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Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Portugal and delivering a Council opinion on the 2022 Stability Programme of Portugal

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Recommendation for a

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on the 2022 National Reform Programme of Portugal and delivering a Council opinion on the 2022 Stability Programme of Portugal

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transition, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility [was] updated on [XX] June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

coordination. It took due account of the reaffirmed joint commitment of the Porto Social Summit of May 2021 to further implement the European Pillar of Social Rights proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified Portugal as one of the Member States for which an in-depth review[4] would be needed. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which was adopted on 5 April 2022 by the Council, as well as the proposal for the 2022 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which was adopted by the Council on 14 March 2022.

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt for example through higher energy and food prices and weaker growth prospects. The higher energy prices weigh particularly on the most vulnerable households experiencing or at risk of energy poverty. The EU is also seeing an unprecedented inflow of people fleeing Ukraine. In this context, on 4 March 2022, the Temporary Protection Directive was triggered[5] for the first time, granting displaced persons from Ukraine the right to legally stay in the EU, as well as access to education and training, labour market, healthcare, housing and social welfare.

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated, or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any country-specific recommendations issued up to the date of submission of the modified plan.

(5) The General Escape Clause has been active since March 2020[6]. In its Communication of 3 March 2021[7], the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook

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4 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306, 23.11.2011, p. 25.

5 Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection, OJ L 71, 4.3.2022, p. 1.

6 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

7 Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council opinion of 18 June 2021 on the 2021 Stability Programme, the fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures), excluding COVID-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth[8]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally-financed[9] primary current expenditure (net of discretionary revenue measures and excluding COVID-19 crisis-related temporary emergency measures) and investment.

(7) On 2 March 2022, the Commission adopted a Communication providing broad guidance for fiscal policy in 2023, aiming at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination[10]. The Commission noted that, based on the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020-2022 to a broadly neutral aggregate fiscal stance would appear appropriate in 2023, while standing ready to react to the evolving economic situation. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate across Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its Semester spring package of late May 2022.

(8) With respect to the fiscal guidance provided on 2 March 2022, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transition and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second round effects via targeted and temporary measures; fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, and be differentiated across countries depending on their fiscal and economic situation, including as regards the exposure to the crisis and the inflow of displaced persons from Ukraine.

(9) On 22 April 2021, Portugal submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance,

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8 The estimates on the fiscal stance and its components in this recommendation are Commission estimates based on the assumptions underlying the Commission 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

9 Not financed by grants from the Recovery and Resilience Facility and other EU funds.

10 Communication from the Commission to the Council: Fiscal policy guidance for 2023, Brussels, 2.3.2022, COM(2022) 85 final.

effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 13 July, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Portugal[11]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Portugal has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(10) On 29 April 2022, Portugal submitted its 2022 National Reform Programme and its 2022 Stability Programme, in line with the deadline established in Article 4 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Portugal's bi-annual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2022 country report for Portugal[12] on 23 May 2022. It assessed Portugal's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Portugal's implementation of the recovery and resilience plan, building on the Recovery and Resilience Scoreboard. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. It also assessed Portugal's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Portugal and published its results on 23 May 2022[13]. The Commission concluded that Portugal is experiencing macroeconomic imbalances. In particular, vulnerabilities relate to high external, private and government debt in a context of low productivity growth.

(13) On 14 April 2022, Portugal submitted a new Draft Budgetary Plan for 2022. A complete assessment of that Plan is to be presented in a Commission opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

(14) On 20 July 2020, the Council recommended Portugal to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Portugal to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, based on data validated by Eurostat, Portugal's general government deficit fell from 5.8% of GDP in 2020 to 2.8% in 2021. The fiscal policy response by Portugal supported the economic recovery in 2021, while temporary emergency support measures declined from 2.3% of GDP in 2020 to 2.2% in 2021. The measures taken by Portugal in 2021 have been in line with

[11] Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Portugal (ST 10149/21+ADD 1 REV 1).

[12] SWD(2022)623 final.

[13] SWD(2022)637 final.

the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. At the same time, some of the discretionary measures adopted by the government over the period 2020 to 2021 were not temporary or matched by offsetting measures, mainly consisting of health-related spending, including the hiring of additional health professionals by the National Health Service in order to strengthen its response capacity. Based on data validated by Eurostat, general government debt stood at 127.4% of GDP in 2021.

(15) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is cautious in 2022 and realistic thereafter. [14] The government projects real GDP to grow by 5.0% in 2022 and 3.3% in 2023. By comparison, the Commission's 2022 spring forecast projects stronger real GDP growth of 5.8% in 2022 and lower real GDP growth of 2.7% in 2023. The difference is due to stronger growth in private consumption and net exports in the Commission's forecast for 2022, and lower growth in investment and net exports for 2023. In its 2022 Stability Programme, the government expects that the headline deficit will decrease to 1.9% of GDP in 2022 and to 0.7% in 2023. The decrease in 2022 mainly reflects the strong growth in economic activity and the unwinding of most pandemic-related emergency measures. According to the Programme, the general government debt-to-GDP ratio is expected to decrease to 120.8% in 2022, and to decline to 115.4% in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission 2022 spring forecast projects a government deficit for 2022 and 2023 of 1.9% of GDP and 1.0%, respectively. This is in line with the deficit projected in the 2022 Stability Programme for 2022 and slightly higher for 2023, mainly due to higher current spending in the Commission for the latter year. The Commission 2022 spring forecast projects a lower general government debt-to-GDP ratio of 119.9% in 2022, and a similar general government debt-to-GDP ratio of 115.3% in 2023. The difference in 2022 is due to the Commission's forecast of stronger nominal GDP growth in that year.

Based on the Commission spring 2022 forecast, the medium-term (10-year average) potential output growth is estimated at 1.5%. However, this estimate does not include the impact of the reforms that are part of the Recovery and Resilience Plan and can boost Portugal's potential growth.

(16) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency support measures are projected to decline from 2.2% of GDP in 2021 to 0.7% in 2022. The government deficit in 2022 is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission 2022 spring forecast are estimated at 0.6% of GDP in 2022 and to be fully reversed by 2023.[15] These measures

[14] The 2022 Stability Programme submitted to the Commission and the Council on 29 April 2022 had a cut-off date of 25 March 2022, when it was presented to the national parliament. On 14 April 2022, Portugal submitted to the Commission and the Eurogroup the 2022 Draft Budgetary Plan, which included a slightly updated macroeconomic scenario for 2022, compared to that in the Programme. In detail, the 2022 Draft Budgetary Plan contained a slightly downward revision in real GDP growth to 4.9% in 2022 (from 5.0% in the Programme), and an upward revision in consumer price inflation (HICP) to 4.0% in the same year (from 3.3% in the Programme). Despite a slightly different composition of public finances, the 2022 Draft Budgetary Plan maintained the general government deficit target of 1.9% of GDP for 2022.

[15] The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

mainly consist of social transfers to poorer households, cuts to indirect taxes on energy consumption, and subsidies to energy consumption. These measures have been announced as temporary. However, in case energy prices remain elevated also in 2023, some of these measures could be continued. Some of these measures are not targeted, notably the general reduction in fuel tax. The government deficit is also impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast are projected at 0.1% of GDP in 2022.[16]

(17) On 18 June 2021, the Council recommended that in 2022 Portugal[17] should use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Moreover, it should preserve nationally financed investment. The Council also recommended Portugal to limit the growth of nationally financed current expenditure. It also recommended Portugal to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential.

(18) In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Portugal's 2022 Stability Programme, the fiscal stance is projected in the Commission 2022 spring forecast to be supportive at –2.0% of GDP.[18] Portugal plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.5 percentage points of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.2 percentage points in 2022.[19] Therefore, Portugal plans to preserve nationally financed investment, as recommended by the Council. At the same time, growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.1 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.6 % of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP), while an increasing public sector wage bill, ageing-related expenditure and intermediate consumption are expected to continue to exert upward pressure on current spending. In particular, the higher increase in consumer prices compared to the GDP deflator is also projected to affect the expansionary contribution of nationally financed primary current expenditure to the overall fiscal

[16] The total number of displaced persons from Ukraine to the EU is assumed to gradually reach 6 million by the end of 2022, and their geographical distribution is estimated based on the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the EU as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

[17] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Portugal, OJ C 304, 29.7.2021, p. 102.

[18] A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

[19] Other nationally-financed capital expenditure is projected to provide an expansionary contribution of 0.2 percentage points of GDP.

stance in 2022, by increasing spending on government consumption of goods and services. Portugal is expected to broadly limit the growth of nationally financed current expenditure in 2022, as the significant expansionary contribution of nationally financed current expenditure in 2022 is mainly due to the measures to address the economic and social impact of the increase in energy prices, as well as the costs to offer temporary protection to displaced persons from Ukraine.

(19) In 2023, the fiscal stance is projected in the Commission 2022 spring forecast at 0.0% of GDP based on a no-policy change assumption.[20] Portugal is projected to continue using the grants from the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.2 percentage points of GDP compared to 2022. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.3 percentage points in 2023.[21] At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 0.7 percentage points to the overall fiscal stance. This includes the impact from the phasing-out of the measures addressing the increased energy prices (0.6 % of GDP). At the same time, the higher increase in consumer prices compared to the GDP deflator in 2022 is projected to affect the contribution of nationally financed primary current expenditure to the overall fiscal stance in 2023, by increasing spending on pensions and social benefits as a result of indexation.

(20) In the 2022 Stability Programme, the general government deficit is expected to gradually decline to 0.3% of GDP in 2024 and reach balanced position in 2025. Therefore, the general government deficit is planned to remain below 3% of GDP over the Programme horizon. According to the Programme, the general government debt-to-GDP ratio is expected to decrease by 2025, specifically with a decrease to 109.8% in 2024, and a further decline to 105.9% in 2025. Based on the Commission's analysis, debt sustainability risks appear high over the medium term.

(21) A more growth-friendly composition of public finances, on both the revenue and expenditure sides of the public budget, would support Portugal's long-term fiscal sustainability, improve the business environment and contribute to an inclusive recovery. As regards Portugal's tax system, there is evidence[22] indicating that the country's tax benefit system is rather cumbersome and not sufficiently transparent (more than 500 tax benefits have been identified, spread over more than 60 legal texts), and that the economic efficiency of tax expenditures would benefit from being consistently monitored and assessed. Furthermore, the rate structure of the corporate income tax is compounded by State and municipal surcharges, generating complexity for taxpayers and an additional burden for the tax administration. Direct tax withholdings are often too high, resulting in sizeable refund claims in the subsequent year. The recurrent cost of tax collection is relatively high (in 2019, it was about 20%

[20] A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

[21] Other nationally-financed capital expenditure is projected to provide an expansionary contribution of 0.2 percentage points of GDP.

[22] 'Tax benefits in Portugal – concept, methodology and practice', Working Group on Tax Benefits, May 2019.

higher than the EU-27 average) and the tax administration's investment in information and communication technologies is low compared with the EU average (at 5.7% of the tax administration's operating expenditure in 2019, it was close to half of the EU-27 average). Against that background, making the revenue administrations more efficient would help reduce the time to pay taxes in Portugal and the elevated size of outstanding tax arrears (at 37.1% of total net revenue at the end of 2019, they were among the highest in the EU). As regards Portugal's social protection system, the effectiveness of social transfers in reducing poverty and inequality is below the EU average. In particular, the adequacy of the minimum income is low at 37.5% of the poverty threshold (EU: 58.9%). At the same time, a multitude of social benefits appear to serve similar objectives, also leading to complexity. The ensuing fragmentation of the social protection system results in relatively low take-up rates and a lack of effective focus on those most in need, hampering the coverage and ultimately the adequacy of social benefits. In this context, the implementation of the National Strategy to Combat Poverty is particularly important.

(22) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2, to Regulation (EU) 2021/241 the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Portugal by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a plan. In particular, the plan promotes investment for the green and digital transition. Improving the quality of public finances and the financial sustainability of state-owned enterprises is central to the plan. The plan is ambitious in strengthening the resilience of the health system and improving access to quality health and long-term care. The plan aims to improve the population's overall level of skills including digital skills for various population groups and strengthens the vocational education and the training offer. The plan includes significant investments to improve social services, including by increasing the supply of social and affordable housing. The plan introduces relevant measures to reduce labour market segmentation, and to support quality employment and the preservation of jobs. The plan significantly aims to support the use of digital technologies by citizens and businesses. Significantly, the plan introduces measures to promote access to finance, in particular for small and medium-sized enterprises, and to promote private and public investment for the country's economic recovery. The plan sets out significant reforms and investments to promote investment in research and innovation and to make these more efficient and effective. The plan is ambitious in tackling the challenges of the business environment and improving the efficiency of the justice system.

(23) The implementation of the recovery and resilience plan of Portugal is expected to contribute to making further progress on the green and digital transition. Measures supporting the climate objectives in Portugal account for 37.9% of the plan's total allocation, while measures supporting digital objectives account for 22.1% of the plan's total allocation. The fully-fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Portugal swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(24) Portugal submitted the Partnership Agreement[23] on 4 March 2022 while the other cohesion policy programming documents have not yet been submitted. In line with Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, Portugal shall take into account the relevant country-specific recommendations in the programming of the 2021-2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting the coordination, complementarity and coherence between these funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transitions and balanced territorial development.

(25) Beyond the economic and social challenges addressed by the recovery and resilience plan, Portugal faces a number of additional challenges related to circular economy. Portugal is far below the EU average on circular economy and waste management indicators. The average municipal recycling rate is low and decreasing, with regional disparities. Portugal missed the EU target of recycling 50% of municipal waste by 2020. The overall recycling rate was of 29% in 2019 and 26.5% in 2020 (provisional data), against an EU average of 48%. Achieving the EU targets for the next decade, including reaching 55% recycling of municipal waste by 2025, will require significant efforts. Improvements are needed to increase the prevention, minimisation, sorting, reuse and recycling of waste, thereby diverting waste away from landfills or incinerators, and to modernise waste recycling and treatment facilities. Increasing landfill and incineration charges, introducing a residual waste tax and raising charges on municipalities failing to meet recycling targets are good examples of how to better achieve these objectives. In addition, extending the separate collection of waste and the further development of 'pay-as-you-throw' systems could accelerate the process.

(26) In response to the mandate by the EU Heads of State or Government set out in the Versailles Declaration, the REPowerEU plan aims to phase out the European Union's dependence on fossil fuel imports from Russia as soon as possible. For this purpose, the most suitable projects, investments and reforms at national, regional and EU level are being identified in dialogue with the Member States. These measures aim to reduce overall reliance on fossil fuels, and to shift fossil fuel imports away from Russia.

(27) Portugal has a high share of renewables (one third of its energy mix) and is not highly dependent on Russian fossil fuels. However oil and gas (mostly liquefied natural gas (LNG)) still represents two thirds of its primary energy supply at 42% and 24% respectively, according to 2020 data. Coal was phased out for electricity production in 2021, but gas consumption has increased rapidly in recent years, partly because of lower hydropower availability due to droughts. With 10% of gas imports coming from Russia, Portugal has a dependency ratio well below the EU average of 44%, due to its large reliance on LNG, and it does not import any oil and coal from Russia[24]. Nevertheless, Portugal imports 100% of its fossil fuels. Reducing this overall import

[23] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. OJ L 231, 30.6.2021, p. 159.

[24] Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil and hard coal. For the EU27 average, the total imports are based on extra-EU27 imports. For Portugal, total imports include intra-EU trade. Crude oil does not include refined oil products.

dependency, through increased EU climate ambition focussing on more affordable, secure and sustainable energy, will require further exploitation of the Portuguese solar and wind potential, including offshore, in particular by streamlining permitting procedures, and strengthening administrative capacity. Upgrading the electricity transmission and distribution grids, including with direct current technologies, as well as enabling investments in electricity storage would make it possible to supply flexible and fast responding energy, crucial for managing a system with a high share of renewables. The low level of electricity interconnection with Spain (and ultimately with France) also represents a challenge for the resilience of the electricity system of Portugal and the EU. Additional cross-border interconnections could support greater integration of renewable capacity of the Iberian Peninsula in the single energy market. To improve the energy efficiency of buildings, appropriate financing schemes, awareness raising campaigns and the development of green skills would increase significantly the efficacy of the investment efforts. In addition, there is a need to further decarbonise the transport sector, including by speeding-up the deployment of e-charging infrastructure and advancing key railway, cycling and public transport projects. Further increase in ambition for reducing greenhouse gas emission and increasing renewables and energy efficiency targets will be needed for Portugal to be in line with the 'Fit for 55' objectives'.

(28) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Portugal can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socio-economic impact of the transition in the most affected regions. In addition, Portugal can make use of the European Social Fund Plus to improve employment opportunities and strengthen social cohesion.

(29) In the light of the Commission´s assessment, the Council has examined the 2022 Stability Programme and its opinion[25] is reflected in recommendation (1) below.

(30) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Portugal this is reflected in particular in recommendations (1) and (2) below.

(31) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2022 National Reform Programme and the 2022 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2) and (4) below. The recommendations (1) and (2) also contribute to the implementation of the Recommendation for the euro area, in particular the first and fourth euro area recommendations. Fiscal policies referred to in recommendation (1) help inter alia address imbalances linked to high government debt in a context of low productivity growth. Policies referred to in recommendation (2) help inter alia reduce government, private, and external debt, as the full implementation of the recovery and resilience plan will support growth while strengthening the resilience of the economy. Policies referred to in recommendation (4) help inter alia address vulnerabilities linked to high external debt in the longer term.

[25] Under Article 5(2) of Council Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Portugal take action in 2022 and 2023 to:

1. In 2023, ensure prudent fiscal policy, in particular by limiting the growth of nationally-financed current expenditure below medium-term potential output growth, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring credible and gradual debt reduction and fiscal sustainability in the medium term through gradual consolidation, investment and reforms. Improve the effectiveness of the tax and social protection systems, in particular by simplifying both frameworks, strengthening the efficiency of their respective administrations, and reducing the associated administrative burden.

2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021. Submit the 2021-2027 cohesion policy programming documents with a view to finalising their negotiations with the Commission and subsequently starting their implementation.

3. Enhance the conditions for a transition towards a circular economy, in particular by increasing waste prevention, recycling and reuse to divert waste away from landfills and incinerators

4. Reduce overall reliance on fossil fuels, including in the transport sector. Accelerate the deployment of renewables by upgrading electricity transmission and distribution grids, enabling investments in electricity storage and streamlining permitting procedures to allow for further development of wind, particularly offshore, and solar electricity production. Strengthen the incentives framework for energy efficiency investments in buildings. Increase electricity interconnections.

Done at Brussels,

For the Council
The President