European Commission

European Construction Sector Observatory

Country profile **Portugal**

October 2020

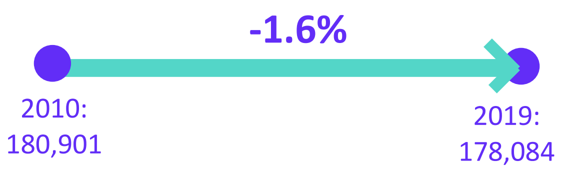
In a nutshell

Since 2010, Portugal's GDP has grown by 6.2%, amounting to EUR 199.0 billion in 2019. This represents a 2.2% growth compared to the 2018 level (EUR 194.8 billion).

As compared to 2018, Portugal's GDP growth moderated in 2019 due to lower external demand as net exports reduced, while domestic demand remained resilient.

The Portuguese construction sector declined from 2010 to 2014 and has been getting better since 2015. In fact, the **number of enterprises** in the broad construction decreased by 20.3% over the 2010-2014 period. It then experienced a growth of 20.8% between 2015 and 2019, totalling 178,084 firms. This marks a slight reduction of 1.6% during 2010-2019.

Number of enterprises in the broad construction sector in Portugal



At the same time, the **volume index of production** in the Portuguese broad construction sector registered a slight growth of 4.1% between 2015 and 2019. It was mainly driven by the 4.1% and 4.0% growth in the construction of civil engineering and construction of buildings, respectively during the same period.

In 2017, the **total turnover** of the broad construction sector stood at EUR 36.2 billion, representing a decline of 29.1% compared to 2010 (EUR 51.1 billion). It further increased to EUR 41.6 billion in 2019, registering an 18.6% decrease over the 2010-2019 period. The overall decline was mainly driven by a 37.5% decrease in the narrow construction sub-sector. In contrast, the real estate activities, the architectural and engineering activities and the manufacturing sub-sectors posted a growth of 57.0%, 4.2% and 1.7% respectively, in the same period.

Total turnover of Portuguese broad construction sector between 2010 and 2019 **18.6%**

Similarly, the **gross operating surplus** in the broad construction sector declined by 15.9% during 2010-2017, reaching EUR 4.2 billion. The decline was mainly due to weak performance recorded by the narrow construction (-43.3%), architectural and engineering activities (-16.6%) and manufacturing (-3.5%) sub-sectors over the 2010-2017 period. In contrast, the real estate activities sub-sector recorded a growth of 39.8% during the same period. Correspondingly, the **gross operating rate** of the broad construction sector, an indicator of the sector's profitability, increased from 9.7% in 2010 to 11.5% in 2017, which remains below the EU-27 average of 16.6%.

In the context of **employment**, there were 547,349 persons employed in the Portuguese broad construction sector in 2019, representing a decline of 15.3% since 2010. This was mainly due to reductions recorded in the employment for the narrow construction (-24.4%), manufacturing (-13.6%) and architectural and engineering activities (-3.5%) sub-sectors over 2010-2019 period. In contrast, the real estate activities sub-sector experienced an increase of 44.6% in the same period.

Number of persons employed in the Portuguese broad construction sector between 2010 and 2019	↓ 15.3%

In order to provide housing to everyone and make it affordable, the Portuguese government has taken several measures. Under the **Financial instruments for urban rehabilitation and revitalisation (IFRRU 2020) programme**, a total of 151 funding contracts worth EUR 479.0 million were signed by September 2019, to renovate and improve the energy efficiency in buildings. Contracts signed are expected to deliver housing for 995 new residents, renovate 770 households and create 2,684 jobs by September 2020. In addition, the Portuguese Parliament passed a law on the **"Right to Housing"**, in July 2019, that lays down a legal basis for housing, which is now considered a citizen's right. The law became effective on October 1, 2019.

Currently, the Portuguese construction companies are struggling with a shortage of craftsmen (bricklayers, electricians) in the construction sector. In order to compensate for the shortage of labour, the companies are importing workers. However, such a process is undermined by several barriers such as low salaries (in comparison to some other European countries) and a complex tax system. Finally, the issue of late payment, coupled with the limited access to finance (both issues disproportionally affecting MSMEs) limit the liquidity of the sector. Both factors limit the growth of the MSME segment in the construction sector.

The outlook for the Portuguese construction sector remains positive, driven by housing and non-residential markets. The former is driven by i) foreign investment in high quality real estate projects; and ii) government policy as the IFFRU programme but also policy initiatives related to supporting energy efficiency renovation, and planned investments in affordable housing. The non-residential market is also expected to grow, with tourism-related investments such as hotels, restaurants and more generally hospitality facilities.

In addition, programmes launched by the government such as the **National Investment Programme 2030 (PNI)** will support the civil engineering market growth. This programme is designed to provide investments worth EUR 22.0 billion into the areas of transport, energy and environment projects. In addition, Portugal is planning to invest EUR 300.0 million by 2030 for the construction of new bike lanes, to encourage the use of bicycles in place of cars.

According to the Portuguese Federation of the Construction and Public Works Industry (*Federação Portuguesa da Indústria da Construção e Obras Públicas* - FEPICOP), the Portuguese construction sector is expected to continue to grow during the crisis mainly due to non-residential and housing projects[1]. According to FEPICOP, such a growth is estimated to be about 2.0% to 3.0% in 2020 and 2021. More specifically, the narrow construction sector is expected to grow by 0.6% in 2020, following the COVID-19 impact.

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Key figures

Construction market

In 2019[2], there were 170,085 **enterprises** in the broad construction sector in Portugal, with the narrow construction sub-sector accounting for 48.7% of the total firms (Figure 1). This represents a slight reduction of 1.6% since 2010 (180,901), after growing by 19.7% between 2014 and 2019.

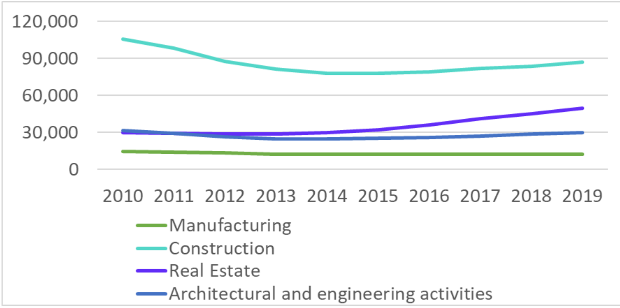
The narrow construction sub-sector experienced the largest drop over 2010-2019 (-17.7%), reaching 86,804 in 2019 as compared to 105,463 in 2010. It was followed by the manufacturing (-15.7%) and architectural and engineering activities (-6.8%) sub-sectors, reaching 11,984 and 29,525 firms, respectively in 2019. In contrast, the number of firms in the real estate activities sub-sector grew by 68.3% during the period, increasing from 29,566 in 2010 to 49,772 in 2019.

Number of enterprises in the real estate sub-sector between 2010 and 2019 ↑ **68.3%**

Number of enterprises in the narrow construction sub-sector between 2010 and 2019 ↓ **17.7%**

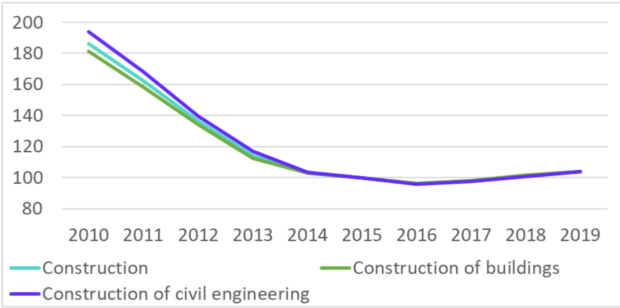
Similarly, the **volume index of production** in the broad construction sector recorded a moderate growth of 4.1% between 2015 and 2019. The growth was primarily driven by 4.1% and 4.0% increases in the construction of civil engineering and construction of buildings respectively, in the same period (Figure 2).

Figure 1: Number of enterprises in the Portuguese broad construction sector between 2010 and 2019



Source: Eurostat, 2020.

Figure 2: Volume index of production in the Portuguese construction sector between 2010 and 2019 (2015=100)



Source: Eurostat, 2020.

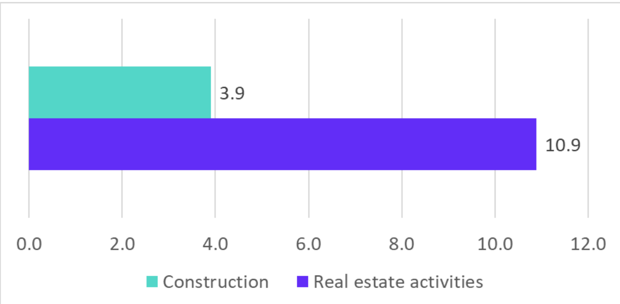
The **total added value**[3] of the broad construction sector amounted to EUR 12.5 billion in 2019[4], with the narrow construction sub-sector contributing to 51.8% of the total (EUR 6.5 billion). This represents a decline of 7.8% between 2010 and 2019. The real estate activities sub-sector, which recorded the highest increase of 66.3% in 2019 over 2010, contributed to 22.5% of the total (EUR 2.8 billion). It was followed by the manufacturing (EUR 2.1 billion), and architectural and engineering activities (EUR 1.1 billion) sub-sectors, contributing 16.9% and 8.9% of the total, respectively.

The **share of gross value added of the narrow construction sub-sector in the GDP** stood at 3.9% in 2019, below the EU-27 average of 5.0%. Conversely, for the real estate activities sub-sector, it stood at

10.9% in 2019, above the EU-27 average of 9.7% (Figure 3).

There are seven NUTS-2 statistical regions in Portugal including North (Norte), Algarve, Centre (Centro), Lisbon metropolitan area (Área Metropolitan a de Lisboa), Alentejo, Autonomous Region of the Azores (Região Autónoma dos Açores), Autonomous Region of Madeira (Região Autónoma da Madeira) and Extra-Regio NUTS 2. The gross value added is not equally split over these regions. In 2017[5], the Lisbon Metropolitan Area, and the Northern and Centre regions accounted for 84.1% and 82.9% of the **gross added value** in the narrow construction and real estate activities sub-sectors respectively.

Figure 3: Gross value added as a share of GDP in the Portuguese construction sector in 2019[6] (%)



Source: Eurostat, 2020.

Productivity

The **apparent labour productivity**[7] in the Portuguese broad construction sector increased from EUR 20,919 in 2010 to EUR 21,897 in 2017[8], representing an increase of 4.7% during the period. It remains well below the EU-27 average of EUR 50,079.

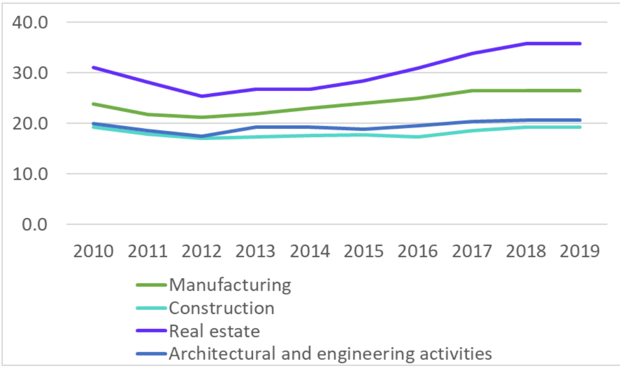
Over the 2012-2015 period, Portugal's labour productivity growth was concentrated in the most productive firms. Therefore, the gap between the most productive and the least productive firms widened[9].

Between 2010 and 2017, the manufacturing sub-sector accounted for the highest growth (+11.3%) in labour productivity, increasing from EUR 31,100 in 2010 to EUR 26,527 in 2017. It was followed by the real estate activities sub-sector growing from EUR 31,100 in 2010 to EUR 33,800 (+8.6%). The architectural and engineering activities sub-sector recorded a moderate rise (+1.5%) during the period, increasing from EUR 20,000 to EUR 20,300. In contrast, productivity in the narrow construction sub-sector declined from EUR 19,200 to EUR 18,600 (-3.1%) in the same period.

During 2017-2019, labour productivity in the real estate activities, narrow construction and architectural and engineering activities sub-sectors increased by 5.9% (to EUR 35,788), 3.3% (to EUR 19,215) and 2.0% (to EUR 20,698), respectively. Conversely, the manufacturing sub-sector recorded a slight decline of 0.4% in productivity during the same period, (reaching EUR 26,433 in 2019).

Low productivity growth in Portugal impedes the competitiveness and potential growth of the sector. However, according to FEPICOP; the labour shortage experienced by the sector may incentivise companies to invest in improving labour productivity.

Figure 4: Labour productivity in the construction sector in Portugal between 2010 and 2019 (EUR k)



Source: Eurostat, 2020.

Turnover and profitability

In 2017, the **turnover** of the Portuguese broad construction sector reduced to EUR 36.2 billion as compared to EUR 51.1 billion in 2010, registering a 29.1% decline over the 2010-2017 period. In 2019, it grew to EUR 41.6 billion, an increase of 14.7% over 2017. This represents an 18.6% decrease over 2010-2019.

In 2019, over half of the total turnover (52.4%) was generated by the narrow construction sub-sector, followed by the real estate (22.2%), manufacturing (19.0%) and architectural and engineering activities (6.4%) sub-sectors. Turnover in the real estate activities sub-sector recorded the highest increase (+57.1%), growing from EUR 5.9 billion in 2010 to EUR 9.2 billion in 2019. It was followed by the architectural and engineering activities sub-sector (+4.2%), growing from EUR 2.6 billion to

EUR 2.7 billion. At the same time, the manufacturing sub-sector slightly grew to EUR 7.9 billion in 2019 as compared to EUR 7.8 billion in 2010 (+1.7%). In contrast, the narrow construction sub-sector declined from EUR 34.9 billion in 2010 to EUR 21.8 billion in 2019 (-37.5%).

Turnover in the broad construction sector between 2010 and 2019 ↓ **18.6%**

At the same time, the **gross operating surplus** in the broad construction sector declined by 15.9% during 2010-2017[10], reaching EUR 4.2 billion in 2017, after increasing continuously since 2012 (the 2017 level was 25.4% above the 2016 level). The overall decline in the sector was mainly driven by decreases recorded in the narrow construction (-43.3%), architectural and engineering activities (-16.6%) and manufacturing (-3.5%) sub-sectors, reaching a value of EUR 1,496.8 million, EUR 335.3 million, and EUR 757.0 million in 2017, respectively. Conversely, real estate activities sub-sector recorded a growth of 39.8% during the period, reaching EUR 1.6 billion.

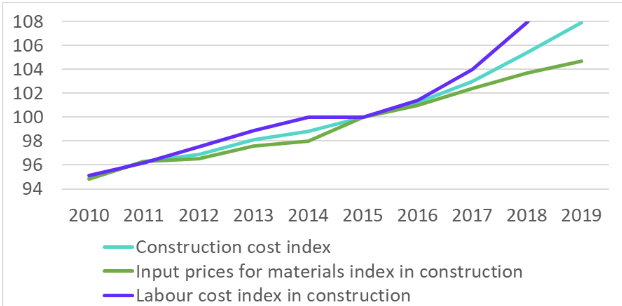
Gross operating surplus in the broad construction sector between 2010 and 2017 ↓ **15.9%**

Gross operating surplus in the real estate activities sub-sector between 2010 and 2017 ↑ **39.8%**

Similarly, the **gross operating rate** of the broad construction sector[11], which gives an indication of the sector's profitability, stood at 11.5% in 2017[12] as compared to 9.7% in 2010. This is below the EU-27 average of 16.6%. In terms of sub-sectors, the real estate activities remain the most profitable, with a gross operating rate of 22.3%, 3.1 percentage points (pps) increase since 2010. Similarly, the manufacturing and narrow construction sub-sectors also witnessed a marginal growth of 0.1 pps compared to 2010, reaching 10.2% and 7.7% in 2017 respectively. In contrast, the architectural and engineering services sub-sector witnessed a slight drop in the gross operating rate across sub-sectors (-1.4 pps between 2010 and 2017), ending at 14.3% in 2017.

The cost is an important element in the profitability of the construction sector in Portugal. Over the 2015-2019 period, the **construction cost index** for residential buildings experienced a 7.9% rise (Figure 5). This is due to the increase in both input prices for materials (+4.7%) and labour costs (12.8%). According to FEDICOP, another important factor explaining the low profitability is the public procurement rules, which are driven by the lowest prices.

Figure 5: Construction cost index between 2010 and 2019 (2015=100)



Source: Eurostat, 2020.

Employment

In 2019[13], 547,349 **persons were employed** in the Portuguese broad construction sector. While the number of people employed in the sector has dropped by 15.3% since 2010 level (646,085 persons), it has continuously increased since 2014 (+19.6%). The narrow construction sub-sector employed 61.4% of the total workforce (i.e. 336,270 persons) of the broad construction sector, followed by manufacturing (14.5% i.e. 79,546 persons), real estate activities (14.3% i.e. 78,200 persons) and architectural and engineering activities (9.7% i.e. 53,333) sub-sectors (Figure 6).

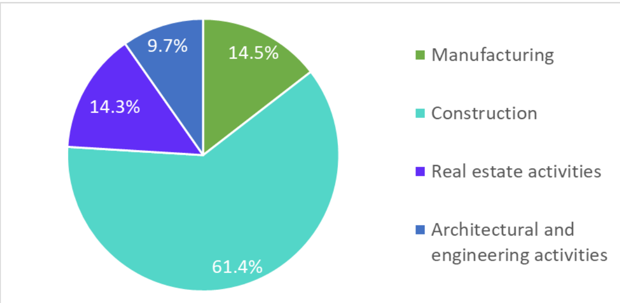
Number of persons employed in the broad construction sector between 2010 and 2019 ↓ **15.3%**

Except for the real estate activities sub-sector, which experienced an increase (+44.6% over the 2010-2019 period) in terms of persons employed in the sector, all the other sub-sectors registered a downturn with the largest decline being in the narrow construction sub-sector (-24.4%).

In terms of **employment by specific occupation**, the demand for workers in the narrow construction sub-sector declined especially regarding the plant and machine operators and assemblers (-14.9%), managers (-14.2%), and craft and related trades workers (-14.0%) in the 2010-2019 period. In parallel, increase in demand was recorded for service and sales workers (+80.1%), technicians and associate professionals (+60.1%) and professionals (+11.0%) for the same period. Similarly, in the real estate activities and manufacturing sub-sectors, demand for professionals grew (+48.3% and +39.9% respectively) in the same period. Amongst all the sub-sectors, the highest increase (+537.2%) in demand was observed for service and sales workers in the real estate activities sub-sector over 2010-2019.

Demand for service and sales workers in the real estate activities sub-sector between 2010 and 2019 **537.2%**

Figure 6: Percentage of people employed per construction sub-sectors in Portugal in 2019



Source: Eurostat, 2020.

There are also some regional disparities in terms of employment, whereby the Lisbon Metropolitan Area, and the Northern and Centre regions concentrated 85.0% and 82.7% of employees in the narrow construction and the real estate activities sub-sectors respectively in 2017. The Northern region, which accounted for the highest number of employees in the narrow construction sub-sector, i.e. 40.1%, reported a 27.9% decline over the 2010-2017 period, reaching 115,800. In parallel, in the real estate activities sub-sector, the Lisbon Metropolitan Area (accounting for the highest share of employees, i.e. 43.2%) reported a growth of 42.2% during the same period, reaching 15,760 people.

The number of **self-employed workers** in the narrow construction sub-sector declined by -24.6% between 2010 and 2019, thus representing 11.3% of the self-employed in the general economy, slightly below the EU-27 average of 11.9%. Conversely, self-employed workers in real estate activities sub-sector significantly grew by 201.9% in the same period. Finally, SMEs employed 86.5% of the total workforce in the broad construction sector in 2017[14], highlighting their importance in construction employment.

Number of self-employed workers in the narrow construction sub-sector between 2010 and 2019 **24.6%**

Due to the ongoing COVID-19 pandemic, the Portuguese government has taken measures with regards to employment. The government is providing support to companies that are in a business crisis. In which case employers are allowed to choose between:

- suspension of the employee's employment contract; or
- reduction of employees' working hours, in accordance with the general Lay Off regime, established in the Labour Code.

In these cases, the employees concerned are entitled to financial support of two thirds of the gross salary paid by the Government. The employers are provided temporary exemption from payment of social security contributions. Notably, this support is applicable for one month, and can be extended to a maximum of three months[15].

2

Macroeconomic indicators

Economic development

Portugal's economy has been on the recovery path since 2014 (+12.7% growth between 2014 and 2019), with its GDP amounting to EUR 199.0 billion in 2019 — an increase of 6.2% above the 2010 level (EUR 187.4 billion).

In 2019, Portugal's GDP witnessed a 2.3% growth year over year (YoY), slightly below the 2.6% growth recorded in 2018 (YoY).

The moderated GDP growth in 2019 was primarily due to lower external demand as net exports reduced, while domestic demand remained resilient[16].

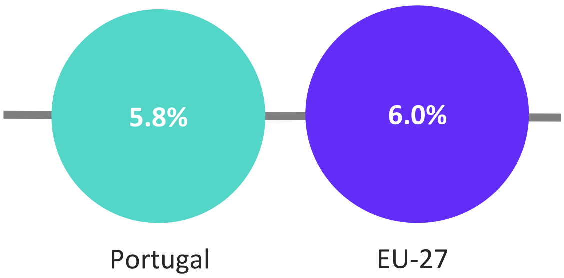
In 2019, Portugal's potential GDP stood at EUR 194.3 billion, translating into a positive output gap of 2.4%, above the EU-27 average of 1.2%. This shows a slight over-utilisation of resources in the national economy. The **inflation rate** has been fluctuating since 2010, dropping at -0.2% in 2014 and increasing to 1.2% in 2018. It dropped again to 0.3% in 2019. The inflation rate was primarily affected by a significant decline in energy prices, including several regulatory components of electricity and gas tariffs, plus lower prices for other administrative services such as public transport and telecommunications[17].

Demography and employment

Employment has been growing in Portugal over the past few years, in line with an improved economic outlook.

As a result, **the unemployment rate** (persons between 25 and 64 years old) has been falling, reaching 5.8% in 2019 – slightly below the EU-27 average of 6.0% and its lowest since 2005. Similarly, youth unemployment (persons below the age of 25) stood at 18.3% in 2019, above the EU-27 average of 15.1%, but on the decline since 2013.

Unemployment rate in 2019

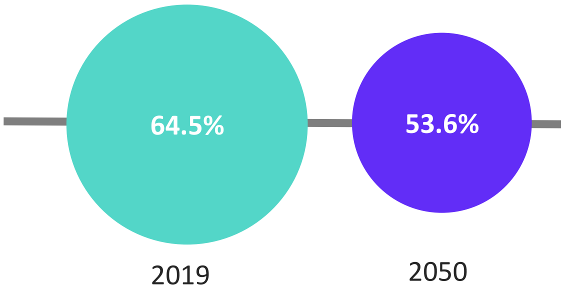


In terms of demographics, Portugal's **total population** reached 10.3 million people in 2019, 2.8% below the 2010 level (10.6 million). It is projected to decline to 10.1 million by 2030 (-1.8%) and to 9.4 million by 2050 (-7.1%). In parallel, net migration has been negative since 2011, with 8,310 people leaving the country in 2016. However, due to improvements in the labour market, migration inflows surpassed outflows for the first time in 2017 and in 2018. The positive migration stood at 11,570 people in 2018. This is also evident from the increase in the number of registered foreign residents in Portugal. By 2018, the number stood at 477,472, an increase of 14.6% over the previous year. The positive net migration also contributes to mitigating the population decline[18].

Portugal's **working age population**, which made up 64.5% of the total in 2019, is expected to fall to 53.6% by 2050, while the share of people aged 65 or older will increase from 21.8% to 33.7% in the same period.

Expected rise in the ageing population highlights potential opportunities for the construction sector – notably relating to e.g. care facilities, and the need for long-term policy responses, such as ensuring the sustainability of the health and pension system[19].

Share of working age population in Portugal



Public finance

In 2019, general **government expenditure** in Portugal accounted for 42.7% of the GDP (against the EU-27 average of 46.7%), which represents a decrease from 2010 (-17.7%). The same year, general **government deficit** stood at 0.2% of GDP, which is well above the 2010 level of -11.2%. This is also above the EU-27 average of -0.7%. This is partly due to the cyclical revenue, decreasing interest expenditure and lower-than-budgeted public investment[20]. General **government gross debt** accounted for 117.7% of GDP. This is higher than in 2010 (100.2%), and well above the EU-27 average of 77.8%.

Entrepreneurship and access to finance

According to the Doing Business 2020 report, Portugal ranks 63rd out of 190 economies in starting a business, requiring six procedures to register a firm and taking 6.5 days to complete[21].

Access to finance in Portugal slightly worsened in 2019 as compared to the previous year, according to the European Commission Small Business Act (SBA) Fact sheet 2019[22]. This is mainly due to the deterioration in the strength of the legal right index, the total duration in days to get paid, the rate of rejected loan applications, and the willingness of banks to provide loans. Access to finance is still the biggest concern for 6.0% of Portuguese SMEs (in line with the 7% EU-28[23] average), according to the Survey on the Access to Finance of Enterprises (SAFE) results 2019[24]. As per the report, there has been a gradual improvement in credit conditions. 9.0% of SMEs that applied for a loan saw their application rejected in 2019, compared to the 7% at the EU-28[25] average. In addition, 12.0% of SMEs in Portugal were unable to get the full bank loan they had applied for during 2019 (as compared to 10.0% at EU-28 level). In fact, loans to non-financial corporations have substantially decreased by 41.5% over 2010-2019, going from EUR 114.6 billion to EUR 67.0 billion.

Loans to non-financial corporations between 2010 and 2019 ↓ **41.5%**

According to the 2019 Global Competitiveness Report[26], Portugal ranks 39th out of 140 economies in the **financial system**, with soundness of banks being the worst performing indicator (125th). In financing of SMEs and venture capital availability, Portugal is ranked 77th and 50th respectively. There have been many positive developments in Portugal in terms of access to finance. The interest rates charged by domestic banks to Portuguese SMEs for loans below EUR 1.0 million declined from 3.09% in 2017 to 2.76% in the fourth quarter of 2018. It further reduced to 2.69% in the first quarter of 2019. Portugal's performance on cost of borrowing for small loans relative to large loans is broadly in line with the EU average[27].

The Portuguese government has introduced several measures in the area of access to finance for SMEs. These measures have focused on publicly supported credit lines. Additionally, it has also taken measures to attract venture capital and business angels through co-investment programmes. These initiatives were drawn up as part of the national strategy for entrepreneurship, "**STARTUP Portugal**". The programme includes an initiative on international co-investment funds as well as co-financing lines with incubators and accelerators, among others[28].

3

Key economic drivers of the construction sector

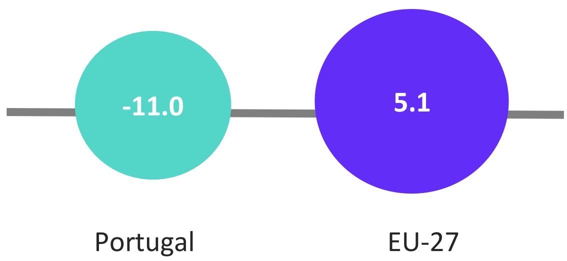
Business confidence

Over the 2010-2019 period, business confidence indicators have improved in Portugal. In fact, in 2019, the **consumer confidence indicator** improved to -8.4 in 2019, well above the -25.8 in 2010. This is considerably better than its bottom low in 2012 (-41.4), and the EU-27 average of -6.2. However, it worsened in 2019 compared to the previous year (-4.4). The **industry confidence indicator** also reported an increase, from -9.4 in 2010 to -3.6 in 2019 but remains below the -4.8 EU-27 average and worse than the 2018 level (0.7). The **construction confidence indicator,** historically weak (-66.8 in 2012), reached -11.0 in 2019. It is however below the EU-27 average of 5.1 and the previous year (-10.6). These indicators, hence, seem to confirm that the confidence in the sector has largely improved from 2010 to 2019.

> **In July 2020, consumer sentiments dropped to -27.1 from -25.7 in June 2020 as COVID-19 cases jumped in Portugal, putting an end to two months of recovery since April 2020[29].**

Moreover, the **investment ratio** has increased since 2013, from 14.7% to 18.0% in 2019. However, this is below the EU-27 average of 21.7% and the 2010 level of 19.8%.

Construction confidence indicator in 2019



Likewise, **investment per worker** has been increasing, reaching EUR 22,961 in 2017[30] (+14.2% since 2010). In the real estate activities sub-sector, investment per worker increased from EUR 31,600 in 2010 to EUR 33,600 in 2017[31]. In contrast, investment per worker in the narrow construction and architectural and engineering activities sub-sectors decreased, from EUR 3,700 in 2010 to EUR 2,800 in 2017, and from EUR 2,400 in 2010 to EUR 2,000 in 2017 respectively.

Domestic sales

The ranking of the **most domestically sold construction products** in Portugal remained the same during the 2010-2018 period except for two products. “Ready-mixed concrete”, was replaced by “Natural cork, etc.” whereas “Prefabricated structural components etc.” was replaced by “Other structures and parts”. Also, out of the list of top five most sold construction products, the top three products did not change since 2015. The top five most domestically sold construction products are presented in Table 1, including a comparison with the top sellers in the EU-27. These represented 46.2% of total domestic construction product sales in 2018.

Table 1: five most domestically sold construction products in Portugal and in the EU in 2018[32]

	Portugal			EU-27
	Product	**Value (EUR m)**	**Share in construction product domestic sales (%)**	**Product**
1	Doors, windows, etc. (group 251210)	518.7	14.0	Other structures (group 251123)
2	Natural cork, etc. (group 162921)	364.1	9.9	Doors, windows, etc. (group 251210)
3	Prefabricated buildings of metal (group 251110)	310.4	8.4	Ready-mixed concrete (group 236310)
4	Portland cement, aluminous cement, etc. (group 235112)	259.6	7.0	Prefabricated buildings of metal (group 251110)
5	Other structures (group 251123)	252.8	6.8	Prefabricated structural components etc. (group 236112)

Source: PRODCOM, 2020.

Export of construction-related products and services

The structure of exports of construction products has remained relatively stable since 2010, with two exceptions including "Doors, windows and their frames, etc.", which replaced "Marble, travertine, alabaster, worked, etc." and "Ceramic tiles and flags" which replaced "Towers and lattice etc." in the ranking. The exports value has nevertheless strongly increased. The top five most exported construction products in Portugal and in the EU-27 are summarised in Table 2. Together, these made up 57.2% of all construction products exports in 2018 in Portugal.

Table 2: five most exported construction products in Portugal and in the EU in 2018[33]

	Portugal			EU-27
	Product	**Value (EUR m)**	**Share in construction product domestic sales (%)**	**Product**
1	Blocks, plates, sheets, etc. (group 162923)	476.1	16.6	Ceramic tiles and flags (group 233110)
2	Articles of natural cork (group 162922)	465.2	16.3	Other structures (group 251123)
3	Doors, windows and their frame (group 251210)	261.7	9.1	Fibreboard of wood (group 162115)
4	Ceramic tiles and flags (group 233110)	244.8	8.6	Doors, windows, etc. (group 251210)
5	Other worked ornamental (group 237012)	189.7	6.6	Marble, travertine, etc. (group 237011)

Source: PRODCOM, 2020.

In terms of **cross-border provision of construction services[34]**, Portugal **exported** EUR 699.0 million worldwide in 2018 (+35.2% in comparison to 2010), of which EUR 633.0 million (i.e. 90.6%) to the EU-27. The services that Portuguese companies perform abroad include architectural, engineering and other technical services. In parallel, it **imported** a total of EUR 126.0 million in construction services in 2018 (+32.6% in comparison to 2010), with EUR 115.0 million (i.e. 91.3%) from the EU-27. Portugal therefore achieved a **trade surplus** of EUR 573.0 million.

Access to finance in the construction sector

According to the SBA Fact Sheet 2019, Portugal performs below the EU-28[35] average in terms of access to finance, especially in the areas of "average time taken for a company to get its invoices paid" and "strength of legal rights index"[36].

Moreover, access to credit is also constrained due to the limited availability and awareness about alternative sources of financing[37]. Portuguese firms mostly depend on their own resources to finance investment, and a large amount of bank loans ends up in firms with very low productivity.

In June 2019, credit granted to the construction and real estate sector in Portugal recorded a YoY growth of 12.0%[38].

Furthermore, in June 2019, the gross non-performing loan (NPL) ratio of the construction sector declined by 4.0 percentage points (pps) (against June 2018) and by 20 pps since June 2016[39]. However, according to FEPICOP, access to finance remains one of the key issues preventing the sector from developing, predominantly affecting SMEs.

According to the European Investment Bank (EIB) Investment Survey 2019, Portuguese construction firms are highly dissatisfied with the cost of external finance and the collateral requirements (21.0% and 20.0% respectively). Also, 15.0% construction firms and 9.0% SMEs reported to be financially constrained[40].

As per the survey, 56.0% firms in the construction sector consider "availability of finance" as a long-term impediment.

The Portuguese government has taken several measures to improve access to finance, which include:

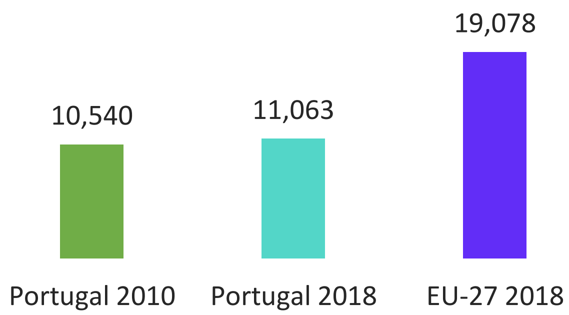
- under the **"Capitalise"** programme, an additional EUR 3.7 billion was provided to support micro, small and medium-sized enterprises (MSMEs), midcaps, SME exports, and the development of innovative products or services or process innovation by SMEs.
- the adoption of **"financing line for financial intermediaries"** (*Linha de Financiamento a Intermediários Financeiros*), the Development Finance Institution (*Instituição Financeira de Desenvolvimento*) which provides support for the financing of SMEs and midcaps.
- provision of EUR 50.0 million credit line was made available under the "Capitalise" programme for businesses that are exposed to the UK market.
- **"Business Development Support Line ADN 2018"** provides EUR 10.0 million to support microenterprises access financing at the early stages of their life cycle[41].

In March 2020, the Portuguese Government launched a set of credit lines worth EUR 3.0 billion to support the companies or sectors most affected by the COVID-19 pandemic. The line covers several sectors including transport, real estate and construction[42].

Furthermore, in April 2020, the European Commission approved a scheme (under the Temporary Framework) worth EUR 13.0 billion to support Portuguese companies affected by the COVID-19 outbreak. It will enable Portugal to provide direct grants and public guarantees on loans to help SMEs and large companies cover investment and working capital needs[43].

Access to housing

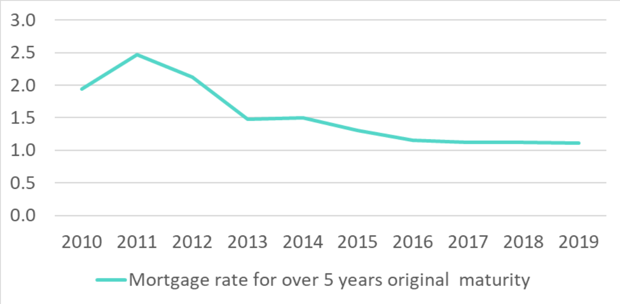
The **number of households** in Portugal reached 4.1 million in 2019, a 5.2% increase since 2010 (3.9 million people). At the same time, the share of the total **population living in cities and greater cities** has remained fairly stable, increasing slightly from 65.0% in 2010 to 66.0% in 2019. In parallel, the **mean equivalised net income** reached EUR 11,063 in 2018[44], well above the 2010 level (EUR 10,540) and below the EU-27 average of EUR 19,078. This represents a 5.0% rise over the period. This reflects rising wages, (partly driven by the government decision to increase the minimum wage from EUR 557.0 to EUR 580.0 in 2018) which translates into higher purchasing power.



Mean equivalised net income in EUR

In addition, **interest rates** on mortgages (over a five-year maturity) declined from 1.9% in 2010 to 1.1% in 2015. Since then it has remained constant over the 2015-2109 period, standing at 1.1% (Figure 7), supporting housing demand.

Figure 7: Mortgage rates for loans for over 5 years original maturity (%) between 2010 and 2019



Source: ECB MFI Interest Rate Statistics, 2020.

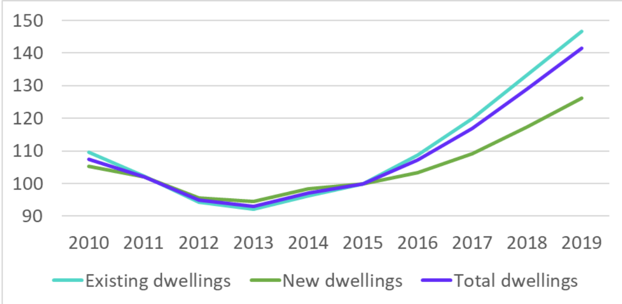
Housing prices in Portugal continued to rise strongly mainly driven by improved economic conditions (including rising incomes). According to Statistics Portugal (INE), in the third quarter of 2019, the total number of housing transactions in Portugal was almost steady at 132,246 units. In parallel, the value of transactions increased by 4.3% YoY to EUR 18.7 billion as compared to the third quarter of 2018[45]. It is also important to note that this demand is not only domestic but also foreign. According to FEPICOP, the latter is interested in Portugal's fiscal framework and stable and safe investment environment. However, they often target specific types of investment, in the form of high-end real estate projects.

Fuelled by a robust demand, property prices in Portugal increased by 7.8% y-o-y in 2019, to an average price of EUR 1,312 per m^2[46,47]. The **house price index** for existing dwelling and new dwelling increased in 2019 to a level sharply above the 2015 value (+46.7% and +26.2% respectively) (Figure 8).

House price index for existing dwellings between 2015 and 2019 **46.7%**

According to Global Property Guide research, the house price to GDP per capita ratio in Portugal is still one of the lowest in Europe. In terms of square metre prices, it has some of the lowest prices for city-centre property in Europe[48].

Figure 8: House price index in Portugal between 2010 and 2019 (2015=100)



Source: Eurostat, 2020.

However, the continuous rise in the housing price has led to housing affordability problems in some regions[49]. **Outstanding residential loans** to households decreased from a peak of EUR 114.5 billion in 2010 to EUR 94.0 billion in 2018 (-18.0%). Despite very low interest rates, total outstanding housing loans further declined by 0.1% in November 2019 from the previous year, to EUR 94.4 billion. Due to this, the Portuguese mortgage market shrunk to 44.8% of GDP in 2019, slightly below the 46.8% of GDP in 2018[50].

Outstanding residential loans to households between 2010 and 2018 **18.0%**

Residential construction suffered considerably from the effects of the crisis, with the number of new dwellings falling from a peak of 114,000 in 2001 to a bottom low of 6,785 in 2014. However, following the end of the bailout package in 2014, the number of new residential construction projects started recovering, with 11,558 new dwellings being completed in 2016, and 14,143 completed in 2017. It further increased to 20,259 in 2018, representing an increase of 43.2% in comparison to 2017. Similarly, the number of completed dwellings rose by 8.8% YoY to 7,565 units in 2016, by 13.1% to 8,553 units in 2017 and by 38.2% to 11,820 units in 2018[51].

According to the *Instituto Nacional de Estatistica* (INE), the number of licensed dwelling permits in Portugal declined by 6.1% to 5,864 units in the first quarter of 2020, from a year earlier, after increasing by 18.4% in 2019[52].

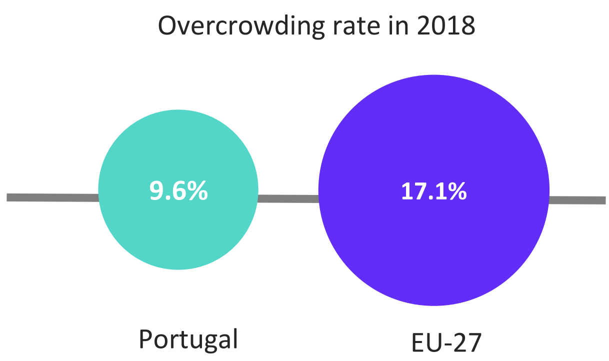
At the same time, the number of **building permits index** for dwellings grew by 187.7% between 2015 and 2019. Similarly, for single-dwelling buildings and two-and-more-dwelling buildings, the building permits index rose by 99.0% and 377.5% respectively.

Building permits index for dwellings between 2015 and 2019 **187.7%**

Furthermore, **i**n terms of the **home ownership rate**, 77.5% of the population earning above 60% of median equivalised income owned their dwelling in 2018 as compared to 77.0% in 2010. This is above the EU-27 average of 74.0%. In contrast, the population earning below 60% of median equivalised income shows a decline in ownership. It declined from 65.4% in 2010 to 60.1% in 2018, above the EU-27 average of 49.8%.

Moreover, the **housing cost overburden rate**[53] was at 5.7% in 2018[54], below the EU-27 average of 9.6%[55]. Likewise, the **overcrowding rate**[56] was at 9.6% in 2018, well below the EU-27 average of 17.1%[57], while the **severe housing deprivation rate**[58] reached 4.1% in 2018, in line with the EU-27 average of 4.3%[59].

According to the national statistics office, severe housing deprivation primarily affects 26,000 families in Portugal, with a high concentration of families in the Lisbon and Porto metropolitan areas[60].



Infrastructure

According to the 2019 Global Competitiveness Report, Portugal ranks 21st out of 141 economies in its overall infrastructure quality[61].

As per the report, Portugal scores particularly well in the quality of its road infrastructure (8th). In road connectivity and airport connectivity, it is ranked 14th and 30th, respectively. Furthermore, it ranks 31st in railroad density and 32nd in the efficiency of train services.

Portugal has made limited progress regarding the Connecting Europe Facility (CEF) projects under the 2020 *Ferrovia* programme. There has also been limited progress in terms of port infrastructure, including key projects in Sines (*Terminal Vasco da Gama*) and Barreiro which are still at the early or preparatory stages of the public tendering process[62].

4

Key issues and barriers in the construction sector

Company failure

Between 2010 and 2017[63], the narrow construction sub-sector experienced a 16.1% increase in **company births** (10,013) and a decline of 45.2% in **company deaths** (8,704). Likewise, the architectural and engineering sub-sector experience an increase in company's birth (+24.2%, up to 4,575 in 2017) and a reduction of company's death, by 23.6% (down to 4,631). Conversely, the real estate activities sub-sector experienced a significant increase in terms of company's birth (+173.9%, up to 6,973 in 2017) and death (up +10.0%, up to 3,323) in the same period.

Company death in the narrow construction sub-sector between 2010 and 2017 ↓ **45.2%**

Company birth in the real estate activities sub-sector between 2010 and 2017 ↑ **173.9%**

> **The number of insolvencies in the real estate development and construction of buildings amounted to 719 in 2019, which is higher than the 2010 levels of 600 respectively. Insolvencies in civil engineering amounted to 150 in 2019, more than in 2018 (136) and 2010 (84)[64].**

In 2018, the Portuguese government introduced measures to reduce the average duration of insolvency proceedings. These measures include establishing the extrajudicial restructuring of firms and introducing the legal framework for debt to equity swaps. These measures have been fully implemented. Decree-Law No. 38/2019 introduced amendments to the judicial map and established new specialised jurisdiction courts, including new commercial courts[65].

According to the data gathered through the Council of Europe's Commission for the efficiency of justice, the disposition time in insolvency and recovery proceedings in 2018 reduced to 53 days from 58 days in 2017. The number of incoming cases has also been reducing continuously, allowing for a positive rate of resolving[66].

Trade credit

> **According to the SAFE survey results 2019, trade credit constitutes a relevant source of financing for 43.4% of SMEs in 2019, above the EU-28[67] average of 31.0%[68].**

15.0% of SMEs used trade credit in the last six months, as compared to EU-28[69] average of 16.7%. However, 28.2% of SMEs did not use it recently regardless of considering this method relevant, above the EU-28[70] average of 14.0%[71].

Furthermore, there is no indication of increased needs to use trade credit with over 63.7% of respondents SMEs reporting their credit requirement remaining unchanged over the last six months. This is slightly higher than the EU-28[72] average of 72.9%. In terms of availability, 19.4% of respondents consider that trade credit availability improved in 2019 (compared to EU-28[73] average of 15.2%), while 59.6% of respondents consider the availability to have remained unchanged (compared to EU-28[74] average of 70.7%) and most likely to stay the same in the near future[75].

Late payment

According to a recent report by *Crédito y Caucion*, the Portuguese construction sector, is facing delays in payments from public purchasers[76].

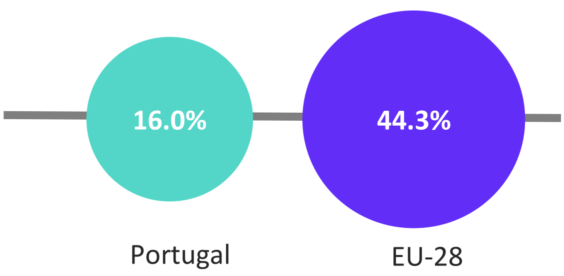
In 2019, the percentage of construction companies that paid by due date was 17.2%, whereas 15.0% of companies paid passed a 90-day period, according to the CRIBIS D&B Payment Study[77].

During 2019, 16.0% of Portuguese companies paid on time, below the EU-28[78] average of 44.3%. In fact, 61.1% companies paid within 30 days in 2019, as compared to 61.4% in 2018. The remaining 22.9% of companies fell under the intermediate and serious late payment classes as 11.3% of companies paid between 30 and 90 days, whereas 11.6% companies paid beyond a 90-day period[79].

That said, late payment does not apply uniformly according to the size of the companies in Portugal. In fact, Micro companies are the most punctual payers (18.5%), while large companies (80.4%) tend to pay with a delay exceeding 30 days (only 5.6% of them pay in due time). In terms of serious late payments, around 8.9% micro companies exceed an average of 90 days beyond agreed payment terms, followed by small companies (6.3%). This may reflect the imbalanced power relationship between large and small companies, which have less leverage than their counterpart[80].

The Late Payment Directive was transposed by the Decree-Law no. 62/2013, which establishes that businesses should be paid within a maximum of 60 calendar days. Longer payment terms are possible, provided they are expressly agreed in the contract, and not unfair to the creditor. It is common for companies in Portugal to contractually agree on payment terms longer than 60 days[81].

Share of companies in the general economy reporting timely payments in 2019



According to European Payment Report 2020[82], 83.0% of respondents in Portugal categorised "Risk of a pan-European recession" as a main payment challenge of their customers paying on time and in full over the next 12 months.

As per the report, 48.0% respondents agreed that late payments have an adverse impact on their liquidity, as compared to EU average of 45.0%. Moreover, 55.0% of SME respondents from Portugal prefer introduction of new legislation to solve the problem of late payments. This is above the EU average of 50.0%[83].

Time and cost of obtaining building permits and licenses

According to the World Bank's Doing Business report, Portugal ranked 60th in 2020 in "**dealing with construction permits**"[84]. The number of necessary procedures for obtaining a construction permit for a warehouse[85] amounts to 14, more than the OECD high-income average of 12.7 procedures (Table 3). Likewise, the time required to complete the procedures to build a warehouse (160 days), is above the 152.3-day OECD high-income average. On the other hand, it costs 1.2% of the value of the warehouse to complete all the formalities, compared to the 1.5% OECD high-income average.

Table 3: Construction procedures timing and costs in Portugal

Procedure	Time to complete	Associated costs
Obtain approval of project designs from Municipality and other relevant entities	75 days	EUR 379
Obtain building permit and pay fee	30 days	EUR 2,235
Inform the Municipality about the beginning of construction	1 day	no charge
Inform the Labour Conditions Agency about the new construction site	1 day	no charge
Receive inspection from the Labour Conditions Agency	1 day	no charge
Receive inspection from Municipality	1 day	no charge
Receive inspection from Institute of	1 day	no charge

Procedure	Time to complete	Associated costs
Public Markets, Real Estate and Construction		
Submit application for a water and sewage connection at the Water and Sanitation Authority	1 day	no charge
Receive inspection by Water and Sanitation Authority	1 day	EUR 451
Obtain water and sewerage connection	31 days	EUR 7,571
Submit application for occupancy permit	1 day	no charge
Obtain occupancy permit	10 days	EUR 388
Register the building with the Tax Authority	1 day	no charge
Register the building with the Real Estate Registry	5 days	EUR 60

Source: Doing Business overview for Portugal, Word Bank, 2020.

Skills shortage

The number of job vacancies in the narrow construction sub-sector grew by 187.0%, growing from 851 in 2015[86] to 2,442 in 2019.

In contrast, job vacancy in the real estate activities sub-sector slightly increased from 215,763 in 2015 to 216,710, representing an increase of 0.4% during the period.

In parallel, **adult participation in education and training** in the narrow construction sub-sector has generally been increasing over the past, growing from 2.8% in 2010 to 5.9% in 2018. However, it slightly reduced to 4.5% in 2019. At the same time, it stood at 16.1% for the real estate activities sub-sector in 2018[87].

Nevertheless, the number of **tertiary students** in engineering, manufacturing and construction increased by 8.5% from 14,412 in 2010 to 15,635 in 2018[88]. In particular, 2,767 tertiary students were enrolled in architecture and building in 2018[89] as compared to 5,170 in 2010. This represents a decline of 46.5% in the number of tertiary students, over the above reference period.

Number of tertiary students in architecture and building between 2010 and 2018 **46.5%**

Companies in Portugal are struggling with a shortage of craftsmen (bricklayers, electricians) in the construction sector. In order to compensate for the shortage of labour, companies are importing workers. However, it is still challenging to hire them in Portugal due to several barriers such as low salaries, a complex tax system, and increasing housing prices[90]. In addition, FEPICOP underscores the need to develop an integration programme aiming at helping migrants learn the local language, construction regulations, etc. with a view to keep them in the formal economy.

According to a talent shortage survey report, 57.0% of Portuguese employers faced difficulties in recruiting the right talent in 2019. This is above the 2016 level (35.0%)[91].

As per the survey, large companies faced the most difficulties in filling roles (66.0%), followed by small companies (59.0%), medium companies (58.0%) and micro companies (46.0%)[92].

Given the recent boom in tourism and the ensuing need to upgrade existing infrastructure and build new residential dwellings, additional workers will be required over the upcoming years. The labour shortage is particularly felt in the urban areas of Lisbon and Porto. It is estimated that more than 70,000 workers will be needed, including masons, carpenters, trowels, painters, team leaders and unskilled workers[93]. Migrant workers may help in addressing such a shortage[94].

Between 2011 and 2015, almost 600,000 Portuguese persons emigrated abroad[95]. According to World Bank calculations, currently around 20.0% of Portugal's population resides abroad[96].

In order to get back its educated young people and skilled workforce, who emigrated during the global financial and economic crisis, the Portuguese government introduced the ***"Regressar"*** programme in July 2019. The programme offers returnees EUR 2,614 in cash, a 50% income tax deduction for five years and up to EUR 3,886 to support with relocation costs, depending on the number of the returnees' dependents coming home with them[97].

Nonetheless, the outbreak of the COVID-19 pandemic has significantly changed the existing skill shortage situation[98]. According to FEPICOP, with the drop of tourism activities and underlying workers' layoffs, the construction sector benefited from a move of workers from the tourism to the construction sector, thereby helping address part of the labour shortage for wage-earning positions. This is explained by the fact that, part of workers in the tourism sector used to be construction workers before the tourism boom was experienced in Portugal.

Sector and sub-sector specific issues

Material efficiency and waste management

Over the 2010-2016[99] period, mineral waste from construction and demolition activities in Portugal grew by 7.4%, reaching 1,328,975 tonnes (1,237,123 tonnes in 2010). This is well below the EU-27 average of 277.7 million tonnes in 2016[100].

Waste management, including construction and demolition waste (CDW), is governed by the Decree Law 46/2008 of 12 March, as amended by Decree No. 73/2011 of 17 June. Legislation and policy in waste must respect several priorities, namely prevention and reduction, preparation for reuse, recycling and other forms of recovery and disposal. Responsibility for the management of CDW lies with all stakeholders in its life cycle, from the original product to the waste produced and to the extent of their involvement[101]. The main challenges to meeting the 70% CDW recycling targets by 2020 is the lack of compliance with the legislation, and a lack of enforcement through inspection or audit procedures. Restrictive rules on the use of CDW, as well as overall limitations of the recycling process, e.g. high costs and lack of comprehensive policy on the use of recycled waste also have a negative impact[102]. Moreover, the geographically dispersed and temporary nature of construction work makes it difficult to control and supervise the environmental performance of the companies in the sector[103].

In the context of the Construction and Demolition Waste Prevention and Management Plan, eight LiderA courses were organised from February 2019 to October 2019[104].

These courses included: a plan for soil decontamination; an asbestos management programme; a construction waste prevention and management plan; water efficiency; energy efficiency; almost zero energy in buildings; integration of solar energy and LiderA advisors[105].

Climate and energy

Emissions of greenhouse gases (carbon monoxide and dioxide, methane, nitrous oxides and particulate matter) from activities in the construction and real estate sub-sectors have shown a decreasing trend since 2010, due to the slowdown of construction activities. Emissions in the narrow construction sub-sector fell from 2,687,437 tonnes in 2010 to 1,670,057 tonnes in 2018 (-37.9%), while emissions from the real estate activities sub-sector declined from 23,093 tonnes to 18,819 tonnes over the same period (-18.5%).

Greenhouse gases emissions in the narrow construction sub-sector between 2010-2018 ↓ **37.9%**

5

Innovation in the construction sector

Innovation performance

Portugal is classified as a Strong Innovator according to the European Innovation Scoreboard 2020. Its innovation performance has increased over the 2012-2019 period[106].

As per the report, Portugal's strongest innovation aspects include innovators, an innovation-friendly environment and attractive research systems. The country scores well in terms of SMEs innovating in-house, Broadband penetration, SMEs with product or process innovations, and Foreign doctorate students. While, Sales impacts, Linkages and Intellectual assets are the weakest innovation dimensions of Portugal. It scores comparatively low on indicators including Exports of knowledge-intensive services, R&D expenditures in the business sector, Private co-funding of public R&D expenditures, and Public-private co-publications[107].

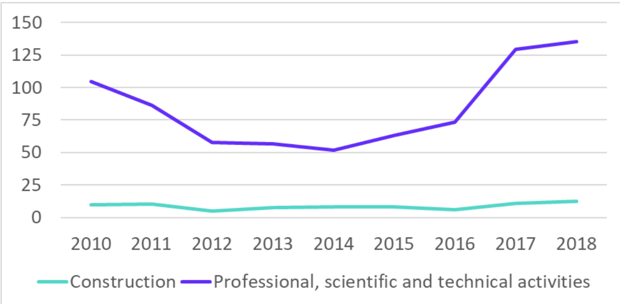
The government's aim is to achieve an R&D intensity of 2.7% of GDP by 2020 (as set in National Reform Program), and 3.0% by 2030. So far, the country has made limited progress regarding the implementation of the Portugal 2020 strategy (the EU support framework for 2013-2020). In fact, Portugal has a low research and development intensity (1.4% of GDP in 2018) which is not sufficient to upgrade its national research and innovation systems.

Portugal's strong performance in innovation is also reflected in the construction sector, where **business enterprise R&D expenditure (BERD)** is well above the 2010 level (Figure 9). After dropping from EUR 9.7 million in 2010 to a bottom low of EUR 5.2 million in 2012, BERD in the narrow construction sub-sector increased to EUR 12.5 million in 2018[108], marking 17.6% and 28.2% increases over the previous year and 2010 respectively. Likewise, BERD in professional, scientific and technical activities continuously decreased over 2010-2014, dropping from EUR 104.8 million to EUR 51.8 million in 2014. Again, over the 2014-2018 period, it rose significantly by 161.4%, reaching EUR 135.4 million. This represents a 29.2% increase between 2010 and 2018.

BERD in the narrow sub-sector between 2010 and 2018 **28.2%**

BERD in the professional, scientific and technical activities sub-sector between 2010 and 2018 **29.2%**

Figure 9: Business enterprise R&D expenditure (BERD) per construction sub-sector in Portugal between 2010 and 2018[109] (EUR m)



Source: Eurostat, 2020.

In parallel, the total **R&D personnel** (full-time equivalents – FTE[110]) in the narrow construction sub-sector stood at 273 FTE in 2018, which is higher than the 2010 level (155 FTE), representing a 76.1% increase in the 2010-2018 period. The professional, scientific and technical activities sub-sector reported 2,449 FTE in 2018. This represents an 82.8% increase in comparison to the 2010 level. In addition, the number of annual construction-related patent applications stood at six in 2018, which is well above the 2010 level of two patent applications. However, no Portuguese construction-related firm ranks within the top 1,000

EU companies by R&D, according to the 2019 EU Industrial R&D Investment Scoreboard[111]. According to FEDICOP, the lack of a consistent policy and incentives (through e.g. public procurement) prevents companies to invest in R&D investment.

Eco-innovation and digitalisation

According to the 2018 Eco-Innovation Scoreboard (Eco-IS), Portugal scored 101, in comparison to the EU-28[112] average of 100[113].

Portugal performance increased over the past few years (101 in 2017, 96 in 2016, 92 in 2015 and 2014, 81 in 2013) and is currently ranked 12th among EU Member-states[114].

According to the **European Commission Digital Economy and Society Index (DESI) 2020**, Portugal ranks 19th, with a 49.6 score, out of the EU-28[115] countries (average score: 52.5). As compared to the previous year, Portugal's performance has improved in the human capital aspect. This is mainly due to an improvement in the basic level of digital skills and a higher proportion of ICT graduates. Nonetheless, it still performs below the European standards in human capital and use of internet services. In terms of the integration of digital technology, Portugal experienced the biggest fall from 11th in 2018 to 16th position in 2019, i.e. 40.9 score (EU-28[116] average: 41.4)[117].

Furthermore, 24.0% of Portuguese SMEs (excluding microenterprises) have high levels of digital intensity as compared to 60.0% of larger firms. In 2019, the share of companies that sell online reduced to 16.5%, below the EU-28[118] average of 18.0%. Conversely, the share of e-commerce in corporate turnover increased to 15.0%, above the EU-28[119] average of 11.0%[120].

In 2019, Portugal made an effort to improve the digital skills of the population with the implementation of the **National Digital Competences Initiative e.2030, Portugal (INCoDe.2030)**. INCoDe.2030 acts as a National Coalition for Digital Skills and Jobs. The country has also achieved the 95.0% of the first phase of *Industria 4.0*[121].

In 2019, Portugal started the second phase of the *Indústria 4.0* national strategy with a funding of EUR 600.0 million. It also included three main objectives including reskilling, upskilling and training over 200,000 workers, promoting digital transition in over 20,000 firms and scaling up over 350 projects[122].

The Sustainable Construction Platform, a non-profit organisation linking businesses, R&D centres, as well as municipalities, manages the Sustainable Habitat Cluster. This is a broad cluster dedicated to promoting eco-innovation in the built environment[123].

For the period 2014-2020, the Cluster is participating in various EU-funded projects. The **"SUDOKET - Mapping, consolidation and dissemination of Key Enabling Technologies for the construction sector in the SUDOE space"** project runs from April 2018 until March 2021 with an eligible investment of EUR 2.1 million[124].

The objective of SUDOKET project is to promote growth and technological leadership in the field of "Innovative Buildings". It also aims at enhancing research, innovation and development capabilities based on Key Enabling Technologies (KETs), in technology centres and innovation and industry[125].

The **Portuguese Technological construction platform** (PTPC) is an initiative launched in 2004, operating to strengthen the competitiveness and sustainability of the construction sector. The PTPC is composed of 50 members, including SMEs and large businesses, public bodies, industry associations as well as science and technology entities. It promotes initiatives in research and innovation in the construction sector[126].

In terms of the implementation of BIM, Portugal has not yet reached the maturity level of other developed countries. The existing public procurement law favours a procurement process based on the fragmentation of the different steps, rather than a cooperative approach needed for the use of digitalisation tools. It does not provide incentives for the implementation of alternative solutions, thus preventing enterprises from investing in innovation.
Despite the current lack of official central government support regarding BIM, the **Technical Committee for BIM Standardisation (CT197-BIM)**

was created. The committee is involved in developing standardisation procedures regarding information classification systems, information modelling, guidelines and processes throughout the life cycle of construction projects[127].

The 3rd Portuguese congress on "Building Information Modelling" (PTBIM 2020) is scheduled to be held on 26 and 27 November 2020[128].

The aim of the PTBIM Congress is to promote a forum for technical and scientific discussion in Portugal, including the active participation of the professional and academic communities in the areas of architecture and engineering. It will also focus on the problems and efforts for the implementation of BIM in the Portuguese construction sector[129].

6

National and regional regulatory framework

Policy schemes

Up until the early 2000s, housing policy in Portugal was predominantly based on granting subsidies and competitive interest rates on mortgages to support home ownership. Therefore, in order to develop the national rental market as required under the Economic Adjustment Programme of 2011-2014, the government introduced several reforms to the tenancy law, traditionally characterised by rent freezing.

In 2015, a comprehensive National Housing Strategy (*Estratégia Nacional para a Habitação* - ENH) for the period 2015-2031 was approved. The strategy encompasses a set of measures under three main pillars, aiming at creating a harmonised and operational framework that brings together and implements the various legal regimes already in place. Namely, the three priority areas identified are urban rehabilitation, rental housing and better-quality housing[130].

For instance, the **New Urban Lease Regime** (*Novo Regime do Arrendamento Urbano* – NRAU) aimed at giving more flexibility to landlords, by easing the lease regime, accelerating termination of lease and reducing eviction time to three months, among others[131]. However, amendments to the NRAU came into force in June 2017 to increase the protection of the tenant by extending the period during which landlords need to wait before being able to increase the rents. This period has been brought up to eight years, compared to the initial five years, for lower-income tenants (i.e. with annual incomes below EUR 38,990)[132] and to ten years (compared to the initial five) for tenants over 65 or who are over 60% disabled[133].

In February 2019, the Portuguese government introduced two new laws. First, Law no. 12/2019 brought a fifth amendment to the NRAU. It is aimed at prohibiting and punishing the harassment in letting. Second, Law no. 13/2019 is intended to provide measures to correct the disparity between tenants and landlords, thus safeguarding interest of tenants and reinstating greater stability in urban letting. The main objective of these amendments is to enhance the protection of the legal position of tenants in the landlord-tenant relationship[134].

> **Law no. 13/2019 has significantly modified the legal rules on urban letting. It targets and changes the Civil Code, the New Urban Letting Rules and the Legal Rules on the Execution of Works in Rented Properties (among others)[135].**

The key highlights among the amendments made to the **New Urban Letting Rules** include:

- creation of the **Lease Injunction (*Injunção em Matéria de Arrendamento*- IMA),** a procedure that permits tenants the right to require the landlord to repay any amount spent by the tenant to carry out any work on the rented property;
- expanding the situations of transfer upon death of the lease agreement;
- limiting the landlord's ability to oppose the renewal or to terminate limited term residential lease agreements[136].

The Portuguese government has introduced various programmes to finance the construction of social rental dwellings for vulnerable households. For instance, the **Resettlement Programme** (*Programa Especial de Realojamento* - PER), launched in 1993, aims at providing municipalities with resources to support the construction, acquisition or rental of social dwellings for the resettlement of affected occupiers[137]. By 2017, out of 48,416 registered families (which were identified living in precarious buildings or shacks), 45,572 families were resettled. This represents a 94.0% execution rate of this programme[138].

The *Porta 65 - Jovem* Programme is a financial support system for young people for paying their rent. Any person between 18 and 35 years old can apply. In the case of a young couple, one member can be 36 years old, the other can be 34 years old at most[139].

The programme **Social Rental Market** (*Mercado Social de Arrendamento*), established in 2012, targets households with incomes that are too high to make them eligible for social housing, but too low to rent a dwelling at market price. The scheme allows the rental of repossessed properties at a 20-30% lower price than the regular market[140].

In May 2018, the Portuguese government launched IFRRU 2020. It is an incentive programme, integrated into PORTUGAL 2020, to support the complete renovation of buildings and implement energy efficiency measures[141]. This programme is co-financed by the EIB, the Council of the European Development Bank (CEB) and the EU. It has a financing capacity of EUR 1.4 billion. By September 2019, 151 funding contracts were signed in total for the financing of EUR 479.0 million. These projects are estimated to deliver housing for 995 new residents, the renovation of 770 households and the creation of 2,684 jobs by September 2020. Moreover, the energy efficiency measures supported by the programme, during this period, are estimated to reduce greenhouse gas emissions by 8,308 tonnes (CO2 equivalent)[142].

In addition, the Ministry of Environment also created the *Fundo Nacional de Reabilitação do Edificado* (the National Fund for Building Rehabilitation), to develop and implement real estate rehabilitation projects for the promotion of renting, especially housing[143].

Another programme addressing the priority of urban renewal is the **Rehabilitate for Rent** (*Reabilitar para Arrendar*), with an initial budget of EUR 50.0 million from a loan from the EIB to the *Instituto da Habitação e Reabilitação Urbana* (IHRU). The interventions foreseen under the programme include the rehabilitation or reconstruction of social dwellings, municipal spaces for public use and public buildings (including student accommodation). Financing of the interventions takes the form of 30-year loans with an interest rate around 3%, which will fund 50% of the total cost[144]. Since its introduction in 2015 to August 2018, only ten projects were submitted for the evaluation by the EIB, which required the Portuguese state to extend its guarantee for the EUR 25.0 million loan[145].

In 2018, the government introduced a national plan entitled ***"Plano Nacional para o Alojamento no Ensino Superior* (PNAES, or National Plan for Higher Education Housing)"** to create **affordable housing** for students. The plan spans across 42 municipalities with an objective to create 11,500 beds for university students throughout the next four years and a total of 30,000 in 10 years. In April 2019, the government introduced its plan to renovate 263 buildings and turn them into affordable student housing[146].

In 2018, the government approved a set of seven key measures for the New Generation of Housing Policies (NGPH), which mainly targets the issue of access to housing. The measures consist of:

- **First Right - Programme for access to housing** (*"Primeiro Direito - Programa de Apoio ao Acesso à Habitação"*) aiming at creating conditions for access to adequate housing for people living in undignified housing situations who do not have the financial capacity to find a solution on the market.
- **Affordable lease programme** (*"Programa de Arrendamento Acessível" or PAA*), to respond to the needs of a large part of the population with intermediate incomes, who find it difficult to obtain adequate housing in the market without incurring costs, but whose incomes are higher than those that would allow access to public housing support
- **Key in hand - Housing Mobility Programme for Territorial Cohesion** ("*Chave na Mão - Programa de Mobilidade Habitacional para a Coesão Territorial"*) to facilitate the housing mobility of families who live in

large cities and who want to settle in territories of low density.

- **Habitat Housing Programme** (*"Programa Da Habitação ao Habitat"*) to promote the socio-territorial integration of public rental neighbourhoods and the overall improvement of the living conditions of its residents.
- **differentiated stand-alone rates for long-term leases** (*"Taxas autónomas diferenciadas para arrendamentos de longa duração"*) to promote greater contractual tenure stability, by granting owners a reduction of 14% to 28% when applied to contracts over 10 years and a reduction of 10% for contracts over 20 years.
- **legislative changes on urban leasing** (*"Alterações legislativas em matéria de arrendamento urbano"*) to remedy situations of imbalance between tenants and landlords rights, to protect tenants in a particularly fragile situation, and to promote security and tenancy stability.
- **extraordinary regime for the temporary supply of electricity to substandard housing** (*"Regime extraordinário relativo ao abastecimento provisório de energia elétrica às habitações precárias"*) which is a scheme that will cover families in a vulnerable economic and social situation, and through which "the conditions will be created for the connection to the public electricity distribution network"[147].

The primary objective of the NGPH is to guarantee access to adequate housing for all and to develop the supported housing sector, by encouraging rehabilitation[148].

According to FEPICOP, these measures did not deliver much of the expected benefits, triggering some changes of policy schemes in 2020. This includes for instance the programme for housing efficiency renovation and the affordable renting housing programmes which are expected to replace the NGPH in 2021. The latter programme will allow municipalities to use real estate properties belonging to the government to foster affordable renting housing.

In July 2019, the Portuguese Parliament passed a law "Right to Housing". The new law sets out a legal basis for housing being treated as a citizen's right. It became effective on October 1, 2019.

Under the new law, the Portuguese government becomes responsible for ensuring adequate housing for all citizens as "the guarantor of the right to housing.". The law focuses on the "social function of housing" rather than social housing as such[149].

In April 2020, the Portuguese government approved the Law No. 4-C / 2020, establishing an exceptional regime in the context of COVID-19 pandemic for circumstances of delayed rent payment under the urban housing and non-housing leases[150].

The regime states different rules for residential and non-residential leases. In cases of residential leases, the expected financial support is provided when there is a drop in the income of tenants and landlords. While, in the case of non-residential leases, the legislation is applicable in postponing of rent payments[151].

Building regulations

In Portugal, public work contracts are regulated by Decree-Law No. 18/2008, which enforces the **Public Contracts Code** (*Código dos Contratos Públicos* - CCP), with subsequent amendments, and **Decree-Law No. 214-G/2015**, which amends Decree-Law No. 555/1999 on the Legal Regime on Urbanisation and Building (*Regime Jurídico da Urbanização e Edificação* - RJUE), and Decree-Law No. 111-B/2017[152,153]. As for private construction works, these are governed by the Civil Code, enacted by Decree-Law No. 47344[154]. Moreover, health and safety regulations in the construction of buildings are defined in Decree-Law No. 273/2003, which takes into account the minimum health and safety requirements of Directive 92/57/EEC[155,156].

Insurance and liability related regulations

In Portugal, under the Law 31/2009, contractors and sub-contractors are needed to be insured for labour accidents, equipment and vehicles (i.e. covering all machinery involved in the construction works, both on-site and in nearby public spaces)[157].

Furthermore, professionals involved in design, supervision and project management in both public and private construction projects are required to take insurance covering non-contractual liability, i.e. damages to third parties outside the scope of the construction contract resulting from negligence or omissions when performing their professional duties[158].

Liability for construction defects is explained by article 1225 of the **Civil Code**, the **Consumer law 24/96**, as amended, and **Decree 67/2003** (with subsequent amendments)[159]. The general limitation period is 20 years. Both the code and decree set out a legal guarantee for construction, refurbishment or alteration works in buildings that carry on for five years starting from the handover. The implication is that claims for defects should be done within five years following the date of completion. The guarantee concerns developers and is applicable in the case of collapse (e.g. due to issues related to soil, construction, faults and repairs) and defects in the building[160]. Conversely, the guarantee for materials and equipment is two years. As for architects and engineers, their liability lasts five years following the completion of works, but they are only liable in case of a breach of technical and safety rules[161].

7

Current status and national strategies to meet Construction 2020 objectives

TO 1 – Investment conditions and volumes

Total investment by the broad construction sector[162] generally fluctuated over the past years, particularly since 2013 (figure 10). Namely, investment by the narrow construction sub-sector dropped from EUR 1.1 billion in 2010 to a bottom low of EUR 525.7 million in 2016 (-53.1%). It then increased to EUR 956.3 million in 2018[163], representing an increase of 41.2% over the previous year and a 14.6% decline over 2010. Investment by the real estate activities sub-sector also experienced a similar trend, decreasing from EUR 7.2 billion in 2010 to EUR 5.9 billion in 2015 (-18.9%), although it has been picking up slightly since 2014. In 2018[164], it reached EUR 6.6 billion, marking a decrease of 9.2% over 2010.

In terms of **investment in intellectual property products** by the narrow construction sub-sector, it increased by 37.0%, from EUR 38.7 million in 2010 to EUR 53.0 million in 2018[165]. Similarly, investment by the real estate activities sub-sector for this category grew by 68.8%, reaching EUR 18.9 million in 2018 as compared to EUR 11.2 million in 2010.

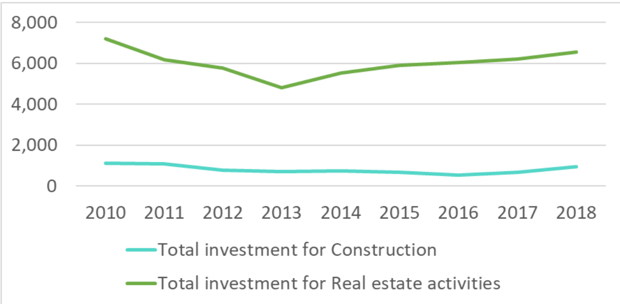
Total investment by the narrow construction sub-sector between 2010 and 2018

14.6%

Total investment by the real estate sector in intellectual property products during 2010-2018

68.8%

Figure 10: Investment by the Portuguese broad construction sector between 2010 and 2018 (EUR million)



Source: Eurostat, 2020.

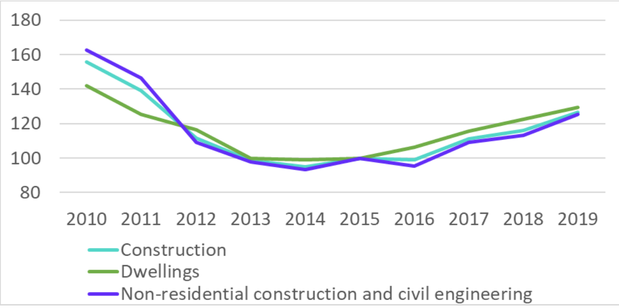
The investment index in the broad construction sector[166] has experienced a moderate growth since 2015, rising by 26.5% over 2015-2019 (Figure 11).

This was mainly driven by investment in dwellings by the whole economy and non-residential construction and civil engineering which increased by 29.4% and 25.2% respectively, between 2015 and 2019. In absolute terms, **investment in the broad construction** sector totalled EUR 16.3 billion in 2017[167], out of which EUR 10.7 billion was invested in non-residential and civil engineering and EUR 5.6 billion was invested in dwellings.

Total Investment in dwellings by the whole economy during 2015-2019

29.4%

Figure 11: Investment index in the Portuguese broad construction sector between 2010 and 2019 (2015=100)



Source: AMECO, 2020.

Investments in rail infrastructure have dropped from EUR 403.0 million to EUR 132.0 million over 2010-2018 (-67.2%), similarly, investments in air infrastructure decreased from EUR 127.0 million in 2010 to EUR 49.0 million in 2018[168] (-61.4%)[169].

Rail infrastructure investment between 2010 and 2018 **67.2%**

This demonstrates that Portugal has made limited progress in terms of investments in railway and port infrastructure. In addition, the pace of the execution of main projects under the 2020 *Ferrovia* programme that are co-financed by the **Connecting Europe Facility** has been slow. The tendering procedures for the 2020 investments have not been launched yet. In a similar vein, the public tender for the new investment project in the container terminal in Sines (Terminal *Vasco da Gama*) has been launched, but the concession has not yet been attributed and investments have not commenced yet[170].

In July 2019, the government approved the new *Vasco da Gama* Terminal and expansion of the current Terminal XXI of Port of Sines. The plan consists of an investment of EUR 547.0 million to expand and renovate the Terminal XXI, while EUR 642.0 million will be invested on the construction of the *Vasco de Gama* Terminal[171].

The construction of this new Terminal is expected to have a total economic impact of EUR 524.0 million (representing 0.3% of the Portuguese GDP) and creating around 1,350 direct jobs in the exploration phase[172].

Moreover, total **household renovation spending** in Portugal stood at EUR 216.6 million in 2018 in absolute terms, accounting for 0.2% of the total household disposable income. Since 2010, renovation spending as a share of household disposable income has almost remained constant.

The Portuguese construction sector has been growing primarily due to infrastructure projects that the government defined as priority investments. Namely, the **Strategic Plan for Transport and Infrastructure 2014-2020** (*Plano Estratégico dos Transportes e Infraestruturas* - PETI3+), worth EUR 6.7 billion, includes a series of reforms and outlines priority investments in transport infrastructure projects. Those include road, rail, air and maritime transport, namely in the corridors of the National Plan for Spatial Planning and the Trans-European Transport Network (TEN-T)[173].

According to estimates by Invest Porto, an initiative established by the Porto City Council in 2015 to support foreign investment attraction, pipeline office projects representing over 150,000m² will be added to the Portuguese market by 2025[174].

Based on the PETI3+, the **Railway Investment Plan 2016-2020** (*Plano de Investimentos Ferroviários*)[175] worth EUR 2.0 billion has been introduced to implement the strategy specifically in the railway infrastructure segment[176].

Railway interoperability is still a major concern in Portugal, while their importance is key. However, railways are still underused in the connections to Spain (both East-West and North-South corridors)[177]. In this context, Portugal launched a project in May 2018, with a budget of EUR 509.0 million, to build a rail link between Évora (in southern Portugal) and the Spanish border. Portugal is contributing EUR 277.0 million whereas the remaining EUR 232.0 million in being financed by the EU. The construction is expected to be completed by 2022[178].

In November 2019, *Infraestructuras de Portugal*, a state-owned company, and the consortium of *Sacyr Somague – Sacyr Infraestructuras* signed a EUR 130.5 million contract for the construction of the Alandroal – Elvas rail section (connection to the East Line), on the new *Évora* Line. This will have a total length of 100 kilometres, of which 80 kilometres will have to be constructed. It is expected to be completed by 2023[179].

The **National Investment Programme 2030 (PNI)**, approved in January 2019 by the Portuguese government, is expected to further stimulate the construction sector. The programme is designed to provide investments worth EUR 22.0 billion into the areas of transport, energy and environment projects[180].

In addition, as a part of the mobility plan, Portugal is planning to invest EUR 300 million by 2030 for the construction of new bike lanes and linking existing ones, to encourage the use of bicycles in place of cars[181].

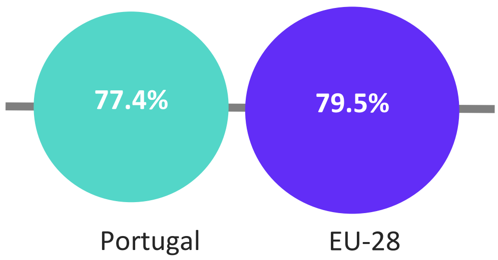
Portugal is also one of the beneficiaries of EU support. The EU cohesion policy plays an important role in supporting public investments. Under the current Multiannual Financial Framework, Portugal received financial allocation of EUR 27.6 billion (around 2.0% of its annual GDP) from the EU cohesion policy funds. By the end of 2019, Portugal had allocated approximately EUR 28.6 billion to specific projects, which amounted to more than the total amount planned, and spent EUR 13.0 billion. This shows a level of implementation well above average[182].

In July 2019, the Cohesion Fund invested around EUR 68.0 million in northern Portugal to upgrade the 92-km section of the Minho single-track railway line between Nine and Valença, on the Spanish border[183].

TO 2 – Skills

Over the years, vocational education and training (VET) has become a national political priority in Portugal and the provision of training opportunities has also improved significantly over the past decade. In Portugal, participation in VET in 2017[184] was at 40.7%, below the EU-28[185] average of 47.8%. However, the **employment rate of the recent VET graduates** slightly reduced to 77.4% in 2018[186], from 78.9% in 2017, slightly below the EU-28[187] average of 79.5%. The share of early leavers from education and training declined from 12.6% in 2017 to 11.8% in 2018 (in comparison to the 10.6% EU-28 average)[188].

Employment rate of recent VET graduates, 2018



In parallel, **adult participation in lifelong learning** has remained stable over the past few years, at 10.3% in 2018, but slightly below the EU-28 average of 11.1%. However, this is far below the average target (15%) set by the strategic framework Education and training 2020[189].

Similarly, **adult participation in learning** remains low in Portugal. In 2019, adult participation (18 to 64 age group) in education and training in the narrow construction sub-sector stood at 4.5%, well below the EU-27 average of 8.7%. In the real estate activities sub-sector, it stood at 16.1% in 2018[190], slightly below the EU-27 average of 16.4%.

Portugal has taken several significant VET and adult learning measures including certified modular training and recognition, validation and certification of competences, particularly within the ***Qualifica*** programme which was launched in 2017[191].

By 2019, more than 444,000 adults were involved in the *Qualifica* (well below the 2020 target of 600,000). Around 51,600 people have improved the level of their educational attainment through this programme.

However, according to FEPICOP, more needs to be done to i) tailor VET programmes to market needs; and ii) attract youth in the construction sector.

In October 2018, Portugal launched the "**READ+Qualifica**" (*LER+Qualifica*) programme. It is a reading and writing programme for adults who attend the Qualifica Centres. The first phase of the project ran from September 2018 to June 2019 and was joined by 50 entities[192].

Furthermore, the Portal of Sustainable Construction (*Portal da Construção Sustentável* - PCS) is dedicated to promoting sustainable methods including through training and consulting[193].

Finally, the National Energy Agency (*Agência para a Energia* – ADENE) manages the **ADENE Academy** (*Academia ADENE*), which offers training modules for construction professionals focusing on energy efficiency skills. The Academy introduced an online platform that allows users to quickly and effectively access the available courses and select the ones that are in line with their needs. The training offer includes energy certification of buildings, energy auditing, installation of renewable energy systems, as well as other skills such as project management[194].

TO 3 – Resource efficiency / Sustainable construction

The main national strategy documents on energy efficiency in Portugal are the **National Energy Efficiency Action Plan 2017-2021** (*Plano Nacional de Ação para a Eficiência Energética* – PNAEE) and the **National Energy and Climate Plan 2021-2030** (NECP). As per PNAEE, the savings target is estimated at 2,394,064 tonnes of oil equivalent (toe) (in final energy) by 2020, and 44% has been executed so far[195].

The **Energy Efficiency Fund** (*Fundo de Eficiência Energética* – FEE), is a financial instrument supporting the implementation of the PNAEE.

> **In the context of residential buildings, FEE supports the energy efficient renovation of dwellings (namely thermal insulation of roofs and facades) built prior to 1991 and with low energy classes.**

Through a total allocation of EUR 1.0 million, it co-finances up to 50.0% of the cost of the insulation interventions, up to a maximum of EUR 1,500 for roofs and EUR 3,000 for facades[196].

In 2017, through the FEE, the "Energy efficiency in transport infrastructure" policy was introduced. It provides for the possibility of financing applications in concrete measures that seek to improve the energy efficiency of transport infrastructure, such as the replacement of existing equipment or installation of devices that monitor the consumption of energy. The financing of the project takes the form of subsidies from the FEE of up to 45% for public applicants, and 15% for private entities, up to a maximum amount of EUR 180,000. The total budget of the call is EUR 1.6 million[197].

Furthermore, in order to provide support for the energy efficiency upgrade of the housing stock, the Portuguese government introduced a new scheme known as **Efficient House 2020 (*Casa Eficiente 2020*)**, consisting of a system of financial incentives.

> **The Efficient House 2020 programme offers loans on favourable terms for operations that promote the improvement of the environmental performance of private housing buildings[198].**

The programme has received funds worth EUR 200.0 million for the period from 2018 to 2021 from the EIB and from the adhering banks (*Caixa Geral de Depósitos S.A (CGD)*, *Millennium BCP* and *Novo Banco*). Loans provided under the programme can be used to finance energy efficiency interventions such as the replacement of windows and roofs, thermal insulation, installation of solar panels, as well as deep renovation. Around 12,000 homes are targeted, and the average cost of the works is expected to be between EUR 12,500 and EUR 13,000[199].

Furthermore, the **energy certification of buildings** was made compulsory in 2013 thorough the Decree-Law No. 118/2013 for buildings to be placed on the market for sale or rental. Also, the fees payable for the issuance of energy certificates for residential and commercial buildings were reduced in March 2016. This was mainly to promote energy efficiency among households with a reduced income as well as SMEs, by making certificates more affordable[200].

Finally, for the assessment of the environmental performance and sustainability of buildings, Portugal has developed two voluntary mechanisms to support sustainable construction.

The first, **LiderA** (Leadership for the Environment for sustainable construction - *Liderar pelo Ambiente para a construção sustentável*), assigns a performance class from G up to A+++, with E being the reference and A corresponding to a performance of 50% above E. The evaluation is based on six principles of good environmental performance (including the use of resources, environmental comfort and sustainable use), and translated into 22 areas and 43 criteria[201]. The second, **SBToolPt** (Sustainable Building Tool Portugal), is based on an international tool and is structured into three dimensions (environmental, social and economic), covering 9 categories and 30 parameters. The evaluation results in a classification from E to A+, with D being the conventional practice and A/A+ the best practice[202]. The use of EU Cohesion policy funds for the renovation of buildings, including public infrastructure, households and SMEs, is progressing in line with its operational programme, and is also expected to deliver significant energy savings[203].

On February 6, 2019, the LiderA´19 Congress was held at the *Técnico Congress* Centre in Portugal. The theme was "valuing the search for sustainability in construction"[204].

In December 2018, Portugal introduced a strategic plan to achieve carbon neutrality by 2050 which requires an estimated additional annual investment of EUR 2.0 billion from 2020 to 2050. The main areas for decarbonisation mainly focus on buildings, an increase of renewable electricity, and mobility and electrification of the transport sector[205].

The draft National Investment Programme 2030 (PNI) also involves the energy sector as a target for medium and long-term strategic investments, mainly in the areas of power generation, networks and energy efficiency[206]. This is expected to provide opportunities for the construction sector as well.

TO 4 – Single Market

Portugal's performance in the single market area has improved since 2008, but is currently below the EU-28[207] average[208].

Portugal's performance has improved thanks to EURES (a European cooperation network of employment services), Your Europe (an online portal for practical advice for EU nationals and businesses), SOLVIT (a mainly online service providing legal help for EU citizens and businesses), as well as other points of single contact and professional qualifications. According to the **EU Single Market Scoreboard 2020**, Portugal's performance regarding the transposition of EU directives such as average delay for overdue directives (8.8 months) was better than the EU-28 average (11.5 months) in 2019, but below the 2018 level (7.2 months). In terms of transposition deficit, Portugal scored (0.5%) in 2019, slightly above 2018 (0.4%), but better than the EU-28 average (0.6%). However, the number of pending cases under infringement (32 cases) worsened in 2019 as compared to the 2018 (26 cases), above the EU-28 average (29 cases). This is primarily due to limited use of the EU Pilot tool which increased the number of infringement proceedings against many member states. In 2019, performance in Public Procurement was unsatisfactory and below the EU-28 average. In terms of Internal Market Information System, Portugal performed poor in all five indicators as compared to EU-28 average. Its trade integration in the single market for goods and services is slightly above the EU-28 average[209].

In terms of terms of market access for new and growing firms, Portugal performance is limited. This is mainly due to a lack of regulatory reform based on single market principles, particularly those under the Services Directive (Directive 2006/123/EC)[210].

Portugal has taken several initiatives to help its SMEs benefit from the single market. For instance, setting up an online portal and a SOLVIT centre (which helps businesses whose rights were breached by public authorities in another EU country)[211].

As part of the Startup Portugal+ programme, Portugal is working on future support measures for scale-ups, for modernisation of industry and for promoting more and better access to the single market[212].

Regarding the access to regulated professions, the level of restrictiveness in Portugal is still very high. In this regard, the OECD and the Portuguese Competition Authority jointly conducted a study in 2018, identifying restrictions to competition in the legal framework of highly regulated professions. On this basis, the study provides a number of reform recommendations[213]. However, no reforms in this regard have been implemented or announced yet[214].

Further to reduce the administrative burden, the government launched the SIMPLEX programme, known as SIMPLEX+2016, in 2016. It has a strong focus on e-government initiatives. It includes 255 measures for legislative and administrative simplification, six of which directly concern the construction and real estate markets and will therefore be implemented by the Institute of Public Markets, Real Estate and Construction (*Instituto dos Mercados Públicos, do Imobiliário e da Construção* – IMPIC)[215]. The external evaluation of 40 measures of the 2017/8 SIMPLEX+ recorded the savings of around EUR 174.0 million in dealing with information obligations. The 119 measures of SIMPLEX 2019 are still under progress and expected to be completed in 2020[216].

> **Since the enforcement of the Public Procurement Code (*Código dos Contratos Públicos – CCP*) in January 2018, the number of direct award procedures granted over January 2019-September 2019, declined by around 12.0%, as compared to the same period in 2018. Similarly, the value of the contracts fell by around 20.0%[217].**

Moreover, the participation of SMEs in the public procurement procedures increased by nearly 3.5% in 2018 over the previous year. This has also resulted into a 4.0% rise in the number of public contracts obtained by SMEs[218].

> **The Institute of Public Procurement, Real Estate and Construction (IMPIC) of Portugal runs a centralised database that collects all public procurement information in one place[219].**

IMPIC is also investing in a new business intelligence platform with automated procedures for data extraction and report generation[220].

TO 5 – International competitiveness

> **According to the Global Competitiveness Index 2019, Portugal ranks 34th out of 141 economies, same position as the previous year[221].**

As per the index, in terms of **trade openness**, out of 141 economies Portugal ranks seventh regarding trade tariff percentage, 35th with respect to border clearance efficiency and sixth in relation to prevalence of non-tariff barriers, while 113th when it comes to complexity of tariffs.

Overall, Portugal performs below the EU-28 average in terms of internationalisation of its SMEs, particularly in "involvement of trade community" "advance rulings" and "border agency cooperation"[222].

One of the challenges related to internationalisation is the fact that a high percentage of firms are microbusinesses in Portugal, which lack the capability of becoming significant exporters, according to SBA Fact Sheet 2019 report. Only 4.6% of Portuguese firms have more than ten employees, below the EU-28[223] average of 7.0%[224].

In terms of the **internationalisation of construction companies**, the export value of all construction-related projects in Portugal stood at EUR 2.9 billion in 2018[225], representing an increase of 39.0% compared to its value of EUR 2.1 billion in 2010. Portugal's share of exports of all construction-related products in 2018 stood at 52.4% of the total production value. This is well above the EU-27 average of 11.4% and the 2010 level (40.3%) for the same period.

Exports value of all construction-related products between 2010 and 2018	↑ 39.0%

In the context of **inward FATS (Foreign affiliates statistics)**[226], value added at factor cost in the narrow construction sub-sector decreased by 61.9% between 2010 and 2017[227]. Similarly, turnover in the narrow construction sub-sector dropped by 65.1% during the 2010-2017 period respectively. In similar lines, turnover in the manufacturing sub-sector[228], in terms of **outward FATS**[229] grew by 95.4% between 2010 and 2017[230].

> **In July 2020, the Councils of Ministers approved the International Programme 2030 (*Internacionalizar 2030*) which sets targets and measures for exports to reach 53.0% of GDP in 2030. It also aims to increase "stock" of foreign direct investment (FDI) by 4.0% per year[231].**

The programme will focus on the internationalisation of the Portuguese economy by:

- expanding exports of goods and services,
- increasing the number of exporters, diversifying export markets,
- amplifying the volume of FDIs,
- strengthening Portuguese direct investment abroad (IDPE), and
- enlarging the national added value (VAB).

Moreover, to provide support for the internationalisation of construction and real estate companies (particularly SMEs), IMPIC and the Portuguese Agency for Investment and Foreign Trade (*Agência para o Investimento e Comércio Externo de Portugal* – AICEP) signed a cooperation agreement with the aim of facilitating the exchange of information and promoting knowledge of available measures that foster internationalisation and foreign market access[232].

In order to support the export promotion and markets' diversification, in particular markets outside the European Union, the Portuguese government raised the ceiling for export credit insurance lines with State guarantees from EUR 100 to EUR 200 million in the surety bond line for construction works abroad. The measure is a part of the Stability Programme 2020 which focuses on identifying COVID-19-related measures with an impact on the economy[233]. The Association of Civil Engineering and Public Works Professionals (AICCOPN) plays a key role in supporting the internationalisation of the construction sector. It promotes the **International Portuguese Construction Network** project, with the support of EU funds under the operation programme COMPETE 2020. The project seeks to qualify Portuguese construction companies for internationalisation by allowing access to and the sharing of market knowledge. Furthermore, the project promotes Portuguese companies by setting up a support network abroad and creating the Global Portuguese Construction (GPC) collective brand[234].

***TEKTÓNICA* 2020 - International Building and Construction Fair will be held from 8[h] to 11 October, 2020. It is the biggest building and construction fair in Portugal. It promotes the internationalisation of the Portuguese construction sector [235].**

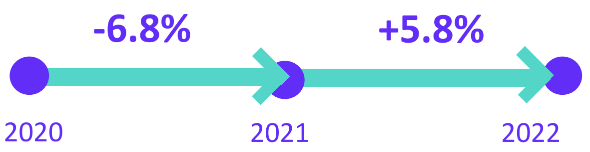
8

Outlook

The economic growth in Portugal is forecasted to slow down in the coming years, mainly due to the COVID-19-related impact. Its GDP is expected to decline by 6.8% in 2020.

This decline will be to some extent mitigated by an annual GDP growth of 5.8% in 2021, primarily driven by a rise in external and internal demand[236].

Expected GDP growth between 2020-2022



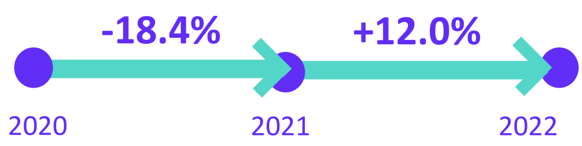
Mirroring these broad economic developments, the outlook for the Portuguese broad construction sector is expected to be rather positive – especially when compared to other EU member states. According to FEPICOP, the broad construction sector is expected to experience a 2.0% to 3.0% growth in 2020 and 2021, driven by investments in housing and non-residential markets. More specifically, the narrow construction sector is expected to grow by 0.6% in 2020, following the COVID-19 impact.

The **volume index of production** of the broad construction sector is projected to increase annually by 0.7 index point (ip) in 2020. This will be driven by a 1.0% in residential buildings and civil engineering, and 0.2% increase in the construction of buildings. Conversely, the construction of non-residential building is expected to decline by 0.6%. Similarly, the volume index of production of the broad construction sector is expected to rise annually by 3.3 ip in 2021. This is driven by the projected rise in construction of buildings (+3.4 ip) and in construction of civil engineering (+3.3 ip).

At the same time, the **total turnover** of the broad construction sector is projected to reduce by 18.0% YoY in 2020 and then increase by 12.9% YoY in 2021, reaching a value of EUR 38.5 billion. Reflecting this trend, the **total value added** of the broad construction sector is expected to decrease by 17.6% YoY in 2020 and then rise by 12.8% YoY in 2021, reaching EUR 11.6 billion.

With changes in the macroeconomic context, the **number of persons employed** in the broad construction sector is also expected to decrease annually by 18.4% to 446,567 in 2020 and then rise by 12.0% to 499,977 in 2021. This decline will be reflected in all sub-sectors.

Number of persons employed in the broad construction sector between 2020 and 2022



The **civil engineering** sector is expected to be driven by the government's focus on the development of road, port and railway infrastructure. In fact, the expansion of Terminal XXI (though postponed for one year) and construction of the new *Vasco de Gama* Terminal on the Port of Sines (whose scope was reduced because of the COVID-19 pandemic) were originally estimated to have a total economic impact of EUR 524.0 million, representing 0.3% of GDP and 0.3% of Portuguese gross value added. It is also expected to create about 1,350 direct jobs in the exploration phase[237]. In addition, investments in railway infrastructure are expected to be implemented in 2020-2021, generating further opportunities for the construction sector.

Similarly, the **housing market** is expected to get a boost from the "Right to Housing" law which became effective on October 1, 2019.

The 151 funding contracts signed under the IFRRU 2020 Programme is expected to deliver housing for 995 new residents, renovate 770 households and create 2,684 jobs by September 2020.

In addition, additional government programmes on housing energy efficiency and on affordable renting housing are expected to support the growth of the sector, together with foreign investment in real estate projects.

Related to the COVID-19 pandemic, the economic uncertainty, access to finance and shortage of skilled construction labourers are projected to negatively impact the construction sector.

Despite the COVID-19 pandemic, Portugal's broad construction sector is expected to grow in 2020 and 2021, driven by the housing and non-residential markets. However, according to FEPICOP, to ensure the sustainable development of the sector will require tackling the issues of limited access to finance for construction companies, and the labour shortage.

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