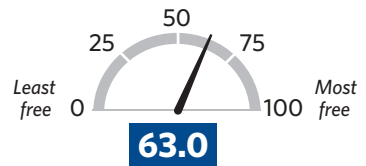


PORTUGAL

Economic Freedom Score



World Rank: **68** Regional Rank: **31**

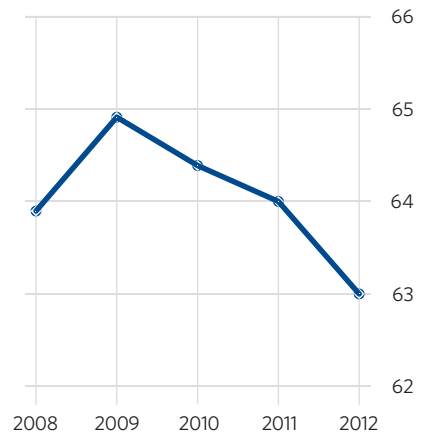
Portugal's economic freedom score is 63.0, making its economy the 68th freest in the 2012 *Index*. Its score is 1.0 point worse than last year, mainly due to deterioration in the management of government spending, labor freedom, and fiscal freedom. Portugal is ranked 31st out of 43 countries in the Europe region, and its overall score is above the world average.

Portugal has been undergoing challenging economic adjustments. Previous years' reforms, which had helped to modernize the economy and diversify the productive base, have lost momentum. Despite relatively sound institutional processes such as an efficient business framework and a well-functioning judicial system, the indebted and inefficient public sector has eroded private-sector dynamism and hurt the economy's overall competitiveness.

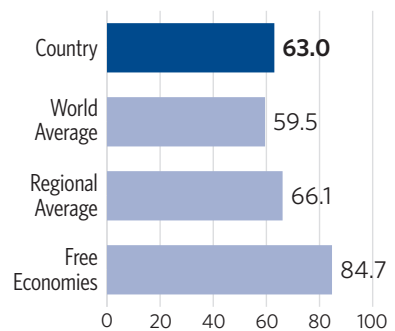
Although reforms in public finance administration are ongoing, the burden of the deficit is rising. Revitalizing the Portuguese economy will require comprehensive public-sector reforms, enhanced flexibility in the labor market, and improved tax policy to improve competitiveness and productivity.

BACKGROUND: Portugal joined the European Union in 1986 and the euro zone in 2002. By 2011, however, a sovereign debt crisis threatened to sink the economy. Prime Minister Jose Socrates' Socialist Party was defeated in the 2011 general elections by the center-right Social Democrats. Portugal accepted a €78 billion joint European Union–International Monetary Fund bailout plan, and the new government of Prime Minister Pedro Passos Coelho was expected to implement strict austerity measures. Some state enterprises have been privatized, but Portugal still suffers from public-sector inefficiency and a lack of private-sector confidence. Its comparative advantage in cheap labor has eroded since the accession of Central and Eastern European countries to the EU, and its growth lags behind the EU's generally. Unemployment is high and increasing.

Freedom Trend



Country Comparisons



Quick Facts

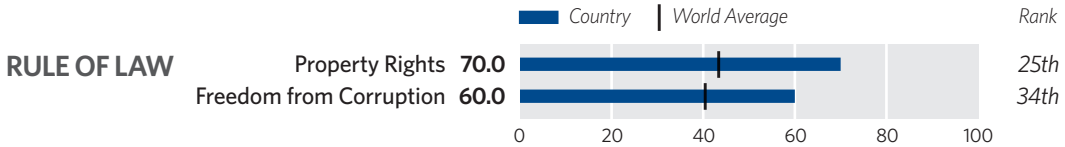
Population: 10.6 million
GDP (PPP): \$247.0 billion
 1.4% growth in 2010
 5-year compound annual growth 0.5%
 \$23,223 per capita
Unemployment: 10.8%
Inflation (CPI): 1.4%
FDI Inflow: \$1.4 billion
Public Debt: 92.9% of GDP

How Do We Measure Economic Freedom?

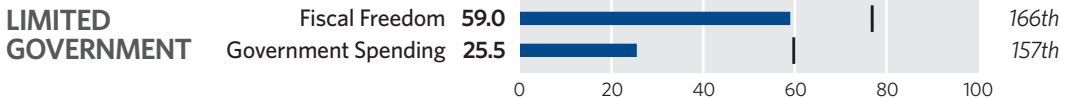
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

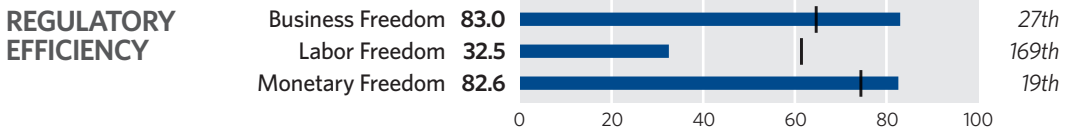
THE TEN ECONOMIC FREEDOMS



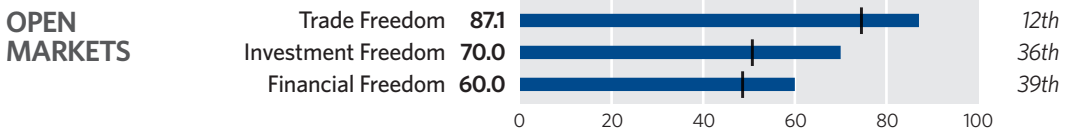
The judicial system is relatively independent but lacks efficiency. The court system is slow, and the number of years that it takes to resolve cases is well above the EU average. Corruption remains a cause for concern. A series of new laws passed in 2010 to combat corruption included increased penalties for bribery and extended statutes of limitations for certain corruption-related crimes, such as bribery and abuse of official function.



The top income tax rate is 46.5 percent, and the top corporate tax rate is 26.5 percent (a flat 25 percent plus a maximum 1.5 percent surtax). Other taxes include a value-added tax (VAT), with the overall tax burden amounting to 35.2 percent of total domestic income. Government spending has increased to a level equivalent to 49.8 percent of GDP. The budget balance has recorded large deficits, with public debt reaching over 90 percent of total domestic output.



The overall regulatory framework is efficient. Rules regarding the formation and operation of private enterprises are now more straightforward. The minimum capital requirements for launching a business have been eliminated. Starting a company now takes only five days in comparison to the world average of 30 days. Regulations on dismissals and temporary contracts are burdensome and costly. Monetary stability has been well maintained.



Trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate at 1.4 percent, but myriad non-tariff barriers add to the cost of trade. Foreign and domestic investors are allowed equal access to investment opportunities, though certain sectors are restricted. The financial sector remains relatively sound, with no major bank collapses and public confidence in the system still high.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-2.1	Business Freedom	+2.9	Trade Freedom	-0.5
Freedom from Corruption	+2.0	Government Spending	-10.7	Labor Freedom	-2.2	Investment Freedom	0
				Monetary Freedom	+0.3	Financial Freedom	0