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Portugal: Europe's Best-Kept Digital Secret

By Anda Bologa

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Not long ago, Portugal was a digital backwater. Today, it is challenging digital frontrunners. Will it keep up the momentum?

ABOUT CEPA

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Cover photo: Tourists hold the Portuguese flag in the Praça do Comércio city square, Lisbon, Portugal. Credit: Michael Brooks via Alamy Live

Introduction

Just below Lisbon's colorful Alfama neighborhood, with its narrow, winding streets, echoes of Moorish alleys, and buildings dating back to the 18th century, stands the symbol of the new Portugal — the shining new Beato Innovation District.¹

A former army logistics center has been transformed into offices, labs, and studios for startups. Where soldiers once lined up for bread, red-brick façades now frame glass offices. Silos that once stored flour rise above co-working spaces. Light pours through tall windows onto long tables and open desks.

Groups of twenty-somethings weave between laptops and meetings. In one building, founders pitch their business plans under exposed beams; upstairs, in another, an Amazon Prime film crew occupies a temporary newsroom. When finished, the campus will be ready to host 3,000 jobs and hundreds of companies — one of Europe's largest entrepreneurship projects.

Portugal has come a long way. At the turn of the 21st century, GDP per head hovered at about 70% of the European Union average.² Productivity lagged, and after the 2008 financial crash, debt ballooned. In 2011, the International Monetary Fund, the European Central Bank, and the European Commission assembled a €78 billion bailout that saved the country from bankruptcy.³ The next year, emigration peaked, with more than 120,000 people leaving.⁴ Nurses, engineers, and doctors joined construction workers and cleaners seeking work abroad.

Today, Portugal punches above its weight. The country drew more than 29 million foreign visitors last year, with tourism contributing around 12% of GDP.⁵ Foreign investment has surged after the government lowered bureaucratic hurdles. Labor market reforms eased hiring and firing. Successive governments have performed a delicate ballet balancing austerity and growth, demonstrating responsible fiscal management. Renewables now generate more than 80% of the country's electricity and gigabit capable networks cover nearly the entire country.^{6,7}

Lisbon is staking a serious claim in Europe's digital future. Citizens tap the GOV.PT app to manage a wide range of public services.⁸ Portugal stands out as a frontrunner on e-health, with access rates among the highest in Europe.⁹ Digital makes up close to a tenth of GDP and employs tens of thousands.¹⁰ According to a Copenhagen Economics study, data centers already contribute more than €300 million a year to Portugal's economy and support some 1,700 jobs; if growth stays on track, they could add over €4 billion annually and sustain nearly 50,000 jobs by the end of the decade.¹¹

Contents

Introduction	1
Portugal's Path Forward	4
Lisbon's Thriving Startup Scene	7
The Challenges Ahead	8
What Portugal Should Do Next	12
About the Author	14
Endnotes	15

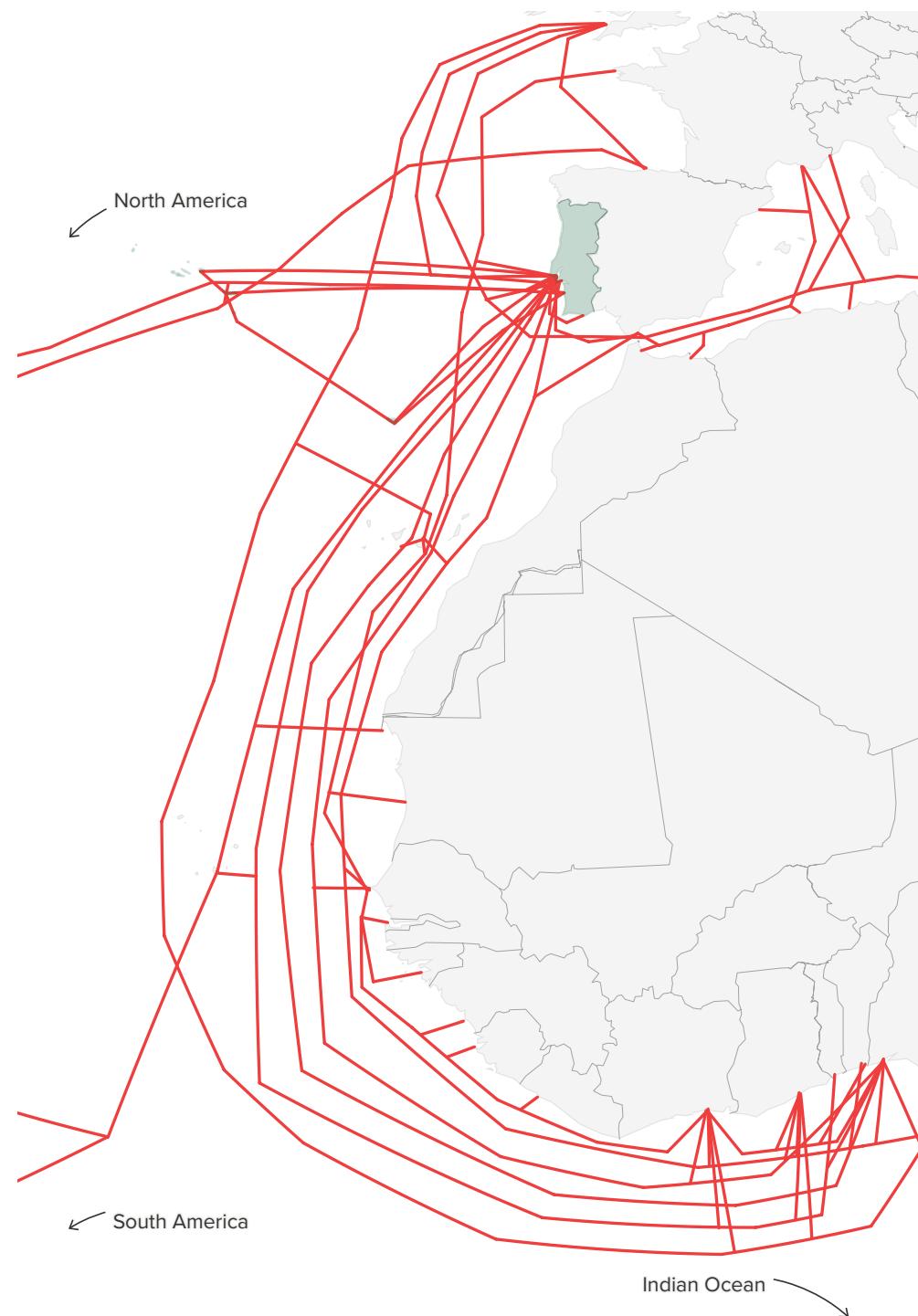
Startups are multiplying. Portugal counts more than 4,700, from fintech to health tech.¹² These pay better too. Staff earn on average 37% more than in other Portuguese firms.¹³ A junior developer makes around €30,000 a year. Experienced engineers and data scientists can reach €70,000 or more.

Geography strengthens Portugal's case. Its Atlantic coast is a landing point for some of the world's most important subsea cables. EllaLink runs to Brazil.¹⁴ Equiano and 2Africa connect to Africa.¹⁵ Google's Nuvem will soon link Sesimbra to North America.¹⁶ Onshore, the bet is Sines on the southwest coast, where a €8.5 billion campus, powered by renewables and cooled by seawater, is rising.¹⁷ Promoters pitch it as Europe's largest colocation site, built to host latency-sensitive industries from financial trading to AI inference.

The country has also become a global stage. Since 2016, Lisbon has hosted the Web Summit, now drawing more than 70,000 participants from 160 countries and attracting over 2,000 startups and 1,000 investors each year.¹⁸ This year, Portugal holds the presidency of the D9+ group — an alliance of 13 of Europe's most digitally advanced countries, including Estonia, Finland, Denmark, Ireland, and the Netherlands. The forum serves as the EU's informal digital vanguard, shaping policy debates on technology and innovation.¹⁹ Under its presidency, Portugal has set three priorities: harnessing artificial intelligence to boost European competitiveness, cutting bureaucracy through Single Market and Omnibus reforms, and promoting pro-innovation regulation, including the idea of a single national digital regulator. In 2027, it will host ICANN's Community Forum, one of the world's most important gatherings on internet governance.²⁰ These events give Portugal visibility and convening power — proof that a small state can attract the biggest conversations in tech.

The transformation is most visible in Lisbon. A digital nomad visa and relaxed immigration rules have brought in new faces.^{21,22} The city's food, climate, and strong English make them stay. Portugal ranks sixth worldwide for English proficiency among non-native speakers.²³ At Kossie's Café in the colorful Mouraria neighborhood, founded by Australians Matt and Sam, laptops share tables with coffee cups. The two best friends first met in Melbourne and bonded over a love of quality coffee and connection. They moved to Lisbon and turned that passion into a warm, community-minded spot that feels like a friend's living room. "Ten years ago, you wouldn't dare to walk here at night," Matt says. Today the cafe buzzes not only with tourists but also with Portuguese founders and multicultural entrepreneurs.

Portugal's Role as a Transatlantic Submarine Cable Hub



Map: Michael Newton/Center for European Policy Analysis • Source: Submarine Cable Map.

Portugal's Path Forward

The challenge ahead is to turn this pioneering spirit into measurable performance — proving that small states can not only move first but also stay ahead. While economic growth has resumed, wages have stayed stubbornly low. Even today, pay packets remain modest, averaging only €1,540 before tax and about €1,200 take-home.²⁴ GDP per head still drags, leaving Portugal closer to Poland than to Germany or the Netherlands.²⁵

Portugal entered the digital race late. In 2006, the country counted just 14 broadband subscriptions per 100 people, ranking 23rd in the OECD.²⁶ Denmark and the Netherlands already had twice that level.²⁷ By 2010, more than eight in ten households were online in northern Europe — in Portugal, only five in ten were connected.²⁸ Download speeds remained slow, with most households relying on basic copper lines.

Since then, EU money has laid the pipes. Portugal earmarked €4.5 billion from its COVID-19 Recovery and Resilience Plan and a further €2.4 billion from EU Cohesion funds to drive digital transformation, with a large share devoted to broadband rollout.²⁹ The investment in rural fiber has paid off: today, fiber reaches more than nine in ten Portuguese homes, one of the highest rates in Europe.³⁰ Only a handful of frontrunners — Spain, France, and the Nordics — match that scale.³¹

Portugal must turn these strong foundations into lasting growth, not just pockets of tech success. Well-paid nomads have fueled soaring rents, leaving many locals priced out.³² Since 2020, median rents in parts of Portugal such as Madeira and the Alentejo coast have jumped more than 70%, while wages over the same period rose only about 18%.^{33,34} In Lisbon, rents are up more than 35% since 2020.³⁵ “The challenge is balance — keeping Portugal open to global talent without eroding the very communities that make it so attractive,” says Marco Gamaliel Alves, a corporate employee at EY Law Portugal.

Large gaps are visible. Only one in seven broadband lines actually delivers gigabit speed — far below the European average.³⁶ As elsewhere in Europe, only a third of SMEs use cloud services, and fewer than one in ten have embraced artificial intelligence.³⁷ Many promising startups relocate abroad to raise capital or hire top engineers. The public administration, hampered by outdated pay scales, cannot compete for talent.

Information and Communication Technology (ICT) Specialists in Portugal by Gender

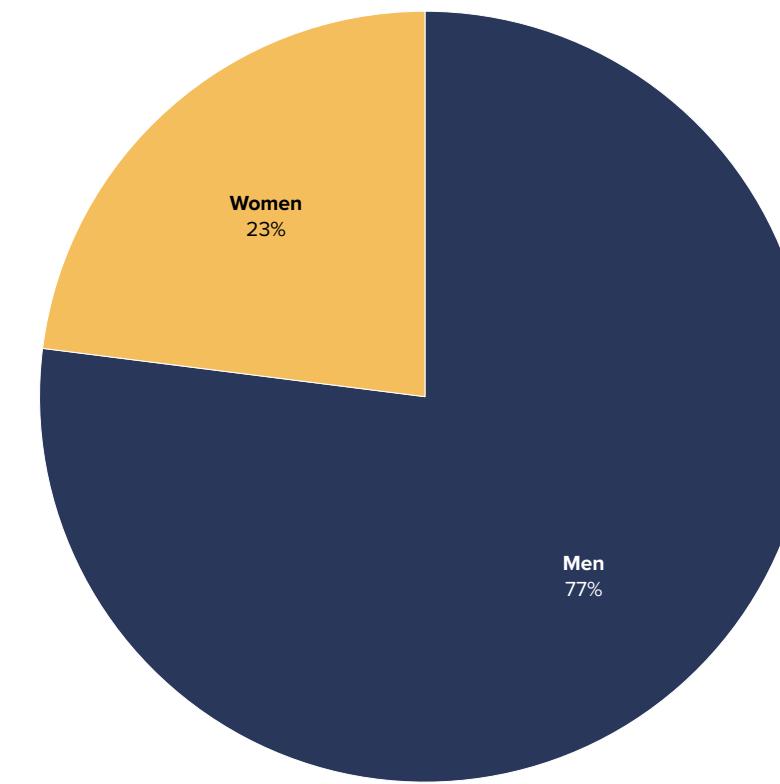


Chart: Center for European Policy Analysis • Source: European Commission, "Portugal 2025 Digital Decade Country Report."

Digital skills remain a weak link: about 56% of Portuguese citizens have at least basic digital skills, with the share falling to around 44% in rural areas.³⁸ Portugal is below the EU average. ICT specialists account for just 5.2% of the workforce, a rate well short of the EU's 10% target for 2030, even though women represent almost 23% of those ICT specialists.³⁹

“Portugal has become skilled at launching digital projects, but we don’t always measure whether they improve competitiveness or make life easier for citizens,” observes Pedro Tavares, co-founder and CEO of GovHorizon and former Secretary of State for Justice. Many Portuguese people struggle to use the shiny new digital public services. “You can’t take away the counter before people are ready to use the portal,” Tavares says.



Image: People walk near the Arco de Augusta, a monument located in the Baixa district of Lisbon.
Credit: ZUMA Press, Inc. via Alamy Live

Portugal's success in laying internet cables and building data centers is fragile. While its Atlantic geography offers strong transatlantic ties, the country's location on the periphery of Europe is a significant handicap, leaving it far from the continent's main population centers. "If Portugal wants the big cloud players here, environmental permits, grid connections, and municipal licenses for new builds and antenna deployments can't drag on for years," cautions Sandra Fazenda Almeida, Executive Director of the Digital Business Community. "We need a fast-track, or we'll keep losing investments to places that move quicker."

Lisbon's Thriving Startup Scene

Despite these qualms, the country's capital is betting big on startups, and Unicorn Factory Lisboa is more than a catchy name.⁴⁰ Launched in 2018 with backing from Lisbon's City Council and EU funds, it is the city's main scale-up program, helping young companies grow by connecting them with investors, mentors, and global partners. Since its launch, it has supported more than 800 startups worth a combined €1 billion, putting Lisbon firmly on Europe's startup map.

Portugal has produced seven unicorns — companies worth more than a billion euros.⁴¹ For a country of just over ten million people, that works out to about 0.7 unicorns per million. Remember these names: OutSystems⁴², Farfetch⁴³, Talkdesk⁴⁴, Feedzai⁴⁵, Remote⁴⁶, Sword Health⁴⁷, and Anchorage Digital.⁴⁸ These companies span enterprise software, fashion, customer service AI, fintech, remote work, digital health, and crypto custody. OutSystems has become a global leader in low-code software; Talkdesk has built one of the world's fastest-growing cloud contact platforms; and Sword Health is using AI to deliver remote physiotherapy. Germany has more unicorns in total, but fewer per capita. Spain, despite having nearly five times the population, counts only four.

In Alvalade, a district of Lisbon, startups share a purpose-built space devoted to artificial intelligence. Backed by Unicorn Factory Lisboa and the City Council, with Microsoft as a partner, the AI Hub still feels freshly unwrapped yet already hums with activity. Glass offices brim with ambitious twenty-somethings on video calls. Downstairs, a conference hall is ready; a pitch room is nearly open. AI startups line the corridors. Defined.ai trains models.⁴⁹ Automaise optimizes customer service.⁵⁰ ANNEA predicts industrial failures.⁵¹ Didimo builds 3D characters.⁵² BHOUT merges boxing with gaming.⁵³ Bandora trims energy use.⁵⁴ BetterSea cuts maritime emissions.⁵⁵ On the sunny terrace, groups network and chat over coffee, and a steady flow of events keeps the building in constant motion. The atmosphere is focused and fast.

A key reform behind the startup boom is stock options.⁵⁶ Before, gains were taxed on vesting at rates up to 53%. Now, tax only applies when the options are sold, at 14%. Startup Portugal, the non-profit organization that supports the ecosystem, calls it a breakthrough. "This change finally gives Portuguese startups a tool to attract and retain talent," says Pedro Sacramento, Head of Projects & Operations at Startup Portugal. The country's stock option scheme scores in Europe's top tier, ahead of Spain, the Netherlands, and Sweden.⁵⁷

The Challenges Ahead

Despite the visible progress, serious hurdles remain. Lisbon is planting hubs across its neighborhoods, each with its own theme, from gaming to biotech, turning the city itself into a living map of innovation. “The hubs are buzzing, which is great,” said Tiago Cunha Martins, a Board Advisor for Fundação para a Ciência e a Tecnologia, the Portuguese government agency responsible for supporting research, technology, and innovation. “But because many are municipal projects, it’s not clear how well they communicate or whether they risk duplicating each other’s efforts.”

Founders sound a note of caution. After a career in big tech in Silicon Valley, Norberto Guimarães, the Portuguese-born founder of Talka.ai — a conversational AI startup that builds tools to help sales teams extract vital insights from conversations — still incorporated his company in the US and keeps an office there. “The stock option reform was a step forward, but it’s nowhere near the US,” he says. “If EU rules get too heavy, I’ll move.”

Strict European regulations, such as the new AI Act, impose restrictions on applying AI in areas such as human resources. “Those systems will be developed elsewhere, and in a few years, Europe will be forced to import them,” predicts Guimarães.

The government’s flagship AI initiative is Amália, a €5.5 million project to build a large language model in European Portuguese.⁵⁸ It is named after the fado singer Amália Rodrigues. Developed by a consortium of universities and research institutes with EU recovery funds, Amalia is designed to generate and process content in Portuguese and will be open source. Sandra Fazenda Almeida, Executive Director of the Digital Business Community, hails it as “a step toward digital sovereignty.”

Entrepreneurs are far less enthusiastic. They compare Amalia with earlier EU experiments such as Quaero — the ill-fated bid to build a European rival to Google. As Rodrigo Vaz, a political consultant at Political Intelligence Portugal, put it: “Portugal is unlikely to build digital champions of its own. The real choice is whether it remains a small, peripheral player in the EU economy, or positions itself as a transatlantic hub. That decision will shape its digital future.”

Finding financing, Norberto Guimarães of Talka.ai adds, is not the problem. Under Portugal’s Golden Visa program, non-EU nationals can secure residency by investing at least €500,000 in qualifying venture funds that are supposed to back startups.⁵⁹ This channel has grown quickly. Since its launch in 2012, the program has attracted more than €7.3 billion, though most of the funds initially flowed into property rather than innovation.⁶⁰ As Guimarães put it, the question is what kind of projects this new money is actually funding, and whether they create real value.

One founder called EU funding “a poisonous pill” — with grants so tangled in forms and conditions that most startups steer clear. The complaint echoes Brussels’ own assessment: the European Court of Auditors has warned that Cohesion and Recovery funds remain mired in complexity, with rules that create heavy administrative burdens and slow disbursement.⁶¹ Portugal’s Court of Auditors warned of delays and poor data in the rollout of its €16.6 billion Recovery and Resilience Plan.⁶² Programs like the EU’s EIC Accelerator can be powerful — Lisbon biotech firm Delox recently won €1.9 million in grants and €2.8 million in equity — but such successes are rare.⁶³

Other gaps remain. Cloud remains underused, with only about a third of Portuguese firms buying services, and AI barely exists outside big companies — just 7% of SMEs have adopted it, compared to 35% of large enterprises.⁶⁴ These figures are close to the EU average but far behind leaders such as Finland or Denmark, where digital tools are embedded in business.

Portugal’s Population: Urban vs. Rural

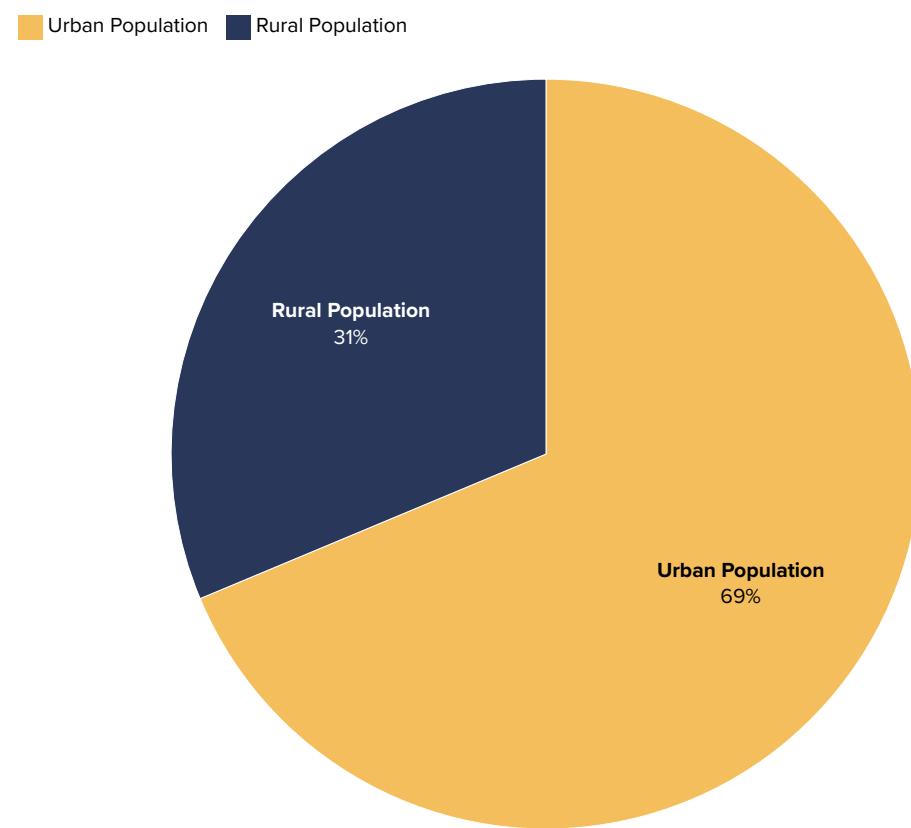


Chart: Center for European Policy Analysis • Source: DataReportal.

Another challenge is the wide urban-rural divide. The country's second city, Porto, boasts strong universities, an engineering-heavy workforce, and initiatives such as Porto Digital. Together with Lisbon, these hubs form Portugal's twin poles of innovation. But they remain just that: poles.

Outside of them, the vibe is different. Rural areas are cut off from much of the digital economy. This is hardly unique to Portugal; the gap between cities and the countryside runs across Europe. But the contrast still stands out. As Martins put it: "If you only visit Lisbon, it's easy to think the whole country looks the same. The reality is different — Lisbon's showcase is not yet Portugal's reality."

Portugal's public administration also needs rejuvenation. It is aging, underpaid, and unattractive to young graduates. "I hardly know anyone of my own age that would have chosen a public service career," said the thirty-something Rodrigo Vaz. The data prove his point: the average public servant is 49.7 years old, nearly six years older than the working population as a whole, and a third are already over 55.⁶⁵

Salaries are equally discouraging. They average €1,570 per month. In Lisbon, where average rents for a one-bedroom flat hover around €1,000 a month, housing alone can swallow more than half of a public servant's paycheck. "Portugal should be offering clear incentives for top performers," Vaz of Political Intelligence Portugal suggested. "Without a coherent structure and credible career paths, the state will keep losing out in the competition for talent."

Portugal's Population: Age Group Breakdown

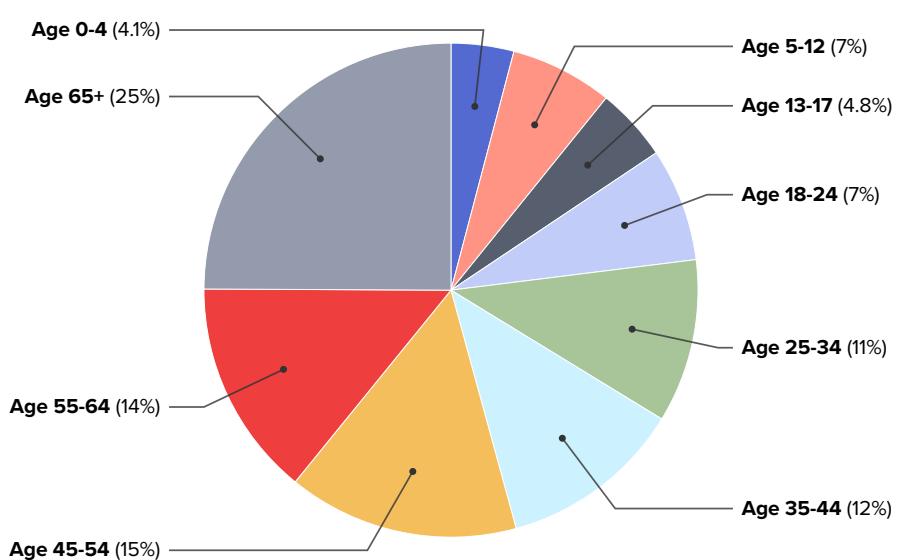


Chart: Center for European Policy Analysis • Source: DataReportal.

The government has promised a fix. A single digital authority will be set up with power across ministries to give companies a clearer and simpler interface with the state. "It will be a single point of contact on everything digital," said Francisco Santos, an advisor at the Office of the State Secretary for Digitalization, "cutting through bureaucracy for both startups and big tech players."

Portugal's digital future also hinges on how it enforces the EU's rules. Cybersecurity is the clearest test. The EU's cybersecurity directive took effect in 2023, but Portugal fell behind on transposing it into local law. Parliament finally approved the law this July. Supervisory capacity is being built, but until it settles, firms operate in uncertainty.

The pattern repeats across the EU's wider regulatory agenda. In 2025, the Commission referred Lisbon to the Court of Justice for failing to designate a Digital Services Coordinator responsible for enforcing new rules combating illegal content under the Digital Services Act. The government has struggled to divide responsibilities across competition, telecom, and consumer agencies to enforce restrictions on gatekeepers designated under the Digital Markets Act. AI is next: as the AI Act obligations enter into force, firms will need sector sandboxes and clear conformity playbooks — neither of which yet exists.

"Whenever we bring EU rules into national law, we tend to add extra layers — extra reporting requirements and extra obligations on companies," said Luís Moitinho de Almeida, a partner at PLMJ, Portugal's largest law firm. "It makes compliance heavier and more expensive, without improving outcomes. Sometimes the smarter move is to stick to the European baseline."

Portugal shows what small states can do with EU support: world-class networks, buzzing hubs, and a seat at the global table. The harder part comes next: turning infrastructure into growth, trust, and innovation that lasts. As Almeida concluded: "We can't just put band-aids on problems. Band-aids won't build a digital nation — only long-term vision will."

What Portugal Should Do Next

Portugal has built a strong digital foundation. Here are suggestions to turn it into sustainable growth:

Speed Digital Adoption

With infrastructure in place, the government must focus on ensuring it is used. Under the EU's Digital Decade targets, 75% of businesses should adopt AI and cloud by 2030, yet in Portugal uptake remains below 10% for AI and around 32% for cloud. SMEs should receive targeted incentives, and public procurement should be tied to the use of advanced tools. Success must be judged by adoption rates and productivity gains.

Boost Scale-Up Funding

Portugal produces unicorns and thousands of startups, but only 9.4% of innovation funding flows to later-stage companies — compared with nearly 49% across the EU. As a result, promising firms move abroad. Portugal needs a deliberate scale-up strategy, combining targeted public R&D and venture vehicles designed to keep firms anchored through growth.

Improve Public Procurement

The state should become a leading digital customer. Instead of funding small pilots, the government should drive large-scale adoption — deploying AI in healthcare diagnostics, rolling out data-driven mobility services, and digitizing justice and education. The government can create stable demand for local innovators while forcing ministries to practice the digital transformation they preach. This responsibility should sit at the core of the new single digital authority's mandate.

Reform Public Administration

The average age of civil servants is nearly 50, with a third already over 55, and salaries remain uncompetitive. Younger graduates rarely see the state as a viable career. Reform should raise entry-level pay, link advancement to performance, and create clear incentives for digital specialists to join and stay. Without a competitive, rejuvenated administration, Portugal cannot deliver the digital agenda.

Fill the Skills Gap

Portugal is below the EU average when it comes to digital skills. Only 56% of Portuguese citizens have at least basic digital skills, and in rural areas the share drops to just 44%. ICT specialists make up 5.2% of the workforce, compared with



Image: A lively crowd gathers at a scenic viewpoint in Lisbon, enjoying the sunset over the city's historic hills and the iconic São Jorge Castle on the horizon. Credit: Pixelbiss via Alamy Live

an EU target of 10% by 2030. While Portugal performs better on gender balance — nearly 23% of ICT specialists are women, above the EU average — the pipeline remains too thin. Achieving the EU's Digital Decade goals will require compulsory digital curricula in schools, large-scale reskilling of workers, and targeted programs to expand the ICT workforce.

Spread Digital Adoption

Lisbon and Porto are magnets for talent, nomads, and investment, but the benefits are uneven. Housing inflation prices out locals. Cohesion should be part of the digital agenda: extending advanced services into the interior, widening participation across age and education groups, and coupling openness to global talent with affordable housing and training and reskilling.

Portugal has the infrastructure and ambition to become a digital frontrunner. It needs to turn assets into adoption, adoption into productivity, and productivity into results. If it succeeds, Portugal will not remain Europe's best-kept digital secret — it will be one of its digital leaders.

About the Author

Dr. Anda Bologa is a Senior Researcher with the Tech Policy Program at the Center for European Policy Analysis (CEPA). During her tenure at the European Union Delegation to the United Nations, she was responsible for high-level negotiations on artificial intelligence resolutions and the United Nations Global Digital Compact. Her background includes legal work on technology and business at Wardyński & Partners, handling digital platform cases at the European Court of Justice during her time with the Legal Service of the European Commission, and leadership in artificial intelligence, cybersecurity, and digital policy at the Europuls think tank. Anda recently passed the New York State Bar Exam, with her admission currently pending, and completed her Doctorate at Fordham University School of Law.

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Center for European Policy Analysis HQ
1275 Pennsylvania Ave NW, Suite 400
Washington, DC 20004

info@cepa.org | www.cepa.org