
OECD Territorial Reviews: Portugal

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In the current context of fiscal consolidation and EU enlargement, Portugal is increasingly challenged to develop a new growth strategy to regain a lost competitive edge. Portugal has launched an ambitious agenda of reforms geared towards competitiveness, but it faces a narrow window of opportunity to implement it. Regional policy stands as a key tool in doing so.

The challenge of modernizing the economy while continuing to curb the fiscal deficit highlights the importance of seeking the most efficient allocation of public spending. The example of Portugal offers a compelling case study of how a new type of regional policy could contribute to national development in a relatively small yet diverse country, with weak growth and limited public spending capacity, and marked by a long tradition of centralized governance and no elected regional level.

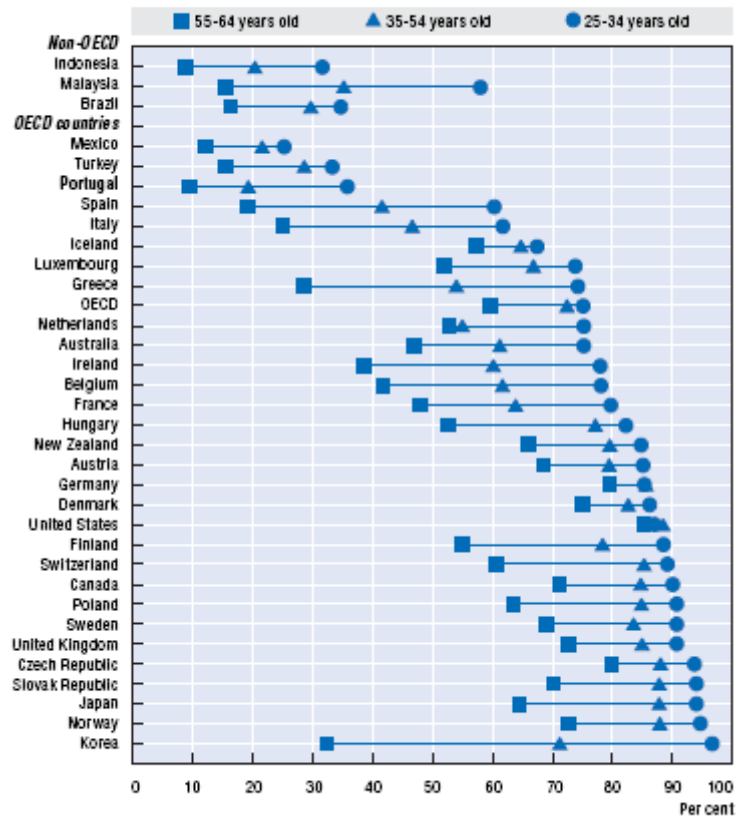
Chapter 1. Why a Regional Policy in Portugal? National Growth, Regional Assets and Challenges

The encouraging return of growth in Portugal contrasts with the persistence of deep-rooted structural challenges. The competitive edge lost in low-cost labour must be earned back in knowledge and innovation. As in other OECD countries, such assets for competitiveness are regionally localised, meaning a limited group of leading regions have turned their assets into drivers of national growth while many others, struck with specific disadvantages, have fallen behind, at the risk of underrating their own endogenous growth potential. This first chapter discusses to what extent regional assets and challenges can determine national growth prospects.

Section 1.1 presents briefly Portugal's current macroeconomic conditions. Section 1.2 assesses regional disparities and assets for growth. Section 1.3 highlights Portugal's regional opportunities and policy challenges and considerations.

Figure 1.5. Educational attainment of the working age population in OECD and selected non-OECD countries

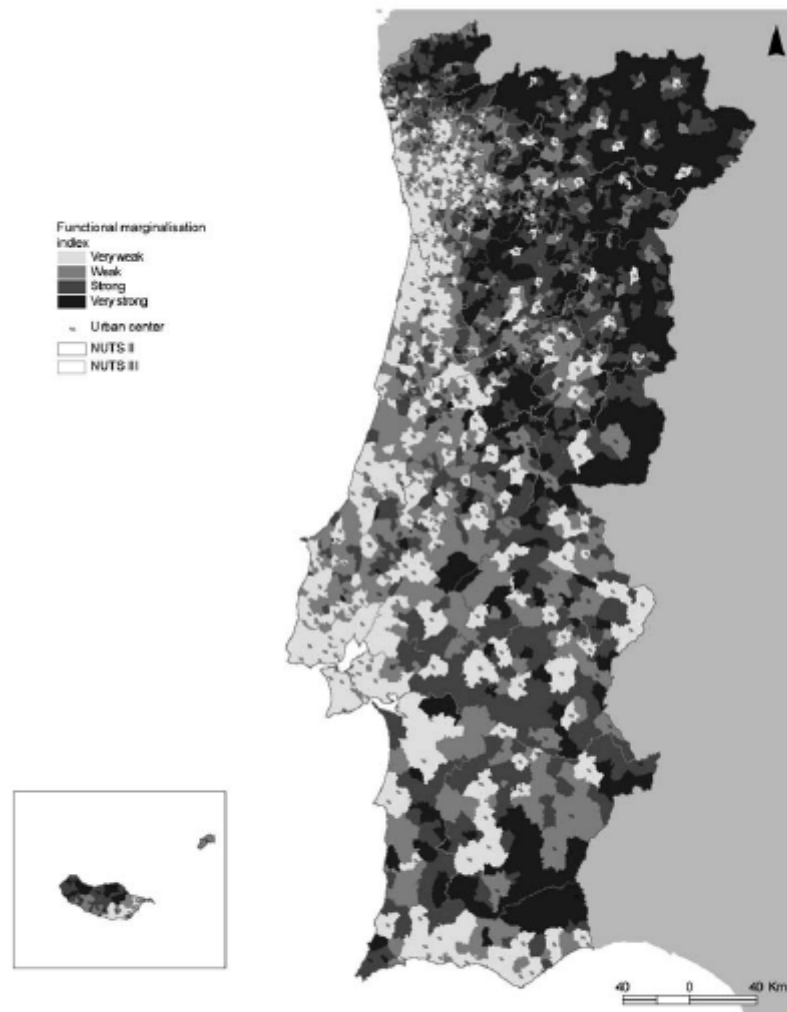
Population with at least an upper-secondary qualification, % of each age group, 2003



Note: 2002 for Czech Republic, Iceland, Italy and Netherlands.

Source: OECD Labour Market Statistics Database, OECD Economic Survey of Portugal 2006, Figure 1.9.

Figure 1.29. Functional marginalisation index, 2002



Note: The functional marginalisation index takes into account the distance required to have access to a total of 117 goods and services, and the degree of specialisation of the goods and services. The classification used in the map (ranging from very weak to very strong marginalisation) is based on quartiles of *freguesias*. More detailed information is available in INE (2004) *Sistema urbano: áreas de influência e marginalidade funcional*.

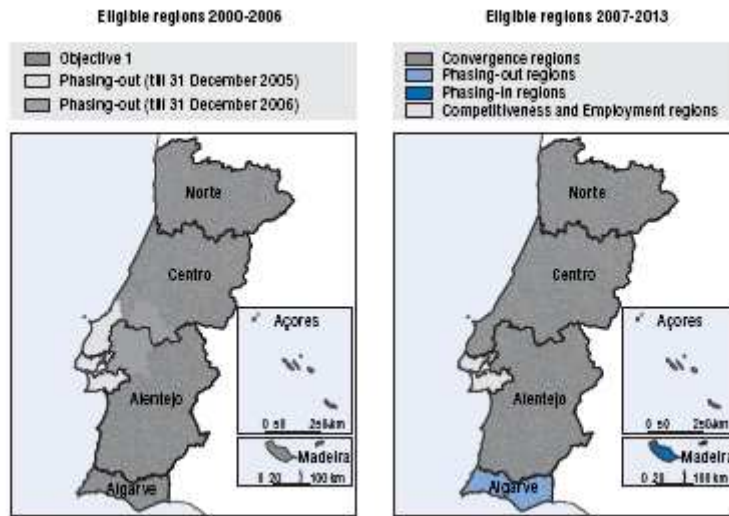
Source: INE, *Sistema urbano: áreas de influência e marginalidade funcional*, ed. 2004.

Chapter 2. Regional Policy as a Tool to Enhance Portugal's Competitiveness

Portugal faces an unprecedented opportunity to invest in long-term assets for competitiveness. Public funding to do so, however, remains limited in the present period of fiscal deficit reduction. In this context, regional policy stands out as a major tool to implement the competitiveness agenda in Portugal. As such, the Portuguese government's recent initiatives to better territorialise structural policies under the impulse of EU Cohesion Policy need to be further developed and to be coupled with appropriate mechanisms to capitalize on locally concentrated knowledge. This chapter explores to what extent regional policy can help translate a broad competitiveness roadmap into an effective network of growth in Portugal.

Section 2.1 examines the progress made by Portugal on the path towards regional policy. Section 2.2 turns to the role of regional policy as a tool to support an endogenous dynamics of innovation. Section 2.3 looks at regional policy as a tool to ensure sustainable development.

Figure 1.26. Portuguese regions eligible for the EU Cohesion Policy, 2000-2006 and 2007-2013



Source: EU Info Regio, Factsheet October 2006.

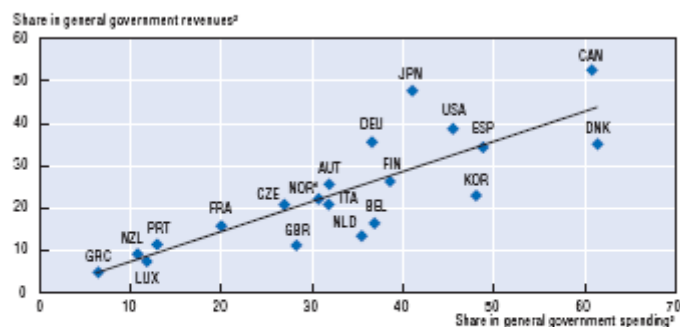
Chapter 3. Reforming the Governance of Regional Policy in Portugal

Portuguese public authorities are increasingly required to differentiate their intervention according to the specific assets of each region and to capitalize on the knowledge distributed across a wider range of actors. At the same time, there has been growing awareness that Portugal's traditionally centralized framework needs reforming. The government's strong commitment to generate structural change has motivated recent initiatives which are heading in a promising direction. Governance reforms now need to be fully implemented and to go further in order to deliver the expected outcome. This chapter analyses how the current Portuguese framework has addressed the new governance needs induced by new regional policy and discusses suggestions for further headway.

Section 3.1 analyses how the current Portuguese framework has addressed new governance needs. Section 3.2 offers insight on recommended avenues for action.

Figure 3.1. Subnational shares of total tax revenues and expenditures, 2005¹

Unit: % of national total



Note: Decentralisation is measured by the changes in the share of sub-national governments in total public revenues and spending.

1. Or latest year available: 2003 for Canada and New Zealand, 2004 for Japan and Korea.

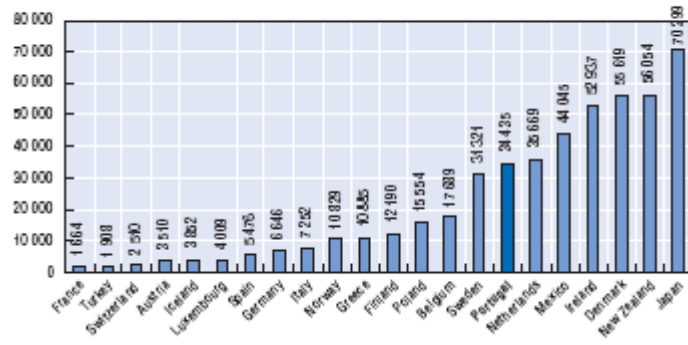
2. Excluding transfers received from other levels of government.

3. Excluding transfers paid to other levels of government.

4. The share of subnational revenues is expressed in per cent of total government mainland revenues.

Source: OECD National Accounts database; Statistics Norway; Statistics Canada; US Bureau of Economic Analysis.

Figure 3.3. Average size of municipalities in OECD countries, 2006
Unit: number of people per municipality



Source: OECD / Directorate for Public Governance and Territorial Development
http://www.oecd.org/document/47/0,3343,en_2649_33735_41380591_1_1_1_1,00.html#related_docs