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Recommendation for a

COUNCIL RECOMMENDATION

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

{SWD(2024) 600 final} - {SWD(2024) 622 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies 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 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) 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 to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights.

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1 OJ L 2024/1263, 30.4.2024 ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

2 OJ L 306, 23.11.2011, p. 25 ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

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) ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

(2) The REPowerEU Regulation[4], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy security and diversify the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Portugal added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[5], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[6]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[7], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report, in which it identified Portugal as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on the 2024 draft budgetary plan of Portugal. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[8]. The objectives of the

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4 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1) ELI: http://data.europa.eu/eli/reg/2023/435/oj.

5 COM(2023) 168 final.

6 COM(2024) 77 final.

7 COM(2023) 901 final.

8 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of

new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[9] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information, where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for revised, updated or amended recovery and resilience plans in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) 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, 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 2021, the Council adopted its Decision on the approval of the assessment of the

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29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

9 Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024. ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

recovery and resilience plan for Portugal[10], which was amended on 17 October 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[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.

(8) On 30 April 2024, Portugal submitted its 2024 National Reform Programme and its 2024 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects Portugal's biannual reporting on the progress made in achieving its recovery and resilience plan.

(9) The Commission published the 2024 country report for Portugal[12] on 19 June 2024. It assessed Portugal's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Portugal's implementation of the recovery and resilience plan. 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. 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.

(10) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Portugal. The main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Portugal for the purposes of that Regulation were published in April 2024[13]. On 19 June 2024, the Commission concluded that Portugal is no longer experiencing macroeconomic imbalances. In particular, Portugal has made significant progress in reducing vulnerabilities related to high private, government and external debt, which are expected to continue to recede. After an interruption brought about by the COVID-19 pandemic crisis, private sector and government debt ratios resumed their decline. They have receded substantially since 2021, helped by strong GDP growth and a recent budget surplus in the case of government debt. The clearly negative net international investment position (NIIP) has been improving substantially, helped by marked economic growth and a current account surplus, and its structure remains favourable in light of the high share of non-defaultable instruments. Private and government indebtedness and the NIIP remain elevated, but are projected to further recede in the future, despite nominal GDP growth becoming less supportive. The current account returned to a surplus last year and is forecast to remain positive this year and next, and a fiscal surplus has been attained. The increase in interest rates has put some pressure on indebted households and house

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

[11] Council Implementing Decision of 17 October 2023 amending the Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Portugal (ST 13351/2023).

[12] SWD(2024) 622 final.

[13] SWD(2024) 105 final.

prices have been growing strongly for several years. Non-performing loans (NPLs) have continued to decline from already moderate levels. Sustained policy progress to address the identified vulnerabilities has been made and underpins the visible results. The ongoing implementation of the RRP is expected to continue having a favourable impact on the growth potential, contributing to Portugal's external sustainability and helping fiscal sustainability.

(11) Based on data validated by Eurostat[14], Portugal's general government balance increased from a deficit of 0.3% of GDP in 2022 to a surplus of 1.2% in 2023, while the general government debt fell from 112.4% of GDP at the end of 2022 to 99.1% at the end of 2023.

(12) On 12 July 2022, the Council recommended[15] that Portugal ensure in 2023 a prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth[16], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. At the same time, Portugal was recommended to stand ready to adjust current spending to the evolving situation. Portugal was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. In 2023, according to the Commission estimates, the fiscal stance[17] was contractionary, by 1.1% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 0.9% of GDP and was in line with the Council recommendation. The contractionary contribution of nationally financed primary current expenditure was mainly due to the reduced costs of the emergency support measures (targeted and untargeted) to households and firms in response to energy price hikes (by 1.1 percentage points of GDP). The main drivers of growth in nationally financed primary current expenditure (net of discretionary revenue measures) were public sector wages and pensions. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.3% of GDP in 2023. Nationally financed investment amounted to 2.0% of GDP in 2023, representing an increase of 0.1 percentage points as compared to 2022. Portugal financed additional investment through the Recovery and Resilience Facility and other EU funds. It financed public investment for the green and digital transitions, and for energy security, such as the provision of computers to pupils and teachers, new zero-emissions buses, the installation of publicly available recharging

14 Eurostat-Euro Indicators, 22.4.2024.

15 Council Recommendation of 12 July 2022 on the National Reform Programme of Portugal and delivering a Council opinion on the 2022 Stability Programme of Portugal, (OJ C 334, 1.9.2022, p. 181).

16 Based on the Commission Spring 2024 Forecast, the medium-term potential output growth of Portugal in 2023 is estimated at 9.1% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

17 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

stations, the start of the construction of dwellings with high energy efficiency, and new programmes for green innovation, which are funded by the Recovery and Resilience Facility and other EU funds.

(13) The key projections in the 2024 Stability Programme can be summarised as follows. The macroeconomic scenario underpinning the budgetary projections foresees real GDP growth at 1.5% in 2024 and 1.9% in 2025, while it projects HICP inflation at 2.5% in 2024 and 2.1% in 2025. The general government surplus is expected to decrease to 0.3% of GDP (in both2024 and 2025), while the general government debt-to-GDP ratio is set to decrease to 95.7% by the end of 2024 and 91.4% by the end of 2025. After 2025, the general government surplus is projected to decrease to 0.1% of GDP in 2026, and gradually increase to 0.4% of GDP by 2028. Therefore, the general government balance is planned to remain below the 3% of GDP deficit reference value over the programme horizon. In turn, after 2025, the general government debt-to-GDP ratio is projected to decrease to 87.2% in 2026, and further decline by 2028 reaching 79.8%.

(14) The Commission Spring 2024 Forecast projects real GDP to grow by 1.7% in 2024 and 1.9% in 2025, and HICP inflation to stand at 2.3% in 2024 and 1.9% in 2025.

(15) The Commission Spring 2024 Forecast projects a government surplus of 0.4% of GDP in 2024, while the general government debt-to-GDP ratio is set to decrease to 95.6% by the end of 2024. The decrease of the surplus in 2024 mainly reflects the fiscal measures introduced with the 2024 State Budget such as the reform of the personal income tax, the general increase in pensions and the across-the-board update in public wages. Based on the Commission's estimates, the fiscal stance is projected to be expansionary, by 1.8% of GDP, in 2024.

(16) Expenditure amounting to 1.3% of GDP is expected to be financed by non-repayable support (“grants”) from the Recovery and Resilience Facility in 2024, compared to 0.6% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Portugal. Expenditure amounting to 0.1% of GDP is expected to be backed by loans from the Recovery and Resilience Facility in 2024, compared to less than 0.1% of GDP in 2023, according to the Commission Spring 2024 Forecast.

(17) On 14 July 2023, the Council recommended[18] that Portugal ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure[19] in 2024 to not more than 1.8%, unless a higher reference rate in net nationally financed primary expenditure growth was estimated to be compatible with Portugal reaching its medium-term budgetary objective (MTO) of -0.5% of GDP, *inter alia* if interest expenditure was lower than projected at the time by the Commission. When executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures

[18] Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Portugal and delivering a Council opinion on the 2023 Stability Programme of Portugal, OJ C 312, 1.9.2023, p. 206.

[19] Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) and one-offs and other temporary measures.

based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, Portugal's structural balance is projected at 0.0% of GDP in 2024 (from 0.9% in 2023), thereby above the country's MTO. Portugal is therefore assessed as being in line with what was recommended by the Council.

(18) Moreover, the Council recommended that Portugal take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Portugal should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[20] of emergency energy support measures is estimated at 0.9% of GDP in 2023 and projected at 0.6% in 2024, and 0.5% in 2025. In particular, the general reduction of the fuel tax and the freeze of the carbon rate under the fuel tax are assumed to remain in force in 2024 and 2025. The emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. These risks are not in line with what was recommended by the Council. The budgetary cost of emergency energy support measures targeted at protecting vulnerable households and firms is estimated at less than 0.1% of GDP in 2024 (0.3% in 2023) of which less than 0.1% of GDP preserve the price signal to reduce energy demand and increase energy efficiency (0.1% in 2023).

(19) In addition, the Council also recommended that Portugal preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 2.3% of GDP in 2024 from 2.0% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to increase to 1.7% of GDP in 2024 from 1.3% of GDP in 2023.

(20) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government surplus of 0.5% of GDP in 2025. The increase of the surplus in 2025 mainly reflects the projected economic pickup for the year, after the slowdown projected for 2024. The general government debt-to-GDP ratio is set to decrease to 91.5% by the end of 2025.

(21) The tax system in Portugal needs further simplification. The corporate income tax system, with state and municipal surcharges, creates an additional burden for both the tax administration and businesses. This is compounded by the long-standing challenge of burdensome regulatory requirements and time-consuming interactions with the public administration, which heavily impact on the business environment. Outstanding tax arrears remain high and well above the EU average (they stood at 45.6% of total revenue at the end of 2021). The administrative cost of tax collection is high and has further increased in recent years (it increased by approximately 4% from 2018 to 2021). In addition, the tax administration's staff is ageing rapidly, as more than half of

[20] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

the staff is expected to retire during the next decade while only few people are recruited. Addressing these challenges would improve the business environment in Portugal and promote competitiveness.

(22) Portugal's working age population is expected to shrink by approximately 1 million over the medium term, mainly due to a reduction in net migration and low fertility rates. With the projected improvement in life expectancy, the ratio of older people to those who finance Portugal's public pension system is set to significantly increase. While in 2022, there were close to three individuals of working age contributing to the system per pensioner, by 2050, there will be fewer than one and a half. These demographic developments exert pressure on the sustainability of the pension system. Pension expenditure already represents 28% of total government spending and would rise further over the next decades. According to the estimates of the Commission and the Portuguese authorities[21], pension expenditure is expected to peak at 15.2% of GDP in 2046, which is 2.9 percentage points above the 2022 level and one of the highest pension expenditure-to-GDP ratios in the EU. In recent years, Portugal has implemented reforms to improve the sustainability of its pension system by indexing the statutory retirement age to life expectancy, but measures such as early retirement schemes add pressure to the sustainability of the pension system. On average, the social contribution rate paid by self-employed is lower than for employees. In addition, there are special contributory rates for the different types of workers. These factors further diminish the potential revenue sources for the pension system.

(23) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of 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 are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan, including the REPowerEU chapter, is essential to boost Portugal's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Portugal to continue the implementation of reforms and to accelerate investments by addressing emerging delays while ensuring strong administrative capacity. While Portugal is taking some measures to address the lack of administrative capacity, challenges remain in terms of public procurement rules and lengthy permitting procedures affecting in particular large investment projects. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(24) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, Portugal is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. Portugal has made progress in implementing cohesion policy and the European Pillar of Social Rights, but challenges remain. Disparities persist between the mainland's coastal and inland areas, between the mainland and the outermost regions, and between metropolitan areas and small cities

[21] European Commission, 2024 Ageing Report: Economic and Budgetary Projections for the EU Member States (2022-2070), Institutional Paper 279, April 2024.

and towns. It is crucial to accelerate the implementation of cohesion policy programmes and strengthen administrative capacity at national and regional level. The priorities agreed in the programmes remain relevant. Beyond the administrative capacity measures, it is important to swiftly implement investments in applied research in areas identified in smart specialisation strategies, knowledge transfer and valorisation of R&D results, as a well as investments in the innovation capacity of small to medium-sized enterprises, the green transition, and competitiveness. It is still a priority to improve waste water collection and treatment, water reuse and access to water, particularly in remote areas and the outermost regions, and to reduce leaks in the networks, as well as to promote the circular economy, energy efficiency and renewable energy in line with the national energy and climate plan. Investments in education and training, development of qualifications and skills demanded by the labour market, and targeted active labour market policies, especially for young people, remain key. Ensuring equal access to education, health and social services, in particular for disadvantaged groups, and addressing energy poverty continues to be important. When carrying out the mid-term review of cohesion policy programmes, it is worth paying further attention to the needs in the area of prevention of and preparedness for climate change-related risks. Portugal could also make use of the Strategic Technologies for Europe Platform initiative to support industrial transformation, in particular with a focus on advanced and resource-efficient manufacturing, sustainable transport, biomedicine and biotechnology, and net-zero technologies, while also investing in skills and qualifications to meet labour demand in these sectors.

(25) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Portugal faces several additional challenges related to water management, grid infrastructure and storage capacities.

(26) Portugal, in particular its southern regions, is heavily affected by natural hazards, such as droughts, fires and flooding, with increased frequency and intensity due to climate change. Reduced annual rainfall, water scarcity and increased temporal variability affect river flows, aquifer recharge, and flood risk, impacting many economic sectors, such as agriculture, drinking water production, and energy, including hydropower generation, while also affecting the sustainability of public finances. Portugal increased its capacity to adapt to climate change (Climate Law, 2021), including the development of sectoral adaptation plans. Portugal is also finalising a national roadmap for adaptation to climate change until 2100. Nonetheless, it would be important to further incorporate climate adaptation into its water management policies. By improving its integrated and sustainable water management strategy, Portugal would help ensure that key sectors will still have access to water, while also making sure that sufficient and good quality water is available for ecological functions, in particular for sensitive and biodiverse ecosystems, such as wetlands. In addition, streamlining the governance structure of the water sector would help achieve effective coordination between national, regional and local levels. To improve water management, further investments are needed, such as in waste water collection and treatment, reduction of leaks in the networks, general water supply, and improved monitoring (of water quantity and quality). Special attention should be paid to restoring the natural sponge function of the landscape, reducing ground water extraction, restoring wetlands and rivers, including flood plains, and rolling out other nature-based solutions. Moreover, Portugal could take advantage of the potential of water reuse.

(27) In 2023, Portugal's renewable energy sources, driven by hydropower and strong winds, supplied 72% of its electricity, achieving a new record. The significant increase in the share of renewable energy played a role in the significant decrease in electricity prices, which dropped below pre-crisis levels. To meet the revised national contribution to the EU renewables target for 2030 and to reach the goal of at least 85% of gross electricity consumption generated by renewables by 2030, as presented in the national energy and climate plan, further progress is required to improve Portugal's competitiveness and stimulate the decarbonisation of its industry, including through electrification. While legislative measures have been introduced to expedite the renewable permitting process, Portugal faces potential short-term grid capacity challenges in accommodating an increasing portion of renewables in the grid. Revising the transmission and distribution grid plans would help accelerate the integration of renewables in line with the commitments of the national energy and climate plans and the interconnection commitments with Spain and France. Moreover, logistical challenges, component shortages, and lower profitability have hindered renewable projects, leading to delays in implementation, notably of solar auctions. It is essential to streamline connection procedures, increase grid connection transparency, and provide a clear long-term auction planning. With the growing demand for power networks, Portugal would benefit from further investments in its electricity grids, including investments in upgrading existing power lines and promoting system flexibility with solutions such as storage, smart meter deployment, incentives to consume during off-peak hours, and demand-side response mechanisms.

(28) In view of the close interlinkages between the economies of euro area Member States and of their collective contribution to the functioning of the Economic and Monetary Union, in 2024 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, recommendations (1), (2), (3) and (4) help implement the first, second and fourth euro area recommendations.

HEREBY RECOMMENDS that Portugal take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[22] in 2025 to a rate consistent with putting the general government debt on a plausibly downward trajectory over the medium term and respecting the 3% of GDP deficit Treaty reference value. Wind down the emergency energy support measures before the 2024/2025 heating season. Improve the effectiveness of the tax system, in particular by strengthening the efficiency of its administration and reducing the associated administrative burden. Take action to ensure the medium-term fiscal sustainability of the pension system.

2. Strengthen administrative capacity to manage EU funds, accelerate investments and maintain momentum in the implementation of reforms. Address emerging delays to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms

[22] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review, continue focusing on the agreed priorities, taking action to better address the needs in the area of prevention of and preparedness for climate change-related risks, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Improve water management to strengthen adaptation to the effects of climate change and ensure long-term economic and environmental resilience, by putting in place a strategy for integrated and sustainable water management, developing its governance structure, promoting investments in wastewater collection and treatment, leaks reduction and water monitoring, while developing nature-based solutions and water body rehabilitation, and improving water efficiency and water reuse.

4. Strengthen the capacity of the electricity transmission and distribution grid, in particular by improving connection procedures and increasing their transparency to incentivise investments in the national network and increase energy storage capacities.

Done at Brussels,

For the Council
The President