construction,

([203]) Portuguese Environment Agency (APA), Waste Management Plans. Link.

([204]) Portuguese Environment Agency (APA), Circular Economy Action Plan. Link

distribution and retail, electric and electronic, plastics, tourism, and textile and clothing); and seven micro-actions, designed to be implemented at local level.

Portugal is far below the EU average on circular economy and waste management indicators. However, implementing the above-mentioned plans and increasing investment efforts could enable Portugal to improve circularity and waste management outcomes. Portugal's circular material use rate was 3% in 2024, well below the EU average of 12.2% ([205]). Resource productivity is also below the EU average, at EUR 1.7 per kg of material consumed (EU average: EUR 3 per kg) ([206]). In 2024, Portugal generated 519 kg per capita of municipal waste, increasing from 505 kg per capita in 2023 and just above the EU average of 517 kg per capita ([207]). With a recycling rate of 32.8% in 2024 (EU average: 48.1% ([208])), Portugal missed the EU target of recycling 50% of municipal waste by 2020 and is at high risk of missing the new EU target of 55% for 2025 ([209]). Portugal is also at risk of not meeting the 2035 target of landfilling a maximum of 10% of municipal waste. The landfill rate was 57% in 2023, a limited and slow decrease from 62% in 2010 ([210]), although decreasing to 52% in 2024 according to the last available data. On the positive side, the recycling rate for packaging waste in 2023 was 61.8%, which was closer to the EU target of 65% for 2025 ([211]). Moreover, Portugal's plastic recycling rate reached 39.5% in 2023, only slightly below the EU average of 42.1% ([212]).

Portugal is also below the EU average for reuse and recycling of construction and demolition waste. Construction and demolition waste accounts for almost 40% of all waste generated in the EU. A recent study ([213]) showed that, from an environmental perspective, preparation for reuse and recycling is preferred over incineration and landfilling for most of the individual fractions of construction and demolition waste. In 2022, 42.6% of mineral construction and demolition waste was prepared for reuse and recycling in Portugal, compared with the EU average of 79.7%.

Portugal is below the EU average for innovation but above the EU average for employment in the circular economy. On innovation, Portugal has filed few patents related to recycling and secondary raw materials and is below the EU average ([214]). The number of workers employed in the circular economy sector has increased by 14% in comparison to 2014. Workers employed in the circular economy sector represent around 2.3% of overall employment. This figure has remained stable over the last 10 years and is above the EU average ([215]).

New economic instruments are being introduced to encourage the transition to a circular economy. The introduction of systems like 'pay as you throw' (PAYT) and deposit-refund schemes for beverage packaging (plastics and metals up to 3 litres) – a reform under the recovery and resilience plan – can be highlighted as key measures to boost selective collection and reduce residual waste. The deposit-refund scheme is being implemented and became operational in April 2026. PAYT systems are expected to be rolled out or piloted in more municipalities. In any case, PAYT systems are mandatory as of 2025 for the retail, services and catering sectors, and will be mandatory for the domestic sector in 2030.

Current investment to become a more circular economy has been insufficient. During 2021-2027, Portugal is estimated to need investment of EUR 2.5 billion per year for the transition to a circular economy, including waste management. The investment gap amounts to EUR 472 million per year, comprising EUR 356 million per year for circular economy

([205])Eurostat, Circular material use rate, Link.

([206])Eurostat, Resource productivity, Link.

([207])Eurostat, Generation of municipal waste per capita, Link.

([208])Eurostat, Recycling rate of municipal waste, Link.

([209])European Commission, 2023 Waste early warning report, Link.

([210])European Environment Agency (EEA), Municipal waste landfill rates in Europe by country (2010 and 2023), Link.

([211])Eurostat, Recycling rates for packaging waste, Link.

([212])Eurostat, Plastic packaging recycling rate, Link.

([213])European Commission: Joint Research Centre, Techno-economic and environmental assessment of construction and demolition waste management in the EU, 2024, Link.

([214])Eurostat, Patents related to recycling and secondary raw materials, Link.

([215])Eurostat, Persons employed in circular economy sectors, Link.

investments and an additional EUR 116 million for waste management ([216]). It should be noted that, on the basis of the TERRA Action Plan, Portugal estimates there to be an investment gap of EUR 230 million per year for waste management until 2030.

Bioeconomy industry

In Portugal, bioeconomy value added has grown at a high average growth rate (5.4%), driven in particular by the wood products and furniture, biobased plastics, and food and beverages subsectors. Of the bioeconomy subsectors, wood products and furniture registered the highest growth in value added (6.8% on average between 2018 and 2023) ([217]).

Overall bioeconomy employment has decreased. However, the bio-based chemicals and plastics and wood products and furniture subsectors bucked that trend, recording positive growth in total employment between 2018 and 2023 (1.2% on average each) ([218]).

Labour productivity in the bioeconomy – measured as value added per person employed – stood at 64.7% of the national average and has grown from 53.6% in 2018 ([219]).

R&D business expenditure from bioeconomy-relevant subsectors has grown less than the overall R&D business expenditure in Portugal (7.5% compared with an average of 12.2% between 2018 and 2023) ([220]). The country has a well-established network of technology parks and incubators, the main ones being located in or close to universities, e.g., in Coimbra, Porto, Lisbon, Braga, Aveiro and Faro ([221]).

Zero-pollution industry

Portugal has been making considerable progress in reducing air pollution, which is now decoupled from GDP growth. However, this is a mixed picture. While emissions of several air pollutants have fallen in recent decades, air quality in Portugal continues to give cause for concern in some parts of its territory, mainly as regards NO_2 ([222]). (see Annex 18).

Portugal's industry still releases large quantities of water pollutants. Some 800 industrial installations are required to have a permit under the Industrial Emissions Directive. In 2022, Portugal ranked seventh for emission intensity, with 1.37 kg/EUR 1 billion of gross value added, weighted by human toxicity factors, which is above the EU average of 0.86. The main contributors to emissions to water in Portugal are the pulp, paper and wood industry for heavy metals, nitrogen, total organic carbon and total phosphorus and the waste management sector for heavy metals ([223]). Water pollution from industry imposes direct and indirect costs of EUR 24 million annually, not yet sufficiently borne by the polluters ([224]).

The impact of air pollution on human health remains significant. The latest available annual estimates for Portugal (for 2023) by the European Environment Agency (EEA) attribute 2 221 deaths a year (or 22 894 years of life lost (YLL)) to fine particulate matter ($PM_{2.5}$); 692 deaths a year (or 7 133 YLL) to nitrogen dioxide (NO_2) and 1 320 deaths a year (or 13 682 YLL) to ozone ([225]).

Portugal's investment needs for pollution prevention and control are estimated to amount to EUR 1.2 billion per year in 2021-

([216])European Commission, 2025 Environmental Implementation Review, Country Report – Portugal. Estimates expressed in 2022 prices, Link.

([217])Bioeconomy subsectors: food and beverages; bio-based textiles; wood products and furniture; bio-based chemicals and plastics.

([218])Jobs and Wealth in the European Union Bioeconomy, Link.

([219])Jobs and Wealth in the European Union Bioeconomy, Link.

([220])Business expenditure in Research and Development (R&D) in the EU bioeconomy Link, JRC analysis

([221])BIC-Country Report Portugal, 2021, Link.

([222])Portugal was condemned by the Court of Justice of the EU by its Judgment of 29 June 2023 in Case C-220/22, in relation to the metropolitan areas of Lisbon, Porto and Braga.

([223])European Commission, 2025 Environmental Implementation Review, Country Report – Portugal, Link.

([224])European Commission, Directorate-General for Environment, IEEP, Green taxation and other economic instruments – Internalising environmental costs to make the polluter pay, 2021, p.35, table 5, Link

([225])EEA 2025, Harm to human health from air pollution in Europe: burden of disease status, 2025, Link.

2027 ([226]). Proper implementation of the national climate and energy plan (NECP), including the investments in sustainable energy and transport, would largely deliver the necessary investment for clean air and noise.

([226])European Commission, 2025 Environmental Implementation Review, Country Report – Portugal. Estimates expressed in 2022 prices, Link.

Table A8.1: **Key clean industry and climate mitigation indicators: Portugal**

Climate mitigation	Portugal							Trend	EU	
Industry decarbonisation	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emissions intensity of manufacturing production, g/€ (1)	453	464	478	453	409	326	-	↘	330	-
Share of energy-related emissions in industrial GHG emissions (2)	56.2	55.8	55.9	56.5	54.1	53.3	-	↘	55.5	57.9
Energy-related GHG emissions intensity of manufacturing and construction, g/€ (3)	297.5	304.9	313.4	298.9	257.3	226.4	-	↘	203.9	163.0
Share of electricity and renewables in final energy consumption in manufacturing, % (4)	53.2	53.9	54.3	53.6	56.0	57.1	59.3	↗	42.8	43.9
Energy intensity of manufacturing, GWh/€ (4)	1.94	1.96	2.02	1.96	1.87	1.80	1.86	↘	1.27	1.05
Share of energy-intensive industries in manufacturing production, % in GVA (5)	16.18	16.17	16.40	18.38	19.01	16.66	-	↗	-	-
GHG emissions intensity of production in sector [...], g/€ (6)										
- paper and paper products (NACE C17)	1,598	1,772	1,660	1,436	1,190	1,103	-	↘	722	619
- chemicals and chemical products (NACE C20)	1,350	1,686	1,430	1,523	1,272	625	-	↘	-	-
- other non-metallic mineral products (NACE C23)	3,235	3,124	3,277	2,885	2,823	2,003	-	↘	2,495	2,352
- basic metals (NACE C24)	499	573	565	467	462	469	-	↘	2,842	3,099
Reduction of effort sharing emissions	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emission reductions relative to base year, %				-18.6	-18.8	-18.0	-19.5			
- domestic road transport	-14.4	-11.9	-25.5	-20.4	-15.0	-9.3	-10.0	↗	-1.4	-5.6
- buildings	-36.6	-36.5	-36.5	-38.5	-41.0	-42.7	-43.2	↘	-20.3	-33.5
	2005			**2021**	**2022**	**2023**	**2024**	**Target**	**WEM**	**WAM**
Effort sharing: GHG emissions, Mt; target, gap, %	48.6			39.6	39.5	39.9	39.1	-28.7%	-29.5%	-40.1%
Sustainable road transport	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**		**2018**	**2021**
New zero-emission vehicles, electricity motor, % (7)	1.95	3.08	5.44	9.24	11.64	18.21	19.90		↗	1.03	8.96
Number of publicly accessible AC/DC charging points (8)	-	-	2353	3686	6533	7305	12119	15647	↗	446956	n/a
Share of electrified railways, % of total (9)	64.38	67.12	67.12	70.88	70.88	70.88	70.86		↗	55.47	56.49

Sustainable industry	Portugal							Trend	EU-27	
Circular economy transition	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**latest data**
Material footprint, tonnes per person	16.6	16.6	14.6	17.2	15.6	15.4	15.4	↘	14.8	13.7
Circular material use rate, %	2.2	2.4	2.6	2.8	3.4	3.0	3.0	↘	11.6	12.2
Resource productivity, €/kg	1.2	1.3	1.4	1.2	1.5	1.7	1.7	↗	2.1	3.0
Employees in circular economy	2.5	2.6	2.6	2.8	2.3	2.3	-		2.1	2.0
Patents in circular economy	1.08	3.9	5.0	-					12.3	12.0
Recycling rate	29.1	28.9	26.8	30.4	30.2	30.6	32.8		46.40	48.1
Plastic recyling	34%	36%	34%	38%	37%	40%	-		41%	42%
Construction and demolition waste (CDW) recovery	93	-	95						88	89
Bioeconomy industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**CAGR 2018-2023**	**2018**	**2023**
Value added, million EUR	11,843	11,914	11,917	13,332	14,589	16,223	-	5.4%	642,438	863,436
Employment, total number of people employed	616,991	587,870	567,769	560,970	556,530	557,776	-	-1.7%	17,649,040	17,085,642
Productivity										
Valued added per worker, thousand EUR	19.2	20.3	21.0	23.8	26.2	29.1	-	7.2%	36.4	50.5
Valued added per worker, % of national average	53.6	54.5	58.5	62.8	63.8	64.7	-	-	62.2	70.7
R&D business expenditure										
Total bioeconomy (biomass producing and converting sectors)	219	221	236	285	313	337		7.5%	15,672	23,335
Total R&D business expenditure	1,425	1,571	1,844	2,154	2,566	2,844	-	12.2%	196,587	259,525
Zero pollution industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2021**
Damage cost for industrial pollution	6.4	5.4	5.0	4.7	-	-	-		414.9	352.7
Water industrial pollutants releases	Cd, Hg, Ni, Pb		nitrogen		TOC		Phosporus			
	2021	change (2010)	2021	change (2010)	2021	change (2010)	2021	change (2010)		
	3,853	-81%	13,561,500	32%	11,731,000	-24%	1,343,670	17%		
Water chemical status		Good	1,374	Good (%)	0.7		Poor	156.0	Poor (%)	8%

Sources and notes: **Industry decarbonisation:** All data are from Eurostat; data following the UNFCCC Common Reporting Format (CRF) are from the European Environment Agency (EEA), republished by Eurostat. (1) Sectors covered: all divisions of section C - Manufacturing - of the NACE Rev. 2 statistical classification of economic activities, except C19 (manufacture of coke and refined petroleum products). (2) GHG emissions as per UNFCCC Common Reporting Framework (CRF) categories 1.A.2 - fuel combustion in manufacturing in industries and construction (that broadly correspond to the broadly correspond to the NACE sections C - Manufacturing and E - Construction, excluding C-19), and CRF2 - industrial processes and product use. The figures shows the emissions in the 1.A.2 category as a share of the sum of CRF1.A.2. and CRF2 emissions. (3) Sectors covered: CRF 1.A.2 as described above. Gross value added (GVA) data in the denominator aligned in sectoral coverage, in 2020 prices. (4) Sectors covered: NACE section C excluding C19. (5) Nominator: NACE divisions C17, 20, 23, 24; denominator: NACE section C excluding C19 (see above). (6) GVA (denominator) in 2020 prices. **Reduction of effort sharing emissions:** Data source: European Environment Agency, greenhouse gas data viewer; European Commission, Climate Action Progress Report, 2025. For details, see the footnote in the "Reduction of effort sharing emissions" section. **Sustainable road transport:** (7) Source: Eurostat; (8) Source: European Alternative Fuels Observatory; (9) Source: Eurostat. For all climate mitigation indicators, the trend arrows compare the latest available data (year t) with the data four years earlier (t-4). **Sustainable industry**: Bioeconomy value added, employment and productivity: JRC, Developments of Economic Growth and Employment in Bioeconomy Sectors across the EU. Bioeconomy R&D business expenditure: JRC, Business expenditure in Research and Development (R&D) in the EU bioeconomy. Damage cost for industrial pollution: EEA, The costs to health and the environment from industrial air pollution in Europe, 2024. Water industrial pollutants releases: EEA, Industrial releases of pollutants to water and economic activity in the EU-27, 2024. Water chemical status: WISE, Surface water bodies: Chemical status, 2024 and WISE Groundwater bodies: chemical status, 2024. Other indicators: Eurostat. For circular economy indicators, the trend arrows compare the latest available data (year t) with the data two years earlier (t-2).

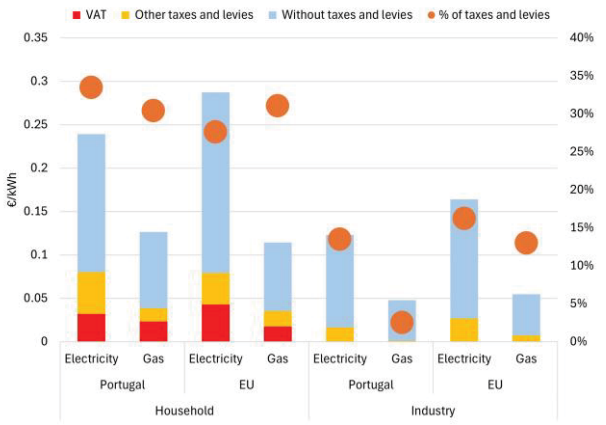
This annex outlines the progress made and the ongoing challenges faced in increasing energy affordability, while advancing the transition to net zero. It reflects the implementation of past energy-related country-specific recommendations (CSRs).

For Portugal, the 2025 CSR highlighted challenges regarding the roll-out of renewables, stability in the electricity market and energy efficiency. It recommended: phasing out fossil fuel subsidies; providing a predictable regulatory framework, with clear digital procedures for permitting; implementing long-term contracts; investing in flexibility solutions; strengthening the capacity of the electricity transmission and distribution grid; and incentivising investments in the national network.

Energy prices and costs

Despite overall price affordability ([227]), household electricity prices in Portugal have decreased since 2024 but increased for industrial consumers, whereas gas prices for both household and non-household consumers have remained stable. In the first half of 2025, household electricity prices in Portugal decreased and remained below the EU average, at EUR 0.2390/kWh, while household gas prices increased slightly and stayed above the EU average, at EUR 0.1265/kWh. Conversely, industrial electricity prices have increased significantly since 2024 but have remained below the EU level, whereas non-household gas prices have stabilised yet also remained below the EU average. Nevertheless, final electricity and gas prices in Portugal in the first half of 2025 remained unbalanced. For large businesses, electricity was 2.6 times more expensive than gas in the first half of 2025, with disproportionately skewed taxes and levies (excluding VAT) accounting for 13% of electricity bills and 3% of gas bills. Excluding taxes and levies, the electricity-to-gas price ratio would have decreased to 2.3, signalling a negative balancing effect of Portugal's fiscal measures. For household consumers, the impact of taxes and levies on the electricity-to-gas price ratio was non-existent ([228]). In December 2025, Portugal repealed the clawback mechanism introduced in 2013, consisting of a financial compensation charge levied on electricity producers, a decision which aims to improve investment conditions.

Graph A9.1: **Electricity and gas prices for household and non-household consumers, first half of 2025**



(i) For household consumers, the consumption band is DC for electricity and D2 for gas.
(ii) For non-household consumers, the consumption band is ID for electricity and I4 for gas. VAT and recoverable charges are not displayed for non-household consumers as these are typically recovered by businesses. This also applies to the '% of taxes and levies', which is shown excluding VAT and recoverable charges for non-household consumers.
(iii) 'Without taxes and levies' indicates the retail price excluding all taxes and levies. It always includes the energy/supply and network cost components, which are not disaggregated in Eurostat's six-monthly price dataset.
Source: Eurostat

Owing to a significant share (83%) of renewable energy in its electricity mix, Portugal had the EU's fifth-lowest wholesale electricity prices, averaging EUR 67/MWh in 2025 ([229]), below the EU average of EUR 85/MWh. Average day-ahead electricity prices in Portugal and the broader region increased by 8% in 2025 amid rising natural gas costs ([230]). Although daytime prices have fallen in recent years owing to the growing penetration of cheap solar power, Portugal remains vulnerable to price spikes during peak-demand hours. This is because falling solar output in the evening and early morning, combined with limited non-fossil

([227])Electricity price statistics, Eurostat.

([228])Analysis based on Eurostat data from the first half of 2025.

([229])Ember.

([230])Fossil fuels still accounted for over 17% of electricity generation in Portugal throughout the year, maintaining a certain role as marginal price-setting technologies.

flexibility, leads to costly ramp-ups of thermal plants to cover supply–demand gaps. As a result, price spreads ([231]) in Portugal averaged EUR 90/MWh in 2025, a 29% increase compared to 2024.

Graph A9.2: **Low-carbon electricity generation vs. electricity wholesale prices, 2025**

Unavailable data for Cyprus and Malta. Wholesale price is given as average of day-ahead electricity prices over 2025. EU-27 average is calculated as consumption-weighted. EU low-carbon share is calculated out of total EU electricity generation. Low-carbon share by country is calculated out of total public electricity generation. Low-carbon includes renewables and nuclear.
Source: Eurostat

Flexibility and electricity grids

Portugal's operational electricity storage capacity is almost 3 GW, while the projection reported in its final updated NECP is expected to be around 3.9 GW for pumped hydro storage and 2.0 GW for battery storage by 2030. Despite the remaining challenges, *in line with its 2025 CSR for investment in energy storage capacities*, Portugal is currently building several storage projects, such as the conversion of a generating group at Alto Lindoso to a reversible unit. Portugal is expected to adopt its 2026-2050 national energy storage strategy during the first half of 2026. Following the April 2025 blackout, Portugal announced a package of measures to increase the security of the national electricity system, including the reinforcement of a battery storage-based scheme (being supported by the Recovery and Resilience Facility), and committed to introduce a competitive auction mechanism for the contracting of at least 750 MW of battery storage. The auction is planned for the second half of 2026.

Despite the 2025 CSR regarding investment in demand-side response tools, Portugal's regulatory framework presents barriers to the development of flexible resources. It allows for demand-side response (DSR), including by independent aggregators, and storage to sell and buy electricity in the day-ahead and intraday markets. However, DSR and storage are not allowed to participate in ancillary services and are not eligible to provide congestion management services to transmission system operators (only to industrial and commercial consumers through a pilot project from 2022 to 2025). Independent aggregators are defined in national rules. Portugal has fully defined roles and responsibilities for aggregators, including independent aggregators, in accordance with Articles 13 and 17 of the Electricity Directive ([232]). However, small or new aggregators may find it difficult to participate in balancing markets due to minimum bid size and qualification requirements. Portugal has made marked progress in rolling out smart meters to households ([233]), enabling consumers to make informed decisions about energy use and participate in DSR efforts.

Being part of the south-west Europe capacity calculation region (CCR) ([234]), Portugal has increased its capacity for cross-border trade with Spain, *in line with the 2025 CSR regarding cross-border electricity interconnections*. Member States are to ensure that at least 70% of technical cross-border capacity is available for trading. The general trend in this CCR is a slight improvement in the fulfilment of this requirement. The Portuguese electricity system continues to be relatively well interconnected with Spain. At 13.33% in 2026 ([235]), the level of interconnectivity is expected to meet the 2030 target of 15%. The continued expansion

([231])'Spread' refers to the difference between the highest and lowest hourly day-ahead electricity prices in a single day.

([232])ACER: Unlocking flexibility: No-regret actions to remove barriers to demand response.

([233])ACER: Unlocking flexibility: No-regret actions to remove barriers to demand response.

([234])The south-west Europe CCR covers Spain, France and Portugal. A CCR is a group of countries which calculate cross-border electricity flows together.

([235])ENTSO-E Winter Outlook 2024-2025.

of Portugal's cross-border interconnection capacity, along with the reinforcement of its national grid, will enable the country to integrate renewable energy production more effectively, and enhance grid flexibility and export capacity. The Portugal-Spain interconnection between Beariz, Fontefría and Ponte de Lima, which was included in the second project of common interest / project of mutual interest (PCI/PMI) list, has been slightly delayed and is expected to be commissioned by mid-2026. The internal line between Pedralva and Sobrado, which was part of the fifth PCI list, remains hard to implement on the ground but is scheduled for completion by 2029. It will support the network expansion necessary for better integration of renewables and distribution of electricity from solar more effectively across the territory ([236]).

Regarding grid-related reforms that facilitate RES integration, Portugal shows that a medium rate (10-25%) of users are exposed to time-of-use tariffs despite the high rates of smart meter roll-out. In terms of tariff structure, pumped storage has no injection charge and intermediate consumption is exempted to avoid double payments, with withdrawal cost being applied to final consumption. In its treatment of flexibility-related costs, such as smart grid systems or demand-response mechanisms, Portugal includes incentives relating to the quality of smart grid services. Moreover, in order to facilitate the integration of RES into grid connection, Portuguese entities reply to general applications in five days, with capacity reserves being issued within 10 days if a positive opinion is given. The system is marked by advanced digitalised processes that are accessible and user-friendly. Although Portugal has not yet published any consolidated, continuous public queue updates, in 2026 it plans to launch a tool that will regularly provide expected grid connection dates and other project-specific details.

The efforts to develop hydrogen infrastructure will help create a national and European hydrogen market and allow Portugal to contribute, as an exporter, to the renewable hydrogen corridor from the Iberian Peninsula to Germany. This flagship corridor, designed to export approximately 2 Mt of hydrogen from Spain and Portugal to other Member States, in particular Germany, is enabled by two Portuguese projects included in the second Union PCI/PMI list and expected to be commissioned in 2029 and 2030: the H2 interconnection between Spain and Portugal, with a capacity of 0.75 megatonnes (Mt) per year (the H2med/CelZa project); and the internal hydrogen infrastructure (the Portuguese 'hydrogen backbone' project). Portugal's intention to deploy several hydrogen valleys across its territory and enable the storage of hydrogen in the two additional cavities to be added to the Carriço underground storage facility, detailed in its final updated NECP, is expected to contribute to the development of the hydrogen value chain in Portugal and the rest of the EU.

Permitting procedures for grid infrastructure remain essential to ensure a correct balance between demand and supply. In Portugal, the permitting procedure for energy infrastructure takes, on average, 36 months and is governed by environmental and sector-specific legislation. This duration is comparable to that of other Member States, but is still on the long side, so there is room for acceleration. Stakeholders have identified the lack of sufficient staff in the permitting authorities and opposition by local communities and municipalities in cases where local benefits are less evident as the key causes of delays. Environmental assessment procedures are also prone to delays, often due to unexpected requests for additional documentation and information. The grid is also facing constraints, with unused booked capacity and a lack of transparency on the available distribution grid capacity also making it difficult for developers to plan new projects. Nevertheless, Portugal has in place a tool that provides information on grid capacity; the tool has no visual mapping representation but provides full coverage of all voltage levels ([237]).

Portugal's large-scale smart meter roll-out (99% in 2024 ([238])) is one of the conditions that empowers consumers to take action. The intensity of supplier switching, in terms of the number of customers, was 23% for electricity, representing an increase of 6 pps compared to 2023, and 17% for natural gas. However, in the

([236])ENTSO-E Winter Outlook 2024-2025.

([237])https://e-redes.opendatasoft.com/pages/homepage/.

([238])ACER retail monitoring 2025 dataset.

case of natural gas, this rate of change was a decrease of around 2 pps, compared to 2023 ([239]). The household retail market is regulated and also involves market-based offers. 18% of Portuguese households had regulated contracts in 2024. Despite regulatory requirements, household consumers in Portugal still did not have access to dynamic-price contracts as of 2024, which has an impact on the provision of flexibility. Final household electricity prices increased by 16% between 2023 and 2024 ([240]).

The number of self-consumption generation units (UPAC) has tripled in the past three years, rising from 78 841 in 2021 to 236 888 in 2024, and installed capacity has almost quadrupled, from 478 MW to 1 846 MW. The development of collective self-consumption (CSC) has seen significant progress since the end of 2023 ([241]). At the end of November 2025 there were 755 CSC installations in operation, 326 in construction and 347 requests for new installations under assessment. However, the majority of CSC installations have no active citizen governance.

Renewable energy communities (RECs), which enable collective and citizen-driven energy actions, can be a key contributor to Portugal's energy transition. However, citizen-led RECs in Portugal have been slow to emerge, with only three communities operating as of September 2025, also due to low levels of energy literacy among the public. Moreover, public authorities face regulatory constraints due to rigid procurement rules and overlapping regulatory requirements under both energy and local authority legislation, including differences in municipal approval criteria, which create administrative burdens in licensing, including connection to the grid, uncertainty and delays for project developers. Portugal also has a relatively low level of prosumers, which has fallen to below 5%. Overall, there is still a lack of public empowerment in energy communities, since they are often controlled and managed by private companies.

In 2024, electricity accounted for 26.4% of Portugal's final energy consumption, above the EU average of 23.4%, and this share has increased slightly in the past decade ([242]). Electricity accounts for 43.2% of the final energy consumption of households, while in industry it represents 32.7% (see also Annex 8). For the transport sector, this share remains negligible, at 1.3%. The limited level of electrification across sectors constrains the cost-effective decarbonisation of the economy and the pass-through of affordable renewable generation to consumers.

Renewables and long-term contracts

Portugal has made some progress in promoting renewable energy and increasing the share of such energy in final energy consumption. Several RES projects are in the pipeline for deployment, but their implementation appears to have been delayed. Moreover, Portugal is facing public acceptance challenges. It is considering reviewing existing social acceptance measures to minimise project impact and promote social acceptance, including the mechanism for allocating compensation to municipalities and existing obligations for engagement with local communities (Order No 6119/2025). In 2025, RES accounted for 82.9% of the electricity mix, showing a slight decrease compared to the share it represented in 2024([243])([244]). Wind power installed capacity has plateaued in recent years, with only 5 MW of new installations in 2025, for a total of 5 605 MW of installed capacity. In sharp contrast, solar capacity reached 6.2 GW, with almost 2 GW installed in 2025 only. RES acceleration areas are expected to be set up by July 2026.

([239])Annual report on the electricity and natural gas markets in 2024 – Portugal, ERSE, page 4.

([240])ACER-CEER 'Rewarding Flexibility' report, p. 21.

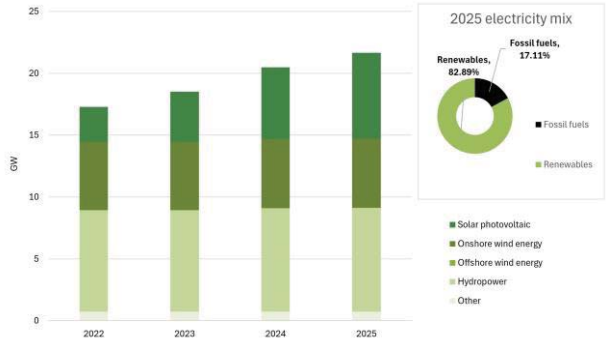
([241])Annual report on the electricity and natural gas markets in 2024 – Portugal, ERSE, pages 26-27.

([242])CAGR (compound annual growth rate) of 0.46% between 2015 and 2024 and minimum/maximum share of 25.2% and 26.4% respectively (source: Eurostat).

([243])Yearly electricity data, Ember.

([244])2025 renewable capacity statistics, IRENA.

Graph A9.3: **Portugal's installed renewable capacity vs electricity generation mix**



Electricity mix is given as net electricity generation (gross electricity production minus consumption of power stations' auxiliary services). Electricity produced in pumped hydro plants is excluded from total net electricity production, as it was previously counted as electricity produced from another source.
"Other" includes renewable municipal waste, solid biofuels, liquid biofuels, and biogas.
Source: IRENA, Eurostat

Portugal took steps towards developing a regulatory framework for renewable energy and shortening its procedures, with a special focus on the environmental aspects (*Simplex Ambiental*), but challenges remain. The current legal framework is rather complex, lacking clear, standardised assessment criteria for projects, leading to different interpretations of the different national bodies with responsibilities in this area ([245]). On the digitalisation front, the country is working to have all steps of the permitting process carried out online, e.g. by creating the digital one-stop shop (*Balcão Único*), but it is facing delays. In 2025, Portugal launched a reform of the public administration in the energy sector by setting up the national Agency for Geology and Energy (AGE), which merges existing entities and aims to consolidate responsibilities, including on planning and licensing. The reform will be phased in gradually, by June 2027.

In its efforts to address the 2025 CSR to enhance stability in the electricity market through long-term contracts, Portugal is currently developing a state guarantee mechanism for power purchase agreements (PPAs) to further de-risk renewable energy purchasing and strengthen bankability. At the same time, it has established the legal framework for the registration of bilateral electricity contracting. The registration of eligible PPAs on this platform is mandatory for physical bilateral contracts with a duration of more than one year. Regarding contracts for difference (CfD), Portugal currently has no plans to launch any new schemes.

Energy efficiency

In 2024, Portugal still lagged behind in reaching energy efficiency targets. In 2024 final energy consumption (FEC) grew by 1.3%, compared to 2023, to 17.4 Mtoe, continuing the slight increase since 2019. Portugal's FEC in 2024 is thus not in line with the trajectory to its expected NECP contribution in 2030. While in industry and services FEC has decreased slightly since 2019 (– 3.2% and -2.5% respectively); transport and the residential sector showed an increase in energy consumption (+ 5.2% and + 1.9% respectively). The technical energy savings were offset by behavioural effects in the household sector and by an increase in activity in all other sectors.

Portugal's final energy consumption in the residential sector increased by 1.9% between 2019 and 2024, while the long-term renovation strategy foresaw an 11% reduction by 2030. The observed increase has been driven by changes in heating behaviour and an addition in the number of dwellings ([246]). Given that 26.3% of the energy consumed in Portugal is used in buildings, highlighting the importance of the sector in increasing energy security, Portugal is encouraged to submit its draft national building renovation plan pursuant to the recast EPBD in order to ensure a clear and predictable pathway towards an energy-efficient and decarbonised building stock.

As per its 2025 CSR to accelerate investment in energy efficiency, Portugal is taking steps to accelerate energy efficiency investments in buildings. It is doing so, in particular, by:

([245])Portugal and the competent entities have been clarifying interpretation, responsibilities and practical applications, but with a rather limited scope (e.g. clarification of the interaction between grid capacity reservation titles and the procedures under the EIA framework – Joint Ordinance No 1/2025, and technical guidance on renewable projects in areas with steep slopes).

([246])https://www.indicators.odyssee-mure.eu/decomposition.html.

focusing on the 'E-Lar' programme for replacing fossil fuel appliances with efficient electric alternatives for heating and cooking systems, prioritising vulnerable consumers; current (2021-2027) financing instruments under cohesion policy targeting support for energy efficiency in public and residential buildings, as well as enterprises and other related services; new (2026-2032) financing instruments under the Social Climate Fund to support vulnerable households and promote the adoption of heat pumps; and developing hybrid financing mechanisms, enabling deep renovation of buildings owned by households with different income levels, including energy-vulnerable households. However, funding calls lack predictability, in terms of both availability and timing. They are subject to frequent rule changes and fail to adequately adapt to different building types, target groups and regional needs. Given the needs of the existing building stock, tax incentives and green mortgage schemes are barely used to attract private investment in deep renovation. Moreover, Portugal has committed over EUR 2.4 billion from the Recovery and Resilience Facility to energy renovations, including a large-scale EUR 420 million investment programme to increase the energy efficiency of residential buildings.

Energy poverty remains significantly above the EU average and constitutes a persistent structural challenge. In December 2025, Portugal adopted its 2025-2030 action plan to tackle energy poverty (PACPE), focusing on housing sustainability and support for vulnerable consumers, though financial allocations remain unclear. Additionally, the Portuguese government created the National Energy Poverty Observatory (ONPE-PT) as an RRP measure, the main goal of which is to monitor the development of energy poverty in Portugal (see Annex 12).

Heating and cooling account for 50% of the country's residential final energy consumption, with renewables supplying 47% of the total energy used for heating and cooling in all sectors. Approximately 50 000 heat pumps were sold in 2024, an increase of 2% compared to the previous year, taking the total stock of installed heat pumps to around 370 000.

Security of supply and diversification

Portugal has increased the security of its gas supply, while increasing the share of renewables in its energy mix. In 2024, Portugal's energy mix remained dominated by oil, at 47.3%, followed by a slight increase in renewables/biofuels compared to 2023, from 33.5% to 36.6%, while natural gas consumption decreased from 1 8% in 2023 to 15.1% in 2024 ([247]). Portugal has made significant progress in reducing its dependence on Russian energy, but further efforts are still required as the country continues to import Russian energy to a very limited extent. In the gas sector in particular, Portugal has achieved a substantial reduction in imports compared to the period before the start of Russia's invasion of Ukraine. Specifically, Portugal's imports of Russian liquefied natural gas decreased from 0.740 bcm in 2021 to 0.18 bcm in 2025. This decline is a result of Portugal stepping up its efforts to diversify its energy supply, with a focus on prioritising LNG imports from alternative sources, such as Nigeria and the United States.

On 28 April 2025, Spain and Portugal faced an unprecedented power outage, which also affected parts of France. In accordance with EU law, ENTSO-E led an independent investigation into the causes of the blackout and published a factual report on 3 October 2025 describing the sequence of events that occurred before and after the blackout. A final report by the ENTSO-E expert panel explaining the root causes of the blackout was published in March 2026. Both Spain and Portugal have also submitted their *ex-post* evaluation report on the incident to the Commission and the Electricity Coordination Group.

In response to the regional crisis in the Middle East, Portugal has introduced temporary fuel subsidies, including a 10 cents/litre rebate for transport operators and farmers, and increased LPG support to EUR 25/cylinder for vulnerable households. Structural measures include Renewable Acceleration Areas, a EUR 600 million "Portugal

([247])Source: Eurostat. Electricity and heat are excluded from gross inland consumption to avoid double counting. The focus is on primary energy sources.

Energy Resilience" programme for energy-intensive firms, and self-consumption incentives.

Fossil fuel subsidies

Portugal has taken some steps to address the 2025 CSR on phasing out fossil fuel subsidies, mainly in the transport sector; however, due to the ongoing energy crisis, it has introduced additional temporary measures. In 2024, environmentally harmful (143) fossil fuel subsidies without a planned phaseout before 2030 decreased, and represented 0.31% (144) of Portugal's GDP (145), in line with the EU weighted average of 0.32%. Portugal decided in 2026 for the gradual phase out of the fuel tax reductions on unleaded gasoline and road diesel (measures part of the support relief package *Famílias Primeiro)*. However, tax exemptions for natural gas used in certain industrial processes and diesel fuel used by freight companies and for agriculture machinery remain in place as fossil fuel subsidies. While these exemptions do not specifically address, in a targeted way, energy poverty or genuine energy security concerns. Additionally, Portugal's 2023 effective carbon rate (146) averaged EUR 80.3 per tonne of CO_2, below the EU weighted mean of EUR 84.80.

Over the past year, Portugal has developed a new climate adaptation strategy and strengthened efforts to tackle water management issues. The 2025 CSRs highlighted challenges in water management and governance, particularly in the resilience of the water sector to climate change and called for the promotion of water efficiency measures and the prioritisation of nature-based solutions. While climate vulnerabilities are now more clearly identified and better understood, the implementation of adaptation measures remains fragmented across sectors, making it difficult to assess overall investment levels and track progress towards a more resilient ecosystem. The country remains deeply vulnerable, with frequent heatwaves, droughts, floods, wildfires and coastal erosion. Investments required for climate adaptation could reach EUR 1.7 billion annually up to 2050, equating to 0.502% of the country's GDP, a proportion that exceeds the EU average of 0.459%. Portugal has adopted a national water strategy, although sustainable water management remains a major environmental challenge. The state of nature and ecosystems continues to degrade, presenting significant economic and competitiveness risks. There are also significant investment gaps in these fields.

Climate resilience and preparedness

Portugal is particularly vulnerable to heatwaves, droughts, floods and wildfires, which are set to intensify due to climate change. The year of 2025 was the second worst year of the decade in terms of wildfires, with around 270 thousand ha burnt, surpassed only by the tragic year of 2017. Compared to the average of the previous 10 years, 2025 had 32% fewer occurrences but a 119% larger burnt area ([248]).

In 2023, around 90% of the national territory experienced some degree of drought. The Lower Alentejo and Algarve regions were under meteorological drought throughout every month of the year and, between April and August, fell into the severe to extreme drought categories. In the same year, some crops lost more than 30% of yield due to water scarcity ([249]). The other extreme of weather conditions also presents significant challenges for Portugal. The hydrological year 2025/26 was, already in January, one of the rainiest in the past 25 years and ranks as the second highest since 2000, with rainfall levels about 1.5 to 2 times the usual amount in most river basins ([250]). In January and February, a series of storms bringing strong winds and heavy rain caused deaths, as well as severe damage to homes, agriculture and critical infrastructure such as power lines and motorways. Repairs might take a year to complete. The total economic cost of these events is still unknown, but early estimates point to costs of around 2% of GDP ([251]).

Portugal's strategy for adaptation to climate change is currently under revision and public consultation. The previous strategy (ENAAC 2020) set objectives for advancing knowledge on climate adaptation, and the national roadmap for adaptation (RNA2100) provides detailed results on the main climate adaptation risks and costs of inaction in Portugal. Despite these findings, ENAAC 2030 sets the overall direction, priorities and strategic guidance, but its concrete operationalisation depends on the subsequent approval of action plans, legal instruments and dedicated funding, which are not yet fully defined in the consultation document. The effective implementation of this strategy will require additional instruments, namely detailed sectoral plans, financing frameworks, timelines, and legislation that embeds binding adaptation requirements.

A recent study ([252]) shows that Portugal will need to invest almost EUR 1.7 billion per year up to 2050 to build resilience across all identified climate risks: first and foremost in

([248]) Jornal Expresso, 2025 was the second worst year of the decade for burnt area in Portugal, 8.1.2026, Link.

([249]) Jornal Expresso, Scarce water, high impact and strategy that unites, 1.4.2025, Link.

([250]) IPMA, Summary of monthly report January 2026. Link.

([251]) Sapo, Kristin: Storm economical losses could amount to 6 billion euros. Link.

([252]) European Commission (2026), Assessment of EU and Member States adaptation investment needs, Table 25, Link. The study provides detailed estimates of adaptation investment needs at the level of the EU and individual Member States per type of measure. It relies on a common methodology that makes estimates comparable across the EU. Four accompanying methodological reports provide a detailed description of how the results were estimated to ensure full transparency.

infrastructure retrofitting and reinforcement (around 33% of the total), followed by ecosystems restorations (around 30% of the total) and resilience of agriculture (around 26% of the total). These investment needs represent 0.5% of Portugal's GDP, similar to the EU average of 0.5%.

The Portuguese Climate Law emphasises engagement with municipalities, which must develop action plans to support the national targets and strategies. The share of Portugal's population covered by the EU Covenant of Mayors signatories has been steadily increasing and stood at 46% (vs EU27: 34%) in 2024. Furthermore, 70% of signatories have submitted a sustainable energy and action plan (SECAP) on time, within two years of their initial commitment to the EU Covenant, and 60% of signatories have submitted at least one monitoring report within the recommended timeframe (i.e. at least two years after submission of their SECAP) ([253]). This shows that majority of municipalities have a growing commitment to increase climate resilience and that the implementation of policies is progressing at the local level as well.

Climate risks have a direct and significant effect on Portugal's economy, yet insurance coverage remains low. Between 1980 and 2024, Portugal recorded EUR 17.7 billion in economic losses, and only 3% of those losses were insured (vs EU27 average: 19%), showing that there is a protection gap against climate-related events in the country ([254]). Latest studies show that combined losses from drought in affected regions in Portugal are expected to exceed 1% of national 2024 GVA in 2029 ([255]). There is currently no national insurance scheme for natural catastrophe risks, and Portugal is part of the countries with the lowest share of insured economic losses related to natural catastrophes across EEA countries ([256]). As a response to these challenges and the train of storms that affected several regions in Portugal in the beginning of 2026, the government is expecting to announce a national scheme called the Natural Catastrophes Fund by summer 2026 ([257])

The most vulnerable sectors identified in the RNA2100 are water/agroforestry, fires and coastal areas. Portugal's strategy does, however, also raise awareness to the fact that the energy sector will have to deal with increased energy demand for cooling in the summer, reduced efficiency of conventional energy systems, and heightened risks to infrastructure due to extreme weather events. Hydroelectric power generation may face reductions because of lower water availability and increased competition for water from other sectors. The transport sector could also be affected. A recent study ([258]) estimates that Portugal will need EUR 2.3 billion of investments (considered moderate in comparison with other Member States) to adapt its TEN-T network in the future. Additionally, if current levels of coastal protection are not raised, direct economic damages and social impacts from coastal flooding in Portugal are projected to rise sharply this century, with especially severe consequences for low-lying coastal communities in the country's outermost regions ([259]).

RNA2100 ([260]) estimates that a lack of awareness and coercive measures could cost a total of EUR 213 million between 2011 and 2030 and an additional EUR 301 million between 2030 and 2040 from forest fires. These figures are based on broad assumptions, as there is currently no extended information on the real value lost due to wildfires.

Several implementation measures to tackle the risk of wildfires was integrated in Portugal's RRP and the national plan for

([253])European Commission, Link.

([254])EEA, 2024, *Economic losses from weather- and climate-related extremes in Europe,* Link.

([255])Usman, Parker & Vallat (2025), Dry-roasted NUTS: early estimates of the regional impact of 2025 extreme weather, Link.

([256])ECB & EIOPA (2024), Towards a European system for natural catastrophe risk management, Link.

([257])SAPO, Insurance companies want to participate in the public Catastrophes Fund. Link.

([258])Support study on the climate adaptation and cross-border investment needs to realise the TEN-T network. Publications Office of the European Union, 2024. Link.

([259])Vousdoukas et al., 2026, Nature, Coastal flood impacts and lost ecosystem services along Europe's outermost regions and overseas countries and territories. https://doi.org/10.1038/s41467-025-66391-7.

([260])National Roadmap for Adaptation 2100, WP5 Adaptation needs, link.

integrated rural fire management ([261]) 2020-2030, which has seen a positive shift of priority from reaction and combat to prevention and landscape transformation. Key operational measures include the expansion of village condominiums to create safety buffers at the rural-urban interface and the rapid and continued implementation of integrated landscape management areas to introduce discontinuity in forest cover. Because the Portuguese landscape is highly fragmented, with forests owned by small private owners, policy is pivoting towards more incentive-based programmes rather than a top-down centralised approach. The Portuguese government has also adopted a strict 'build back better' framework for the areas affected by the 2025 fires, to prevent them from becoming as vulnerable to fires as they were before. Long-term recovery strategies now legally mandate species diversification in reforestation projects, prohibiting the reinstatement of continuous monocultures. However, critical delays persist in structural landscape transformation and engagement with private owners is still limited. The first response structures are also being strengthened to ensure that more incidents are resolved within the first 90 minutes, by professionalising first response, increasing the number of permanent response teams from volunteer fire brigades and increasing the staff of the national reserve force. The national action plan is already showing results; the number of ignitions is going down, and investment in prevention is finally overtaking suppression costs. However, the intensity of such fires continues to bring considerable damage to the population. This is a consequence of the more extreme weather conditions and lengthy heatwaves that the country is a victim of.

While Portugal has progressed in designing and implementing sectoral action plans that include measures for climate change adaptation, allocation of funds for each identified area remains a challenge. Water management issues linked to climate adaptation needs will be further discussed in the section below.

([261])20-30 National Plan for Integrated Rural Fire Management, Link.

Water resilience

Water resilience is a matter of major importance for Portugal. **Despite the progress made in recent years, many challenges remain in terms of water management**, **especially in water governance, water body rehabilitation and water efficiency.** Further infrastructure investment is needed, including in wastewater collection and treatment, reduction of leaks in the networks and general water supply, improving monitoring (quality and quantity), as well as nature-based solutions and river restoration. Portugal should also take advantage of the potential of water reuse. For this reason, under the 2024 and 2025 European Semester, Portugal received a CSR on water management and adaptation to climate change including these elements.

Water productivity in Portugal ([262]) **stood at EUR 34 per m³ of abstracted water in 2022, below the EU-27 average of EUR 151 per m³.** Agriculture is the largest consumer of water, with water abstraction in the agricultural sector accounting for 62% of total consumption in 2023 ([263]), putting a significant strain on the country's water resources, particularly in regions that suffer from serious water scarcity (see Annex 18).

Portugal's delay in submitting its river basin and flood risk management plans has hindered the Commission's ability to evaluate and report on them. Portugal did not submit the third river basin management plans (RBMPs) and second flood risk management plans (FRMPs) by March 2022, as required under the Water Framework Directive and the Floods Directive. As a result of this late reporting in April 2024, the Commission was not able to assess the plans and include its assessment in its report to the European Parliament and to the Council issued in February 2025 for most of the Member States. This assessment is currently ongoing.

([262])Water productivity is a metric that is calculated by dividing GDP (in chain-linked volume) by total water abstraction. It indicates the average economic value (GDP) a Member State creates for each unit of water it takes from nature.

([263])European Environment Agency, Water abstraction by economic sector, 2000-2023. Link.

Problems on wastewater collection and treatment remain. In Portugal, the overall compliance rate with the Urban Wastewater Treatment Directive was 82% in 2020 ([264]). Although above the EU average of 76%, this situation continues as a reason of concern. As part of a horizontal infringement procedure covering a certain number of non-compliant agglomerations, the Commission decided in December 2025 to refer the case to the Court of Justice of the EU.

Portugal is taking measures to address these challenges in the water sector. In February 2024 Portugal adopted a new national strategic plan for water supply, wastewater and pluvial water management, PENSAARP 2030. In March 2025, the Portuguese government presented a far-reaching national water strategy ('Water that Unites') that aims to establish a resilient and integrated approach to water management in Portugal, ensuring sustainability and security in the face of climate change and increasing water scarcity. It prioritises increased water efficiency, reduction of water losses in public and private systems, promotion of treated wastewater reuse, and optimisation/creation of water infrastructure. The strategy is structured around three main pillars: efficiency, resilience and intelligence, in nine programmes that identify 294 measures, with a total investment of approximately EUR 5.5 billion by 2030. The overall strategy encompasses also other measures underway to help increase water resilience on the supply side, such as the Algarve regional water efficiency plan, partially funded under the recovery and resilience plan and 2021-2027 cohesion policy.

As part of the new national water strategy, the government also presented the action plan for the rehabilitation and restoration of rivers and streams ('PRO-RIOS 2030') in January 2026. It is focused on improving the ecological health, resilience and climate adaptation capacity of rivers and streams throughout Portugal. Among others, the plan includes measures to manage and reduce flood risk, especially in areas prone to flooding, and strengthen climate change adaptation by building more resilient river systems and riparian ecosystems. Some of the actions include nature-based engineering solutions (e.g. vegetation and floodplain reconnection) to enhance ecosystem function and reduce hydrological risks. EUR 187 million have been planned for this action plan, and priority funding is earmarked for regions like Algarve and Alentejo. Portugal intends to use the Cohesion Policy and the RRF to support these measures.

The investment needs for water protection and management, highlight a significant financing gap of EUR 371 million per year by 2027 ([265]). Most of the gap can be attributed to unaddressed financing needs in wastewater infrastructure. Increasing investment in this area will be even more important since the Urban Wastewater Treatment Directive was revised and strengthened in 2024 ([266]). EU funding, for example from the European Regional Development Fund and the Cohesion Fund under the 2021-2027 cohesion policy, and to some degree under the recovery and resilience plan, already helps to meet Portugal's investment needs for water protection and management.

The Portuguese government has proposed a new water tariff regulation. This covers public water supply and wastewater management, and would grant the national regulator ERSAR enhanced powers to oversee, approve and enforce tariff structures, thereby ensuring they are cost-reflective, transparent, and socially equitable. While the public consultation concluded in early March 2026, it remains too early to predict the outcome and its full impact on pricing, as the process of stakeholder feedback and regulatory review is still ongoing.

Nature restoration

There is clear room for improvement on biodiversity and nature protection and restoration. Portugal boasts rich biodiversity. 21.2% of Portuguese territory belongs to the EU Natura 2000 network (the EU average is 18.6%). However, some species and habitats, particularly

([264])WISE System – UWWTD country report Portugal. Link.

([265])European Commission, Environmental Implementation Review (EIR) 2025, country report Portugal. Estimates expressed in 2022 prices. Link.

([266])Directive 2024/3019, of 27 November 2024. The deadline for transposition is 31 July 2027.

in the marine environment, are not sufficiently protected. For marine sites, progress has recently been made in the Azores. Furthermore, Portugal could benefit from adopting the management plans for the sites already designated, identifying the site-specific conservation objectives and measures and providing the necessary technical, human and financial resources. Considering both Natura 2000 and other nationally designated protected areas, Portugal legally protects 22.6% of its terrestrial areas (EU-27 coverage 26.1%) and 4.5% of its marine areas (EU coverage 12.3%). This is below the EU 2030 target of 30% under the EU biodiversity strategy. Overall, the status of natural habitats and species covered by the Habitats Directive has improved in Portugal, although many are still in a poor or unfavourable condition. According to the latest available data, 24% of habitats (EU-28 average 14.7%) and 27% (EU-28 average 27%) of species are reported as having good conservation status.

Nature degradation creates significant risks to Portugal's economy and competitiveness, as it is a Member State with a high dependency on ecosystem services. Portugal's overall direct dependency on ecosystem services is 55%, much higher than the EU average of 44%, showing that Portugal is particularly prone to be economically affected by biodiversity loss 2024 ([267]). (This is set out in more detail in the 2025 country report).

Nature degradation is further amplified by invasive alien species (IAS). Portugal recorded 39 IAS in 2024 ([268]). It has suffered an estimated damage of EUR 6.56 billion from this issue between 1960-2020) ([269]).

Sustainable agriculture and land use

Portugal's carbon removals are in line with the level of ambition needed to meet its 2030 target for land use, land-use change and forestry (LULUCF). In 2023 Portugal's forests were responsible for a major share of net carbon removals and seem to have partially recovered from the decreased natural carbon sink in particular in 2017 caused by severe forest fires, among other phenomena. To meet its 2030 LULUCF target, Portugal would need to ensure additional carbon removals of 1.0 Mt of CO_2 equivalent (CO_2eq)([270]). The latest available projections show a surplus over the target of almost 5 Mt of CO_2eq for 2030 ([271]). Therefore, Portugal is on track to meet its 2030 target. However, severe wildfire risks remain challenging for Portugal. To combat this, the country has developed a national plan on integrated rural fire management 2020-2030. In addition to increasing LULUCF net removals, further investments in healthy forests and soils are key to building resilient bio-based product value chains and enabling a growing, competitive EU bioeconomy. In particular, continued improvements in the monitoring system of net removal data and will be crucial in supporting timely and effective action in the sector.

Portugal is transitioning to a sustainable food system by implementing policies to reduce the environmental impact of agriculture. To mitigate the environmental impact of agriculture, the Portuguese authorities have implemented measures to promote water resilience under the CAP strategic plan, including by prioritising investment projects that help to reduce water consumption. The plan also supports the increase in the share of organic farming, integrated production and the use of soil covers and organic fertilisers. It also promotes crop rotation and diversification, helps to reduce nutrient losses, and promotes other sustainable agriculture practices. Organic farming practices are highly beneficial to biodiversity. According to the latest available data, it is estimated that 21.23% of Portugal's land area is under organic farming. This is the second highest share in the EU ([272]). These measures are crucial to the long-term competitiveness of Portugal's agri-food system

([267])Commission / JRC, 2025: The EU economy's dependency on nature, Link.

([268])European Commission, *Environmental Implementation Review (EIR) 2025, country report Portugal*, Link.

([269])NeoBiota, 2021, *Economic Cost of invasive alien species across Europe*, Link. European Commission: EMRC, Logika Group and RPA Europe, 2025, *Update of the costs of not implementing EU environmental law*, Link.

([270])National LULUCF targets of the Member States in line with Regulation (EU) 2023/839 Link.

([271])Climate action progress report 2025. Link.

([272])Eurostat, Area under organic farming. Link.

and its bioeconomy, which play a significant economic role.

Table A10.1:**Key Adaptation Indicators**

Climate adaptation and preparedness:	2019	2020	2021	2022	2023	2024	EU-27 latest data
Drought impact on ecosystems *[area impacted by drought as % of total]*	3.16	0.01	0.01	43.19	6.8	-	2.76
Forest fires burned area (1) *[burned area in ha. per year]*	33,451	62,557	25,855	104,379	36,855	143,684	354,510
Economic losses from extreme events *[EUR million at constant 2022 prices]*	637	106	3	1,242	43	122	40,452
Insurance protection gap (2) *[composite score between 0 and 4]*	-	-	-	2	2	2	-
Sub-national climate adaptation action *[% of population covered by the EU Covenant of Mayors for Climate & Energy]*	34	39	47	47	51	50	34

Water resilience:	2019	2020	2021	2022	2023	2024	EU-27 latest data
Water Exploitation Index Plus, WEI+ (3) *[total water consumption as % of renewable freshwater resources]*	8.74	7.96	7.97	10.09	7.27	-	4.53
Water productivity *[EUR per m^3]*	-	-	-	34	-	-	151
Water abstraction							
Water abstraction by source (% from surface water)	-	-	-	-	-		-
Water abstraction by sector	Agriculture	Electricity cooling	Manufactu-ring	Public water supply	Mining and Quarrying	Constru-ction	
	61.75%	14.79%	9.57%	13.90%	0.00%	0.00%	
Status of water bodies (4) *[% of water bodies in a good status]*							
Surface water bodies (ecological)	-	-	-	-	-	47%	38%
Groundwater bodies (quantitative)	-	-	-	-	-	89%	93%

Nature restoration:	2019	2020	2021	2022	2023	2024	EU-27 latest data
Ecosystem dependency *[% of direct dependency]*	-	-	-	55%	-	-	44%
Protected area *[% of terrestrial protected areas]*	22.4	22.4	22.4	22.4	22.6		26.4
Invasive alien species (IAS) *[number of Union concern]*	-	-	-	-	-	39	29.2
Damage cost of IAS *[EUR billion]*	-	-	-	-	6.56		1.69
Eutrophication *[AAE of area at risk of euthrophication]*				174	174		295

Sustainable agriculture and land use:	2012-2018	2018-2021	EU-27 latest data
Yearly net land taken by Member State *[ppm of total urban surface per Member State]*	364	738	670
Land conversion in functional urban area *[% of total land taken from 2018-2021]*			
Arable land		28%	
Complex and mixed cultivation		0%	
Forests		26%	
Herbaceous vegetation associations		18%	
Open spaces with little or no vegetation		0%	
Pastures		24%	
Permanent crops		3%	
Water		0%	
Wetlands		0%	

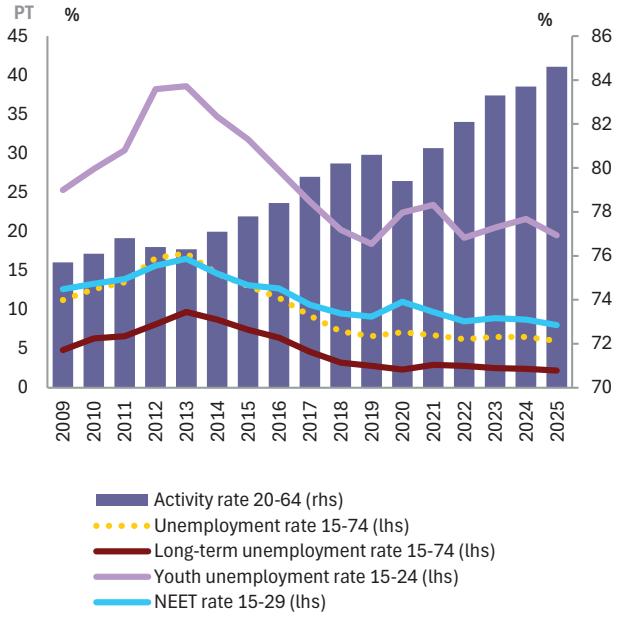
	2019	2020	2021	2022	2023	2024	latest data
Nitrates in groundwater (5) *[mgNO_3/l]*	15.0	15.1	15.3	15.5	15.7		
Livestock density *(number of livestock units per hectare of utilised agricultural area)*		0.63			0.57		0.75
Ammonia emissions *[% of total utilised agricultural area]*	91%	91%	91%	91%	92%	-	94%
Pesticide contamination on rivers and lakes water bodies *[% of monitoring sites with pesticides exceeding thresholds, 2018-2023]*				rivers	27%		27%
				lakes	24%		18%
Pesticide contamination in soil *[% of samples with a concentration over 0.5 mg/Kg^{-1}]*					39%		57%
Net greenhouse gas removals from LULUCF (6) *[ktCO_2-eq]*	-3280.9	-3519.4	-2634.0	-425.2	-2032.7	-	-198,421

(1) EFFIS (European Forest Fire Information System). Link.
(2) The climate protection gap refers to the share of non-insured economic losses caused by climate-related disasters, based on modelling of the risk from floods, wildfires, windstorms, and the insurance penetration rate. Scale: 0 (no protection gap) – 4 (very high gap). EIOPA, 2025, Dashboard on insurance protection gap for natural catastrophes.
(3) Measures total water consumption as a percentage of the renewable freshwater resources available for a given territory and period. Values above 20 % are generally considered to be a sign of water scarcity, while values equal or greater than 40 % indicate situations of severe water scarcity.
(4) European Commission, 2024, seventh Implementation Report from the Commission to the Council and the European Parliament on the implementation of the Water Framework Directive (2000/60/EC) and the Floods Directive (2007/60/EC) (Third River Basin Management Plans and Second Flood Risk Management Plans).
(5) Indicator refers to concentrations of nitrate (NO3) in groundwater, measured as milligrams per litre (mg NO3/L). Nitrate can persist in groundwater for a long time and accumulate at a high level through inputs from anthropogenic sources (mainly agriculture). The EU drinking water standard is limited to 50 mg NO3/L to avoid threats to human health.
(6) Net removals are expressed in negative figures, net emissions in positive figures. Reported data are from the 2025 greenhouse gas inventory submission. 2030 value of net greenhouse gas removals as in Regulation (EU) 2023/839 – Annex IIa.
Source: Eurostat, EEA, JRC

ANNEX 11: LABOUR MARKET

Portugal's labour market has demonstrated resilience, but structural challenges continue to limit the country's competitiveness. The 2025 country-specific recommendations for Portugal highlighted the need to address skills mismatches by improving the skills level of the population and by making education and adult learning more relevant to the needs of the labour market. With 79.6% in 2025, Portugal has practically achieved its 2030 employment rate target. However, the benefits have not been evenly shared, particularly among young people. The above-average youth unemployment and job precariousness, job quality issues, demographic decline, coupled with labour and skills shortages pose structural challenges for the inclusiveness of the labour market.

Graph A11.1: **Key labour market indicators**



Source: Eurostat, LFS [lfsi_emp_a, une_rt_a, une_ltu_a, lfsi_neet_a]

The overall employment situation is favourable, but regional disparities persist, and long-term unemployment remains a concern. The employment rate reached 79.6% in 2025, steadily above the EU average (76.1%), and is now only 0.4 pps below the national employment rate target (80% by 2030). Regional outcomes in 2025, however, vary markedly: the *Grande Lisboa* region is the best performer (81.9%), while the outermost region of the Azores (76.7%) lags far behind all the other regions. The activity rate followed a similar trend, increasing by 0.9 pps year-on-year to 84.6% in 2025, significantly above the EU average (80.8%). The unemployment rate decreased by 0.5 pps and stood at 6% in 2025, in line with the EU average. Long-term unemployment was slightly above the EU average (2.2% vs 1.9%), accounting for around one third of total unemployment and highlighting the need for targeted efforts to reintegrate this group into the labour market. The gender employment gap remained well below the EU average in 2025 (5.4 pps vs 9.6 pps). The disability employment gap is only slightly above the EU average and rose by 1.3 pps in 2025. Both employment growth and the decrease in unemployment are expected to moderate in 2026 and 2027 according to forecasts ([273]).

Structural unemployment and job precariousness persist among young people. In 2025, the employment rate for young people (aged 15-24) was lower than the EU average (27.9% vs 34.5%), while the youth unemployment rate remained one of the highest in the EU (19.5% vs 15.2%), even though it had gone down 2.1 pps. from 2024. Regional youth unemployment rates for 2025 vary from 18.4% (*Norte*) to 23.2% (*Península de Setúbal*) ([274]). Educational attainment remains a key determinant of outcomes: in 2025, unemployment among young people with ISCED 0-2 levels stood at 32.2% (EU: 21.2%), down by 2.9 pps from 2024, while for those with ISCED 3-4 levels, it stood at 17.0% (EU: 13.2%), down by 2.7 pp from 2024. This reflects a lack of efficient targeting of ALMPs regarding young people qualification levels. Moreover, although the share of young people (aged 15-29) neither in employment nor in education and training (NEETs) has been steadily decreasing in recent years and stood at 8% in 2025 (vs EU: 11.0%), the NEET rate among unemployed aged 15-29 remained above the EU average in 2024 (5.2% vs 4.2%). Moreover, the outermost region of the Azores (12.4%) and Algarve (10.8%) record NEET rates well above the national average. In 2025, labour market slack among young people ([275]) stood at 21.5% (vs EU:

([273]) European Commission, European Economic Forecast. Autumn 2025 - Portugal.

([274]) No Eurostat data available for the outermost regions of the Azores and Madeira.

([275]) As a share of the extended labour force: total number of people employed, unemployed, seeking work but not immediately available and those available for work but not

21.8%). Although the situation has recently improved, the country still has one of the highest shares of young people (aged 15-29) on temporary contracts in the EU (36.7% vs EU: 33.2% in 2025). The share of young involuntary temporary employees was 24.9% in 2025, significantly above the EU average of 12.0%. The share of young people in involuntary part-time employment (as a percentage of total part-time employment) stood at 35.1% in 2025, significantly above the EU average of 18.2%.

Portugal is taking measures to tackle youth employment challenges, but further efforts are needed. The national *PESSOAS 2030* programme, benefiting from financing under the European Social Fund Plus (ESF+), supports youth employment. By the end of December 2025, around 82% of participants (people aged 18-29) in professional traineeships or receiving hiring support were employed six months after completion of the programme ([276]). Results from a new set of ALMPs show that up to mid-January 2026 around 20 000 people participated in traineeship measures and around 18 000 benefited from hiring support measures. While high-qualified people participate in traineeships in greater numbers than low-qualified people, the take-up of hiring support brought much more benefits to the less qualified individuals, which shows the importance of improving the effectiveness of ALMPs and targeting. Since October 2025, the government has launched the 'Exceptional Measure to Encourage Unemployed Young People to Return to Work' (*IRT Jovem*) – a scheme that allows young unemployed people who take up work to combine their salary with 25% to 35% of their unemployment benefit (depending on the type of contract), but it is too early to assess its impact. This measure is complementary to other existing hiring support schemes and aims to promote rapid reintegration into the labour market, reduce the average duration of unemployment, improve placement rates and contribute to rationalising public expenditure on social benefits.

Wage developments have been broadly in line with EU trends. Following increases of 9.4% in 2023 and 7.5% in 2024, nominal wage growth reached 4.8% in 2025 and is expected to stand at 4.4% in 2026 ([277])([278]). In turn, real wage growth rebounded slightly from 4% in 2023 to 4.3% in 2024, before easing at 2.3% in 2025. It is projected to reach 1.3% in 2026. By 2025, real wages were approximately 20% higher than in 2019. In turn, the statutory minimum wage increased by 30.4% between January 2022 and January 2026, a rise of 11.8% in real terms. While there may be some scope for further wage increases without jeopardising competitiveness in the short term, structurally low labour productivity may constrain sustainable wage growth over the medium term.

High in-work poverty, involuntary temporary employment, long working hours and limited opportunities for skills development undermine job quality. In 2025, the in-work poverty rate remained high at 8.6% (EU: 8.3%). The country also performed worse than the EU average in terms of in-work poverty among households with dependent children (10.9% vs 9.8%). Involuntary temporary employment([279]) (11.2%) was nearly twice the EU average (6.4%). In 2025, the share of temporary employees remained above the EU average (14.8% vs 11.5%), although it had been steadily declining due to labour code reforms (in 2019 and 2023) targeting labour market segmentation. Moreover, in 2025, long working hours affected 8.9% of workers, significantly above the EU average of 6.2%. Furthermore, skills' levels and development are hindered by low adult participation in education and training. The structural qualifications deficit among the adult population remains a bottleneck for quality employment (for both challenges, see Annex 13), in light of the labour market's increasing demand for highly qualified workers (in 2025, the share of population aged 25-64 with at least upper secondary education was far below the EU average: 64.3% vs 81.2%). This poses a worrying medium-term challenge: according to

seeking it. It corresponds to roughly 210 000 young people who could potentially find employment (it is more than twice the share of people in this situation aged 20-64).

([276])*PESSOAS 2030* Transmission of data (TOD), December 2025.

([277])European Commission, AMECO database.

([278])Based on the European Commission Spring 2026 economic forecast.

([279])the indicator considers two main reasons for this: "no permanent job found" and "job only available with a temporary contract". Source: https://ec.europa.eu/eurostat/databrowser/view/lfsa_etgar__custom_21256137/default/table

Cedefop's skills forecast for Portugal ([280]), by 2035 more than half (53%) of total job openings will require high-level qualifications, while the remaining 47% will require medium-level qualifications. This means that job openings for the low-qualified are forecasted to play no significant role in Portugal. The ICT sector shows a steady progress, with ICT specialists accounting for 5.2% of total employment in 2024 (compared with 5% in the EU). Portugal also stands above the EU average in terms of the percentage of female ICT specialists with a 22.7% share of women in this sector. In 2025, the share of individuals aged 16-74 with at least basic digital skills was 59% (EU: 60%), leaving scope for boosting the digital skills of the population and reaching the EU target of 80% by 2030.

Empowering social dialogue can further support labour market and quality jobs in Portugal. Collective bargaining coverage stood at 83.3% in 2023. Trade union density was among the lowest (13.9% in 2020) in the EU, as opposed to employer organisation density, which stood at 42.6% in 2022 ([281]). Legislative changes introduced in 2023 extended collective bargaining coverage to economically dependent self-employed workers. The labour package proposed by the government and currently under discussion with the social partners presents an opportunity to strengthen social dialogue while improving labour market dynamics and ensuring quality jobs for all.

While low in general, labour shortages are affecting specific sectors. The overall job vacancy rate remains stable at 1.4% in Q4-2025, significantly below the EU average of 2.0%. Business survey ([282]) evidence suggests that a relatively low share of employers expects labour shortages to constrain production. An exception to this is the construction sector, where 28% of companies report challenges, slightly above the EU average (27%) and higher than Portugal's pre-pandemic level (22% in Q4-2019). Companies from the sector estimated a shortfall of 80 000 workers ([283]). Shortages are also evident in selected service occupations, notably personal care workers, hospitality workers, education and care workers (see Annex 13 and Annex 15). Looking ahead, an ageing population and a forecasted decrease in the working-age population (a 5.2% drop by 2030 and 21% by 2050) are likely to exacerbate labour shortages (see the 2025 country report and Annex 18). These problems, coupled with higher unemployment rates among young people (despite their availability for work – see the 2025 country report), make it necessary to improve the balance between labour demand and supply. Portugal is working to improve the effectiveness of the public employment service, and the 2025 Activity Plan of the Institute for Employment and Vocational Training (*Instituto do Emprego e Formação Profissional*, IEFP) aims to promote employment and improve the quality of jobs through stronger cooperation with employers and more effective intermediation. The IEFP launched an Action Plan for Employer Relations and will also benefit from the European Commission's support through a mutual assistance project concerning IEFP services to employers.

Immigration, which has played a key role in mitigating labour shortages, is expected to decrease. The government is easing immigration rules for key sectors to address labour shortages. In 2025, a protocol was agreed with employer organisations to streamline the hiring of foreign-born workers – the *Via Verde para a Imigração*. Firms can request working visas (which can be approved in 20 days) if they offer a valid work contract, Portuguese language courses and if they guarantee accommodation for their employees. However, according to projections from the Bank of Portugal, the expected net migration inflows – which have been a key driver of recent record employment growth – is expected to fall by nearly 50% between 2025 and 2027 ([284]). Strengthened public employment service could help improve job matching for migrant workers and better align employment outcomes with their qualifications. The share of migrant workers who are overqualified is almost three times higher than the national average (see Annex 13).

Portugal's labour market contributes to the green transition. The emission intensity of all employment declined significantly between 2018 and 2024 (recording a 25% drop), and

([280])CEDEPOF, 2025, Skills Forecast: Portugal.

([281])OECD/AIAS ICTWSS v. 2.0.

([282])Business and consumer surveys - Economy and Finance - European Commission.

([283])Association of Civil Construction and Public Works Industrialists.

([284])Boletim Económico – Outubro 2025, Banco de Portugal.

employment in the environmental goods and services sector was above the EU average in 2022 (3.9% vs 3.1%). In contrast to most Member States, employment in energy-intensive industries increased by almost 10% between 2019 and 2024. However, its share in total employment in 2024 was slightly lower than the EU average (3.3% vs 3.5%).

Portugal still faces significant social policy challenges. Insufficient progress towards the 2030 poverty reduction target and the limited capacity of social benefits to reduce poverty and inequality highlight the need to further improve access to social protection and make it more adequate and efficient. In 2025, the country-specific recommendations for Portugal highlighted the need to ensure equal access to quality healthcare and long-term care (LTC), while preserving the sustainability of the national health service and supporting households experiencing energy poverty. Access to LTC services remains insufficient amid rising demand and relatively low public spending. Addressing these challenges should boost Portugal's competitiveness, drive sustainable and inclusive growth, and support social cohesion.

Despite the decrease in poverty levels, accelerated progress is required to reach the 2030 national poverty reduction target. The percentage of people at risk of poverty or social exclusion (AROPE) decreased to 18.6% in 2025. However, progress towards the national 2030 target of reducing the number of people at risk of poverty or social exclusion by 765 000 compared to 2019 remains limited: by 2025, it had declined by only 178 000. Poverty risks are disproportionately high among certain groups, including persons with disabilities, Roma and non--EU nationals. In 2024, 93% of Roma were at risk of poverty (EU: 70%) ([285]). Overall, in 2025, 8.6%% of the employed population in Portugal was at risk of poverty. This is lower than in previous years, though a gap with the EU average (8.3%) remains. Among older people (65+), 20.8% were at a risk of poverty or social exclusion (EU: 18.8%). Poverty or social exclusion risks were above the national average in the outermost regions - the Azores (2.6%) and Madeira 20.5% - and in several mainland regions, including Oeste e Vale do Tejo (20.4%) and Centro (19.9%), highlighting persistent territorial disparities. Overall, in 2025, the relative median at-risk-of-poverty gap ([286]) stands at 22.6%, indicating a significant depth of poverty among those at risk. Full implementation of the 2021-2030 national strategy to combat poverty, updated as necessary based on its planned evaluation ([287]), will be essential to reduce poverty and social exclusion,

Child poverty is declining in Portugal. In 2025, the AROPE rate for children decreased to 19.2% (EU: 24.3%). Over the last two years, around 57 000 children were lifted out of poverty or social exclusion, representing more than one third of the reduction required to meet the 2030 target (-161 000 from 2019 levels), following a period of near-stagnation in the preceding years. Sustained effort will be required to achieve the 2030 target. The 2024 national report on the European Child Guarantee notes improvements in early childhood education and care, yet major gaps persist. Health, for instance, remains an issue, with less than half (48.5%) of children at risk of poverty or social exclusion reporting very good health in 2024 (EU: 57.4%), pointing to poor living conditions, health behaviours and access to healthcare services. Portugal adopted a 2025–2030 action plan to guarantee free school activities, meals and comprehensive health-related services for all children.

The effectiveness of social benefits is still limited. In 2025, social transfers (excluding pensions) reduced poverty by 25.9%, still significantly below the EU average of 33.2%. Portugal allocates 55.3% of its total social-benefit spending to old-age and survivors' benefits (well above the EU average of 47%), while directing a comparatively smaller proportion to unemployment and social-exclusion benefits ([288]). Income inequality has been reduced but remains high, as evidenced by the income quintile share ratio (S80/S20), which stood at 4.7 in 2025 (vs 4.6 in the EU). The fragmentation of Portugal's benefit system – with 27 separate benefits – contributes to low uptake and limited impact. Many social benefits have 'all-or-nothing' income threshold criteria, meaning that eligibility is lost entirely once

([285])FRA report on the rights of Roma and Travellers in 13 European countries https://fra.europa.eu/en/publication/2025/roma-survey-2024.

([286])The difference between the median equivalised disposable income of people below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold, expressed as a percentage of the at-risk-of-poverty threshold (cut-off point: 60% of national median equivalised disposable income).

([287])The national strategy sets out a comprehensive plan of policies and measures to address poverty; to maintain momentum in poverty reduction, it is important that the second action plan (2026–2030) be adopted and implemented promptly based on the evaluation of the first plan.

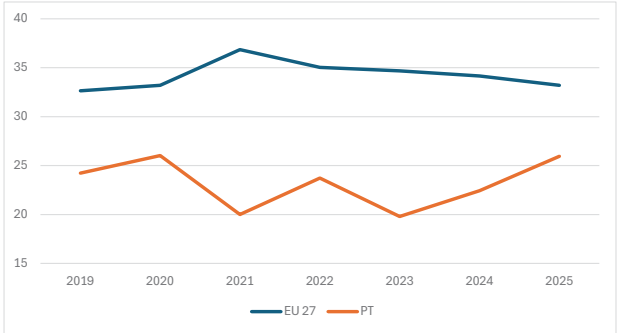
([288])Based on 2024 data collected by ESSPROS, the European system of integrated social protection statistics

household income exceeds a specified limit ([289]), which can disincentivise adults from working full-time ([290]). The single social benefit reform included in the recovery and resilience plan (RRP), scheduled for 2026, aims to improve coverage, simplify access and increase effectiveness. The 2025 OECD report underpinning this benefit reform identified potential efficiency gains, particularly if accompanied by improved adequacy of benefits.

Adequacy and coverage of the minimum income scheme is insufficient to effectively protect people at risk of poverty. In 2025, only 64.2% of people aged 18-64 at risk of poverty (AROP) and living in quasi-jobless households received benefits, compared with 82.2% in the EU on average. Despite regular updates to account for inflation, the adequacy of the *rendimento social de inserção* (RSI, Portugal's minimum income benefit) remains relatively low, at 29.1% of the national at-risk-of-poverty threshold ([291]) in 2025, down from 42% in 2014 ([292]). In the same period, the RSI amounted to just 23.0% of the minimum wage.

Access to social protection is still limited for some categories of workers, **with coverage gaps affecting several forms of non-standard employment.** Workers on very short fixed-term contracts may be unable to access sickness and maternity/paternity benefits, due to the required 6 months qualifying contribution period. Among the self-employed, insurance for occupational diseases is voluntary, and only economically dependent workers (those deriving most of their income from a single client) are eligible for the unemployment-type benefit for cessation of activity. Gaps may also affect farmers, who often receive low pensions, hampering generational handover (see 2025 country report). People with temporary contracts and part-time workers, as well as the self-employed, have significantly lower effective coverage rates than the EU average. There remains scope for further efforts to ensure comprehensive social protection coverage for workers on non-standard contracts, as temporary employment remains more prevalent than the EU average (15.2% of employees vs 12.6% in the EU; see Annex 10). These groups also face higher poverty risks: the AROP rate among the self-employed is 23.2% (compared with 20.1% in the EU), while temporary employees are more likely to be at risk of poverty than workers with permanent contracts (10.6% vs 6.0%). Social transfers also reduce poverty among those groups less than in the EU (16.9% in Portugal vs 22.3% in the EU). In this context, the introduction in 2025 of a new personal income tax scheme (Novo IRS Jovem) extended eligibility to self-employed and non-standard workers and reduced their tax burden during the early years of their working lives. Coverage of unemployment benefits remains comparatively low. Only around 31.6% of unemployed people at risk of poverty before social transfers receive some form of cash benefits, compared with 54.8% in the EU, and only about 32.4% of unemployed people (those unemployed for less than 12 months) report receiving unemployment benefits compared with 37.7% in the EU. At the same time, 42.0% of unemployed people are at risk of poverty (49.3% in the EU).

Graph A12.1: **Impact of social benefits (excluding pensions) on poverty reduction**



Percentage reduction of population at risk of poverty
Source: Eurostat (ilc_li02, ilc_li10)

Availability of long-term care (LTC) services remains insufficient, particularly for home and community-based care. With 24.3% of the population aged 65 and over in 2025 (EU: 22.0%), demographic developments are driving increased demand for LTC services in Portugal. Despite rapid population ageing, LTC services remain underfunded, limiting their availability and affordability. In 2023, public LTC spending

([289])This is the case for the minimum income benefit, the social unemployment benefit and social benefits related to newborn children, while the income rules for the child benefit and the disability benefit create work incentive traps.

([290])2025 OECD report on the creation of a single social benefit for Portugal.

([291])This threshold represents 60% of the median equivalised disposable income (after taxes and social transfers such as benefits). In 2025 it was EUR 831 per month in Portugal.

([292])*Rendimento mínimo em Portugal, 20 anos de RMG/RSI.*

accounted for only 0.5% of GDP, well below the EU average of 1.8%. The largest share of public LTC spending went to residential care (57.5%), while funding for home care remains insufficient. Due to the limited availability of services, particularly in low-density areas ([293]), the share of people aged 65 and over who receive public home care is one of the lowest in the EU. The 2023 LTC action plan, intended to drive structural reforms, has yet to be implemented, meaning that neither adequate funding nor a clear framework for the coordination of services are in place. This hinders equitable access and the integration of various care types. Overall, substantial gaps remain in expanding and funding home and community-based care. A pilot project ([294]) was introduced in October 2025. This year-long initiative aims to test a comprehensive model of publicly supported home-care services. The MAVI programme, which supports independent living for persons with disabilities through personal assistance, continues to face funding and coverage gaps at national level. Demand exceeds available resources, resulting in delays in access to support, while regional disparities persist.

The LTC workforce faces low wages and poor working conditions. In 2024, Portugal had 3.4 care workers per 100 people aged 65 and over (EU average: 3.3), despite low wages in the sector ([295]). The reliance on foreign-born workers is high ([296]). The labour force is mostly composed of female workers in precarious jobs, with high workloads, high turnover and few training possibilities. Additionally, for the 12% of the population acting as informal carers, recent measures to improve their status – including easier recognition ([297]) and increased support – are being held back by implementation delays, particularly regarding respite care and the provision of income aid.

([293])First report on the implementation of the Council recommendation on access to affordable high-quality long-term care (Portugal).

([294])SAD-Saúde pilot-project was established by Ordinance 324/2025/1. It will provide individualised social support services and care to people with serious disabilities and incapacities, 7 days a week, in 5 regions.

([295])67.3% of wages of workers in other sectors in Portugal, compared with an EU average of 89.2%, in 2022 (source: SES).

([296])From 2014 to 2024 the rate of foreign-born workers in LTC more than doubled ("Health at a Glance" 2025 – OECD indicators)

([297])European Social Policy Analysis Network (ESPAN) Country Profile – Portugal 2024-2025.

Participation in early childhood education and care (ECEC) continues to increase, but capacity constraints limit universal access. Participation in formal childcare for children aged 0-3 reached 57.9% in 2025, down 1.5 pps from 2024 but still well above the EU average of 40.5%. However, coverage remains limited for children at risk of poverty and social exclusion (29.5% in 2025), and in the districts of Lisbon, Setúbal and Porto. The expansion of free nursery provision under the Creche Feliz programme, alongside the extension of the guaranteed entitlement to pre-primary education from four to three years of age, have been major steps toward greater ECEC participation. However, despite significant investments under Portugal's RRP and cohesion policy programmes, supply continues to lag behind demand, namely driven by shortages of facilities and qualified staff in high-demand urban areas. Addressing gaps in access and capacity is a central priority under Portugal's national action plan for the European Child Guarantee, which frames ECEC as a key lever to reduce inequalities from the earliest age.

Energy poverty in Portugal remains significantly above the EU average. In 2025, 15.6% of the population was unable to keep their homes adequately warm (6.8 pps above the EU average), with low-income households particularly affected (30.6% vs. 19.6% in the EU). In 2023, 29% of the population lived in homes with problems such as leaks, damp or rot, nearly double the EU average of 15.6%. Portugal also has one of the highest winter excess mortality rates in the EU. This vulnerability persists throughout the year, as 38.2% of households report difficulty maintaining comfortable indoor temperatures in summer, rising to 49% among low-income households, one of highest percentages in the EU ([298]). Moreover, the upcoming extension of the EU emissions trading system to buildings (ETS2) is expected to result in smaller price increases than the EU average, as most households rely on electricity or renewables and biofuels for heating, which are not covered by ETS2 ([299]). The national energy and climate plan includes a long-term strategy that aims to

([298])EU_SILC_2023_modules_assessment.pdf.

([299])Final energy consumption of Portuguese households consisted of 40% electricity and 41% renewables and biofuels in 2023. Source: Eurostat nrg_d_hhq.

eradicate energy poverty by 2050 and led to the creation of the national energy poverty observatory, ONPE-PT, whose main goal is to monitor developments in energy poverty in Portugal ([300]). In 2025, the plan was further developed to include measures such as the creation of renewable energy communities and one-stop shops, alongside specific measurable targets. In December 2025, Portugal adopted an action plan to tackle energy poverty (PACPE 2025-2030), which focuses on housing sustainability, access to energy, support for vulnerable consumers, and increased energy literacy. However, the funding available for these measures is still unclear. To address energy poverty, Portugal provides the social energy tariff([301]), alongside RRP-supported programmes promoting home energy efficiency through vouchers, one-stop shops and residential energy updates. From 2026 onwards, additional EU support is expected to complement these national measures through Portugal's plan under the EU Social Climate Fund. The Fund supports the most vulnerable through energy efficiency investments targeting energy-poor households. In addition, upcoming national building renovation plans under the Energy Performance of Buildings Directive, with its measures and targets on energy poverty alleviation, could also contribute to this objective.

As regards transport poverty, the proportion of households unable to afford a car was below the EU average in Portugal in 2024 (4.7% vs 5.6% in the EU) and has remained stable in recent years. However, Portugal's reliance on cars for land transport is one of the highest in the EU (87.2% for passenger-km vs the EU average of 82% ([302])), with a low propensity for taking the train (4.2 % for passenger-km vs the EU average of 8.4%). This is linked to the lack of public transport infrastructure, the lack of service outside metropolitan areas and the low take-up of railway transport ([303]) (see also Annex 19). Under ETS2, transport fuel prices in Portugal are expected to rise more than the EU average. Strengthening the affordability, accessibility and availability of public transport offers a viable way to support affected households.

([300])National long-term strategy to combat energy poverty (ELPPE). The ONPE-PT is one of the measures included in the Portuguese recovery and resilience plan. https://onpe.pt/wp-content/uploads/PACPE_2025_2030_ONPE_vf-2.pdf

([301])https://www.dgeg.gov.pt/pt/areas-transversais/politicas-de-protecao-ao-consumidor-de-energia/tarifa-social-de-energia/

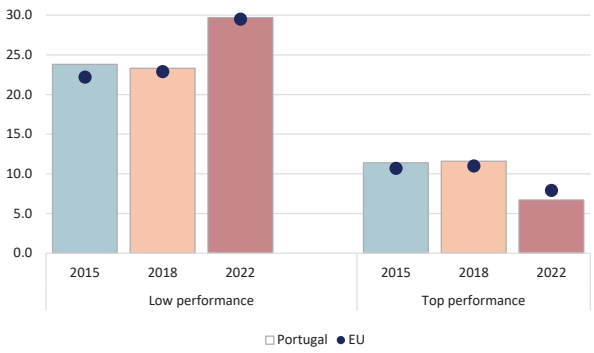
([302])Eurostat 2023.

([303])The data on public transport accessibility in Portugal on the Commission's Transport Poverty Hub are not provided here because the data on Portugal's national access point (set up as part of Delegated Regulation (EU) 2017/1926 (the MMTIS Delegated Regulation)) do not cover the entire country.

Strengthening Portugal's long-term competitiveness and social cohesion requires sustained efforts to improve education outcomes, reduce skills gaps and better align learning pathways with labour market needs. Portugal has witnessed significant improvements in rates of tertiary education attainment and early school leaving. Despite ongoing efforts, weaknesses in basic skills, socio-economic and regional disparities and a reduced ICT talent pool undermine Portugal's human capital development and ability to drive innovation. Teacher shortages put increasing strain on the education system's capacity. Structural skills deficits in the adult population continue to have a negative impact on competitiveness. More efforts are needed to improve participation in vocational education and training (VET) and to raise employability through enhanced adult learning policies. Portugal has struggled to improve adult participation in education and training activities and is far away from its 2030 target. Persistent skills mismatches hinder efficient labour use and reduce business productivity. The need to address these challenges was highlighted in the 2025 country-specific recommendation, which called on Portugal to improve the skills level of the population and make education and adult learning more relevant to the needs of the labour market.

Declining levels of basic skills among Portuguese students, paired with low shares of top performers, hinder productivity and innovation. PISA 2022 results show that 29.7% of 15-year-olds still fail to reach basic proficiency in mathematics (EU: 29.5%), 6.4 percentage points more than in 2018 ([304]). Underachievement in reading (23.1%) and science (21.8%) remains below the EU average, but has also risen since 2018. At the same time, the share of top performers in mathematics fell sharply, from 11.6% in 2018 to 6.7% in 2022. It is now below the EU average (7.9%). This shrinks the talent pool for highly skilled careers, notably in science, technology, engineering and mathematics (STEM). Moreover, over a third (37%) of eighth-graders did not reach basic proficiency levels in the 2023 International Computer and Information Literacy Study ([305]), which is better than the EU average (43%), but still far from the EU target of <15% by 2030. Results from recent national assessments ([306]) – reformed in 2024 to improve comparability – revealed persistent regional disparities in educational outcomes, with students from the Autonomous Region of the Azores and the south of the country recording consistently lower scores than those in the North and Centre regions.

Graph A13.1: **Low achievement and top performance in mathematics of Portuguese 15-year-olds, 2015-2022**



Source: PISA 2022, OECD.

Structural inequalities in educational outcomes are a growing concern. Socio-economic background has a strong influence on educational outcomes, with 46.9% of students from the bottom quarter of the socio-economic distribution underachieving in mathematics in 2022, compared to 39.4% in 2018. In addition, lower-income students are less likely to transition to higher education than their better-off peers([307]). Despite continued progress on reducing early school leaving rates (6.1% in Portugal in 2025 vs 9.1% in the EU), regional disparities persist. Rates of early leavers from education and training range from 21.1% in the Azores to 5.0% in the Norte region, in 2024 (see Annex 18). Moreover, successful completion of upper secondary education is strikingly low and decreasing for young Roma (8% in 2024 among 20-24-year-olds) ([308]), and dropout rates are three times higher for students with foreign-born parents than for Portuguese natives ([309]), severely impacting their later transition to the labour market. These

([304])OECD, 2022 PISA.

([305])Fraillon, Julian, 2025, *ICILS 2023 International Report: An International Perspective on Digital Literacy*.

([306])2025 ModA assessments (grades 4 and 6).

([307])OECD, 2025, *Higher Education in Portugal: Policies for Access and Success*.

([308])Fundamental Rights Agency, 2025, Roma Survey 2024.

([309])EDULOG, 2025, *Annual Report on Education 2025*.

inequalities gain weight considering that the number of foreign-born students in primary and secondary education almost tripled over the past six school years – from 53 000 in 2018/19 to 157 000 in 2024/25 (around 14% of the total) ([310])).

Several measures are being implemented to strengthen educational outcomes. In response to worrying results of new national diagnostic tests for second grade pupils, the government has announced new measures to strengthen reading skills in primary schools, namely through the reinforcement of the school library network and a new continuous training programme for teachers ([311]). The national programme *Aprender + Agora,* launched in 2024, reinforces remedial measures put in place in the aftermath of the COVID-19 pandemic and introduces targeted support for migrant students. This includes the recruitment of linguistic and cultural mediators and expanded language-acquisition programmes for students and parents. While recognising ongoing efforts, the National Education Council ([312]) has noted weaknesses in the practical implementation of additional support programmes – including the limited reach of language support, shortages of specialised staff, uneven capacity across schools, and significant gaps in monitoring and evaluation – which hinder their effectiveness. Portugal's inclusive education framework ([313]) offers schools flexibility to cater for students' diverse needs, including top performers and students with special educational needs (over 8% of students in primary and lower secondary). However, a lack of practical guidelines or additional resources has been a barrier to its implementation ([314]).

Teacher shortages are increasingly undermining the quality of education, with worrying projections for the next decade. At the start of the 2025/2026 school year, nearly 8 in 10 public schools reported a shortage of at least one teacher ([315]). This comes amid a rapidly ageing workforce: in 2023, 60% of lower-secondary teachers were aged 50 or above, far above the EU average of 39.9%. A recent study ([316]) estimates that 38 000 new teachers will be needed by 2034 to replace retirees, while only around 20 000 graduates are expected to enter the profession, pointing to widening gaps. The OECD's TALIS 2024 survey points to low salary satisfaction, heavy administrative workload, job instability and low perceived societal recognition as key factors undermining the attractiveness of the teaching profession ([317]). In response, a package of 'exceptional and temporary' measures was introduced in August 2024 to address critical shortages, including retention incentives for teachers nearing retirement and the recruitment of professionals with advanced non-teaching degrees, subject to the completion of teacher certification within four years. Complementary measures aim to attract new entrants, notably through scholarships for students pursuing degrees in education. However, teachers' unions and the National Education Council stress the need for structural reforms to make the profession more attractive and prevent a decline in education quality ([318]). Central among the pending initiatives is the revision of the 'Teaching Career Statute', the core legal framework for the profession, for which negotiations with major trade unions are underway.

Despite rising tertiary attainment, Portugal's skills deficit continues to weigh on productivity and competitiveness. The share of young people (25-34) holding a tertiary education qualification (ISCED level 5-8) reached 42.5% in 2025, slightly below 2024 (43.2%) and the EU average (44.8%), but still over 10 pps higher than in 2014 (31.6%). In parallel, the share of adults (25-64) with no more than lower secondary education (ISCED level 2) is decreasing steadily, standing at 35.7% in 2025, down from 54.9% in 2015. It is nevertheless still significantly above the EU average of 18.8%. The large share of low-qualified people (particularly for the older

([310])Data from the Ministry of Education and Science.

([311])Government of Portugal, Communication of 3 December 2025.

([312])National Education Council, 2025, *State of Education 2024*.

([313])Decree-Law No 54/2018.

([314])IPPS, ISCTE (2026). *Evaluation of Inclusive Education*.

([315])Ministry of Education and Science, 2025, Communication of 22 September 2025.

([316])Directorate-General for Education and Science Statistics, 2025, *Diagnostic Study of Teaching Needs from 2025 to 2034*.

([317])European Commission (forthcoming), Directorate-General for Education, Youth, Sport and Culture, The teaching profession in the EU: a comparative analysis building upon the TALIS 2024 results

([318])Recommendation No 3/2024.

segments of the population) remains a barrier to productivity and competitiveness. It also hinders the participation and access of less-qualified individuals to the Portuguese labour market – which increasingly demands highly skilled workers – ultimately limiting their career prospects ([319]).

Despite substantial efforts, VET participation and employability remain low. The main European Social Fund Plus (ESF+) programme in Portugal (*PESSOAS 2030*) contributes significantly to providing VET courses (EUR 1.459 billion over 2021-2027). The most recent results from December 2025 demonstrate that around 73% of participants were employed or continuing their studies six months after the end of the course. Still, the employment rate of recent VET graduates (age 20-34) was below the EU average in 2025 (75.2% vs 80.2%). In 2024 the share of students enrolled in medium-level vocational education (ISCED 3-4) was also below the EU average (37.0% vs EU: 49.4%). According to a recent study ([320]), although those who have completed VET integrate relatively quickly into the labour market and display lower inactivity rates than those with general secondary education attainment, VET employment opportunities remain limited. Only 11% of VET graduates find employment related to their specific training within two years of completion, rising to just 14% within three years. This suggests a mismatch between VET curricula and employer needs, highlighting the need for more frequent and improved updates of skills anticipation exercises (currently carried out by the *Sistema de Antecipação de Necessidades de Qualificações* – SANQ) to better align VET programmes with evolving skills demand. Portugal is also working to provide a new legal framework for VET.

Engineering enrolment is relatively high, yet ICT skills shortages persist within STEM. In 2024, 29.2% of higher education students pursued STEM studies, a slight decline compared to 2015 (30%) and below the EU-wide ambition of 32% by 2030, but above the EU average (26.6%). Engineering remains the most popular STEM field, attracting 67.9% of STEM enrolments (EU: 53.5%), However, only 3.6% of higher education students were enrolled in ICT, one of the lowest shares in the EU (average of 5.7%). Enrolment in STEM fields among medium-level VET students was lower than the EU average in 2023 (30.5% vs 36.2%). Female representation in STEM VET (10.9%) was below the EU average (15.4%). Similarly, women represented less than one fifth of students in ICT VET (18.4% vs EU: 20.3%). This reduced skills pipeline contrasts with persistent labour market demands, as the ICT sector has recorded consistently higher vacancy rates over the past decade, increasing from 1.5% in 2015 to 4.0% in 2024. These trends risk weakening Portugal's capacity to progress in its digital and technological transformation. This underscores the importance of sustained efforts to expand and diversify STEM pathways, with more focus on the VET system, through initiatives such as 'Impulso Jovens STEAM' (co-financed by the RRF) and the National Digital Strategy. This underscores the importance of sustained efforts to expand and diversify STEM pathways, with more focus on the VET system and bridging gender gaps, through initiatives such as "Impulso Jovens STEAM" (co-financed by the RRF) and the National Digital Strategy.

Efforts to promote greater labour market relevance of VET and higher education are under way. With a view to restructuring its VET offer to better align with the needs of the economy, Portugal is currently revising its national catalogue of qualifications, updating the SANQ system for regional skills anticipation, and completing technological specialised centres under the recovery and resilience plan. To diversify pathways and enhance flexibility, the legal framework for degrees and diplomas is planned to be revised in 2026, integrating micro-credentials and establishing a national graduate tracking system. With support from the Technical Support Instrument, a set of recommendations for designing a skills forecasting system for higher education was recently made available to Portugal to advance in this area. However, an action plan to embed skills intelligence in policymaking is yet to be adopted and implemented.

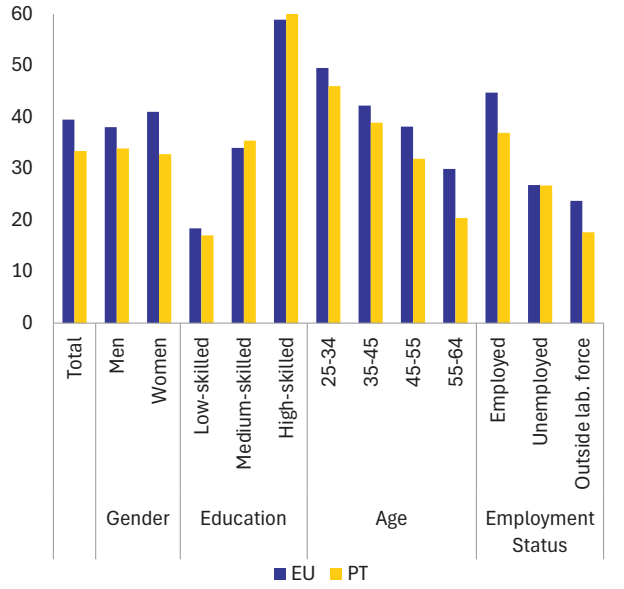
Skills mismatches still present a challenge in Portugal. The macroeconomic skills mismatch

([319]) EUROSTAT, online data code: lfsa_urgaed.

([320]) Fundação Francisco Manuel dos Santos, 2025, *A expansão dos cursos profissionais em Portugal: que impacto na educação, no emprego e no empreendedorismo?* (policy paper).

([321]) has decreased slightly from 22.1% in 2024 to 21.7% in 2025 and remains above the EU average of 19.2%. While labour shortages in Portugal are well below the EU average, they remain high in specific sectors (See Annex 11 Labour Market). In a 2025 survey, 61% of firms identified a lack of availability of skilled staff as a major long-term barrier to investment ([322]). Portugal is making investments to improve skills matching, and the ESF+ programme PESSOAS 2030 includes a specific typology aimed at reinforcing the labour market adjustment system. This includes strengthening PES and its territorial presence through a new generation of professional integration offices (GIP), as well as integrating the ESCO (European skills, competences, qualifications and occupations) classification into the labour market information system. However, the absence of a skills anticipation mechanism for higher education continues to undermine overall skills matching, especially in a labour market increasingly demanding highly qualified workers.

Graph A13.2: **Adult participation in learning**



Participation in learning in the last 12 months (excluding guided on-the-job training)
Source: Eurostat – adult education survey (AES 2022)

High over-qualification among migrant workers in Portugal also points to challenges in skills matching. While over-qualification among Portuguese citizens was below the EU average in 2025 (14.1% vs 20.0%), it is much higher for foreign-born citizens (46.8% vs 37.0%). Moreover, third-country migrant workers experience weaker labour market integration, with unemployment for those holding tertiary qualifications ([323]) at 11.5% in 2024, above the EU average of 8.8% ([324]). This is a significant challenge in light of the recent increase in migration influxes. According to national data, foreign-born workers already outnumber the national workforce in sectors such as agriculture (6.2% vs 2.4%), tourism (18.3% vs 8.7%) and administrative activities (20.8% vs 9.8%), which typically require lower skill levels. Portugal can attract qualified foreign-born workers (30.7% of foreign citizens had tertiary education in 2025, above the EU average of 28.5%) but does not fully utilise their skills.

Demand for green skills remains strong, with relatively low shortages in some sectors relevant to the green transition. As of 2025, persistent shortages were reported in certain occupations linked to the green transition, such as electrical mechanics and fitters. Recent estimates show that more than 0.6 jobs per thousand workers in the labour force will be created in wind and solar power generation in Portugal by 2030, which is slightly higher than the EU average ([325]). These developments suggest that re- and upskilling investments will be required to ensure employability and fair transitions.

The upskilling of the population is hindered by low levels of adult participation in education and training. In 2022, 33.4% of adults took part in education and training (EU: 39.5%). Progress towards the 2030 target of 60% remains modest and has worsened since 2016,

([321])The macroeconomic skills mismatch indicator measures the dispersion of employment rates across skill groups (proxied by qualification levels, with ISCED 0-2 low; 3-4 medium and 5-7 high). Source: F2 own calculations.

([322])EIB Investment Survey, 2025.

([323])ISCED 5-8.

([324])There is a relevant gender imbalance under this result: the figure for women is 15.4% (EU average 10.2%) while for men it is 6.5% (EU average 7.3%).

([325])European Commission: Directorate-General for Employment, Social Affairs and Inclusion, Fulvimari, A., Garaffa, R., Kunertova, L., Van Der Vorst, C. et al., Estimating labour market transitions and skills investment needs of the green transition – A new approach, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2767/4332366

when the share was 38%. Participation is higher among highly qualified adults (41 pps gap between most and least qualified) and those in employment (21.4 pps gap between employed and unemployed). This is particularly problematic given the large share of adults with low levels of qualification despite recent data based on the labour force survey showing slight improvements. According to the OECD's Survey of Adult Skills (PIAAC), Portugal performs below the EU average across all areas: literacy, numeracy and adaptive problem solving. The *QUALIFICA* programme is a national initiative aimed at adults with incomplete education and training backgrounds that promotes school, vocational and double certification of skills, initial and lifelong learning, namely through recognition, validation and certification of skills and training, improving qualification levels and employability. QUALIFICA centres are supported by ESF+. Moreover, the Accelerator QUALIFICA (RRP-funded) grants financial incentives to adults who obtain full certification through *Reconhecimento, Validação e Certificação de Competências* (RVCC) processes. The most recent findings show that by December 2025 more than 1.4 million adults had enrolled in QUALIFICA, achieving some 2 million certifications. In Portugal, the ESF+ offers a wide range of measures to support access to education and training, focusing on two main priorities: ensuring initial qualifications (VET courses, learning programmes and advanced training) and upskilling or reskilling adults (modular training, technological specialisation courses, adult learning through QUALIFICA and continuous training for teachers and trainers). Reaching the 2030 national target will require greater outreach, particularly to low-qualified and unemployed people. This would also help boost their labour market integration and mobility.

Table A14.1:**Social Scoreboard for Portugal**

Equal opportunities and access to the labour market	Adult participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64, 2022)	33.4
	Early leavers from education and training (% of the population aged 18-24, 2025)	6.1
	Share of individuals who have basic or above basic overall digital skills (% of the population aged 16-74, 2025)	59.2
	Young people not in employment, education or training (% of the population aged 15-29, 2025)	8.0
	Gender employment gap (percentage points, population aged 20-64, 2025)	5.4
	Income quintile ratio (S80/S20, 2025)	4.86
Dynamic labour markets and fair working conditions	Employment rate (% of the population aged 20-64, 2025)	79.6
	Unemployment rate (% of the active population aged 15-74, 2025)	6.0
	Long term unemployment (% of the active population aged 15-74, 2025)	2.2
	Gross disposable household income (GDHI) per capita growth (index, 2008=100, 2024)	118.8
Social protection and inclusion	At risk of poverty or social exclusion (AROPE) rate (% of the total population, 2025)	18.6
	At risk of poverty or social exclusion (AROPE) rate for children (% of the population aged 0-17, 2025)	19.2
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP, 2025)	26.0
	Disability employment gap (percentage points, population aged 20-64, 2025)	24.5
	Housing cost overburden (% of the total population, 2025)	6.3
	Children aged less than 3 years in formal childcare (% of the under 3-years-old population, 2025)	57.9
	Self-reported unmet need for medical care (% of the population aged 16+, 2025)	2.5

Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

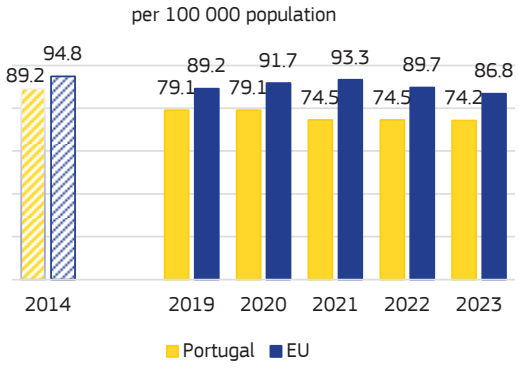
Update of 4 May 2026. Members States are categorised based on the Social Scoreboard according to a methodology agreed with the EMCO and SPC Committees. Please consult the Annex of the Joint Employment Report 2026 for details on the methodology (https://employment-social-affairs.ec.europa.eu/joint-employment-report-2026_en).

Source: Eurostat

Portugal's health system performs comparatively well, with high life expectancy at birth and low rates of treatable and preventable mortality. However, Portugal faces challenges with access to healthcare, shortages of healthcare workers and an uneven geographical distribution of healthcare resources. These challenges need to be addressed if the country is to ensure the health of its population, social fairness and productivity. Consequently, the 2025 country-specific recommendations (CSR) highlighted the need to *ensure equal access to quality healthcare, while preserving the sustainability of the National Health Service*.

Life expectancy at birth in Portugal was higher than the EU average in 2024, and Portugal fares comparatively well in avoiding deaths from treatable causes. As in other EU countries, women are expected to live longer than men (5.8 years longer), but with around 2.7 fewer healthy years than men. Diseases of the circulatory system ('cardiovascular diseases') and cancer are the leading causes of death, but with mortality rates lower than the EU average. Between 2014 and 2023, the rate of treatable mortality fell by about 17% (see Graph A15.1). Portugal's primary healthcare system keeps the rate of avoidable hospitalisations low - among the lowest in the EU - and helps retain treatable mortality rates below the EU average.

Graph A15.1: **Treatable mortality**



Age-standardised death rate - mortality that could be avoided through optimal quality healthcare.
Source: Eurostat (indicator: hlth_cd_apr)

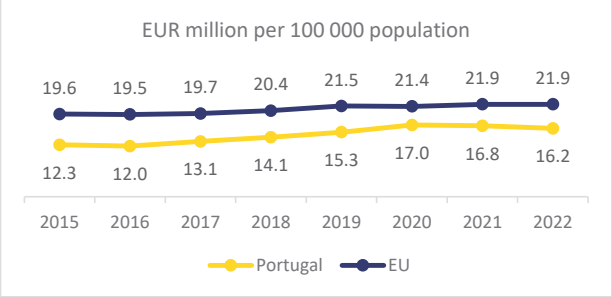
Preventable mortality in Portugal is lower than the EU average despite comparatively low spending on disease prevention. In 2023, spending on prevention in Portugal accounted for 2.3% of total spending on health, much lower than the EU average of 3.7%. Yet the rate of preventable mortality in Portugal was around 17% lower than the EU average. However, as the number of cancer cases is projected to rise by 20% by 2040, and taking into account population ageing in the coming decades more broadly (see Annex 2), there is a need to expand efforts for prevention of cancer and other non-communicable diseases. Portugal participates in several joint actions funded by EU4Health aimed at reducing the burden of cancer, cardiovascular diseases, diabetes and respiratory diseases. Investments in disease prevention support the sustainability of the health system by reducing the need for costly treatments in the future, which in turn can contribute to addressing the *2025 CSR*.

More than one fifth of deaths in Portugal are linked to behavioural risk factors. Despite a reduction in the number of people smoking, tobacco control has stalled as cigarettes have become more affordable. The level of alcohol consumption was among the highest in the EU in 2022. While alcohol control policy was strong in the 2010s, it has stagnated since. Health warning labels remain absent and wine is still exempt from the tax on alcoholic beverages. Low levels of physical activity in the population, with impacts in terms of overweight and obesity, are a public health concern. A significant share of Portuguese adults (44.1%) reported never exercising outside working time in 2022 (compared to 31.6% of the population across the EU). In relation to this challenge, Portugal's recovery and resilience plan (RRP) includes measures to promote physical activity in the population, with investment directed towards (i) a national campaign and technological platform to raise awareness of the benefits of physical activity; and (ii) the purchase of bicycle kits.

Health spending has grown but the share covered by public funds remains low. Health spending per inhabitant (adjusted for differences in purchasing power) increased significantly in Portugal between 2015 and 2023, yet it remained around one fifth lower than the EU average. The largest proportion of health spending (almost half - a share above the EU average) went towards outpatient care, reflecting Portugal's organisational focus on primary healthcare. Public spending as a proportion of total health spending in Portugal was among the lowest in the EU in 2023. This translated into one of the highest proportions of households' out-of-pocket payments for healthcare in the EU (29.3% in

2023, almost twice the EU average). This rate has not effectively reduced since 2014. Almost half of the out-of-pocket spending for health was for outpatient care, driven partly by long waiting times that prompt many individuals to pay for private healthcare providers, and by the limited public coverage of dental care services.

Graph A15.2: **Healthcare infrastructure investment by year**



Source: Country Health Profiles - Dashboard

Portugal's investment in healthcare infrastructure has trailed the EU average but EU funds are now supporting significant investments. In 2015-2023, the level of investment in healthcare infrastructure in Portugal (expressed as EUR million per 100 000 population) was substantially below the EU average each year. This is reflected in a relatively low density of hospital beds per population (lower than the EU average), an ageing stock of medical diagnostic equipment and an uneven geographical distribution of healthcare facilities. Lisbon and the autonomous regions of the Azores and Madeira maintain higher densities of hospital beds than the other regions. Consequently, people in Portugal's inland face longer travel times to hospital care ([326]). The occupancy rate of hospitals beds reached 83% in 2023, one of the highest rates in the EU. This, combined with comparatively lengthy hospital stays, can challenge the resilience of the country's hospital sector. With support from the RRP, the National Health Service (NHS) has been expanding the number of patients benefiting from home hospitalisation, but there is scope for further investments in this direction to improve patients' experience and help relieve pressure on hospital beds. In addition, Portugal is directing a considerable amount of funding under its RRP and the 2021-2027 cohesion policy programmes towards new medical equipment, new and renovated facilities for hospitals, as well as new and renovated primary healthcare centres. These investments have the potential to improve access to healthcare, and in turn contribute to addressing the *2025 CSR*, provided that the new and renovated facilities are staffed with the necessary medical staff.

Challenges in accessing healthcare persist, with geographical and income-related disparities in unmet needs for healthcare. In 2025, 4% of the Portuguese population who reported needing medical care had unmet needs due to cost or waiting times. This share was above the EU average (3.6%), with lower income groups disproportionally affected: 7.5% of people below the poverty threshold reported such unmet needs versus 3.3% of those above the poverty threshold. Comparatively higher unmet needs for medical care are reported in rural areas. This may be linked to difficulties in hiring healthcare workers in some rural areas (see Annex 18). Unmet needs for dental care are much higher, identified by 16% of the population who reported needing dental care (well above the EU average of 6.3%), with people at risk of poverty being more than three times as likely to forgo dental care. Access to publicly financed dental care is restricted due to a lack of public facilities and the fact that most dental services are excluded from the NHS benefits package. Portugal's RRP includes investments to enhance access to dental care in NHS primary healthcare centres, although delays in hiring dentists are leaving state-equipped facilities closed. Gaps in public coverage of healthcare services, medicines and medical products undermine financial protection, while waiting times are an issue in primary healthcare, for specialist visits and certain surgeries. According to Portugal's Health Regulatory Authority, at the end of 2024, 17% of people waiting for oncology surgery and 59% of those waiting for cardiovascular interventions had exceeded their maximum guaranteed response times (MGRTs). Regarding initial specialist visits, the shares of people waiting beyond their MGRTs were even higher: 79% for oncology and 86% for cardiovascular healthcare ([327]). Beyond its direct impact on health status, healthcare coverage is also a powerful tool against poverty and inequality. Analysis shows that in Portugal's case, income inequality as

([326]) OECD/European Observatory on Health Systems and Policies (2025), *Country Health Profile 2025: Portugal. State of Health in the EU.*

([327]) *Country Health Profile 2025: Portugal* – see earlier footnote.

Table A15.1:**Key health indicators**

	2020	2021	2022	2023	2024	10-year change**	EU average* (latest year)
Cancer mortality per 100 000 population	240.5	226.1	219.5	218.2	n.a.	0.90	233.1 (2023)
Mortality due to circulatory diseases per 100 000 population	285.0	247.9	237.9	220.8	n.a.	0.72	313.0 (2023)
Current expenditure on health, purchasing power standards, per capita	2 312	2 699	2 884	3 001	3 211	1.67	3834.9 (2023)
Public share of health expenditure, % of current health expenditure	64.3	62.5	62.4	61.5	62.2	1.01	80.6 (2023)
Spending on prevention, % of current health expenditure	1.9	3.3	3.3	2.3	n.a.	1.24	3.7 (2023)
Available hospital beds per 100 000 population***	284	285	281	278	n.a.	1.03	440 (2023)
Doctors per 1 000 population*	5.4	5.6	5.7	5.8	n.a.	1.30	4.3 (2023)*
Nurses per 1 000 population*	7.2	7.4	7.5	7.6	n.a.	1.23	7.6 (2023)*
Mortality at working age (20-64 years), % of total mortality	13.4	13.3	13.0	13.2	12.9	0.88	14.3 (2023)
Consumption of antibiotics in the community and hospital sectors, defined daily doses per 1 000 inhabitants	15.2	15.3	18.8	19.7	20.8	1.11	20.3 (2024)

*The EU average is weighted for all indicators except for doctors and nurses per 1 000 population, for which the EU simple average is used based on 2023 data (or latest available). Doctors' density data refer to practising doctors in all countries except Greece, Portugal (licensed to practise) and Slovakia (professionally active). Density of nurses: data refer to practising nurses (EU recognised qualification) in most countries except Portugal (licensed to practice) and Slovakia (professionally active). Latest data update on nurses for Belgium and Sweden: 2022; for France: 2021; for Luxembourg: 2017.
** latest available 10-year trend: ratio 2023/2014 or 2024/2013; a factor of 2.00 means that it has doubled in 10 years.
***'Available hospital beds' covers somatic care, not psychiatric care.
Source: Eurostat

measured via the Gini coefficient, would increase by 26% in the absence of public coverage for healthcare ([328]).

Persistent shortages of health workers in Portugal limit the provision of healthcare. The NHS continues to face significant shortages of healthcare staff (see 2025 Country Report). The shortages have an impact on the accessibility of health services, prompting closures of Emergency Departments and obstetric services in hospitals. A technical working group, mandated by the government, has proposed a hub-and-spoke rota for smaller obstetric units and phone triage before pregnant women travel to Emergency Departments. One third of NHS specialists are 55 years and over, raising concerns about the long-term accessibility of health services. To ease workforce shortages, measures for administrative simplification and digitalisation are underway. These include extending the validity of chronic disease prescriptions, introducing triage based on Artificial Intelligence (AI) tools to clear backlogs, and allowing patients to book primary healthcare appointments directly via the SNS24 portal ([329]).

Difficulties in recruiting and retaining NHS health workers persist. Working conditions for health professionals are a significant issue, with low pay, high workload and limited career prospects acting as a deterrent to working in the NHS. Overtime hours for NHS doctors rose by 51% between 2018 and 2022. Health professionals in Portugal report some of the highest rates of depression and anxiety across the EU ([330]). In addition to the annual number of nursing graduates per 100 000 population being below the EU average, a significant number of nurses and nursing graduates choose to emigrate to countries that offer better pay and working conditions. Portugal has increased the number of medical education places, to boost the supply of doctors. However, young doctors opt for better paid agency work even before starting their specialty training. Consequently, attracting newly qualified doctors, including general practitioners (GPs) for family medicine, proves difficult. In 2025, around 60% of the residency positions for medical doctors were not filled. Furthermore, in June 2025 less than half of the GP vacancies in the NHS offered to doctors finishing their residency programme were filled. A shortfall of GPs has resulted in insufficient

([328])European Commission: Directorate-General for Health and Food Safety, Cruces et al. (2025), The role of healthcare in reducing inequalities and poverty in the EU.

To note that as regards health coverage, in this analysis poverty and income refer to a different measure than the usually reported one, which is defined for instance in Annex 12. The analysis also estimates the impact of benefits in kind, while the standard measure only accounts for cash transfers.

([329])*Country Health Profile 2025: Portugal* – see earlier footnote.

([330])WHO Regional Office for Europe (2025), *Mental Health of Nurses and Doctors survey in the European Union, Iceland and Norway*.

coverage of primary healthcare. In early 2025, around 15% of the country's population was not registered with a GP. The largest proportion of people without a GP was in the Lisbon-Tagus Valley region (31%). Estimates suggest that the NHS would need another 6 100 doctors and 3 900 nurses to end reliance on overtime and agency staff ([331]), and around 3 000 additional doctors and 14 000 additional nurses to bridge regional gaps in the density of health workforce resources ([332]). Incentives such as salary top-ups have had limited impact in filling positions, particularly in rural areas. The government has now reached agreements with the trade unions representing doctors and nurses for phased-in salary increases until 2027. Representatives of doctors and nurses still point to the lack of comprehensive strategies for improving recruitment and retention of NHS health workers to make the NHS more attractive versus the prospect of working in the private sector or abroad. They also stress the need to map shortages per specialty in order to identify the staffing needs. Portugal participates in the joint action HEROES ([333]) under EU4Health, through which EU countries share knowledge and experience on health workforce planning.

Portugal's health system is among the most digitally mature in the EU, with plans to scale up its digitalisation further. Portugal has been investing consistently in digital technologies for health. Since 2020, the amount invested annually, expressed in EUR million per 100 000 population, has been nearly twice the EU average. As a result, the shares of Portuguese people accessing their personal health records online or using online health services (excluding phone) instead of in-person consultations both increased between 2020 and 2024, and stood above the EU average. However, there are significant socio-economic disparities in the use of digital health tools. The percentage of Portuguese people with lower level of education who seek health information, book a medical appointment or access electronic health records online is much lower than that of people with a high level of education. This education gap is wider in Portugal than across the EU. To bridge these digital divides, services to support people in attaining digital access have expanded to nearly 400 sites in municipalities, primary healthcare centres and community pharmacies. Portugal is utilising EU funds, under the RRP and the cohesion policy in 2021-2027, to scale up the digital transformation of the health system. These investments focus on (i) digitalising clinical records; (ii) improving the health data network; (iii) ensuring interoperability between different information systems; and (iv) expanding the availability of telemedicine. In addition, Portugal participates in joint actions and benefits from direct grants under EU4Health, which aim to improve the semantic interoperability of health data and facilitate the implementation of the European Health Data Space. The successful accomplishment of these measures could improve the access to and the quality of healthcare services, and in turn could contribute to addressing the *2025 CSR*.

The economic significance of Portugal's pharmaceutical sector, albeit modest, is growing. The share of employment in pharmaceutical manufacturing has more than doubled in 2018-2024 and is close to the EU average. Clinical research capacity has expanded in recent years and, in 2024, the number of clinical trials per million population in Portugal (17.5) was close to the EU average of 18.3 ([334]). Despite this, investment in research and development by Portugal's pharmaceutical industry (in terms of the amount spent per capita annually) has been well below the EU average over the years ([335]). This has resulted in a rather low number of patents granted for pharmaceuticals per million population annually (0.9 in 2024 vs an EU average of 1.8) ([336]). Regarding trade and commercialisation, Portugal's pharmaceutical industry accounts for a rather modest share of the exports to non-EU countries, 7.5% in 2025 vs an EU average of 13.9%, although this share has increased considerably since 2018.

([331])'Tempo de trabalho dos profissionais do SNS' (Working time of health professionals in the NHS), PLANAPP – Centre for Planning and Evaluation of Public Policies, 2025.

([332])'The NHS Healthcare Workforce in Portugal – Overview and recent evolution', PLANAPP – Centre for Planning and Evaluation of Public Policies, 2024.

([333])JA HEROES | Health workforce planning project.

([334])US National Library of Medicine, https://clinicaltrials.gov.

([335])The Pharmaceutical Industry in Figures, EFPIA (European Federation of Pharmaceutical Industries and Associations).

([336])European Patent Office: Statistics & Trends Centre | epo.org.

Portugal continues to face a housing affordability crisis. The main challenges for housing policy and investment concern: (i) the continuous rise in prices: (ii) the lack of supply; (iii) high pressure in large cities; (iv) regional disparities, (v) the issues of rental market affordability that affect not only vulnerable groups but also essential workers, students and young people; and (vi) the increase in housing exclusion. In 2025, Portugal received a country-specific recommendation requiring it to take additional policy action to: address housing affordability and availability in high demand areas by eliminating barriers to renting vacant houses and renovating derelict buildings; and promote efficient public transport connections to reduce the pressure on house prices in urban centres and improve the attractiveness of other territories.

Portugal's lack of affordable housing increasingly affects not only the most vulnerable groups, but also other segments of the population. Houses price growth has been stronger than income growth, further pressuring household budgets. There is an increasing difficulty to meet the needs not only of vulnerable groups, but also of low- to middle-income households, which are often not eligible for social housing but are not capable of affording suitable housing at market prices either. Thus, a substantial part of the Portuguese population lives in overcrowded homes. Similarly, some households are unable to keep their homes adequately warm. Young adults are particularly exposed to rising housing costs. Renting a standard two-room apartment would absorb more than 80% of a young adult's median income in several areas experiencing housing pressures.

A significant proportion of the housing supply in Portugal is underutilised. More than 30% of residential dwellings – the highest proportion among OECD countries – are not occupied as primary residences, but are instead either unoccupied (12% in 2021, corresponding to 723 715 dwellings) or used as second or holiday homes (19%). Despite the increasing housing needs in high-demand areas, most of the vacant dwellings are located in Lisbon, Porto and the main urban centres along the coast. According to a study ([337]), rather than entering the long-term market rental market with its slowness, uncertainty and bureaucracy, it can be a more rational risk-management strategy for owners to keep a dwelling vacant while awaiting a favourable moment to sell it, to convert it a to short-term rental or to pass it on to family members.

Housing market developments

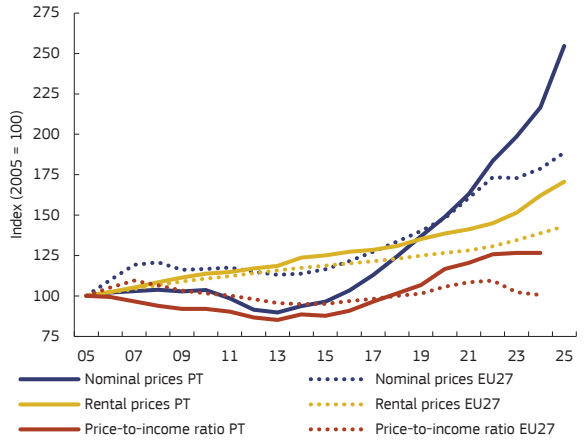
Portugal's house prices have increased rapidly over the past years. In cumulative terms, prices in 2024 had risen by 124% relative to 2015, equivalent to a compound annual growth rate of 9.5%, or roughly twice as fast as the EU average. In 2025, house prices accelerated further, rising by 17.6% year-on-year showing signs of overvaluation of about 36% (based on the standard European Commission methodology). The strong growth is partly explained by a correction to previously low valuations, as Portugal's weak economic performance before 2015 kept house price increases well below the EU average. In addition, strong growth in tourism, along with the rapid expansion of online platforms for short-term rentals, have further pushed up prices. In cumulative terms, rental prices in 2024 had risen by around 30% relative to 2015, equivalent to a compound annual growth rate of 2.9%. Both house and rental prices have surged much faster in popular travel destinations and urban centres, particularly in the capital city of Lisbon.

Housing affordability worsened as income growth only partly offset price effects. Although household nominal income grew substantially in past years, it was insufficient to fully offset the house price increases. The price-to-income ratio increased by 44% from 2015 to 2024, one of the highest in the EU, and is estimated to have risen further in 2025. About 80% of households report that they are financially burdened heavily or to some degree by housing costs (EU average: 78%, 2023). Housing affordability was also weakened by the increase in mortgage interest rates in 2022-2023 but the trend reversed as of 2024. The high ownership

([337])Why Homes Stay Empty: Understanding Property Owner Withdrawal in Lisbon's Housing Crisis available here: www.mdpi.com/2413-8851/10/1/30.

ratio in Portugal partly offset the impact of prices on affordability, as the self-reported housing cost overburden rate in Portugal remained below the EU average, despite increasing somewhat in 2024. In addition, household arrears on mortgage or rental payments dropped to only 2% in 2024. The ratio of household debt to GDP fell from 75% in 2015 to 52% in 2024 and the proportion of non-performing loans also decreased.

Graph A16.1: **House prices, rents and price-to-income evolution in PT and EU27 since 2005**

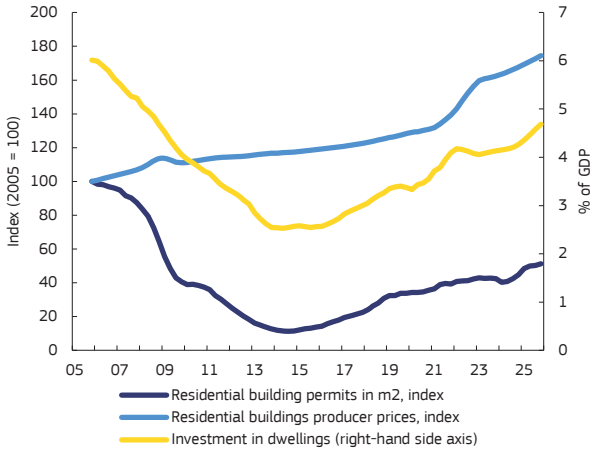


Source: Eurostat

Construction is slowly responding to rising demand. Investment in dwellings increased by 5.5% in real terms in 2024 and is estimated to have followed a similar trajectory in 2025. Building permits had been rising steadily since 2015 to reach 655 m^2 per 1 000 inhabitants in 2024 – nearly 80% above the EU average. However, investment in dwellings as a proportion of GDP remained below the EU average (4.3% vs 5.3%). Supply is also constrained by low land availability in areas with high tourism intensity. Surveys of construction activity identify higher labour shortages than the average in other sectors (see Annex 11), material constraints and difficulties in obtaining building permits as the main barriers to sectoral activity.

Housing needs are subject to significant regional disparities. The steep house price rise in Portugal has been concentrated mostly in the large cities of Lisbon and Porto, as well as in popular tourism areas in Algarve and Madeira. In contrast, many rural regions face low demand and an oversupply of housing. This is explained by the demographic projections, which indicate a relatively stable and ageing population, and the large housing stock ([338]). It is estimated that around 12% of the existing dwellings in Portugal – including many in Lisbon – remain vacant. A study by IHRU, I.P, conducted at NUTSIII level presents regional disparities in households' capacity to afford housing in Portugal, with 78 municipalities where households spend over 50% or more of their disposable income to purchase, and 76 municipalities where the same proportion is spent on rent. The highest housing cost overburden rate is in Lisbon at 10%, followed by Algarve at 8.6% and Setúbal at 6.7% (2025). Both Outermost Regions are under the national average of 6.3%.

Graph A16.2: **Housing supply indicators in PT since 2005**



Source: Eurostat

Structural policies

Low public social and affordable housing stock continues to be a constraint. Portugal is slowly progressing towards building up its public housing stock, increasing the current proportion of less than 2% ([339]) at national level to at least 5%. With the Recovery and Resilience Plans completion approaching, Portugal plans on completing 31 000 social and affordable housing by August 2026. In the meantime, Portugal has also committed to

([338])Balouktsi et al. (2026) Housing investment needs in the EU. JRC Technical Report 144419.

([339])The OECD reports on public housing stock monitoring reveal that Portugal has one of the lowest stocks of the group. OECD Affordable Housing Database (reports PH4.2 and HM1.1).

European Investment Bank loans and to reinforced European Regional Development Fund co-financing following the mid-term review of cohesion policy. Nevertheless, the stock will not be sufficient to cover the housing needs of the over 143 000 families identified by municipalities in 2025 as living in inadequate conditions nor to have a significant impact in the supply of social and affordable housing.

Portugal lacks not only an integrated and sustainable housing policy, but also regular evaluation of its housing policies' impact and mapping of the needs. To partially address this, Portugal will receive technical support from the Commission's Technical Support Instrument to help set up a national model for housing data governance and management, as well as to strengthen housing policies through pilot projects. The current fragmented and ineffective coordination between central and local authorities means that Portugal also lacks an integrated approach to housing policy. Investment and financing mechanisms are mainly ad hoc, based on significant EU support, and will not be sustainable in the future. Furthermore, limited use is made of long-term planning instruments in which municipalities combine housing needs with policy and planning measures, and of useful testing schemes that would allow mixed-tenure developments. Increasing the uptake of planning instruments, and developing a long-term affordable housing delivery and investment pipeline is important to ensure the continuous development and maintenance of quality and inclusive public housing.

Portugal has limited measures to reduce the high number of vacant and derelict buildings and houses. The 2025 country-specific recommendation indicates the need to eliminate barriers to renting vacant houses and renovating derelict buildings. Of the more than 700 000 vacant houses in Portugal, around 248 000 are in good condition, with little no or need for renovation, but are not available on the rental market ([340]), according to an IHRU, I.P study ([341]). Currently, Portugal is aiming to launch financing instruments for the renovation of residential buildings and is exploring the possibility of transferring state property to the municipalities. A recent OECD report ([342]) recommends the use of vacant dwellings and fiscal measures to disincentivise leaving houses vacant in high-pressure areas. 30% of the municipalities register a positive house-to-household ratio of between 1.1 and 1.4, indicating an excess of housing for the resident population. This ratio, which takes into account second homes, vacation and vacant dwellings, is lower in the coastal urban areas (except for Algarve) than in the countryside where it reaches 3.2. The availability of dwellings is higher in low-density territories, and lower in the most populated areas. Even so, the problem is not a lack of housing, but the large number of vacant dwellings, most of which are in good condition, which worsens affordability and access in high-pressure areas.

The Portuguese government continues to apply fiscal measures in an attempt to improve the availability and affordability of housing. The latest announced package is set to include several measures on the supply and demand side to incentivise an increase in the housing stock, and to alleviate accessibility and affordability pressures (see Annex 3). These measures include a VAT reduction from 23% to 6% for renovating and building properties with a value of up to EUR 660 982. The package also includes a 7.5% flat-rate property transaction tax on the acquisition of residential property by non-residents, which aims to constrain demand. However, given the marginal difference between the 7.5% rate and current property transaction tax rates, its capacity to effectively constrain demand may be limited. Furthermore, in view of the existing supply constraints, at least part of the reduction in VAT risks being absorbed through increased land prices or margins, limiting effective price moderation and decreases.

In addition, the new package also includes fiscal measures that aim to put existing housing stock on the rental market. These entail tax benefits for owners to let property at up

([340]) There are several reasons that the dwellings are vacant, for example some might be under legal disputes involving inheritances or facing ownership issues, complicating their release to the market.

([341]) Territórios com falta ou desadequação da oferta habitacional em Portugal, IHRU, July 2025, www.portaldahabitacao.pt/documents/20126/58203/1_Estudo%20PNH-_VFinal_completo.pdf/49b45fff-df9f-0dce-75eb-bef8df6745e1.

([342]) *OECD Economic Surveys: Portugal 2026*, OECD Publishing, Paris, https://doi.org/10.1787/025b3445-en.

to EUR 2 300 per month and a capital gains exemption for selling primary and secondary residences when owners buy another property that they intend to let at a price up to the same threshold. The rental income tax incentive is undifferentiated between new and existing contracts and applied to rents that are significantly above the national average monthly income. The tax expenditure is therefore likely to be largely absorbed by existing contracts, with a rather limited impact on new supply., In addition, the above-mentioned new capital gains exemptions come on top of a general exemption for 50% of capital gains and a full exemption for owner-occupiers who reinvest gains in another primary residence. The additional exemptions further contribute to reduced progressivity and largely untaxed real estate capital gains, while it is unclear that they will have a significant impact on the objectives of increasing rental supply and decreasing rental prices.

Portugal transferred the competences for short-term rentals to municipalities with the aim of tailoring solutions to local needs. Despite the measures taken, the rental market continues to be under significant pressure, also outside of traditional high-pressure areas, with not only young people, low-income and vulnerable groups, but also middle-income groups experiencing difficulties in accessing the rental market.

Housing affordability constrains labour mobility, talent attraction and competitiveness. A notable example is Algarve, a region dependent on seasonal work, where companies have difficulties in hiring workers, partially due to the high cost of housing, which further deepens the labour shortages. Similarly, key workers (e.g. teachers, emergency and healthcare professionals, cleaning workers, care workers, etc.) face difficulties in finding affordable accommodation; a situation that affects the provision of public and essential services ([343]).

([343])'Housing in the European Union: Market Developments, Underlying Drivers, and Policies', G. Cousin et al., available https://economy-finance.ec.europa.eu/publications/housing-european-union-market-developments-underlying-drivers-and-policies_en.; 'Portugal tem uma das maiores crises habitacionais da Europa', G. Rodrigues et al., available, https://causapublica.org/estudos/portugal-tem-uma-das-maiores-crises-habitacionais-da-europa/.

Vulnerable groups

Young people and disadvantaged groups are more exposed to increased housing costs. In 2025, the housing cost overburden rate (the proportion of people who spend over 40% of their household income on housing) slightly decreased by 0.6 percentage points (pps) compared with 2024, reaching 6.3%, after years of increase, while EU average continues decreasing EU average: 8.8% in 2023; 8.2% in 2024, 7.7% in 2025) ([344]). Tenants renting at market price are particularly affected, with 27.2% facing housing cost overburden compared with the EU average of 18.6%. The most-affected cohorts include: (i) young people who are more likely to leave their home because they can no longer afford it, and to live in poorer quality dwellings ([345]) or are forced to postpone leaving the parental home; and (ii) other more vulnerable groups, such as single-parent households, people with disabilities ([346]), migrants and lower-income cohorts. Rents account for 33.4% of disposable household income for people at risk of poverty or social exclusion (EU average: 33.5%), and 34.9% for single-parent households (EU average: 25.5%) in 2025. Portugal has developed fiscal incentives and public guarantee schemes to help young people to buy property. Despite the significant uptake, the schemes may have caused purchase prices to increase, offsetting the potential savings benefits. Access to an affordable rental market is a key challenge for these groups. Programmes like Porta65+, Apoio Extraordinário à Renda and Apoio ao Arrendamento can help alleviate costs and should help to improve long-term rental market accessibility for these groups. However, constraints and delays in implementation and reach, together with shortcomings in targeting, undermine their capacity to adequately address the needs of the most vulnerable households.

([344])The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

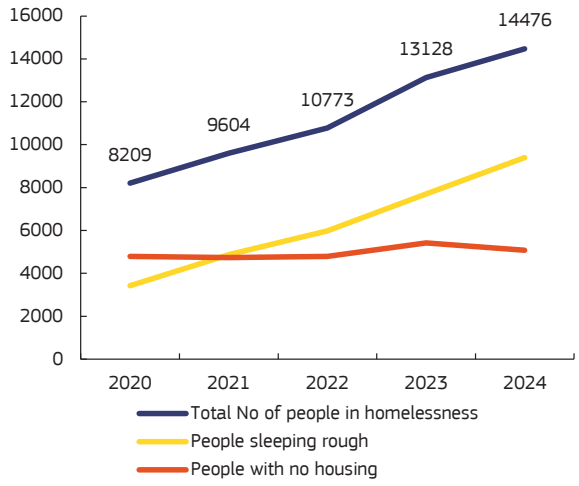
([345])Eurofound (2025), Foundational challenges: The housing struggles of Europe's youth, Publications Office of the European Union, Luxembourg.

([346])European Commission: Directorate-General for Justice and Consumers, Pinto, P. and Acosta Jimenez, M. A., Accessible and sustainable housing for persons with disabilities – Portugal, Publications Office of the European Union, 2026, https://data.europa.eu/doi/10.2838/0680398

The lack of affordable housing can be a significant obstacle to enrolment in higher education. The average cost for a student room in the private market is EUR 410, rising to EUR 500 in Lisbon, while there were around 17 000 beds in public student residences ([347]). Low- and middle-income families face added pressure on their household budget to tackle the rent costs of students living away from home, particularly for students that either don't qualify for social support or don't find a bed in public student housing. The Portuguese government has introduced an affordable student housing plan (EUR 515 million) to construct and renovate buildings that will provide 18 000 beds. Also, the revised social support system in higher education ([348]), in place since early 2026, introduces a means-tested model to reflect actual study and living costs, seeking to address the growing difficulties low-income students face in coping with rising housing expenses (see Annex 13).

Housing deprivation and overcrowding are worsened by poor affordability and accessibility. There was a 2.1 pps increase in the severe housing deprivation rate (lack of adequate housing space and poor living conditions) from 2020 to 2023, when it reached 6.0% (EU average: 4.0%). This rate rises to 13.2% for those who rent at market prices, which is double the EU average of 6.4% (2023). The overcrowding rate also increased by 2.7 pps from 2020 to 2025, when it reached 12.7%, but remains below the EU average of 16.8%. Official national statistics from Statistics Portugal (INE) report that 22.7% of immigrants lived in overcrowded dwellings (2023). Rural and low-density territories, which are increasingly affected by migratory trends that are necessary to the local economy, face major difficulties in providing suitable conditions for these workers as a result of overcrowding, illegal occupation, and low and precarious stock ([349]). These data reveal a continuous misadjustment of the rental market, particularly towards vulnerable groups.

Graph A16.3: **Increase in homelessness in mainland Portugal (2020-2024)**



Definitions: (1) People in Homelessness - with no housing: people living in temporary accommodation centres, in specific accommodation for people without a home, or in rooms (fully or partially) paid for by social services or other entities. (2) People in homelessness - rough sleeping: people living in the street, public spaces; emergency shelters or in precarious places

Source: ENIPSSA official survey from 2021 to 2025, referring to the previous years

Portugal lacks an effective public response to the rise in homelessness. Portugal recorded a historic high of 1.41 homeless people per 1 000 inhabitants in 2024, up from 0.84 in 2020, increasing for the fourth consecutive year ([350]). On the mainland the number reached 14 476 people ([351]). Alentejo is the region with the most significant increase, rising from 517 people in 2020 to 3 234 in 2024 ([352]). 37% of homeless people were under 30 years old, a recurring trend in the past years, and 21% of people had been

([347])Data from Observatório do Alojamento Estudantial from November 2025, pnaes.pt/observatorio-alojamento-estudantil.

([348])Novo Sistema de Ação Social no Ensino Superior, https://www.portugal.gov.pt/pt/gc25/comunicacao/noticia?i=novo-sistema-de-acao-social-no-ensino-superior

([349])Observatório das Migrações (2026), População estrangeira residente em Portugal (2024): Implicações para a coesão territorial, políticas públicas e governação das migrações.

([350])The increase is partially explained by a refinement in the survey methodology to account for Portuguese Roma communities in some municipalities, as the definition of homelessness is 'all people on the mainland without access to housing'. This suggests that previous surveys did not represent all the phenomena.

([351])The Data provided by the 2024 ENIPSSA survey cover only the mainland. Official data provided by regional authorities indicate 383 homeless people in the Azores Region in 202 and 177 in the Madeira Region in 2024.

([352])The increase can be partially attributed not only to seasonal agricultural work and job precariousness in sectors where a high number of migrants work, but also to the survey taking into account Portuguese Roma communities that it had previously disregarded.

Graph A16.4: **Housing affordability selected indicators**

		EU27				PT							
	unit	2000-25 avg.	2023	2024	2025	2000-25 avg.	2023	2024	2025	unit	2023	2024	2025
House price to income ratio	*2000-25 avg = 100*	100.0	102.0	100.2		100.0	124.6	124.7		YoY%	0.7	0.1	
Rent to income ratio	*2000-25 avg = 100*	100.0	85.1	83.5	84.5	100.0	92.8	91.0	91.5	YoY%	-2.7	-1.9	0.5
Overburden rate, total	%	9.9	8.8	8.2		6.5	4.9	6.9	6.2	PPS/y	-0.1	2.0	-0.7
Overburden rate, tenant with market rent	%	23.8	20.3	19.2		27.0	27.0	30.3	27.2	PPS/y	-2.4	3.3	-3.1
Overvaluation gap	%					-1.3	19.4	21.6	36.0				
Deflated construction production price	*2010 = 100*	102.2	112.2	111.8	110.5	101.4	112.7	113.4	115.4	YoY%	-1.6	0.7	2.0
Building permits	*m^2 per ths persons*	483.5	376.9	362.9	379.9	617.0	633.4	654.5	749.7	YoY%	0.5	3.3	14.5
Residential construction investment	*% GDP*	5.5	5.8	5.1	5.0	4.5	4.1	4.3	4.7	YoY%	0.0	4.9	9.3
Share of ownership	%	70.0	69.1	68.4		74.9	76.0	73.4	71.2	PPS/y	-2.3	-3.4	-3.0
Share of people living in overcrowded homes	%	17.7	16.8	16.9		12.1	12.9	11.2	12.7	PPS/y	3.5	-1.7	1.5

Source: Eurostat and European Commission calculations. The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

homeless for less than one year. There are several causes of homelessness, but in 9.7% of cases, it was due to evictions or loss of housing. The public social response capacity varies between regions, and has been increasing over the years with the expansion of the homelessness planning and intervention centres (*Núcleos de Planeamento e Intervenção Sem-Abrigo*, NPISAs)([353]). However, overall, public services lack sufficient capacity to provide housing, emergency accommodation and related integrated services for homeless people or dealing with imminent or recent housing exclusion. Overall, there has not been sufficient investment in housing-led initiatives, including enough financing for measures to promote people-centred, personalised measures and reintegration. Likewise, measures such as debt counselling, legal advice, representation and continued protection are relevant to prevent more people falling into homelessness.

There has been a rise in informal settlements inhabited by workers and families. Civil society organisations and municipalities report a surge in informal settlements lacking basic services in the Lisbon metropolitan area. Despite the absence of official aggregated data, reports ([354]) indicate that by July 2025 around 3 000 families were living in 27 self-built or informal neighbourhoods – an increase of 1 200 families and nine neighbourhoods vs 2019. These informal settlements are inhabited mostly by workers, many of whom are migrants, and families with insufficient income to access conventional housing. Public authorities often enact demolitions and evictions without ensuring suitable alternative housing arrangements, which can exacerbate rough sleeping. Additionally, there are several informal settlements inhabited by Roma families across the country, which are often segregated ([355]) and lack access to electricity, water and adequate sanitation. The result is that 78% of Roma people suffer housing deprivation, according to the 2024 Fundamental Rights Agency's survey on Roma population ([356]).

([353]) The number of NPISAs increased from 19 in 2019 to 38 in 2025, supported by ESF+ and coordinated under the 2025-2030 national strategy for integration of people in homelessness.

([354]) Example of reports: 'Barracas na área de Lisboa: O regresso de um problema que nunca desapareceu', 28.09.2025, http://www.publico.pt/2025/09/28/infografia/barracas-lisboa-regresso-problema-desapareceu-talude-loures-amadora-almada.

([355]) Example of Civil society reports: Cemitério dos Vivos, Rádio Renascença, https://especiais.rr.pt/o-cemiterio-dos-vivos/intro.html.

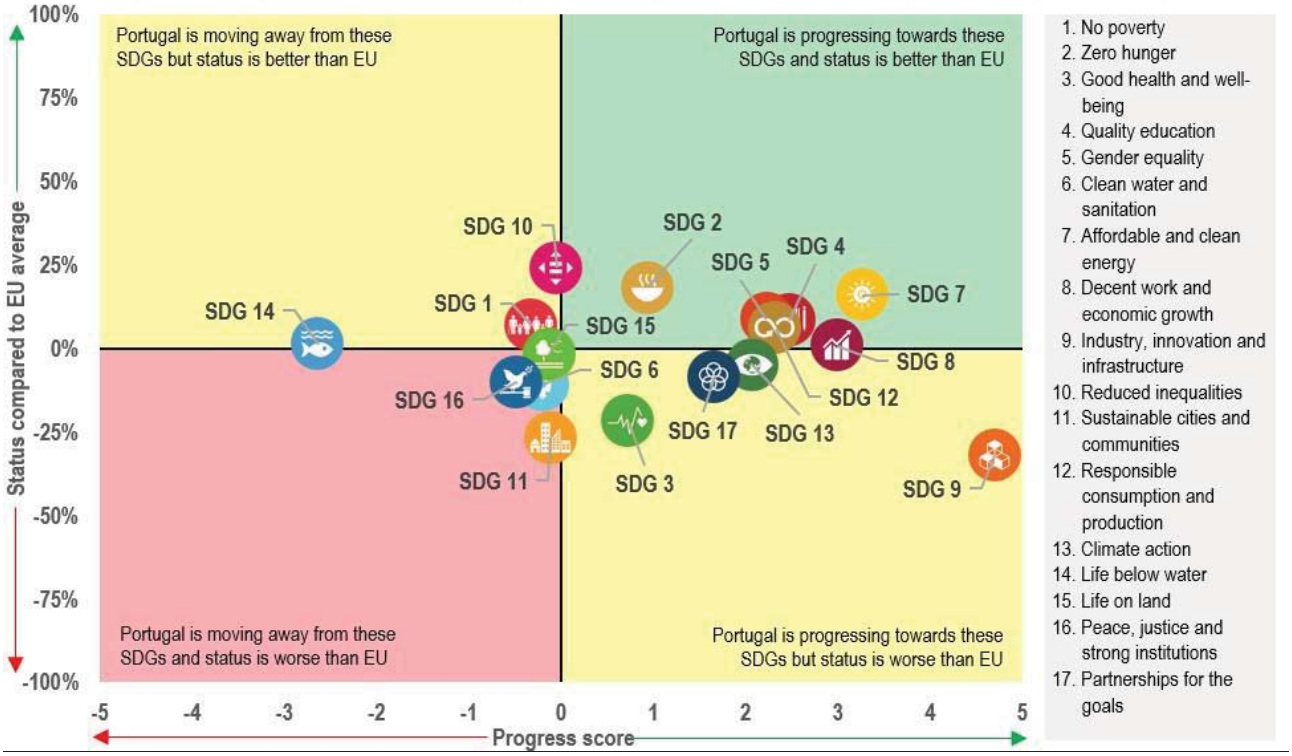
([356]) Rights of Roma and Travellers in 13 european countries - perspectives from the Roma survey 2024, Fundamental Rights Agency, 2025

This annex assesses Portugal's progress on the sustainable development goals (SDGs) along the dimensions of competitiveness, sustainability, social fairness and macroeconomic stability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change and the environmental crisis, while ensuring that no one is left behind. The EU and its Member States are committed to this historic global framework agreement and to playing an active role in maximising progress on the SDGs. The graph below is based on the EU SDG indicator set developed to monitor progress on the SDGs in the EU.

Portugal is improving on SDGs related to *competitiveness* (SDGs 4, 8, 9) but still needs to catch up with the EU average on SDG 8 (decent work and economic growth) and SDG 9 (innovation and industry). Basic digital skills among the adult population rose (from 55.3% in 2021 to 59.2% in 2025) and stand slightly below the EU average (60.4% in 2025). Early leavers from education and training fell (6.1% of population aged 19 to 24 in 2025, compared to 10.5% in 2019) to a level significantly below the EU average (9.1% in 2025). Tertiary education attainment also improved to 42.5% of the population aged 25 to 34 in 2025 (against 38% in 2019) but is slightly below the EU average (44.8% in 2025).

The Portuguese labour market is performs relatively well compared with the EU average, although it needs to catch up on some sub-indicators. Portugal has a high employment rate (79.6% of the population aged 20 to 64 in 2025 vs an EU average of 76.1%). The long-term unemployment rate fell to 2.2% of the active population in 2025 (vs a 1.9% EU average). Portugal also reduced the percentage of young

Graph A17.1: **Progress towards the SDGs in Portugal**



For a detailed progress assessment towards the various SDGs, see the annual Eurostat report 'Sustainable development in the European Union'; for extensive data on the short-term SDG progress of EU countries, see Key findings – Sustainable development indicators; for an interactive visualization of SDG progress of EU countries, see SDG country overview. A high status does not mean that a country is close to reaching a specific SDG, but signals that it is doing better than the EU on average. The progress score is an absolute measure based on the indicator trends over the past five or six years. The calculation does not take into account any target values, as most EU policy targets are only valid for the aggregate EU level. Depending on data availability for each goal, not all 17 SDGs are shown for each country.

Source: Eurostat, latest update of 29 April 2026. Data refer mainly to the period 2019-2024 or 2019-2025. Data on SDGs may vary across the report and its annexes due to different cut-off dates.

people neither in employment nor in education and training (NEET), going from 9.1% of the population aged between 15 to 29 in 2019 to 8% in 2025, below the EU average of 11% for that year.

Despite slow improvement, R&D and innovation remains a key concern. Only 1.7% of GDP was allocated to R&D in 2024 (EU average: 2.2%) while the number of patent applications submitted to the European Patent Office per million inhabitants remains very low: 39 in 2025 against the EU average of 156). Portugal's ambitious recovery and resilience plan has the potential to transform its business sector and R&I system. These measures aim to improve business-academia links, increase R&D, and reform vocational education and training.

Portugal is improving overall on the SDGs related to *sustainability* (SDGs 2, 7, 9, 12, 13) but is moving away from SDGs 6, 11 and 14 (Clean water and sanitation, Sustainable cities, Life below water). It performs well on SDG 7 (Affordable and clean energy) and SDG 2 (Zero hunger). The share of renewable energy in gross final energy consumption increased from 30.6% in 2019 to 36.3% in 2024, standing well above the EU average (25.2% in 2024). The environmental impact of agriculture is lower than the EU average. The percentage of inland bathing waters with excellent quality deteriorated (from 76.7% in 2019 to 58.4% in 2024 against EU average of 78.3% in 2024). On sustainable agricultural production, Portugal performs very well in organic farming (21.2% of the utilised agricultural area vs 10.9% in the EU in 2024), and the use of chemical pesticides declined substantially from 78 to reach the EU average of 42 out of 100, in 2023). Nevertheless, Portugal protects less than 5% of its marine areas (well below the EU average of 13.7% in 2023). Circular economy indicators are also well below EU averages, with a low rate of recycling of municipal waste (30.6% in 2023, vs 47.9% for the EU in 2023).

Conversely, it needs to catch up with the EU average on SDG 9 (Sustainable industry and infrastructure), SDG 12 (Responsible consumption and production), and SDG 15 (Life on land). The circular material use rate has slightly improved since 2019 but is only around one fourth of the EU average. The share of buses and trains in passenger transport, and the share of rail and inland waterways in freight transport are well below the EU average. Terrestrial protected areas slightly increased from 22.4% in 2018 to 22.6% in 2023 but remains below EU average of 26.4%. Various measures in Portugal's RRP aim to further contribute to emission savings. These include investments in energy storage and renewables, renewable hydrogen, energy efficiency renovations, public transport, increased use of bioproducts in industry, and the decarbonisation of industry.

Portugal is improving on SDGs assessing the *social fairness* of society and the economy (SDGs 4, 5, 7, 8). Even if the percentage unable to keep their homes warm enough decreased (from 18.9% of the population in 2019 v. 15.7% in 2024), it is still well above the EU average (9.2% in 2024). Education and training indicators are better than the EU average. The tertiary education attainment rate (population aged 25-34) increased from 38% in 2019 to 42.5% in 2025 (vs an increase in the EU average from 39.6% to 44.8%). Adult participation in learning is also higher than the EU average (16.9% in Portugal vs 13.7% at EU level in 2025).

Portugal also performs better than the EU average on gender equality. It has a low gender employment gap, and a gender pay gap below the EU average (7% in 2024 vs 11.1% at EU level, expressed as % of men's average gross hourly earnings). The percentage of women in senior management has progressed in the last few years, surpassing the EU average (35.9% of directors vs 33.6% in 2025). The RRP includes measures aimed towards a more equal and healthy society. These include reforms of primary care services and simplification of the social benefit system, and investments in community-based social services, social housing, and student accommodation, as well as household support for energy efficiency renovations.

However, it is moving away from SDG 1 (No poverty) and SDG 10 (Reduced inequalities). In 2024, the percentage of persons at risk of poverty or social exclusion was slightly below the EU average (19.7% vs 21%), but the percentage of the population at risk of monetary poverty after social transfers was slightly higher (16.6%) than the EU average (16.2%). Portugal performs very well for people living in households with very low work intensity (4.8% of the population aged less than 65 in 2024 vs a 7.9% EU average), but the housing cost overburden rate has worsened

(compared to the country's 2019 level of 5.7%), and needs to catch up with the EU average (6.9% of population in 2024 vs 8.2% at EU level). On the in-work at-risk-of-poverty rate, Portugal has improved (10.8% of % of population aged 18 or over in 2019 v. 9.2% in 2024) but is above the EU average (9.2%, vs 8.2% in 2024). The urban-rural gap has slightly increased since 2019 and is far above the EU average (6% vs 0% in 2024). On a positive note, the citizenship gap (difference between EU and non-EU nationals) narrowed both for early leavers from education and for training, and for employment remaining well below the EU average (0.3% of population aged 20 to 64 v. 11.8%, in 2025).

The country is improving on SDG 3 (Good health and well-being) but needs to catch up with the EU average. The smoking prevalence rate dropped from 26% in 2017 to 21% in 2023 (vs 24% at EU level) for the population aged 15 or over, and healthy life expectancy at birth based on self-perceived health rose from 71 years in 2018 to 73.6 years in 2023. However, some of the health and well-being indicators are still far from the EU average. These include road traffic deaths (5.8 vs 4.4 per 100 000 persons in 2024) and the obesity rate (17% vs 16.3% of the population aged 18 or over in 2025).

While Portugal is improving on some SDG indicators related to *macroeconomic stability* (SDGs 8, 17), it is moving away from the target for peace, justice, and strong institutions (SDG 16). It is closing its gap with the EU average on the investment share of GDP, with 20.7% in 2025 (EU: 21.7%). However, central government expenditure on law courts, a key indicator of the quality of the justice system, remains below the EU average (in 2024, EUR 77.8 per capita in Portugal vs EUR 131.4 per capita at EU level). The percentage of the population reporting crime, violence or vandalism increased from 6.5% in 2018 to 6.9% in 2023 (EU: 10%). The death rate from homicide also increased, from 0.76 in 2018 to 0.77 in 2023. So too did the share of victims of human trafficking (up from 1.7 per 100 000 persons in 2019 to 2 in 2024). The RRP includes measures to improve the efficiency of administrative and tax courts and to improve the management of public finances, for example, by introducing new IT solutions.

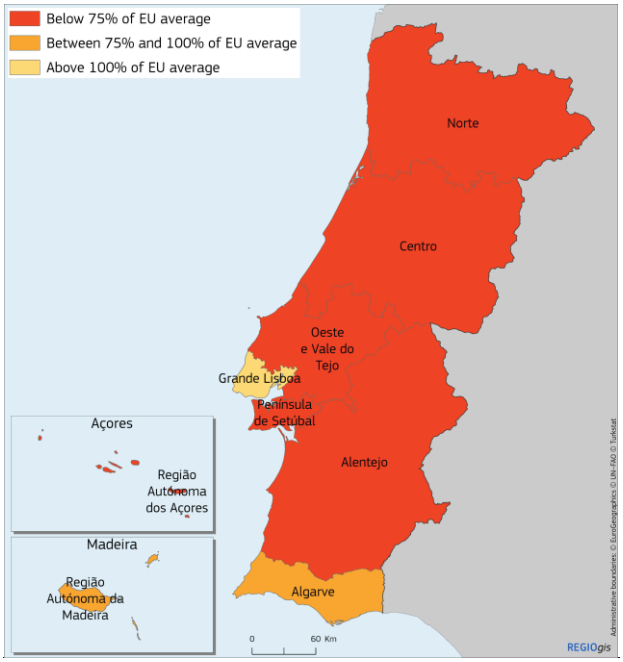
As the SDGs form an overarching framework, any links to relevant SDGs are either explained or depicted with icons in the other annexes.

Regional development trends

Despite economic growth across all Portuguese regions in recent years, convergence with the EU average in GDP per head has remained slow([357]). The capital region is the only region in Portugal with a GDP per head above the EU average. In 2004-2024, Portugal's Norte and Madeira regions registered the fastest average annual growth in GDP per head. Internal convergence, whereby Portugal's lower income and less productive regions catch up with the country's better performing regions (both in GDP and in productivity) has been driven by some catching up of less developed regions, but mostly by slower economic growth in the capital region. In recent years, tourism has been a significant subnational driver of growth in some regions such as the Algarve and Madeira, most notably after the COVID-19 pandemic and in a context of strong economic convergence of the whole country with the EU over recent years. Key challenges to convergence for Portugal include: (i) deepening innovation and strengthening linkages in high value-added markets in the most dynamic areas of its economy; and (ii) connecting developing territories with dynamic urban centres.

Portuguese regions have had different convergence trends over the last 20 years. In 2004-2024, Norte and Madeira were the two regions that made the most progress in convergence, reducing their gap with the EU's average GDP per head by close to seven percentage points. Economic convergence with the EU was more modest in the rest of the country. The capital region and its neighbour regions of Setúbal and Oeste e Vale do Tejo lost significant ground compared with the EU average over the same period. Convergence dynamics among the Portuguese regions since 2014 are very different to those in place before 2014. Until 2014 only Norte was keeping pace with growth of the EU's average GDP per head, while the rest of the country fell increasingly behind the EU average due to the dramatic impact of the economic and financial crisis. After 2014 however, Portugal began converging again, with regions with a strong tourism sector – the Algarve and Madeira - standing out in terms of catching up (Map A18.1).

Map A18.1: **GDP per head compared with the EU average.**



Note: 2021-2023 average GDP per head in purchasing power standard compared with the EU average.
Source: Commission calculations based on Eurostat 16 July 2025 data

Disparities in GDP per head continue to mirror significant productivity gaps and different employment trends. In 2023, productivity in Portugal (measured as GDP per hour worked) was 67% of the EU average. It varied between the capital region, where productivity was 79% of the EU average, and the country's other regions, most of which ranked among the EU regions with the lowest productivity levels. The regions of Madeira and Oeste e Vale do Tejo registered annual productivity growth above or in line with the EU average in 2013-2023. The corelation between productivity growth and convergence of GDP per head with the EU average is only partial, with some regions such as the Algarve displaying strong convergence in terms of GDP over the last decade while showing productivity growth lower than the EU average. This suggests that the convergence process results from increasing employment. Despite the falling productivity in the same period, labour productivity remains the highest in the capital region because of its higher concentration of high value-added sectors (see Graph A18.1). There are also significant disparities between coastal and non-coastal areas, with productivity levels of 69% in

([357])The analysis is based on NUTS categorization as updated for Portugal in 2024.

Table A18.1:**Main development trends, challenges and the concentration of resources**

	Main development trends
Less developed regions (population 7.8 million)	regions have been converging with the EU average in terms of GDP per head (in PPS), supported by productivity growth. Norte and Centro, in particular, form a large part of the country's industrial backbone, which presents both growth opportunities and challenges for the green industrial transition. However, in Oeste e Vale do Tejo the productivity growth has not resulted in improvements in GDP per head. In other less developed regions, such as Península de Setúbal, Alentejo and the Azores, productivity growth has stagnated over the last decade.
Transition regions (population 741 000)	In 2021-2023, the Algarve and Madeira had an average GDP per head (in PPS) greater than 75% of the EU average but less than 100%. They have experienced solid growth in GDP per head (in PPS), exceeding the EU average. Both regions are heavily dependent on tourism, which suffered during the COVID-19 pandemic. In 2020, they recorded the sharpest declines in GDP per head of anywhere in Portugal. Since 2021, they have rebounded the most, driven by growth in tourism and related services. However, these two regions have shown different patterns of productivity growth over the past decade. Productivity in absolute terms remains far below the EU average in Madeira, but Madeira's productivity growth rates have been above EU average in the past 10 years, while productivity growth has largely stagnated in the Algarve. This difference can be attributed mainly to Madeira's smaller seasonal difference in tourism numbers, offering more even tourist flows throughout the year, as well as its more explicit efforts to diversify economic
More developed regions (population 2.1 million)	The average growth in GDP per capita (in PPS) in Lisbon has kept pace with the EU average over the past decade, but fluctuations in this growth rate point to an economy increasingly dependent on sectors with volatile demand such as tourism. Although productivity is higher in Lisbon than elsewhere in Portugal, it is still only 78% of the EU average. Furthermore, productivity growth in Lisbon has decreased over the past decade, suggesting a development trap. This is the case even though R&D investment in Lisbon is close to the EU average and the region hosts a relatively high concentration (compared with both the national and EU averages) of workers in high-tech and knowledge-intensive sectors.
Specific territories	The continued concentration of economic activity in coastal regions presents challenges across Portugal. Low-density areas and non-coastal regions face the challenges of population loss and ageing populations. This translates into a loss of economic dynamism and difficulties in ensuring adequate access to basic services, problems which are particularly acute in remote rural areas. Coastal areas, especially around larger urban areas experience challenges such as increased demand for public services, pressure in the housing sector, and congestion. The outermost regions of Madeira and the Azores have specific challenges related to insularity, which affect access to services there. They also have: (i) rates of poverty and social exclusion above EU and national averages; (ii) difficulties in integrating young people into the labour market; and (iii) challenges related to early school leaving and the outmigration of young people. Support for Portugal's outermost regions – like support for all of the EU's outermost regions – needs to be sufficient to continue to take into account the structural social and economic situation of outermost regions compounded by their remoteness, insularity, small size, difficult topography and climate, and economic dependence on a few products.
National cohesion aspects	Transport connectivity in Portugal is largely dependent on road transport and individual cars, even in urban areas, which indicates scope – and a need – for more sustainable mobility. For rail to constitute a viable alternative to road transport, urban/suburban and inter-regional connectivity as well as cross-border rail linkages between Portugal and Spain need to be improved. There have been positive developments in terms of water access, the quality of water supply and wastewater drainage. However, water leakage from supply systems remains widespread, and there are significant disparities in water prices across municipalities. Furthermore, water scarcity affects sectors such as agriculture, industry, and tourism across different regions necessitating changes to the way that water is managed.

Source: European Commission based on Eurostat data; categories of regions based on Map A18.1

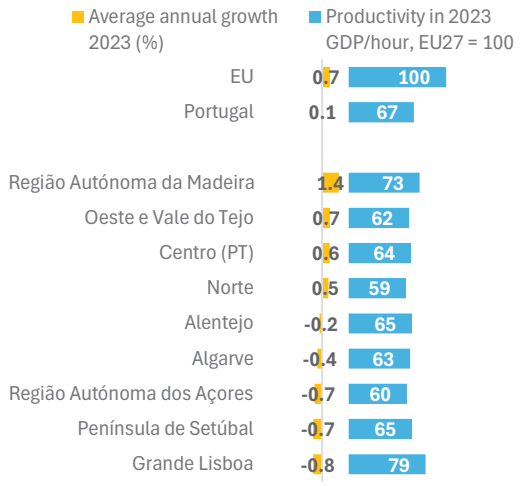
the coastal regions, but only 60% of the EU average in non-coastal areas.

While regions differ in the sectoral structure of their economies, modest or stagnating productivity growth is a challenge affecting most of Portugal's regions. The services sector makes the largest contribution to gross value added (GVA) in all regions. However, the share of industry in GVA is above 20% in Centro and Norte, exceeding the EU average. Even in these regions, productivity in industry is still among the lowest in the EU. In Alentejo, agriculture accounts for 12% of GVA, which is the highest contribution among the Portuguese regions ([358]). The rising contribution of accommodation and food services to regional GVA - especially in the Algarve, the Azores, and Madeira - reflects an increasing reliance on tourism ([359]).

([358])INE Statistics Portugal, Regional Economic Accounts.

([359])INE Statistics Portugal, Regional Economic Accounts, Annual Regional Statistics, Integrated Business Accounts.

Graph A18.1: **Labour productivity growth (2013-2023) and labour productivity (2023), Portugal (NUTS 2 regions)**



Source: Commission calculations based on JRC data

Key challenges for regional competitiveness

Portugal has seen an increase in R&D investment, driven particularly by growth in business R&D expenditure, but this growth remains concentrated in a few regions. R&D expenditure increased from around 1.3% of GDP in 2014 to 1.7% in 2024. In 2023, gross expenditure on R&D (GERD) in Norte, Centro and the capital region accounted for approximately 2% of regional GDP, a level comparable with the EU average. These were the only regions in Portugal where business enterprise expenditure on R&D (BERD) exceeded 1% of GDP, although even Norte and Centro are still below the EU average on this metric (see Table A18.2 and also Annex 4).

Investments in specific technological domains foster development and increase the value added of some key industrial and economic clusters, particularly in the less developed regions of Norte and Centro. In 2023, the highest GERD in Portugal was recorded in production and industrial technologies, followed by health, transport and telecommunications ([360]). These R&D domains are closely linked to the 'competitive clusters' – a network of economic and industrial clusters recognised by Portugal and considered essential for competitiveness and the national economy. In particular, the high level of GERD was due to clusters such as: (i) PRODUTECH (Norte), which focuses on manufacturing technologies; (ii) engineering and tooling (Centro); and (iii) textiles (Norte). Other examples of key clusters span across other sectors, such as: (i) health (Norte, with innovative bio-tech and pharmaceutical companies also located in Centro and the capital region); (ii) automotive (Norte); (iii) batteries (Norte); (iv) railways (Norte); and (v) ICT (Norte, Centro, and the capital region). Defence and security R&D expenditure in Portugal increased by 29% in the period 2020-2023, reaching EUR 485 million in 2023 ([361]), with a strong connection to the 'AED' cluster covering aeronautics, space and defence (Alentejo, the capital region, Centro, and Norte). However, Portugal's innovation capacities are not being fully exploited to drive industrial modernisation and economic transformation. The strategic framework for innovation is not sufficiently developed to support key industrial value chains and strengthen regional competitiveness through smart specialisation.

Both cooperation – and the mobility of researchers – between academia and industry remains low in regions with high concentration of enterprises such as Norte. In 2020-2022, the proportion of Portuguese enterprises cooperating with other enterprises or organisations in R&D and other innovation activities remained very low, showing only marginal changes compared with the period 2016-2018 ([362]). Cooperation levels were below the national average even in Norte, which has the country's highest concentration of enterprises and some of the country's top universities. In 2023, despite a progressive increase over the previous 10 years, Portugal continued to register only modest employment of researchers in enterprises ([363]), even in the capital region and Norte, which have the country's highest rates of employment of researchers in enterprises. This weakness persists

([360])DGEEC - Directorate-General for Education and Science Statistics (2025), Research and Development (R&D): Principal Indicators per Region - 2023.

([361])ANI - National Innovation Agency (2025), National Innovation Report 2024 – Security and Defence.

([362])Community Innovation Survey - 2022.

([363])DGEEC - Directorate-General for Education and Science Statistics (2025), Research and Development (R&D): Principal Indicators per Region - 2023.

despite the overall increase in the number of researchers ([364]).

Despite growth in exports during the last decade, mostly driven by Norte, goods with higher value added, although increasing, still account for only a small share of total exports, and imports are growing faster than exports. In 2015-2025, exports of goods from Portugal grew significantly from approximately EUR 49.6 billion to EUR 79.3 billion. However, high-technology products accounted for only 5.14% of these exports. During the same period, the export-to-import ratio declined ([365]), indicating that imports increased more rapidly than exports.

Unemployment is high in Setúbal while Alentejo suffers from labour shortages. The unemployment rate in 2024 was particularly high in Setúbal (8%), even when compared with other regions. At the same time, Alentejo faces severe labour shortages, with 43% more vacancies per unemployed person than Portugal as a whole. In contrast, the Algarve has the least severe labour shortages, with 39% fewer vacancies per unemployed person than the Portuguese average ([366]) (see also Annex 11).

Poverty is a significant challenge in the outermost regions of Portugal. While the share of the population at risk of poverty and social exclusion (AROPE rate) in 2024 was lower in Portugal than the EU average, it was 28.4% in the Azores, making this one of the regions with the highest AROPE rates in Europe. The risk of poverty or social exclusion is greater in rural areas (24%) than in urban areas (18%), underscoring geographical disparities. Energy poverty levels are significantly higher than the EU average in most regions of Portugal, and are especially high in the outermost regions and in Norte (see Table A18.2 and Annex 12), while only 27% of residences in Portugal achieved energy efficient ratings of A-B in 2024, highlighting the need for deep renovations ([367]).

Ageing and migration from rural to metropolitan areas entail challenges for the provision and sustainability of public services, especially in the country's interior areas (see also Annex 7). In Portugal, the population ageing index, measured as the ratio between the population aged 65 and over and the population 14 and under, reached 192.4% in 2024, up from 188.1% in the previous year. This phenomenon of ageing is especially acute in rural regions. The eastern parts of the Centro region recorded the highest ageing ratio in 2024, followed by Alentejo ([368]). This index is particularly high and continues to grow in non-coastal and low-density areas. In 2015-2024, population growth varied across the regions, with the Algarve and the capital region registering the fastest growth rates. Alentejo experienced the largest population decline during this period. Population decline is most evident in the inland areas of Norte, Alentejo, and Centro, whereas coastal areas are experiencing population growth (see Map A18.2). Immigration, which reached historically high levels in 2024, is no longer concentrated exclusively in major metropolitan areas, but also in suburban areas, largely driven by the housing shortage and high housing costs in city centres. Recent trends also highlight an increasing reliance on foreign labour in sectors such as intensive agriculture, tourism, industry, logistics, and care services. This foreign labour has helped to mitigate depopulation and demographic ageing in the country's interior areas ([369]).

([364])DGEEC - Directorate-General for Education and Science Statistics (2025), Survey of the National Scientific and Technological Potential (IPCTA) Research and Development, Expenditure and Human Resources.

([365])INE Statistics Portugal.

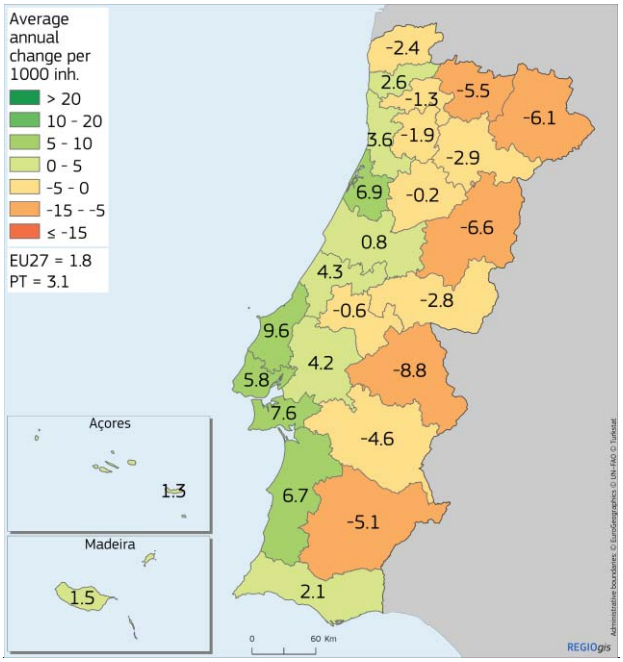
([366])OECD (2024), Job Creation and Local Economic Development 2024 – Country Notes: Portugal.

([367])National Observatory on Energy Poverty - ONPE-P / Energy Agency – ADENE.

([368])INE Statistics Portugal, Ageing Index (Number) by Place of Residence (NUTS – 2024); Annual.

([369])Observatory of Migration (2026), Foreign Resident Population in Portugal (2024): Implications for Territorial Cohesion, Public Policies, and Migration Governance, Observatory of Migrations, Lisbon.

Map A18.2: **Average annual population change at NUTS 3 level (2015-2024)**



Source: Eurostat and JRC

Population dynamics create challenges for accessibility to healthcare, mostly in remote rural areas and in Portugal's outermost regions. In remote rural areas, providing adequate public transport coverage and connections to the nearest urban centres is very challenging. Travel times to healthcare facilities in rural areas in all of Portugal's regions are longer than the average for the EU's other rural areas. This is a major challenge for both the most remote rural areas and the outermost regions. There are also significant regional disparities in the number of licensed medical doctors, with the highest density in the capital region (over 8 per 1 000 people) where there is still significant pressure due to high demand, and much lower levels in Alentejo (3.6 per 1 000 people) ([370]) (see also Annex 15).

Portugal's regions are facing different challenges in providing education linked to recent demographic changes and their specific socio-economic features. In metropolitan areas, rising populations are straining school capacity and require greater efforts from the education system to integrate students of different migrant backgrounds. In contrast, regions facing accelerated depopulation struggle with declining enrolment and the potential closure of schools, while certain low-density territories experiencing significant immigration face increasing pressure to expand their education capacity.

Alentejo, the Algarve and the two outermost regions face significant challenges in education and training. Inequalities in tertiary education attainment are most acute in Alentejo, the Algarve, the outermost regions, and Oeste e Vale do Tejo where levels are low (see Table A18.2). These differences are in part associated with the students' socio-economic conditions. In 2024, adult participation in education and training (in the preceding four weeks) also differed across the country's regions, with the highest level in the capital region (25.9%), and the lowest in the autonomous outermost regions of the Azores (14.1%), Madeira (16.8%) and Alentejo (19.1%). In addition, there are significant regional disparities in the rate of early leaving from education and training (see also Annex 13). These weaknesses in human capital and skills pose risks to the long-term growth prospects of those regions and their ability to further converge with Portugal's best-performing regions.

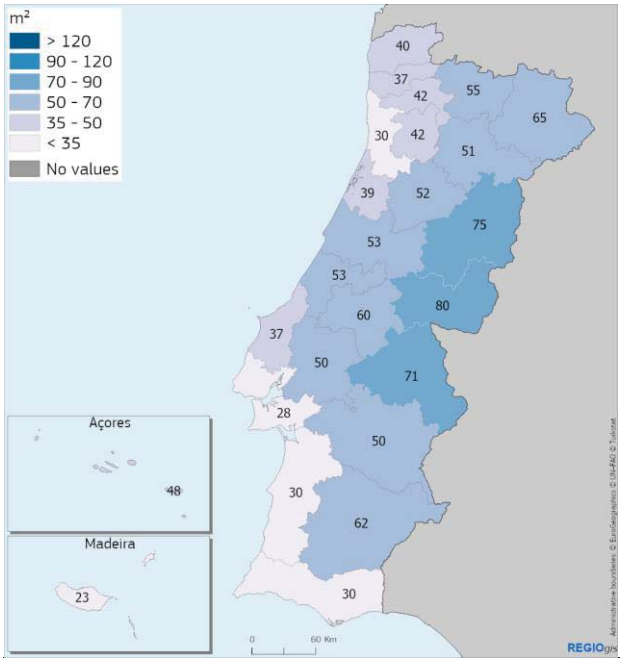
Housing affordability is a particularly acute problem in Lisbon and the Algarve. In 2024, the housing cost overburden([371]) reached 10.5% in Lisbon and 8.3% in the Algarve. Alentejo and the Azores had the lowest values at 3.9% and 4.6%, against a national average of 6.9% ([372]). In addition, house purchase capacity, measured as the number of square metres that can be financed via a mortgage using one third of disposable income, varies between more than 70 m^2 in certain interior regions of Centro and Alentejo, to 23 m^2 in Madeira and around 30 m^2 in Porto, Lisbon, coastal Alentejo and the Algarve (see Map A18.3). Low housing affordability is a major obstacle to labour mobility within the country and the regions. It also undermines the purchasing power of the population, which is a risk for the economic growth and development of the regions concerned (see also Annex 16).

([370])INE Statistics Portugal (2025), Statistics of Health – 2023.

([371])This measures the percentage of residents who spent more than 40% of their disposable income on housing. The overburden rate should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

([372])IHRU (2025), Territories in Portugal with a shortage of – or inadequate – housing supply.

Map A18.3: **House purchase capacity relative to income (2024)**



(i) Square metres that can be bought via mortgage using 1/3 of median disposable income in 2024 by NUTS 3 region. (ii) Disposable income is an estimate taken from Mikou et al. (2024).

Source: ESPON-H4ALL

Transport challenges vary significantly across the regions. The population in rural and more dispersed areas of Portugal is largely car dependent. Private cars also remain the preferred mode of transport in the urban areas of Lisbon and Porto ([373]), which face significant challenges in air quality and traffic congestion. In 2025,Portugal received a Country-specific recommendation, to invest in sustainable transport, particularly in rail, taking into account regional disparities. Rail connectivity ([374]) is particularly low in Centro and Alentejo. In metropolitan areas, Portugal is gradually promoting better and more sustainable public transport. However, urban low-emission and limited-traffic zones are either non-existent or inadequately enforced. The outermost regions face additional challenges due to their insularity and, in the case of the Azores, the archipelago's geography ([375]). In addition, Portugal was recommended to promote efficient public transport connections to both reduce the pressure on house prices in urban centres and increase the attractiveness of other territories. However, most railway investments in Portugal in recent years have encountered various problems, delaying their completion. In addition, in the metropolitan areas of Lisbon and Porto, where house prices are the highest in the country, urban and suburban mobility and accessibility remains a significant challenge as well.

The southern regions of Portugal face serious problems in relation to water management and resources, while coastal erosion is a threat to coastal population centres, and wild-fire vulnerability affects mostly Norte and Centro. Both the Algarve and Alentejo regions are already affected by severe water scarcity, leading to overdrawing of groundwater resources, a situation that requires the adaptation of agriculture, industry and tourism. The current uptake of recycled water reuse remains modest. This means that there are still significant challenges in ensuring water recycling and reuse, especially in water-scarce regions. At the same time, high levels of water leakage ([376]) - caused by ageing infrastructure - and significant disparities in the price of water between municipalities continue to hinder efficient and equitable water management (see also Annex 10). Moreover, wild-fire vulnerability is a growing source of concern, especially for Norte and Centro ([377]). All Portuguese regions experience coastal erosion to varying degrees, with a particular threat to large population centres on the coast.

The 'blue economy' accounts for a relevant share of the economy and employment in the regions of Portugal. In 2022, Portugal's 'blue economy' accounted for 3.7% of the national GDP and 6.3% of employment, dominated by coastal tourism and marine living resources, which respectively account for 70% and 21% of Portugal's blue economy GVA, and 73% and 23% of its blue economy jobs. The continental shelves off Norte, Centro, Oeste e Vale do Tejo, and

([373])INE Statistics Portugal (2023), What does the census tell us about territorial dynamics.

([374])Measured by the average share of people within a 120 km radius that can be reached within 1h30 by rail.

([375])OECD (2025), Preparing for Demographic Change in the Azores, Portugal.

([376])ERSAR - Regulatory Authority for Water and Waste Services (2025), Annual Report on Water and Waste Services in Portugal – 2024, Volume 1 – Characterisation of the Water and Waste Sector.

([377])National Roadmap for Adaptation 2100 - Portuguese Territorial Climate Change Vulnerability Assessment for the XXI Century (RNA 2100).

Alentejo hold untapped potential for floating offshore wind and wave energy. At the same time, these areas are important for fishing, cultural heritage, and biodiversity. Shipbuilding in Centro, Norte, Greater Lisbon, and Península de Setúbal faces skilled-labour shortages and low productivity. The Algarve, reliant on coastal tourism with its dense network of marinas and fishing ports, grapples with seasonality, drought, and climate risks. The Azores and Madeira are even more dependent on the blue economy in relative terms (e.g. 16.6% of the Azores' regional GDP comes from blue-economy activities), making them vulnerable to climate and ocean risks and insularity costs.

Greenhouse gas emissions per head in Portugal are below the EU average and continue to fall, but there are specific territorial challenges. Greenhouse gas emissions from various sources are a challenge for Portugal. These sources include: (i) energy production (along the coastal line north of Lisbon); (ii) transport (around major urban agglomerations such as Lisbon and Porto); (iii) specific industrial processes (particularly in the Norte, Centro, and Oeste e Vale do Tejo regions); (iv) agriculture (mainly in Alentejo); and (v) housing. There remains significant untapped potential for renewable energy generation across Portugal's regions, including in the outermost regions.

The decentralisation of central administration reform is underway. The ongoing process of Portugal's decentralisation reform was initiated in December 2022. As part of this decentralisation, Portugal took a decision to devolve some of the services of the central administration to the five Commissions for Coordination and Regional Development (CCDRs), which in 2023 acquired the status of public institutes. This status gave the CCDRs legal personality, while maintaining their administrative and financial autonomy. The CCDRs assumed new responsibilities in six sectoral areas (agriculture and fisheries, culture, the economy, spatial planning, nature conservation and education) out of the nine initially identified in 2022, which also included vocational training, health, and infrastructure. Following the recent amendments to the CCDRs Organic Law in 2025, in the field of health the CCDRs have been assigned an active role in regional public health planning, the planning of health infrastructure and equipment, and in coordinating regional policies with the National Health Service (SNS). The programme contracts between the Portuguese government and each of the CCDRs represent a new tool in Portugal's multi-level governance framework. These frameworks enable both: (i) the monitoring of reform implementation and associated outcomes; and (ii) assessments of the regions' contribution to the country's development and cohesion goals ([378]). Both CCDRs and municipalities face challenges in implementation and in fulfilling their new devolved responsibilities, in part due to efficiency and capacity limitations as well as insufficient funding. The CCDR leadership elections are now largely complete, but the new expanded mandate and its dual accountability structure are still finding their footing, with a number of governance questions yet to be resolved.

([378])Contractualisation between levels of government: Capacity building, monitoring and evaluation in Portugal | OECD

Table A18.2:**Key regional indicators (at NUTS 2 level) for Portugal**

	GDP per head (PPS, index)	Real GDP per head growth	Productivity: GDP (PPS) per hour worked (index)	Real productivity growth (per hour worked)	Population aged 25-34 with high educational attainment	At-risk-of-poverty or social exclusion rate (AROPE)	Energy poverty	R&D expenditure	R&D expenditure in business enterprise sector (BERD)	Access to healthcare - Rural areas
	EU27=100	Average annual % change	EU27=100	Average annual % change	% of population aged 25-34	% of population	% of total population	% of GDP	% of GDP	Population within 10 minutes by car from nearest hospital (%)
	2024	2014-2024	2023	2013-2023	2025	2025	2025	2024	2023	2023
EU	100	1.4	100.0	0.7	44.8	21.0	9.2	2.24	1.51	+
Portugal	82	1.9	66.6	0.1	42.5	18.6	15.6	1.73	1.06	12.4
Norte	71	2.0	59.5	0.5	41.3	18.7	17.3	2.02	1.30	16.4
Algarve	89	2.7	63.2	-0.4	32.4	17.1	10.6	0.44	0.19	13.8
Centro (PT)	71	1.8	63.9	0.6	46.4	19.9	14.2	2.05	1.12	11.0
Grande Lisboa	129	1.6	79.5	-0.8	49.0	16.0	13.9	2.17	1.31	0.3
Península de Setúbal	55	1.6	65.2	-0.7	41.0	18.9	14.1	0.90	0.56	1.4
Alentejo	77	2.0	64.8	-0.2	34.5	19.7	7.8	0.82	0.48	10.1
Oeste e Vale do Tejo	65	1.3	62.4	0.7	40.7	20.4	20.6	0.87	0.73	14.3
Região Autónoma dos Açores	73	1.7	59.7	-0.7	26.6	21.6	21.4	0.41	0.12	3.4
Região Autónoma da Madeira	88	2.9	73.3	1.4	37.8	20.5	19.7	0.41	0.27	0.0

Dark green - the indicator is 120% or more of the EU average.
Light green - the indicator is 100% or more, but less than 120% of the EU average.
Yellow - the indicator is 90% or more, but less than 100% of the EU average.
Light red – the indicator is 75% or more, but less than 90% of the EU average.
Dark red – the indicator is below 75% of the EU average.
This colour scale applies to 'positive' indicators, where higher values are favourable.
For 'negative' indicators (where higher values are unfavourable), the colours are reversed.
Source: Eurostat and JRC

This Transport Annex presents the state of play and the challenges Portugal faces with the implementation of the trans-European transport network (TEN-T), the European railway traffic management system (ERTMS), road safety and the roll-out of sustainable aviation fuels (SAF).

Portugal is crossed by the Atlantic European transport corridor. The TEN-T network in Portugal comprises 3 216 km of rail (of which 1 443 km are on the core network) and 2 960 km of road (of 946 are on the core network). Portugal has 311 km of inland waterways, 17 airports (including two core airports), 18 ports (including three core ports) and 13 urban nodes.

Portugal is developing its high-speed rail network using the Iberian railway track gauge of 1 668 mm. At this stage, Portugal considers a migration to the European standard gauge of 1 435 mm only by 2040.

The ERTMS is essential to digitalising the railways and to modernising and harmonising railway operations across Europe. The ERTMS ensures the safety of rail networks by providing a unified signalling system that significantly reduces the risk of accidents. It also provides interoperability between national rail systems, improving cross-border train movements. Finally, the ERTMS enhances network capacity and operational efficiency, increasing the competitiveness of the rail sector.

ERTMS was not operational on the Portuguese TEN-T rail network by the end of 2024. To meet its national plan's ERTMS roll-out target by 2035, Portugal aims to deploy ERTMS on a length of 1 501 km, for an estimated cost of EUR 360 million. A priority for Portugal is the completion of the Porto-Lisbon TEN-T corridor (completion of Phases 1 and 2 expected in 2032–2033). This corridor will form the backbone of Portugal's entire high-speed rail network.

The network will be further extended by two key cross-border connections: Porto-Vigo and Lisbon-Madrid (currently planned for 2034). The Lisbon-Madrid link is particularly strategic, as it connects the two capitals of the Iberian peninsula and offers a competitive rail alternative of around three hours to the current average of 40 daily flights. The Porto-Vigo high-speed line, although part of the extended core network, is a priority for Portugal and northern Spain as it serves the most densely populated cross-border axis, with a total population across both sides of the border that is close to seven million people.

Another critical step is the reinforcement of rail connectivity between Sines, Portugal's leading port, and Spain through the modernisation and capacity increases of the exiting railway line. The country has recently started to implement major rail projects through public-private partnerships, shifting the responsibility for the timely implementation of projects to the concessionaire. Given that so far only a small number of projects has been launched under the new framework, it is too early to draw conclusions on whether it had the desired effect of accelerating project implementation.

Portugal faces delays in authorising newly built or upgraded railway lines for ERTMS and high-speed rail. This is due to several factors such as the limited scale of the Portuguese railway market, the shortage of qualified staff in railway safety and interoperability, and the lack of high-speed rail rolling stock. These delays are a source of concern given the high-speed rail programme of Portugal planned for the next 15 years, that will also be equipped with ERTMS. As of today, two lines are concerned: the modernised Beira Alta line where the ERTMS is not authorised and the new high-speed line Evora-Elvas which would require Spanish high-speed rail rolling stock, equipped with ERTMS, to enable its authorisation.

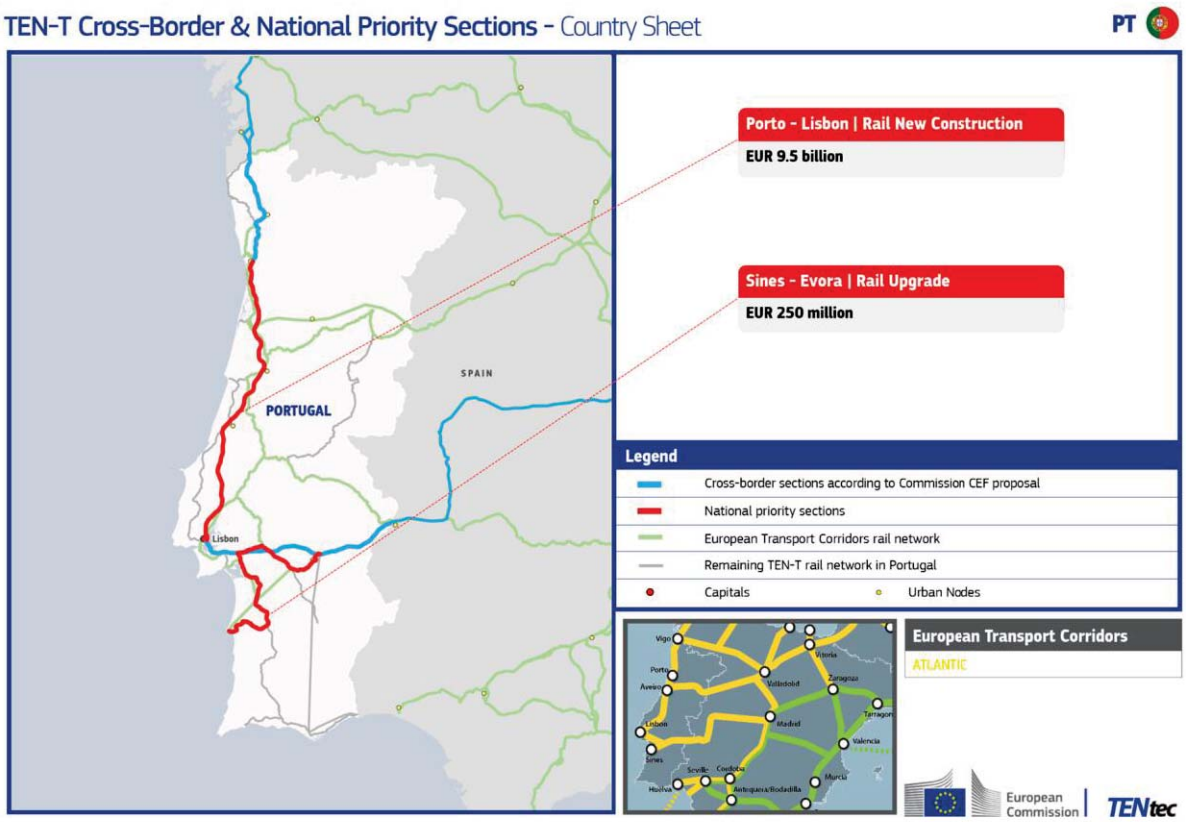
The capacity and capabilities of Portuguese authorities and bodies to ensure testing and authorisation of ERTMS is a concern. Moreover, Portugal would benefit by continuing to strengthen the National Safety Authority's operating conditions, as it still faces challenges related to its autonomy, the effectiveness of supervision, and the proper functioning of key processes such as vehicle and fixed installation authorisations. Portugal is drawing up its roadmap for the transition to adopt the European standard railway gauge. The assessment shall include a socio-economic cost-benefit analysis on the viability of the possible migration to the European standard nominal track gauge of 1 435 mm and an assessment of the impact on interoperability.

Table A19.1:**ERTMS deployment in Portugal.**

ERTMS in Portugal				
TEN-T rail network	ERTMS (trackside) in operation			Min. estimated cost of additional deployment until 2035
	year	length	% of total TEN-T	
3226 km	end 2024	0 km	0 %	
	by 2035	1501 km	46 %	EUR 360 million

Source: Based on ERTMS – Third work plan of the European Coordinator Matthias Ruete.

Map A19.1: **TEN-T cross-border & national priority sections in Portugal.**



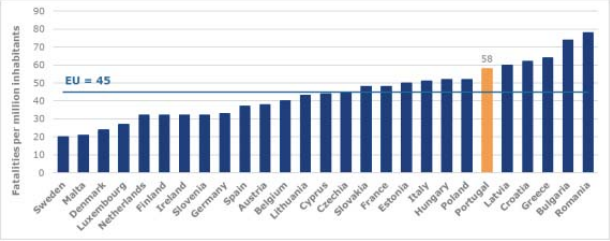
Road crashes impose an enormous social, economic and health burden on the EU economy. The external socio-economic costs of fatal, serious and minor injuries have remained persistently high despite the progress made in reducing crash frequency and severity. These resources could otherwise fuel innovation, education, healthcare and other crucial public investments ([379]).

In 2024, Portugal was substantially above the EU average (45) with 58 road fatalities per million inhabitants. Compared to the EU average, the distribution of fatalities in Portugal shows a relatively high proportion of fatalities among riders of powered two wheelers

([379])Report on the implementation of the EU Road Safety Policy framework at the Mid-Point, COM(2026) 77 final.

(PTWs) and on urban roads. Portugal is currently not on track to meet the 2030 targets. Progress is arguably hampered by the fact that the national strategy has not been formally approved since 2022. Approval of the strategy would be an major step forward ([380]).

Graph A19.1: **Portugal's road fatalities per million, 2024**



Source: Report at the Mid-Point - Portugal, SWD(2026) 54 final.

Portugal has taken active measures in shaping national production of sustainable aviation fuels (SAF), launching tenders for domestic SAF production in 2025. However, there are still no active SAF production facilities, with projects under development failing to reach Final Investment Decision ([381]). Investment is needed to secure and de-risk projects. Portugal could participate in double-sided auction mechanisms projects as part of its contribution to the eSAF Early Movers Coalition, as well as ensure EU ETS and ReFuelEU Aviation penalty revenues are directed towards supporting the deployment of SAF.

([380])More details in Report on the implementation of the EU Road Safety Policy framework at the Mid-Point – Portugal, SWD(2026) 54 final.

([381])EASA ReFuelEU Aviation Technical Report (2025).