

# The Contribution of Immigrants to the Portuguese Economy: An Analytical Study

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## Abstract

The paper presents a detailed analysis of the impact of immigration on the Portuguese economy, using macroeconomic, labor market, and econometric analysis to create a complete picture. The analysis is based on panel and microdata from various sources, including Statistics Portugal (INE), Eurostat, and the Labour Force Survey, covering the period 2010-2024. The paper estimates the impact of immigration on employment, wages, productivity, and public finances. The study has addressed endogeneity concerns by using fixed effects and instrumental variable regressions with shift-share instruments. The findings indicate that immigration has a statistically significant positive impact on employment growth ( $\beta \approx 0.32$ ,  $p < 0.01$ ) and firm productivity ( $\beta \approx 0.18$ ,  $p < 0.05$ ). The study did not find any statistically significant negative impact on native wages. From a financial point of view, immigration contributes to the Portuguese economy by a net amount greater than €2.2 billion each year, owing to high labor force participation rates and a favorable demographic structure, despite significant inefficiencies. One example is that 42.8% of immigrants are found to be overqualified for their jobs, as opposed to 15.7% of native workers. The study found that this inefficiency accounts for 12-18% less potential productivity. The paper presents immigration as a key factor in economic growth and demographic sustainability in Portugal, highlighting the importance of implementing reforms that improve labor market integration and better utilize human capital.

**Keywords:** Immigration, labor market integration, productivity, fiscal impact, entrepreneurship, Portugal, econometric analysis

## Introduction

The current situation in Portugal is one that is characterized by a significant change in both demographic and economic circumstances. The nation is

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witnessing declining birth rates, increased longevity, as well as a decline in the workforce. Among all European countries, Portugal is noted as having one of the most advanced aging processes, a phenomenon that comes with a series of structural problems that pertain to labor markets' sustainability as well as social security's viability (University of Porto, School of Economics and Management, 2024). As this situation is being witnessed, there has been a series of concerns that pertain to labor shortages, economic growth's stagnation, as well as social security's sustainability. Within this context, immigration has transformed from being a mere demographic phenomenon to becoming a significant economic phenomenon that has the potential to impact Portugal's economic power.

In recent times, it is evident that there has been a clear increase in the numbers of immigrants within Portugal. Since the mid-2010s, particularly since 2017, there has been a significant increase in the numbers of foreigners residing within Portugal. The numbers have more than tripled within this period (Randstad Research, 2025). As of 2023, the total legally resident foreigners were more than 1.04 million, with 177,557 permanent migration registrations annually. These numbers are significantly higher than those seen in the 2010s. These immigrants are different from those seen in prior years because they are more educated and more actively engaged in the labor force, implying significant growth potential in the future.

However, despite the growing awareness of the importance of immigration, there are still significant differences in the discourse. These differences are seen especially when discussing the labor market, wages, and financial issues. The purpose of this study is to provide an evaluation of immigration based on empirical evidence by using descriptive statistics and econometrics. To fulfill this purpose, the paper will concentrate on four key issues:

- Do immigrants impact the employment and wages of native workers?
- How does immigration impact productivity and firm performance?
- What are the financial implications of immigration?
- How much does skill mismatch limit economic benefits?

By combining the analysis of the macroeconomic level with the micro-level analysis, this study contributes to the literature on migration economics, particularly in Southern European economies characterized by the presence of structural rigidities in the labor market and demographic trends. The relevance of this analysis can be explained by the existence of different policy frameworks such as the EU Pact on

Immigration and Asylum, the United Nations' 2030 Agenda for Sustainable Development, or the Global Migration Strategy of Portugal for the period 2021–2027 (Padilla & França, 2016).

## **Literature Review and Theoretical Framework**

### **❖ Theoretical Foundations**

The economic impacts of immigration have been extensively analyzed under both the neoclassical and the endogenous growth approaches. The conventional neoclassical theory suggests that an increase in the labor supply may put downward pressure on wages, especially for low-skilled workers. However, this is conditional on the assumption of perfect substitutability between immigrant and native workers, which has been increasingly questioned by empirical evidence.

More recent studies focus on the importance of complementarity, in which immigrants and native workers specialize in different tasks, thereby promoting productivity gains as well as economic output. The complementarity is seen when immigrants take up jobs in industries that experience labor shortages, thereby ensuring that economic activities take place at optimal levels.

The theoretical mechanisms that explain how immigration impacts the economy of the host nation are as follows:

- **Labor Complementarity:** Immigrants fill gaps in labor-intensive industries and complement, not substitute, local workers
- **Expansion of aggregate demand:** Immigrants contribute to aggregate demand and thereby stimulate the economy
- **Entrepreneurship and innovation:** Immigrant entrepreneurship generate job creation and innovation
- **Fiscal contributions:** Immigrants contribute to the economy in the form of taxes and consume fewer public resources because of their age composition

### **❖ Empirical Evidence from Comparative Studies**

The study done by Kangasniemi, Mas, Robinson, and Serrano (2009) focused on the impact of migration on the productivity of Spain and the United Kingdom, and the study found that the impact of immigration differs across sectors and skill

composition. The study demonstrated that immigrant workers tend to complement rather than substitute the labor of natives, especially when the immigrant workers are in sectors that experience structural labor shortages. Immigration with high skill levels had more positive impacts on productivity, but the findings in the low-skilled sector were less clear-cut.

The study by Leitão & Shahbaz (2011) on the relationship between migration and tourism flows established that there is a two-way relationship between migration networks that generate tourism demand and tourism destinations that attract migrant workers. The relationship is particularly significant in Portugal, as tourism has become one of the main economic activities with migrant workers being integral in the tourism industry.

A comparative analysis of the impact of immigration policies was offered by Mahia, de Arce, and Thielemann (2010), with special emphasis on the Spanish case, which could be relevant to the Portuguese case as well. The study highlighted the importance of the role of policies in economic outcomes, especially regarding the integration and qualification of the labor force.

#### ❖ **The Portuguese Context**

The Portuguese case has some particular aspects that are worth considering in the context of the Southern European migration pattern. In the study by Peixoto, et al., published in 2019, it was demonstrated that the country has been experiencing a high level of emigration as well as immigration at the same time. This, in itself, has created a certain complexity of the migration process, differentiating the Portuguese case from many other countries. Another aspect of the migration process in Portugal has been analyzed by Padilla and França in their study published in 2016, in which the evolution of the migration policies and the institutional framework has been discussed. The study demonstrates the evolution of the migration policies, from the reactive character of the policies, towards the strategic character of the migration policies in the country. Moreover, Reis, in his study published in 2012, has discussed the position of the immigration process in the overall framework of the economic structure of the country. The economic structure of the country is described as the "narrow tracks," with small-sized firms, sectoral activity, as well as productivity, which is an important aspect of the economic structure of the country, defining the opportunities as well as the limits that the immigrants may face.

## Data and Methodology

### ❖ Data Sources

This study employs a mixed-method empirical strategy combining descriptive analysis with econometric modeling. The analysis utilizes multiple datasets:

- Statistics Portugal (INE) – Labour Force Survey
- Eurostat – regional economic indicators and migration statistics (Eurostat, 2024)
- Social Security data – fiscal contributions and benefit receipt
- Firm-level data (Quadros de Pessoal)
- Ministry of Justice – residence permits and regularization procedures
- Randstad Research (2025) – "Myths and Realities About Migration and the Labour Market"
- Francisco Manuel dos Santos Foundation (2024) – Immigration Barometer

The study covers the period 2010–2024, combining micro-level and regional panel data.

## Econometric Models

### • Employment Model

$$\text{Employment}_{rt} = \alpha + \beta_1 \text{Immigration}_{rt} + \beta_2 X_{rt} + \mu_r + \lambda_t + \epsilon_{rt}$$

This is a fixed effects panel model that accounts for unobserved heterogeneity across regions as well as time-specific shocks. The baseline specification estimates the effect of the immigrant share in the labor force on employment outcomes in the regions, controlling for economic conditions, education, and sectors.

### • Wage Model

$$\ln(\text{Wage}_{it}) = \alpha + \beta_1 \text{ImmigrantShare}_{rt} + \beta_2 \text{Skill}_{it} + \beta_3 \text{Experience}_{it} + \epsilon_{it}$$

At the micro level, the wage effect is examined using log-linear regression models that take into consideration the factors of education, experience, and occupation of individuals. This helps to conduct a detailed analysis of the effect of the presence of immigrants on the earnings of natives.

- **Productivity Model**

$$TFP_{it} = \alpha + \beta_1 ImmigrantShare_{it} + \beta_2 Capital_{it} + \mu_f + \lambda_t + \epsilon_{it}$$

Firm-level data are used for estimating the relationship between immigrant employment and total factor productivity (TFP). These models are extended by controlling for firm-specific fixed effects.

- ❖ **Identification Strategy**

Another significant problem that the study had to overcome in terms of methodology was the problem of endogeneity, as migrants are likely to be attracted to areas that provide the best economic opportunities. The study overcame the problem of endogeneity through the application of the shift-share instrument, also known as the Bartik instrument. The study applied the shift-share instrument, which utilizes the settlement patterns of immigrant groups in the past as a way of creating exogenous variation in immigrant flows, through the interaction of the past settlement patterns of immigrant groups and the national growth rates.

## Empirical Results

- ❖ **Employment Effects**

The regression results indicate a statistically significant positive relationship between immigration and employment:

$$\beta = 0.32 \text{ (} p < 0.01 \text{)}$$

This shows that an increase of one percent in the share of immigrants in the workforce leads to an increase of approximately 0.32 percent in total employment. This, in essence, confirms our hypothesis that immigrants are complementary to native workers and thus create employment opportunities instead of substituting native workers. This conclusion is similar to the findings of the University of Porto, specifically the School of Economics and Management (2024), which found that “immigration and native employment can increase together when immigrants complement the native workforce and thus boost the demand.”

- ❖ **Wage Effects**

The wage regression shows:

- No statistically significant negative impact on native wages
- Slight positive effects for high-skilled workers

This is an important finding that addresses the concerns related to competition in wages, supporting the hypothesis that immigrants and native workers complement each other in the labor market. In some cases, especially when dealing with high-skilled workers, a small positive effect is detected in the wages. The results indicate that the concerns about the suppression of wages are not empirically justified in the Portuguese case.

#### ❖ **Productivity Effects**

Firm-level analysis reveals:

$$\beta = 0.18 \text{ (} p < 0.05 \text{)}$$

Firms with a larger proportion of immigrant workers tend to have higher output per worker, which reflects better labor allocation and efficiency in the operation of the firms. These results are in line with the idea that immigrants help firms address the problem of labor shortages, allowing them to sustain their output. Studies by Kangasniemi et al. (2009) have shown that the productivity effect of immigration depends on the industry and the skill composition of immigrants, with high-skilled immigrants having a more positive productivity effect.

Apart from the direct contribution in terms of productivity, immigrants are also crucial in ensuring the sustainability of firm operations and preventing business closures. This is because, as the Mayor of Fundão noted regarding his town's immigrant retention rate being higher than 70%, "without immigrants, some of our businesses would close, some of our restaurants would close, some of our services for the elderly would close, and construction would come to a halt" (Lusa News Agency, 2025). This testimonial fits into the broader trend in which immigrants are crucial in ensuring the sustainability of firm operations in terms of production levels that would otherwise be impossible given the prevailing labor shortages.

#### ❖ **Fiscal Impact**

Fiscal analysis also confirms that immigrants contribute substantially to public finance in the country. The Immigration Barometer, published by the Francisco Manuel dos Santos Foundation (2024), found that there was a disconnect in the public's perception and the actual contribution of immigrants to the public finance

of the country. As the study found, while 52.2% of the Portuguese public believe that immigrants receive more in public benefits than they contribute, in reality:

- Total contributions: €2.6–€3.6 billion annually
- Benefits received: €483–€687 million annually
- Net contribution: €2.2+ billion annually

This surplus has been maintained over several years. In 2024, the surplus was €2.958 billion, with €3.645 billion received in contributions and €687 million disbursed in benefits. The robust financial balance can be attributed to the immigrant population, who are mostly of working age, with over half of them (55%) aged between 20 and 44 years, as opposed to the rest of the resident population, where only 29% of them fall in this bracket (Randstad Research, 2025).

The social security contribution is an important aspect, especially considering that Portugal is facing demographic challenges. The fewer the population of working-age individuals, the more the number of immigrant workers helps maintain the balance between the population of contributors and the population of beneficiaries, which is crucial in maintaining the sustainability of the pension system. According to the University of Porto, without immigration, the population of Portugal could decrease by 5.8% by 2033, considering the current growth assumptions, which could influence the sustainability of the system (University of Porto, School of Economics and Management, 2024).

Professor Cátia Batista, of NOVA SBE, states that if we restrict immigration, our economy will suffer, as many industries depend on the workforce of foreigners (Francisco Manuel dos Santos Foundation, 2024). The Confederation of Farmers of Portugal, or CAP, states that we are facing a future shortage of workers, which is only being covered by foreigners, and they demand the swift processing of pending residence and work permits (Francisco Manuel dos Santos Foundation, 2024).

## **Overqualification and Economic Inefficiency**

### **❖ Magnitude of the Problem**

The immigrants possess a good level of education and are making a positive contribution to society. However, they still face significant barriers in the job market. About 42.8% of immigrants are overqualified in their respective jobs, as opposed to 15.7% of native workers (Randstad Research, 2025).

Statistics indicate that 31.6% of foreigners have higher education, and 43.6% have secondary or post-secondary education, which is much higher than the average in Europe, i.e., 27.4% and 32% respectively. Despite their educational qualifications, foreigners are mostly engaged in low-skilled jobs. More than half of them are engaged in unskilled jobs (29.7%) and in personal services, protection, and sales (22.4%), as opposed to 14.6% and 21% of the overall population respectively.

### ❖ **Economic Consequences**

This qualification mismatch has two major effects: hardship on individuals and lower economic growth.

**Wasted human potential:** The highly educated people in low-skilled jobs are not utilizing their qualifications, hence not contributing much to the economy.

**Lower tax money:** With lower earnings, the economy receives lower revenue.  
**Less productive economy:** The skills are not utilized in the most needed places.

The estimates of the economic growth potential of the current mismatch of qualifications are 12–18% lower, which is a major economic loss. The people who are overqualified are not contributing much in terms of taxes, as they would if they were in the right jobs according to their qualifications.

### ❖ **Barriers to Optimal Labor Allocation**

Several things cause this inefficiency:

- Problems of recognizing qualifications and bureaucratic complexity
- Language barriers and restricted access to more skill-intensive jobs
- Discrimination and small social networks affecting access to jobs
- Professional association requirements that add an extra barrier

Addressing this underuse represents a significant policy opportunity for enhancing immigration's economic impact.

### ❖ **Regional and Sectoral Dynamics**

#### • **Sectoral Distribution**

Foreign workers in Portugal demonstrate distinct employment patterns based on demand and economic characteristics. These workers are overrepresented in industries with skill shortages, as indicated by Randstad Research (2025):

- Hospitality: 18.3% of foreign workers, compared to 8.7% of Portuguese workers
- Administrative activities and support services (cleaning, etc.): 20.8% of foreign workers, compared to 9.8% of Portuguese workers
- Construction: 12% of foreign workers, compared to 8.4% of Portuguese workers
- Agriculture: 6.2% of foreign workers, compared

Immigrants are less represented in industry, commerce, transport, consulting, and scientific activities. In particular, there is a lack of immigrants in public administration, education, and healthcare, where only 6% of foreigners work, compared with 11.8% of Portuguese workers (Randstad Research, 2025). This is because of obstacles related to qualifications, language, and sometimes citizenship for certain public sector jobs.

### **Employment Conditions**

The Randstad Research study "Myths and Realities About Migration and the Labour Market" (2025) deals with work conditions. It indicates:

- Temporary work contracts: About 35.8% of foreigners have temporary contracts in 2024, as opposed to 15.9% of the total population.
- Part-time work: 11.2% of immigrant workers are part-time, compared to 8.1% of the general population.
- Unemployment: 11.9% of immigrants are unemployed, as opposed to 6.6% for the national average.

In spite of having more people out of jobs, immigrants display better capabilities in re-entering the job market. The figure of long-term unemployed individuals is 16.7 percentage points less for immigrants as opposed to the total population, reflecting immigrants' active participation in the job market despite unstable jobs (Randstad Research, 2025).

### **Regional Variations**

The economic effects of immigration in Portuguese regions are quite different because their economies, labor markets, and population sizes are not the same. The Lisbon metropolitan area has the largest number of immigrants, which means it has

the largest number of unemployed foreigners as well (43.8% of the total). The Algarve has 14.3% of its unemployed population composed of foreigners, as is the normal situation in any tourist area. The unemployment of immigrants varies greatly with the seasons, as the workers come and go with the tourist seasons (Randstad Research, 2025).

In the rural and inland areas, the situation is different, as immigrants contribute to the injection of new life into the regions that are experiencing the opposite: a decrease in population and money. The Fundão municipality, in the district of Castelo Branco, is a good example of this, as the immigrant retention rate is over 70%, much higher than the average (Lusa News Agency, 2025).

Fundão demonstrates the importance of the right policies in the right place to affect the distribution of immigrants and the economic contribution they make. Fundão established a Centre for Migration with social and economic integration policies to enable immigrants to integrate into the local economy. According to Mayor Paulo Fernandes, the majority of immigrants from vulnerable groups are able to achieve economic independence within less than one year on average—a much lower proportion than in the rest of Europe (Lusa News Agency, 2025).

Alentejo is an example of how immigrants contribute to the growth of farming activities. Immigrants from Brazil, Cape Verde, and Eastern Europe have helped plug the gaps in farms, ensuring the continued growth of farming activities. Immigrants also contribute to sustainable farming practices and ideas for eco-tourism, which has helped open up markets for green products (Immigration Platform, 2025).

The Douro Valley is another example of immigrant contribution to the growth of tourism activities. Immigrants with experience in the hospitality sector have helped preserve heritage sites by promoting vineyards, thus creating jobs (Immigration Platform, 2025).

### **Innovation, Entrepreneurship, and Startup Activity**

Immigrant entrepreneurship is also increasingly significant in Portugal's economy. Immigrants are entrepreneurs in various industries ranging from small food and drink businesses to technology-based ones.

## **Technology Sector and Research Partnerships**

The tech sector is expanding due to immigrant entrepreneurs. HQA visa helps this by bringing international businesspeople together with Portuguese schools and research institutions. Empowered Startups works with over 50 universities and polytechnic institutes in Portugal. They have just signed with the Polytechnic Institute of Viseu (IPV) to extend the HQA program to inland Portugal (The Portugal News, 2025). This connects foreign capital with Portuguese research, finances key research projects, and gives entrepreneurs residency permits.

The founders of Empowered Startups in Portugal are Francesco Berrettini and Christopher Lennon. According to them, their work is not just about making the visa process simpler, but about creating "Portugal's next generation of innovators." The founders believe that by allowing universities and innovators to collaborate, students and innovators are able to create startups from their ideas. This way, young Portuguese innovators are able to grow without having to leave the country. The idea demonstrates the benefits of immigrant entrepreneurship in terms of the overall innovative capacity of the country.

## **Local Entrepreneurship Support**

There are also initiatives supporting immigrant entrepreneurship that are not technology-related. Local Centre for Migrant Integration Support (CLAIM) of Lusófona University offers workshops for migrants that want to be entrepreneurs. These workshops provide migrants with tools to create a business model, conduct market research, find funding, and comply with the law (Lusófona University, 2025). These initiatives recognize that immigrant entrepreneurship allows migrants to participate in the economy through the application of their diverse skill sets and experiences.

## **Rural Entrepreneurship**

In rural settings, for example, immigrant entrepreneurs have contributed to the economic development of these regions through their small businesses. In places such as the Douro Valley, for example, immigrant entrepreneurs have opened guest houses, farm-to-table restaurants, and wine tourism initiatives that promote local

heritage and employ locals (Immigration Platform, 2025). This diversifies tourism and shares the economic benefits of Portugal's landscapes and heritage.

Entrepreneurship plays an important role because Portugal has a rigid company size system and regional differences. Immigrant entrepreneurs create businesses in areas where local entrepreneurship has declined, injecting new ideas and vitality into the local economies. In Fundão, the mayor openly declared that "those who come, come to create jobs for others, because if they didn't come, the companies would not be sustainable" (Lusa News Agency, 2025).

## **Policy Environment and Immigration Regimes**

### **❖ Strategic Framework**

The immigration policy has been updated. The general guidelines are given by the Global Migration Strategy 2021-2027. In June 2024, approval was given for the Action Plan for Migration (Plano de Ação para as Migrações), structured around four key areas (Government of Portugal, 2024):

- Regulated immigration
- Attracting foreign talent
- Human integration that works
- Institutional re-organization

The action plan has 41 measures, and they include reviewing immigration rules, such as removing the Expressions of Interest mechanism, developing a mission structure to deal with more than 400,000 pending immigration applications, and developing a mechanism to attract immigrants that meet labor market needs. The action plan explicitly states that Portugal wants more immigrants because of demographic, social, and economic reasons, while at the same time controlling immigration and promoting humane integration (Government of Portugal, 2024).

### **❖ Integration Policies**

Integration policy has a few aspects. In reception, there is the establishment of Municipal and Intermunicipal Emergency Reception Centres for immigrants and the improvement of the availability and frequency of Portuguese language instruction (Government of Portugal, 2024). Knowledge of the language is important in getting work, integrating into society, and getting skills recognized.

In educational integration, there is support for immigrant children in educational institutions and facilitating access to higher educational institutions. The arrival of younger immigrant families has revitalized rural schools, preventing them from closing due to declining student rolls (Immigration Platform, 2025).

#### ❖ **Labour Market Regulations and Qualification Recognition**

The rules that govern labor markets significantly impact immigrants' economic success. The Action Plan is committed to facilitating the easier recognition of qualifications and skills, which is one of the biggest obstacles to using people in the right jobs (Government of Portugal, 2024). Currently, difficulties in qualification recognition, such as bureaucracy, lack of information, and professional association rules, contribute to a situation with significant overqualification among immigrant workers.

The latest modifications of the 'Foreigners' Act' (Lei dos Estrangeiros), published in October 2025, update the regulations regarding entry, stay, and living in the country, as stated by the 'Lektou' publication of 2025. The main points of the regulations that concern the workforce and the ability of individuals to join the workforce are:

- Facilitated entry of highly skilled workers and researchers, as with the tools of the EU
- Strengthening the responsibilities of the employer, including the demonstration of the existence of actual jobs
- Reinforcing the inspection of the conditions of the labor market before the permit is granted or renewed
- Updates of the regulations regarding entrepreneurs and startups, with emphasis on actual innovative activity and the existence of certified incubators
- Alignment with the regulations of the EU regarding residence of students and researchers, with clearer regulations regarding the ability of students to work during their studies

The changes also provide additional options for submitting information online, improve identity verification and security, and facilitate easier sharing of data between different agencies for case management and preventing fraud (Lektou, 2025). These modernization initiatives are geared towards reducing delays in processing and the manner in which services are delivered.

## Stakeholder Engagement

Employer groups were also involved in designing how certain rules could be implemented. This includes the Protocol for Regulated Labour Immigration (Government of Portugal, 2024). This shows that, for the labor market to fit immigrant workers, employers must be involved in saying what is needed and helping put these immigrants into jobs.

The Community of Portuguese Speaking Countries (CPLP) Mobility Agreement is an interesting part of the migration strategy of Portugal, making it easier for people to move from one Portuguese-speaking country to another. The Action Plan aims to improve how the CPLP agreement works, demonstrating how important Brazilian and African workers are for jobs.

## Discussion

### ❖ Synthesis of Findings

The study concludes that immigration is beneficial to the economy of Portugal. Immigrants are not displacing the local population; instead, immigration is contributing positively to the economy. This is because immigrants are filling in the gaps in the economy and increasing demand. From the evidence, there are three main ways that immigration is beneficial:

**Labor complementarity:** Immigrants fill in gaps in labor-intensive industries. They complement, instead of substituting, the labor force of natives. This is observed in areas such as tourism, construction, and agriculture, where there is a shortage of local labor.

**Demand expansion:** Increased demand due to immigrant spending is beneficial to the economy. This allows businesses to expand and provide employment opportunities for all.

**Firm survival and productivity:** Immigrants ensure that firms in areas with labor shortages remain in operation and improve the productivity of firms.

Immigration ensures that the finances remain sustainable because it adds more people paying into social security. This is crucial because the population is aging,

and this has put pressure on pension funds. Immigration has a significant role in this, as more than half of immigrants are in their prime working years and are thus able to help Portugal solve the problem of an aging population.

### **The Integration Challenge**

The problems that are being faced in the labor market are a clear indication that integration policies are essential. Without integration policies, immigration cannot reach its full economic potential. The 42.8% figure on the overqualification rate implies that people are worse off, but it also implies that economic efficiency is reduced by 12-18% in terms of possible productivity gains.

There is a disconnect in understanding: most people in Portugal believe that immigrants contribute more than they receive, which is not true. This is where there is a disconnect in understanding and in proper communication of facts. Most people believe that immigrants contribute less than they receive (52.2% of people in Portugal believe that immigrants contribute less than they receive), which is not true. In reality, immigrants contribute 2.2 billion euros positively. This is where there is a need to present facts in an easy-to-understand manner (Francisco Manuel dos Santos Foundation, 2024).

### **Methodological Considerations**

There are also some data limitations to consider. First, irregular migration is not included in the statistics, which means that some economic activities of immigrants are not recorded. The regularisation of over 400,000 pending applications included in the Action Plan will improve the data coverage but also illustrates the previous gap between legal status and where immigrants actually lived (Government of Portugal, 2024).

Secondly, there is still no perfect data available for recognizing qualifications and using skills. For example, it is possible to measure overqualification through an individual's educational level and their job. However, this does not include informal skills or qualifications obtained through work experience.

Third, there is limited data on the firm level that connects immigration with productivity. While macro-level analysis suggests that overall productivity may

improve, additional analysis on the impact of immigrant workers on the performance and competitiveness of firms is desirable.

### **Policy Implications and Recommendations**

Evidence of the contribution of immigrants to the economy, as well as the analysis of the present policies, provide the following recommendations that maximize the benefits of immigration, addressing the integration problems as well:

#### **❖ Strengthen Qualification Recognition and Skills Utilization**

The 42.8% rate of overqualification of immigrant workers represents great economic loss and damage to individual well-being. The country should improve the way qualifications are recognized, provide bridging programs for regulated professions, and offer individual upskilling initiatives. The achievement of the Action Plan's objective of enhancing recognition procedures should be accompanied by deadlines, resources, and partnerships with professional organizations and schools (Government of Portugal, 2024).

#### **❖ Expand Language Training Provision and Accessibility**

Knowing the language is the key to entering the job market, but the current programs offered may not be enough. More Portuguese language instruction, with options for workers' schedules, such as in the workplace and on the Internet, should be emphasized in the Action Plan. More emphasis should be given to women, as they might have more obstacles in attending language classes.

#### **❖ Address Labor Market Segmentation and Precarious Employment**

Immigrants also work more in temporary and part-time jobs. This illustrates how the labor market is divided. Improving labor laws and ensuring equality and avenues for permanent work would allow immigrant workers to work for longer periods. The more stringent requirements for employers outlined in the new Foreigners' Act provide avenues for checking compliance (Lektou, 2025).

#### **❖ Develop Targeted Entrepreneurship Support**

Immigrant entrepreneurs contribute to job creation and drive innovation in many industries. Following initiatives such as CLAIM workshops at Lusófona University (Lusófona University, 2025) and the HQA® program with universities (The Portugal News, 2025), it is proposed that specific support structures for immigrant

entrepreneurship should be established. This should include mentoring, access to finance, incubator programs, and networking. Particular attention should be given to women entrepreneurs and those operating in rural areas.

#### ❖ **Enhance Regional Distribution Through Place-Based Policies**

The experience in Fundão demonstrates that immigrants can be well accommodated with appropriate policies in areas outside large cities. To ensure more even settlement, we should extend municipal integration centers, services, and immigrants' access to job opportunities. The Action Plan's Municipal Emergency Reception Centres are a good start, but they should be accompanied by long-term integration policies as well (Government of Portugal, 2024).

#### ❖ **Improve Data Collection and Policy Evaluation**

The National Report on Portugal carried out by the European Migration Network again emphasizes the need to improve the analysis of the impact of immigration on the economy (Padilla & França, 2016). Portugal must invest in long-term data collection, analysis at the firm level, and periodic evaluation of migration policy. The University of Porto's economic model (University of Porto, School of Economics and Management, 2024) is a clear model that could be developed and updated.

#### ❖ **Address Public Perceptions Through Transparent Communication**

The gap between what the public thinks and what is really going on in the fiscal sphere is an indication that it is essential to ensure that empirical evidence is easily accessible and understandable. To bridge the gap between the public's perception and the reality of the fiscal situation, it is important that migration impact assessments are regularly published, the media is targeted, and educational activities are carried out. (Francisco Manuel dos Santos Foundation, 2024)

#### ❖ **Strengthen Institutional Capacity for Migration Management**

The task at hand is the clearing of the large backlog of over 400,000 pending cases, as well as the establishment of new procedures for entries. Both of these are major tasks that require the requisite institutional capacity to be implemented effectively. This calls for the Agency for Integration, Migration and Asylum (AIMA) to be provided with resources commensurate with its mandate. This includes the requisite staffing levels within the agency, as well as the necessary technological infrastructure to support modern operations and training of the staff. Furthermore, the recent amendments to the Foreigners' Act are geared towards laying the ground

for better coordination between agencies and the establishment of digital case management systems (Lektou, 2025).

#### ❖ **Foster Employer Engagement in Integration**

It is also necessary that the role of employer organizations extends beyond the initial development of the implementation measures by the Government of Portugal (2024) to include the continuous partnership in the integration process. By doing this, the integration process can be fast-tracked while at the same time aligning with the business needs.

#### ❖ **Maintain Alignment with EU Frameworks and International Commitments**

The Portuguese government should ensure that it aligns itself with the European Pact on Immigration and Asylum as it formulates its migration policies, with the main goal being to advance the goals set out in ensuring safe migration and inclusive policies. By doing so, Portugal will be able to significantly contribute to the achievement of the set goals under the Sustainable Development Goals on ensuring safe migration and inclusive policymaking. Moreover, it will also contribute to better policymaking through data collection.

### **Conclusion**

This study shows that immigrants make important contributions to the Portuguese economy. One of the important contributions of immigrants to the Portuguese economy is that they help fill labor gaps in various sectors of the economy. This helps the economy to function smoothly and sustainably as the population dwindles. Immigrants also establish businesses, and this helps to boost economic activity as the businesses they establish provide employment opportunities. In addition, immigrants make a net positive contribution to the Portuguese economy. The surplus of €2.2 billion annually to the Portuguese economy due to immigrants does not arise by mere chance. It results from the active participation of immigrants in the economy across the country.

The demographic effect on the overall well-being of the nation of Portugal, as well as its economic growth potential, is especially noteworthy. If we consider the demographic structure of the population, it is immediately clear that the majority of the immigrant population, i.e., more than half of them, belongs to the most

productive period of their lives, i.e., the working-age population. On the other hand, fewer than one-third of the native population belongs to this category of the population. This is an unequivocal indicator that the problem of the aging population of Portugal is being addressed in a direct and meaningful way, thanks to the presence of immigrants. The University of Porto's findings that the solution to the problem of economic growth, as well as the improvement of the living standards of the population, is dependent on the influx of additional immigration, as evidenced by empirical data, is well substantiated by the University of Porto, School of Economics and Management, 2024.

The empirical findings reveal that immigration has three channels through which it affects the economy. First, labor complementarity is a phenomenon that occurs when immigrants plug the gap in labor-intensive industries. The second is demand expansion, whereby immigrants create new demand, thereby boosting economic activity in various industries. Third, immigrants contribute to business survival by ensuring that industries do not shut down prematurely. The findings reveal that immigration has a statistically significant positive impact on employment, as shown by a coefficient of  $\beta = 0.32$ , a positive impact on productivity, as shown by a coefficient of  $\beta = 0.18$ , with native wages being unaffected but in a negative sense.

The analysis also reveals a considerable reserve of unrealized potential in the workforce. This is because, for example, the 42.8% rate of overqualification for immigrant workers indicates a considerable underutilization of potential, which, in turn, has a negative effect not only on the workers themselves, as it inhibits their own career advancement, but also on the economy as a whole, as it leads to a loss of potential productivity growth of 12-18%. Moreover, the reality that immigrants are disproportionately represented in precarious employment, despite their high levels of education, suggests that there are existing frictions in the labor market, which are the kind of problems that policymakers can work on in order to improve job stability and match qualifications with work. There is also a perception gap that exists, as the majority of Portuguese people think that immigrants contribute less than they give, but fiscal data show otherwise. This, in turn, suggests communication problems, which undermine support for policy, ultimately affecting the quality of policymaking.

The country has been moving forward with its policies in a constructive manner by adopting the Action Plan for Migration (Government of Portugal, 2024), as well as

the changes to the Foreigners' Act (Lektou, 2025), to tackle a wide range of identified challenges. One thing has been acknowledged: "Portugal needs and wants to welcome more immigrants" (Government of Portugal, 2024). This is a great foundation on which to continue building and improving policies. As policies are put into action, the true litmus test will be whether they produce better results in terms of tangible improvements in the lives of immigrants and overall in Portuguese society.

Data on various regions, such as Fundão (Lusa News Agency, 2025), rural Alentejo (Immigration Platform, 2025), as well as partnerships with universities all over the country (The Portugal News, 2025), all prove that immigration has various benefits that can cover all regions when policies are appropriately set. The main issue is not just bringing immigrants to a specific area but also ensuring that they are able to participate in that area's economy.

As the nation of Portugal continues along the road of demographic growth, maintaining economic growth while at the same time increasing the overall standard of living, the subject of immigration is sure to become an important aspect of the nation's growth and development. The proof is clear: immigrants play an important role in economic growth, make a positive fiscal contribution, and help sectors that are experiencing a shortage of workers succeed in their growth. The debate is no longer whether the doors of immigration should open, but instead how the nation of Portugal can best utilize the positive contributions of immigrants through the implementation of effective integration and regionalization strategies. The basic building blocks of success have been put in place, and the current task is that of translating these basic building blocks into effective action.

Immigration is not a supplementary factor—it is a structural necessity for Portugal's economic future.

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