Official Journal
of the European Union

EN
C series

C/2024/6829

29.11.2024

COUNCIL RECOMMENDATION

of 21 October 2024

on economic, budgetary, employment and structural policies of Portugal

(C/2024/6829)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and Article 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 ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the Facility helps achieve the economic and social recovery and implement sustainable reforms and investments, in particular reforms and investments to promote the green and digital transitions and to 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 Union and support the continued implementation of the European Pillar of Social Rights.

(2) Regulation (EU) 2023/435 of the European Parliament and of the Council [4] ('the REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This would help achieve energy security and diversify the Union'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.

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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/2021/241/oj).

[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).

(3) On 16 March 2023, the Commission issued a communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', in order to inform policy decisions and create the framework conditions for increasing growth. The communication frames competitiveness in terms of nine mutually reinforcing drivers. Among those drivers, access to private capital, research and innovation, education and skills, and a functioning 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 Union and its Member States. On 14 February 2024, the Commission issued a communication entitled 'The 2024 Annual Single Market and Competitiveness Report'. That communication details the competitive strengths and challenges of the European 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, marking the start of the 2024 European Semester for economic policy coordination. On 22 March 2024, the European Council endorsed the priorities of the 2024 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. 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 and a proposal for the 2024 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area [5] ('the 2024 Recommendation on the euro area') on 12 April 2024 and the Joint Employment Report on 11 March 2024.

(5) On 30 April 2024, the Union's new economic governance framework entered into force. The framework includes the new Regulation (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance, the amended Council Regulation (EC) No 1467/97 [6] on speeding up and clarifying the implementation of the excessive deficit procedure, and the amended Council Directive 2011/85/EU [7] on requirements for the budgetary frameworks of Member States. The objectives of the new economic governance framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, and prevent excessive government deficits. The new economic governance framework also promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State has to submit to the Council and to the Commission a national medium-term fiscal-structural plan. A national medium-term fiscal-structural plan contains the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 or 5 years, depending on the regular length of the national legislative term. The net expenditure [8] path in the national medium-term fiscal-structural plans has to 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, or for it to remain at prudent levels below 60 % of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3 %-of-GDP Treaty 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 can be extended by up to 3 years. For the purpose of supporting the preparation of those national medium-term fiscal-structural plans, on 21 June 2024, the Commission published guidance on the information to be provided by Member States in their national medium-term fiscal-structural plans and in their annual progress reports. In accordance with Articles 5 and 36 of Regulation (EU) 2024/1263, the Commission transmitted to the Member States reference trajectories and technical information, where applicable. Member States have to submit their national 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. In accordance with their national legal frameworks, Member States may debate their draft medium-term plans with their national parliaments, may ask the independent fiscal institutions to issue an opinion, and may conduct a consultation of social partners and other national stakeholders.

[5] Council Recommendation of 12 April 2024 on the economic policy of the euro area (OJ C, C/2024/2807, 23.4.2024, ELI: http://data.europa.eu/eli/C/2024/2807/oj).

[6] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6, ELI: http://data.europa.eu/eli/reg/1997/1467/oj).

[7] Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41, ELI: http://data.europa.eu/eli/dir/2011/85/oj).

[8] Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (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.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the 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 for the recovery and resilience plans which have been revised, updated or amended 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 set out in Annex V to that Regulation. On 13 July 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Portugal ([9]), which was amended on 17 October 2023 pursuant to 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 ([10]). The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating 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 Council Regulation (EC) No 1466/97 ([11]). 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) On 19 June 2024, the Commission published the 2024 country report for Portugal. 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. On the basis of that analysis, the country report identified gaps with regard 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 in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations 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 staff's assessment of macroeconomic vulnerabilities for Portugal for the purposes of that Regulation were published in April 2024. 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 in 2024 and 2025, and a fiscal surplus has been attained. The increase in interest rates has put some pressure on indebted households and house prices have been growing strongly for several years. Non-performing loans 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 recovery and resilience plan is expected to continue having a favourable impact on the growth potential, contributing to Portugal's external sustainability and helping fiscal sustainability.

([9]) ST 10149/21 INIT and ST 10149/21 ADD 1.
([10]) 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 13351/23 INIT and ST 13351/23 ADD 1).
([11]) 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 (OJ L 209, 2.8.1997, p. 1, ELI: http://data.europa.eu/eli/reg/1997/1466/oj).

(11) According to data validated by Eurostat, 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 ([12]) 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 ([13]), taking into account the continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. At the same time, the Council recommended that Portugal stand ready to adjust current spending to the evolving situation. It also recommended that Portugal 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 Facility and other Union funds. In 2023, according to the Commission's estimates, the fiscal stance ([14]) 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 of 12 July 2022. The contractionary contribution of nationally financed primary current expenditure was mainly due to the reduction by 1,1 percentage points in the cost of the emergency support measures (targeted and untargeted) for households and firms in response to energy price hikes. 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 non-repayable support ('grants') under the Facility and by other Union 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 Facility and other Union 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-emission buses, the installation of publicly available recharging stations, the start of the construction of dwellings with high energy efficiency, and new programmes for green innovation. That public investment is funded by the Facility and other Union funds.

(13) In the 2024 Stability Programme, the macroeconomic scenario underpinning the budgetary projections projects real GDP growth at 1,5 % in 2024 and 1,9 % in 2025, while projecting inflation measured by the harmonised index of consumer prices (HICP) at 2,5 % in 2024 and 2,1 % in 2025. The general government surplus is expected to decrease to 0,3 % of GDP in both 2024 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 Treaty 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's 2024 spring forecast projects real GDP to grow by 1,7 % in 2024 and 1,9 % in 2025, and inflation measured by HICP to stand at 2,3 % in 2024 and 1,9 % in 2025.

(15) The Commission's 2024 spring 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 in 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. According to the Commission's estimates, the fiscal stance is projected to be expansionary, by 1,8 % of GDP, in 2024.

([12]) Council Recommendation of 12 July 2022 on the 2022 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).

([13]) Based on the Commission's 2024 spring 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.

([14]) 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 Union 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) under the Facility and other Union funds.

(16) Expenditure amounting to 1,3 % of GDP is expected to be financed by grants under the Facility in 2024, compared to 0,6 % of GDP in 2023, according to the Commission's 2024 spring forecast. Expenditure financed by grants under the Facility will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance or debt of Portugal. Expenditure amounting to 0,1 % of GDP is expected to be backed by loans from the Facility in 2024, compared to less than 0,1 % of GDP in 2023, according to the Commission's 2024 spring forecast.

(17) On 14 July 2023, the Council recommended [15] that Portugal ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure [16] 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 on the basis of the outturn data for 2023. According to the Commission's 2024 spring 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 recommended that, if renewed energy price increases necessitate new or continued support measures, Portugal ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable, and preserve incentives for energy savings. According to the Commission's 2024 spring forecast, the net budgetary cost [17] of emergency energy support measures is estimated at 0,9 % of GDP in 2023 and projected at 0,6 % of GDP in 2024, and 0,5 % of GDP 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. According to the Commission, the emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. There is a risk that this will not be 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 preserves 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 grants under the Facility and of other Union funds, in particular to foster the green and digital transitions. According to the Commission's 2024 spring forecast, nationally financed public investment is projected to increase from 2,0 % of GDP in 2023 to 2,3 % of GDP in 2024. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from Union funds, including grants under the Facility, is expected to increase from 1,3 % of GDP in 2023 to 1,7 % of GDP in 2024.

(20) On the basis of the policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission's 2024 spring forecast projects a government surplus of 0,5 % of GDP in 2025. 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 the business environment. Outstanding tax arrears remain high and well above the Union 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 the staff are expected to retire during the next decade, while few people are recruited. Addressing those challenges would improve the business environment in Portugal and promote competitiveness.

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[15] 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).

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

[17] 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.

(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 increase significantly. 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. Those demographic developments exert pressure on the sustainability of the pension system. Pension expenditure already represents 28 % of total government spending and is expected to rise further over the next decades. According to estimates by the Commission and the Portuguese authorities, 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 Union and is projected to gradually decline later. 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 the self-employed is lower than that paid by employees. In addition, there are special contributory rates for different types of worker. These factors further diminish the potential revenue sources for the pension system.

(23) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. Those reforms and investments 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 recovery and resilience plan, including the REPowerEU chapter, is essential to boost Portugal's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Portugal to continue the implementation of reforms and to accelerate investments by addressing relevant challenges 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 in order 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 programmes, in accordance with Article 18 of Regulation (EU) 2021/1060 of the European Parliament and of the Council ([18]), Portugal is required to review each programme supported by the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the Cohesion Fund and the Just Transition Fund (JTF) 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. That review forms the basis for the definitive allocation of the Union funding included in each programme. Portugal has made progress in implementing cohesion policy programmes 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 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 the valorisation of research and development results, as a well as investments in the innovation capacity of small and medium-sized enterprises, the green transition and competitiveness. It is still a priority to improve wastewater 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, the 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 continue to be important. When carrying out the mid-term review of cohesion policy programmes, it is worth paying further attention to needs with regard to the prevention of and preparedness for climate-change-related risks. Portugal could also make use of the Strategic Technologies for Europe Platform, established by Regulation (EU) 2024/795 of the European Parliament

([18]) 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, ELI: http://data.europa.eu/eli/reg/2021/1060/oj).

and of the Council [19], 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 those sectors.

(25) Beyond the economic and social challenges addressed by the recovery and resilience plan and other Union 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 still have access to water, while also making sure that sufficient quantities of good quality water are 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 wastewater collection and treatment, the 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 Union 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 permitting process for renewables, 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 renewables projects, leading to delays in implementation, in particular of solar auctions. It is essential to streamline connection procedures, increase grid-connection transparency and provide 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 their collective contribution to the functioning of the economic and monetary union, in 2024 the Council recommended that euro-area Member States take action, including through their recovery and resilience plans, to implement the 2024 Recommendation on the euro area. For Portugal, recommendations (1), (2), (3) and (4) help implement the first, second and fourth recommendations set out in the 2024 Recommendation on the euro area.

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

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[19] Regulation (EU) 2024/795 of the European Parliament and of the Council of 29 February 2024 establishing the Strategic Technologies for Europe Platform (STEP), and amending Directive 2003/87/EC and Regulations (EU) 2021/1058, (EU) 2021/1056, (EU) 2021/1057, (EU) No 1303/2013, (EU) No 223/2014, (EU) 2021/1060, (EU) 2021/523, (EU) 2021/695, (EU) 2021/697 and (EU) 2021/241 (OJ L, 2024/795, 29.2.2024, ELI: http://data.europa.eu/eli/reg/2024/795/oj).

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 ([20]) in 2025 to a rate consistent with, *inter alia*, putting the general government debt on a plausibly downward trajectory over the medium term and respecting the 3 %-of-GDP 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 Union funds, accelerate investments and maintain momentum in the implementation of reforms. Address relevant challenges to allow for the continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring the completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of the mid-term review of those programmes, continue focusing on the agreed priorities, taking action to better address needs with regard to the 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 in order 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 a governance structure for that strategy and promoting investments in wastewater collection and treatment, leak 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 in order to incentivise investments in the national network, and increase energy storage capacities.

Done at Luxembourg, 21 October 2024.

For the Council

The President

NAGY I.

([20]) 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.