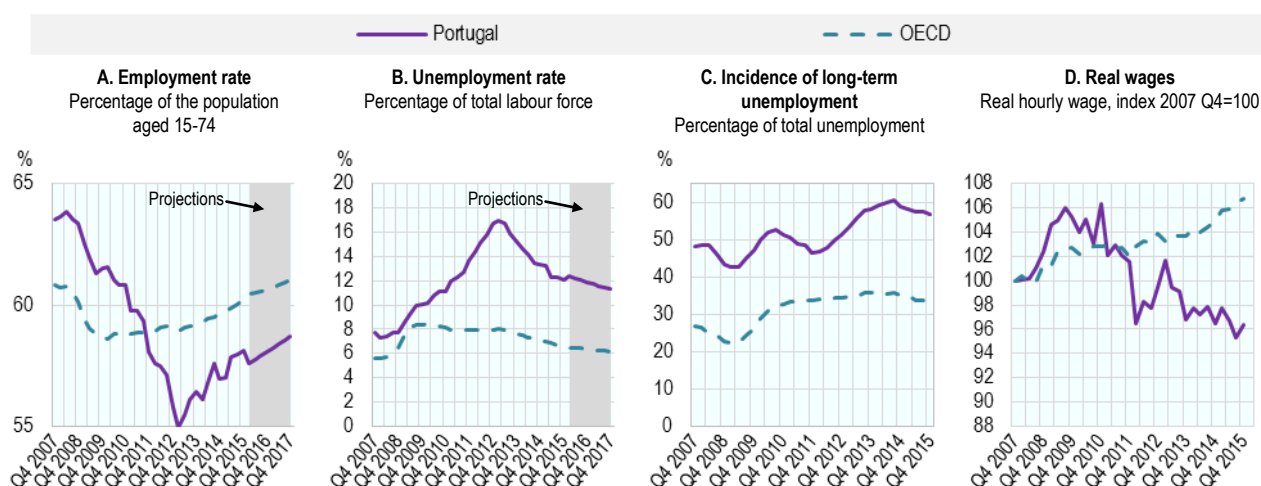


The 2016 edition of the OECD Employment Outlook provides an international assessment of recent labour market trends and short-term prospects, with a focus on vulnerable youth. It also contains chapters on: skills use at work; the short-term effects of structural reforms; and gender labour market gaps in emerging economies.

[DOI: 10.1787/empl\\_outlook-2016-en](https://doi.org/10.1787/empl_outlook-2016-en)

### Labour market developments in Portugal



Note: OECD weighted average.

Source: OECD Economic Outlook No 99, June 2016, <http://dx.doi.org/10.1787/9572784d-en>; OECD Employment database ([www.oecd.org/employment/database](http://www.oecd.org/employment/database)); OECD calculations based on quarterly national accounts.

### RECENT LABOUR MARKET TRENDS AND PROSPECTS

OECD labour market conditions continue to improve and the OECD average employment rate is projected to return to its pre-crisis level in 2017, nearly ten years after the global financial crisis erupted. The recovery remains very uneven across both countries and different groups within the workforce. Real wage growth has also been relatively slow since 2007 raising concerns about a prolonged period of wage stagnation.

- Since the resumption of economic growth in early 2013, Portugal has experienced a strong improvement in both employment and unemployment rates – greater than what one would have expected given the pace of the recovery in GDP. Despite the progress made, many challenges remain.
- At 11.6% in May 2016, unemployment remains high in Portugal compared to the OECD average (6.3%), and the employment rate remains a couple of percentage points below the OECD

average. The high share of unemployed people who have been unemployed for one year or more (55% compared to the 33% OECD average in Q1 2016) is of particular concern, although this share is finally starting to decline.

- Real wages in Portugal have fallen since the beginning of the crisis. To some extent, this reflects freezes in the minimum wage as well as a decline of the importance of collective agreements and extensions during the crisis. However, a key driver of the fall in real wages has been cuts to public sector remuneration.
- Recent and future increases in the minimum wage will boost the incomes of low-wage workers, but a high rate of taxes and social security contributions for employers raise concern about a possible negative impact on the employment of low-wage workers.

### VULNERABLE YOUTH ARE OF PARTICULAR CONCERN

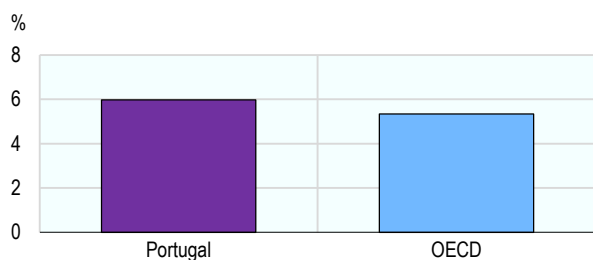
Young people who are neither employed nor in education or training (“NEETs”) risk being left

permanently behind in the labour market. This risk is especially high for the relatively large share of low-skilled NEETs (i.e. those who have not finished upper secondary schooling). Effective policies are needed to reconnect members of this group with the labour market and improve their career prospects.

- At 6%, the share of young people in Portugal who are low-skilled NEETs is above the OECD average of just over 5%, but well below the Spanish share of almost 13%. While part of this increase reflects the high cyclical level of youth unemployment, a majority of low-skilled NEETs are inactive rather than unemployed (i.e. they are not actively searching for a job).
- Just over one-quarter of young NEETs live in a jobless household (i.e. a household that does not contain an employed adult). This share rises to one-third for low-skilled NEETs, suggesting that many in this group risk facing both poverty and limited labour market opportunities.

### Low-skilled NEETs are a particularly vulnerable group

Percentage of youth population aged 15-29, 2015



Note: Low-skilled NEETs are youth neither in employment nor in education or training who have not finished upper secondary schooling.

Source: OECD Employment Outlook 2016, Chapter 1.

### BETTER WAYS TO IMPLEMENT STRUCTURAL REFORMS

Structural reforms are needed to enhance growth and reduce labour market segmentation. However, they can be disruptive in the short run. The 2016 *Employment Outlook* shows how the short-term employment losses that sometimes follow reforms can be minimised or even avoided, for example, by implementing reforms during an economic upturn or by combining and implementing reforms in ways that significantly improve short-term outcomes. The outcomes of Portugal's recent labour reforms provide support to these findings.

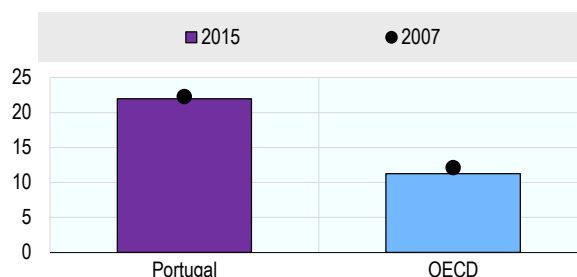
- Portugal's recent labour market reforms reduced severance pay and eased the definition of fair

dismissals. These reforms rank among the most substantial reforms of employment protection legislation (EPL) among OECD countries in recent years.

- These reforms only applied to new hires, thereby increasing the incentive to hire without facilitating the destruction of existing jobs.
- Permanent workers in Portugal still benefit from the highest level of protection against individual dismissal in the OECD. The regulatory gap between permanent and temporary contracts has narrowed but it remains important and continues to contribute to labour market duality.
- Portugal has one of the highest shares of temporary employment among all employees in the OECD area: 22.0% compared with 11.2% for the OECD average.

### Incidence of temporary employment

As a percentage of all employees



Source: OECD Employment Outlook 2016, Chapter 1.

- Further reforms of labour law aimed at reducing the cost and difficulty of dismissals of workers on permanent contracts are therefore crucial to tackle segmentation in Portugal. The OECD estimates that further reforming employment protection legislation by aligning on the average of OECD countries would result in long-run wage and productivity gains of 0.7%.
- The *Employment Outlook* shows that reductions in barriers to entry in product markets could also have beneficial effects on the Portuguese labour market. Aligning barriers to entry in network industries to best practices in OECD countries could increase business sector employment in Portugal by an estimated 1.4%. This is because such reforms would boost the competitiveness of industries that use network services intensively.
- Undertaking these reforms during the current economic upturn would lower the risk of any short-term job losses.

**Contacts:** Division for Employment Analysis & Policy, Directorate for Employment, Labour and Social Affairs **Stijn Broeckel** (+33 1 45 24 82 48; [stijn.broeckel@oecd.org](mailto:stijn.broeckel@oecd.org))